ASSESSMENT OF THE IMPACT OF MICRO FINANCE INSTITUTIONS TO MICRO AND SMALL ENTERPRISES PERFORMANCE:
ASSESSMENT OF THE IMPACT OF MICRO FINANCE INSTITUTIONS TO MICRO AND SMALL ENTERPRISES PERFORMANCE:
THE CASE OF DODOMA MUNICIPALITY

By
Vicent Turuka

A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of the Degree of Master of Science in Entrepreneurship (Msc.E) of Mzumbe University.

2013
CERTIFICATION

We, the undersigned, certify that we have tred and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled Assessment of the impact of Microfinance institutions to Micro and Small Enterprises Performances: The case of Dodoma Municipality, in partial fulfillment of the requirements for award of the degree of Master of Science in Entrepreneurship of Mzumbe University.

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DEAN / DIRECTOR, FACULTY /DIRECTORATE /BOARD
DECLARATION AND COPYRIGHT

I, Vicent Turuka, declare that this report is my own original work and that it has never been submitted and will not be submitted to any other university for a similar or any other degree award.

Signature …………………………………….

Date ……………………………………

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The accomplishment of this research report would not have been reached without the help of the almighty God Who is protecting me and keeping my brain active.

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The report also is dedicated to my close friends Ivo Mbele and Noel Mlindwa for their support in one way or another and other people and friends who put their effort in this work.

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DEDICATION

I would like to dedicate this report to my parents Joachim A.H Turuka (Rest in Peace), my mother Amanda Stephen Massolah, my young brother Christopher Turuka and my young sister Elizabeth Turuka.

May God prosper them.
ABBREVIATIONS AND ACRONYMS

FFI - Formal Financial Institutions
GDP - Gross Domestic Products
GOP - Gross Operating Profit
ILO - International Labor Organizations
MF - Micro finance
MFIs - Micro finance Institutions
MSEs - Micro and Small Enterprises
NGOs - Non Governmental Organizations
OLS - Ordinary Least Squared
SHGs - Self Help Groups
SMEs - Small and Medium Enterprises
SPSS - Statistical Packages for Social Sciences
STATA – Statistical software package
UN - United Nations
URT - United Republic of Tanzania
ABSTRACT

The aim of this research was to find out the impact of Microfinance institutions (MFIs) on Micro and Small business performance. The research is cross-section research design employing the use of questionnaires. The research was conducted in Dodoma Municipality Tanzania, covering 73 small and micro-enterprises. The hypothesis was operating cost, amount of loan delivered, training given to loan applicants and the amount saved, all variables have positive relationship with enterprise’s gross operating profit except one variable which is training. From the results obtained it shows existence of negative correlation between training and gross operating profit. Although theoretically training has positive correlation with enterprise’s gross operating profit.

The research employed econometric model using OLS as analysis tool of the results drawn from SPSS and STATA software packages.

The employed model has shown to have significantly represented the real world by more than 96%. Upon observation there has been discovered that all the variables under test significant and positively relating with dependent variable, except one variable (training). Amount saved, amount of loan delivered, operating cost and training respectively correlate with gross operating profit.

Policy issue regarding to the findings of this research would be that; first to stabilize Microfinance institutions (MFIs) capacity to expand services by increasing more products and coverage so that many people are reached. The second is to soften the conditions so as to increase capacity for entrepreneurs to partner with MFIs. Third is to emphasize entrepreneurs’ partner with the MFIs to access loans services and be able to save in financial services so as to create loan ability and through tracing their financial flows. Also to put emphasis on MFIs to provide training and advice to all their clients so as to boost up the performance of their businesses. Microfinance institutions (MFIs) have proved distinguished impact to positively impact business performance.
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CHAPTER ONE
INTRODUCTION

1.1 An Over view of the study
This study objective is to assess the impact of microfinance institutions (MFIs) to micro and small enterprises (MSEs) performance in Tanzania, the case of Dodoma municipality. Study motivation stem from the fact that, most of the studies done before in Tanzania focused either on small enterprises without considering micro or both small and medium enterprises. The study used quantitative data, also primary data was collected through structured questionnaire and semi structured interview.

1.2 Background of the study
Microfinance Institutions (MFIs) can broadly be classified as institutions which mainly engaged in promoting Self Help Groups (SHGs) and their federations at a cluster level. The main aim with the alternative MFIs have come up is to bridge the increasing gap between the demand and supply.

Undeniably the concept of microfinance is not new in our country (Tanzania). There has always been the tendency of people saving or taking small loans from individuals and groups within the circumstance of self help to start businesses or farming ventures. And there was also an agreed way on how to pay back such amount of money. Over the years the microfinance sector has thrived and evolved into its current state, appreciation to various financial sector policies and programs undertaken by the government since independence.

Microfinance Institutions (MFIs) have become the main source of funding micro enterprises in Africa and in other developing countries. As pointed out by the former UN Secretary General Kofi Annan during the launch of the International Year of Micro Credit (2005), “Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families
to obtain health care, and empowering people to make the choices that best serve their needs.” (Kofi Annan, December 2003).

Micro enterprises are commonly believed to have very limited access to deposits, credit facilities and other financial support services provided by Formal Financial Institutions (FFIs). This is because these MSEs cannot provide the necessary collateral security demanded by these formal institutions and also, the banks find it difficult to recover the high cost involved in dealing with small firms. In addition to this, the associated risks involved in lending to MSEs make it unattractive to the banks to deal with micro and small enterprises (World Bank, 1994).

Statistically, small enterprises are reported to have high failure rates making it difficult for lenders to access accurately the viability of their enterprises, the abilities of the entrepreneur, and the likelihood of repayment. (Daniel Quaye, 2011).

Over a period of time Microfinance Institutions (MFIs) has stimulated from the giving of subsidized credit that depends on the goodwill of donors to another stage which is a self sustainable financial company. So now they can give credit to their clients at a certain cost and be able to regain all finances or funds that it gives to its clients.

The increased participation and contribution of Micro and Small Enterprises (MSEs) has led to an increased need for financial services. Credit has been recognized as one of the tools for promoting the development of Micro and Small Enterprises (MSEs). Loans enable the individual member or enterprise to enjoy both benefits of economies of scale and those of new high value technology. Recognizing the importance of financial services to Micro and Small Enterprises (MSEs), during the year 2000 the government of Tanzania developed the National Microfinance Policy in line with the overall financial reforms initiated in 1991. The policy aims at enabling low income earners to access financial services. Microfinance Institutions (MFIs) have become alternative sources for financing MSEs in place of Formal Financial Institutions (FFIs), which regarded Micro and Small Enterprises (MSEs) as too poor to save, having low borrowings and carrying a default risk. The policy
further aims at raising the income of both households and enterprises, by facilitating savings, payments, and insurance and credit services (Kessy and Urio 2006).

1.3 Statement of the problem

According to Chijoriga (2000), Microfinance institutions help to promote enterprise culture among Small and Medium enterprises (SMEs) by providing various financial services to Small and Medium Enterprises (SMEs). These services include; advancing loans and provision of credit management training to Small and Medium Enterprise (SMEs) and holding their deposits. These services together help to promote enterprise culture which encompasses savings culture, investing culture and entrepreneurial skills. Despite all the benefits enterprises secure from the Microfinance Institutions (MFIs) still it is not known whether enterprises in real world are satisfied within the lines of the program or otherwise.

The query is: observation shows that some enterprises are not sourced by the Microfinance Institutions (MFIs) because they do not have access to Microfinance institutions (MFIs) loans. Knowledge in this area, especially a quantitative analysis of the effects of lending policies on the choice of credit and the significant of different strategies of loan delivery sources by low income earners, is lacking for the most of Microfinance institutions (MFIs) in Tanzania (Atieno R, 2001). The percentage ratio of the growth for the Micro and Small Enterprise (MSEs) securing services from Microfinance institutions (MFIs) in the study area is not well explained in literatures. The MSEs with capital source from the MFIs, some are still poorly growing their businesses.

Many business do not partner with MFI’s. in our case area it was revealed that small businessmen have not been able to use their business holding as collaterals as financial institutions have most been insisting to the need of real properties owned by entrepreneur/entrepreneurs to have clear the financial statements with regular/monthly defined cash flows to the respective banks so that they can qualify for loan.
As a result people borrowing have been applying for loans for other activities than to conduct business otherwise they could lose legitimacy to loan. In general, small business has been categorized as non loan able activity except under fewer contemporary microfinance sector reformation with the introduction of SACCOS and statutory reformation with which small business is now integrated to MFI’s.

1.4 Objectives of the study

The general objective of this study was to assess the impact of Microfinance Institutions to Micro and Small enterprises performances.

1.4.1 Specific Objectives

1. To determine the impact of operating cost to the performance of MSEs in Tanzania.
2. To determine the impact of loan provision to the performance of MSEs in Tanzania.
3. To determine the impact of savings to the performance of MSE in Tanzania.
4. To determine the impact of MFI technical support (Training) to the performance of MSEs in Tanzania.

1.5 Research questions

1. What is the impact of operating cost to the performance of MSEs in Tanzania?
2. What is the impact of loan provision to the performance of MSEs in Tanzania?
3. What is the impact of savings to the performance of MSEs in the Tanzania?
4. What is the impact of MFIs technical support (Training) to the performance of MSEs in Tanzania?
1.6 Scope of the Study.

This study focused on assessing the impact of Microfinance institutions (MFI’s) to the Micro and Small Enterprises (MSE’s) performance in respect to this study, the impact is seen by growth in capital invested turnover and business expansion as in creating more markets and or vending stations.

The Microfinance institutions (MFI’s) contribution here referred are the role Microfinance institutions (MFI's) play to the partnering individuals, businesses, enterprises or companies. These benefits include: loan advancement to meet various financial needs of partner and technical support including entrepreneurship training and credit management. The study focused for Microfinance institutions (MFI's) and Micro and Small Enterprises (MSE’ s) operating in Dodoma municipality. The Progress observed based on the respondents’ views.

1.7 Limitations of the Study

This study was limited by number of factors which include the following;

- **Scanty of data among some enterprises.** Some Enterprises did not keep records of their financial/business transactions and due to forgetfulness of business holders, some information’s could not found or given.

- **Vastness of the study area.** Some other potential enterprises are located far from the city for instance Kibaigwa and Kondoa townships. This means that despite the research was meant to research all business places some areas were not reached due to great mileage. However it was possible to harness everything required in the places the researcher was able to reach.

- **Financial constraints.** A field work consumed a lot of money for buying the materials also for the transport (fare), it was difficult to reach some distant areas because of high cost.

- **Lack of cooperation.** Some entrepreneurs were not ready to disclose information about their business. It was difficult to the researcher to access details especially on some loan and revenue streams of some enterprises. In some instances firms operating in partnership forms had difficulties in
accessing information from the shop keeper due to bureaucracy and ignorance of the firm’s details.

1.8 Delimitation of the study
This study was conducted at Dodoma Municipality and focused on the assessment of the impact of microfinance institutions to Micro and Small Enterprise performance, and therefore the findings confined to Dodoma Municipality only.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction
This chapter aims at giving a general overview of varying literature with related to theme of impact of Microfinance Institutions (MFIs) to Micro and Small Enterprise (MSEs) performance, that is an overview of what other researchers wrote on the related matter.
The chapter is divided into three sections which are theoretical literature review, empirical literature review and conceptual framework.

2.2 Conceptual literature review
Concept of MSEs, the MSE’s nomenclature is used to Micro and Small enterprises. The MSEs cover non-farm economic activities mainly manufacturing, mining, commerce and services URT (2003).

According to Kessy and Urio (2006), MSEs can be defined as a productive activity either to produce or distribute goods and or services, mostly undertaken in the informal sector The Tanzanian government defines Micro and small enterprises (MSE’s) according to sector, employment size, and capital investment in machinery. A micro-enterprise is one with fewer than five employees, a small enterprise with 5-49 employees, a medium enterprise with 50-99 employees and a large enterprise with more than 100 employees. Capital investments range from less than TShs 5 million to over TShs 800 million. This definition would exclude a number of informal economy enterprises, peasant farmers, and Tanzanians engaged in lower-level income-generating activities URT (2003).

URT (2002) defined small and micro enterprises as those lacking access to financial services from mainstream financial institutions. Generally the definition of micro-small business enterprises is extremely diversified in such a way that definition used depends on various measures of size; depend on the purpose and the reasons. Doing
the measuring for instance, in United Kingdom the definition for small could be range from 5 to 2000 employees depending on the industrial sector, (Kibera 1996)

**Table 1. Categories of MSEs in Tanzania**

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
<th>Capital investment in machinery (Tshs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro enterprise</td>
<td>1 - 4</td>
<td>Up to 5 mil.</td>
</tr>
<tr>
<td>Small enterprise</td>
<td>5 - 49</td>
<td>Above 5mil. to 200mil.</td>
</tr>
</tbody>
</table>

*Source: URT 2002*

NB: in the event of an enterprise falling under more than one category, then the level of the investment will be the deciding factor.

According to SBA (2012) in the United States, the Small Business Administration establishes small business size standards on an industry by industry basis, but generally specifies a small business as having fewer than 250 employees for manufacturing businesses and less than $ 7million in annual receipts for most non manufacturing businesses.

The European Union Enterprise and Industry (2012) generally defines a small business as one that has fewer than 50 employees. However, Australia, a small business is defined by Fair Work Act 2009 as one that has fewer than 15 employees. In addition to number of employees, other methods used to classify small companies include annual sales (turnover), value of assets and net profit (balance sheet), alone or in a mixed definition. These criteria are followed by the European Union, for instance (headcount, turnover and balance sheet totals). Small businesses are usually not dominant in the field of operation.
Table 2. The table below serves as a useful guide to business size nomenclature in Europe

<table>
<thead>
<tr>
<th>Company category</th>
<th>Employees</th>
<th>Turnover or balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small enterprise</td>
<td>&lt;50</td>
<td>≤ € 10m ≤ € 10m</td>
</tr>
<tr>
<td>Micro enterprise</td>
<td>&lt;10</td>
<td>≤ € 2m ≤ € 2m</td>
</tr>
</tbody>
</table>

Source: European Commission (Enterprise and Industry) 2012

NB: these ceilings apply to the figures for individual firms only. A firm which is part of larger employee/turnover/balance sheet data from that grouping too.

SBA 2012 (United States Small Business Administration) defined a small business concern as one that is independently owned and operated, is organized for profit, and is not dominant in its field. Depending on the industry, size standard eligibility is based on the average number of employees for the preceding twelve months or on sales volume averaged over a three year period.

According to USAID’s revised definition of 2008, Microenterprise refers to a very small enterprise owned and operated by poor people, usually in the informal sector. For USAID program purposes, the term is restricted to enterprises with 10 or fewer workers, including the Micro entrepreneur and any unpaid family workers. Crop production activities, previously excluded from the scope of the definition, are now included as long as they otherwise qualify on the basis of enterprise size and the economic status of the owner-operator and employees.
Figure 1.2 Types of Microenterprises

Source: adopted from Joanna Ledgerwood (2000)

Microfinance institutions (MFI’s) a microfinance institution refers to an organization that offers financial services to low income populations. Almost all of these offer microcredit and only take back small amounts of savings from their own borrowers, not from the general public. There are different providers of microfinance services and some of them are savings and loans cooperatives, Non – Governmental Organizations (NGOs), credit unions, government banks, commercial banks or non bank financial institutions. The target groups of Microfinance institutions (MFIs) are self employed low income entrepreneurs who are radars, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisan’s blacksmith etc (Ledgewood, 1999).
According to investor words microfinance institution refers to a financial institution specializing in banking services for low income groups or individuals. A microfinance institution provides account services to small-balance accounts that would not normally be accepted by traditional banks, and offers transaction services for amounts that may be smaller than the average transaction fees charged by mainstream financial institutions.

Although some Microfinance institutions (MFIs) provide enterprise development services, such as skills training and marketing and health care, these are not generally included in the definition of microfinance (Ledgewood, 1999).

In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management (Ledgerwood, 1999). Financial services provided by the Microfinance institutions (MFIs) may include one or any combination of savings, credit, insurance, pension/retirement and payment services Chijoriga (2000).

Microfinance is also frequently combined with the provision of social and business development services. Such as literacy training, education on health issues, management or accounting. The main features of a microfinance institution which differentiate it from other commercial institutions, are such that, it is a substitute for formal credit, generally requires no collateral, have simple procedures and less documentation, easy and flexible repayment schemes, financial assistance of members of group in case of emergency, most deprived segments of population are efficiently targeted, and last but least is group interaction (Abdul, Amina 2011).

Microfinance institutions can fall into different legal categories depending on the country in which the institution is based. A microfinance institution (MFI) can be Non Governmental Organization, a credit cooperative or non-banking financial institution; its particular statute would dictate what kind of funding it receives. Non Governmental Organization is not allowed to accept borrowers’ savings and must be
financially supported by various subsidies and bank loans. Meanwhile, a credit cooperative relies heavily on client savings. As for non-bank financial institution, this organization may take some savings deposits but it is mostly finances by shareholders. (Mathieu M, 2010)

The introduction of MFI’s in Tanzania is seen as the best alternative source of financial services for low income earners and their MSEs as a means to raise their income, hence reducing their poverty level and contributing in country economy (Kessy and Urio, 2006). Along this line the service of microfinance institution to majority of Tanzanians who are low income earners have given them a number of possibilities including managing scarce household and enterprises resources more efficiently, protection against financial risks taking advantages of investment opportunities and gaining economic returns (Chijoriga0. Micro finance enables clients to protect, diversify and increase their incomes, as well as to accumulate assets, reducing their vulnerability to income and consumption shocks (Robinson, 2002).

Lindsay D (2012) defined a loan as a financial transaction in which one party (the lender) agrees to give another party (the borrower) a certain amount of money with the expectation of total repayment. The specific terms of a loan are often spelled out in the form of a promissory note or other contract. The lender can ask for interest payments in addition to the original amount loaned (principal). The borrower must agree to the payment terms, including the amount owed, interest rate and due dates. Some lenders can also assign financial penalties for missed or late payments.

Peavler R (2012) a loan in terms of small business finance is a sum of money advanced to a business that must be repaid, with interest at some point in the future. The lender must bear the risk that the borrower may not repay the loan. The interest rate charged is the price for the risk. A loan is money, classified as debt for temporary use. A business has to apply for loan through some lending organization. A lending organization might be a commercial bank, credit union, or other lending organization like a thrift institution or an alternative source of loans for businesses.
Loans may also be guaranteed by the small business Administration which usually makes them easier to obtain.

The loan application is different from every lending organization but it has common elements. The lending organization usually wants to know the background of the owner or owners, and the business, before giving the business/owners a loan. A loan is made to a small business for many reasons. The loan may be for working capital and purchases of equipment or buildings and land. Interest rates on a loan depend on a variety of factors as do the terms of a business loan. Businesses have to be creditworthy in order to be granted a loan. (Peavler R 2013)

Von (1991) maintains that microfinance came into being from the appreciation that micro entrepreneurs and some poorer clients can be bankable that is, they can repay both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs.

Commercial banks, which were traditionally looked upon as powerful catalyst of economic development through mobilization and the provision of credit to profitable ventures do not offer credit to the rural poor or small business. Stringent lending policies and collateral requirements, cumbersome procedures and their perception of small business and the rural poor as risky, often leads to exclusion. Most formal financial institutions (MFIs) regard low income households as too poor to save, and are not personally known to them, they do not keep written accounts or business plans, they usually borrow small sums, while administration and carrying costs are almost as high as for large loans Kuzilwa and Mushi (1997).
**Gross operating profit** (GOP) is the residual amount from gross revenues attained on sale of goods or services after deducting the amount used to purchase the goods or services sold.

According to Cambridge Dictionaries, Gross Operating Profit (GOP) means a company’s profit from selling goods or services or services in a particular period before costs not directly related to producing them, for example interest payments and tax, are subtracted.

**Technical support** (Training) means a range of services provided by Microfinance institutions (MFIs) to their clients inclined to bridging of the gap among small scale entrepreneurs in a bid to enable them cope with the ever changing business environment. Training in the microfinance institutions (MFIs) context refers to a series of organized activity aimed at imparting information on microfinance institutions (MFIs) services, products instructions and information geared at improving the client’s performance in loan use and loan repayment.

Webster and Fidler (1996) advocate that in many cases, basic business skill training should accompany the provision of micro loans to improve the capacity of the poor to use funds. Micro enterprise investment training mainly addresses capital investment decisions, general business management and risk management. Capital investment decisions include allocation of the micro enterprise limited capital funds most effectively in order to ensure the best return possible. Therefore, a wrong decision can have long lasting effect not only on the profits but on very survival of the enterprise.

It is argued that credit alone cannot influence the MSEs performance; however, motivational factors significantly contribute towards the good performance of an enterprise (Benzing and Chu, 2009; Davidsson and Wiklund, 1999; Shane et al,2003). These motivational elements can be acquired in different ways, one of which is training and education.
Egcomb (2002) established that training has significant impact on participant characteristics and final participant outcomes. Training ads to the skills of MSE’s owners, change their behavior on how they perceive and conduct business activities and in turn enhance their ability to perform better. With the right skills; the MSE’s owners can gain important edges even under stiff competitive environment. Through training, the enterprise owners/managers can acquire networks, transfer technology, develop commercial entities and acquire new and better management techniques. This is because business training is mainly geared towards building entrepreneurial skills and traits of the recipients in order to better their business practices (Roomi et al., 2009; CIDA, 1999).

**Enterprise performance** is defined by the level of revenue (profit realized) from a given level of invested capital (loan, initial capital). Performance can be ranked as poor, fair or good. Ranking in this respect is rooted from the level of revenue growth as a result of invested capital (in any form), attention being given to the enterprises receiving MFI’s service against those not serviced by MFI’s.

**Objectives of Microfinance institutions (MFIs)**
A microfinance institution (MFIs) is characterized as having dual objectives; they are both social and financial. The former aim means that the Microfinance institutions (MFIs) contribute to the development and fights against poverty. The latter objective stresses that the Microfinance institutions (MFIs) must remain profitable enough to continue operating. This balance is not easy to achieve. Each Microfinance institutions (MFIs) strategy, whether it is more community-centered or more economic, will determine operating decisions (Mathieu M, 2010) (Joanna Ledgerwood, 1999) selecting a target market depends on the objects of the microfinance service provider and the perceived demand for financial services. In any country there are unserved or underserved enterprises and households, ranging from the ultra-poor, who may not be economically active, to small growing enterprises that provide employment in their communities. This range or continuum constitutes the demand side for microfinance services. Often the supply side does not
offer a corresponding continuum of services. Microfinance institutions (MFIs) need to supply services that fill the gaps and integrate the unserved groups into the market.

The goal of Microfinance institution’s (MFIs) as development organization is to service the financial needs of unserved or underserved markets as means of meeting development objectives.

These development objectives generally include one or more of the following:

i) To reduce poverty

ii) To empower women or other disadvantaged population groups

iii) To create employment

iv) To help existing businesses grow or diversify their activities

v) To encourage the development of new businesses.

In a World Bank study of lending for small and microenterprise projects, three objectives were most frequently cited (Webster, Riopelle, and Chidzero 1996);

vi) To create employment and income opportunities through the creation and expansion of microenterprises

vii) To increase the productivity and incomes of vulnerable groups, especially women and poor

viii) To reduce rural families dependence on drought prone crops through diversification of their income generating activities.
The viability of a microfinance institution is based on several factors

i) Compatibility with the environment

ii) Strong on field knowledge

iii) Clear governance

iv) Financial health

In terms of financial sustainability, a Microfinance Institution (MFI) must be in no hurry. A promising Microfinance institution (MFI) needs to make it through an average of five years before finding a steady working rhythm. This could take even longer in a rural environment with a low density population. To be sustainable, a Microfinance institution (MFI) must keep a balanced budget, all while growing to meet the needs of an expanding clientele. (Mathieu M, 2010)

2.4 Products and Services of Microfinance Institutions

Microfinance institutions provide similar products and services to their customers as formal sector financial institutions. The scale and method of delivery differ, but the fundamental services of savings, loans, and insurance are the same. Notwithstanding, to date most efforts to formalize microfinance have focused on enterprise lending (loan for enterprise formation and development) which remain by far today the dominant product offered by MFIs (Nourse (2001), Woller (2002). This however, has slowly begun to change. Increasingly today MFIs have begun to offer additional products, such as savings, consumption or emergency loans, insurance, and business education.
The services provided by microfinance institutions (MFIs) can be categorized into four broad different categories:

a) **Financial intermediation**
Financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards, and payment systems should not require ongoing subsidies.

b) **Social intermediation**
Is the process of building human and social capital needed by sustainable financial intermediation for the poor. Subsidies should be eliminated but social intermediation may require subsidies for a longer period than financial intermediation.

c) **Enterprise development**
Enterprise development service or non financial services that assist micro entrepreneur include skills development, business training, marketing and technology services, and subsector analysis. This may or may not require subsidies and this depends on the ability and willingness of the clients to pay for these services.

d) **Social services or non financial services**
Social services or non financial services that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition and literacy training. These social services are like to require ongoing subsidies and are always provided by donor supporting NGOs or the state (Bennett, 1997; Lidgerwood, 1999).

Microcredit is most often extended without traditional collateral. If physical collateral is required for borrowing, most MFI clientele would be unable to participate due to their extreme poverty level. Because borrowers do not have physical capital, MFIs focus on using social collateral, via group lending. Group lending encompasses a variety of methodologies, but all are based on the principle of joint liability. In essence, the group takes over the underwriting, monitoring, and
enforcement of loan contracts from the landing institutions Wenner (1995). Under joint liability each group member is made responsible for the loans of other group members. If one member defaults, the other group members are required to cover the loan from their own resources, and if they do not, they lose access to future loans. It is thus in each members interest to ensure that the other members pay. Almost all the MFIs in Tanzania practice the same method that is adopted in lending credit to their clients.

MFIs need to consider dept capacity as opposed to basing credit decisions on a credit need approach that risks future trouble for both lenders and borrowers. A credit need assessment yields unreliable information because self reported credit need involves “wishing”. By focusing on credit need rather than debt capacity the lender risks not getting the money back, and borrower risks serious debt. This is because the need for credit and the ability to repay debt cannot be assumed to match. No matter how the target market is identified, it is imperative for MFIs to ensure that each client and target group can generate enough cash to repay the loan on time. This in turn determines the size of the potential target market (differentiating between “credit need” or what borrowers say they want, and “effective demand”, or what borrowers can and are willing to borrow and repay) Joanna L(2000). “Lenders are able to recover loans on schedule only when the repayment capacity of the borrower equals or exceeds debt service, which consists of principal and interest due for payment. Borrowers are able to repay their loans on time without suffering hardship only when their repayment capacity equals or exceeds the debt service due according to the loan contract.

These simple, self evident relationships define the role that credit plays in development and influence the fate of efforts to expand the frontier of formal finance.” (Von Pischke 1991, 277)

Microfinance institutions (MFIs) can offer their clients a variety of products and services. First and foremost are financial services. However, due to the nature of an Microfinance institutions (MFIs) target clients poor women and men without
tangible assets, who often live in remote areas and may be illiterate. Microfinance institutions (MFIs) cannot operate like most formal financial institutions. Formal financial institutions do not generally regard the tiny informal business run by the poor as attractive investments. The loan amounts the businesses require are too small and it is too difficult to obtain information from the clients (who may communicate in local dialects that the lender does not know). The clients are also often too far away, and it takes too long to visit their farms or businesses, especially if they are located in the urban slum. All of this means that the costs per dollar lent will be very high. And on top of that, there is not tangible security for the loan (Bennett 1994).

2.5 Organization of Microfinance institutions (MFIs)

2.5.1 Cooperative financial institution
This is a financial institution that can be termed semiformal. It constitutes credit unions, savings and loan cooperatives and other financial cooperatives. They are generally identified as credit unions or savings and loan cooperatives and provide savings and credit services to its members. These are no external shareholders and run the same as a cooperative and implementing all its principles. Members who are at the same time customers make the policy of the cooperative. They are either elected or work on voluntary bases. They are not often subjected to banking regulations but have their own regulations and are under the supervision of the ministry of finance of the country.

Individual financial cooperatives in a country are often govern by a league that coordinate activities of these credit unions, trains and assist its affiliates, act as a place where the deposit and provide inter lending facilities and act as a link between external donors and the cooperative system (Schmidt, 1997). They raise capital through savings but to receive loans is not easy. Loans are delivered following the minimalist approach where the requirements for loans are not often difficult to meet by customers; little collateral, character and co-signing for loans between members. These loans are usually loans within the savings of the member (Schmidt, 1997).
2.5.2 Group Lending

This method of providing small credits to the poor is most used by microfinance that provided loans without collateral. The interest charge is around not much different from that of commercial banks but far lower than interest charge by individual by money lenders (Natarajan, 2004). The Grameen bank is a typical example of microfinance institution using this method. The repayment rate is very high since each member is liable for the debt of the group member (Stiglitz, 1990).

Group formation is made by members who know themselves very well or have some social ties. Loans are not granted to individuals on their own but to individuals belonging to a group; and the group acts as a collateral which is term social collateral. This is to avoid the problems of adverse selection and also to reduce costs of monitoring loans to the members who must make sure the loan is paid or they become liable for it (Armendariz, 1994).

2.5.3 Individual Lending

This is the lending of loans to individuals with collateral. Besley and Coate (1995), say despite the advantages of lending to groups, some members of group may fail to repay their loan. Montgomery (1996) stresses that this method of lending avoids the social costs of repayment pressure that is exerted to some group members. Stiglitz (1990) highlights that members in group lending bear high risk because they are not only liable for their loans but to that of twenty-two group members. Navajas et al. (2003) and Zeitinger (19960 recommend the importance of routine visits to the clients to make sure the loan is use for the project intended for. These monitoring is vital but at the same time increases the cost of the microfinance institution.

2.5.4 Self help groups (SHG)

This is common among women in the rural areas who are involved in one income generating activity or another (Ajai, 2005). Making credit available to women through SHGs is a means to empower them. This group is an institution that helps its members sustainably with the necessary inputs to foster their lives. SHG provides its
members with not only the financial intermediation services like the creating of awareness of health hazards, environmental problems, educating them etc. These SHGs are provided with support both financial, technical and other wise to enable them engage in income generating activities such as; tailoring, bee keeping, weaving etc. it has a bureaucratic approach of management and are unregistered group of about 10 – 20 members who have as main priority savings and credit in mind (Ajai, 2005). The members in the SHG have set dates where they contribute a constant and equal sum as savings. These savings are then given out as loans to members in need for a fixed interest rate (Bowman, 1995).

2.5.5 Village Banking
This is a method of lending to individual members to have constant access to money for their Micro enterprise daily transactions (Mk Nelly and Stock, 1998). Borrowers are uplifted using this method because they own SME that earn money sustainably. This enables them to acquire a large loan sum which gives them higher profit when introduced into the business and of course the interest with high sum is high making the bank financial sustainable. Village banking as of the 90s has gained grounds and certain adjustments are made to suit partner institutions (Nelson et al; 1996). Hatch and Hatch (1998) village banking loan and savings growth rate increases as bank continue to exist.

According to the microfinance policy, Government should not interfere on microfinance institutions (MFIs) operations such as pricing, product development and loan terms. Ministry of finance has the responsibility of ensuring that microfinance programs are consistent with the policy. However, the Government still plays a direct role in lending through JK Funds, Local Authorities Funds for youth and Women and SELF Project. The main concern for the microfinance industry is that some of the Government funds offer subsidized interest for Example JK Funds which in turn distort the market (Milinga A, 2013).
2.6 MSEs and Access to finance

Micro and Small Business in Tanzania can infrequently meet the conditions set by financial institutions, which see MSE’s as a risk because of poor guarantees and be short of information about their aptitude to repay loans. In authenticity with no the access of finance, it is difficult for the MSE’s neither to take up nor acquire new inventions or technologies also to enlarge so as to try to win the global markets. Many factors are believed to be responsible for the refusal of loans and equity fund to MSEs by formal Banks. According to Cork and Nisxon (2000), poor management and accounting practices are hampering the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses.

As a consequence of the ownership structure, some of these businesses are unable and may not guarantee returns in the long run.

According to Kauffmann (2005), access to formal finance is poor because of the high risk of default among SME’s and due to inadequate financial facilities. However, Cressy and Olofsson (1997) sum up constraints facing SME’s into two; these include demand-based (SMEs) and supply-based (formal banks) financial constraints. The duo define a supply-side finance constraint as a capital market imperfection that leads to a socially incorrect supply of funds to projects, or the incorrect interest rate charged on funds. They further define a demand-side financial constraint as a capital market imperfection in which performance of a firm is adversely affected by a factor internal to the firm. Thus for example, if the firm’s owners would like to grow the firm faster, but the only way they can do this is to relinquish equity, and they refuse to do so, it may be said that the firm’s demand for funds is demand-constrained. These deficiencies shall lead us to exploring other alternative financial sources for SMEs.
2.7 The factors that affect MSE’s Access to Credit

The type of population to be served and the activities that the target market is active in and also the level or stage in development of the business to be financed is determined by the MFI’s (Ledgerwood, 1999). MSE’s hold opposing views concerning the level which they are, also on the term of products and services offered to them by the Microfinance institutions (MFI’s) are towards meeting the demand of the market. MSE’s are not financed equally and the financing is determined by whether the firm is in the start-up phase or existing one and also whether it is stable, unstable or growing. The type of activities that the business is involve in is also determined and this can be; production, commercial or services activities (Ledgerwood, 1999).

a). Start – up or existing MSEs

In identifying the market, MFIs consider whether to focus on already existing entrepreneurs or on potential entrepreneurs seeking for funds to start up a business venture. Working capital is the main hindrance in the development of already existing MSEs and how to meet up, the borrowing of finance mostly from informal financial services such as; families, friends, suppliers or moneylenders. The finances got from these informal financial services have high interest rates and services offered by the formal sector or not offered by these informal financial services. MFIs see it less risky to work with existing microenterprises because they have a history of success (Ledgerwood, 1999).

An integrated approach lay down the foundation for start-up businesses to pick up since financial services such as skills training and to equip them with all the necessary tools that can hinder them from obtaining loans. Existing businesses with part of their capital being equity is preferred by most Microfinance institutions (MFIs) to work with since the level of involvement is high and consequently lower risk (Ledgerwood, 1999).
b). Levels of MSE development

MFI provide their products and services based on the level of development of the businesses. MSEs can be grouped into three main levels of business development that profit from access to financial services.

Unstable survivors

Are groups that are considered not credit worthy for financial services to be provided in a sustainable way. Their enterprise are unable and it is believe they will survive only for a limited time and when Microfinance institutions (MFIs) focus on time to revert the situation by providing them other extra services, it is noticed that costs increase and time is also wasted.

Stable survivors

Are those who benefit in having access to the financial services provided by Microfinance institutions (MFIs) to meet up with their production and consumption needs. Stable survivors are mainly women who engage in some sort of business activities to provide basic needs such as food, child health, water, cooking for the household.

These types of microenterprises rarely grow due to low profit margins which inhibit them to reinvent and an unstable environment due to seasonal changes which makes them to consume rather than to invest in the business.

Growth enterprises

These are Micro and Small Enterprises (MSEs) with high possibility to grow. Microfinance institutions (MFIs) focusing on these types of micro enterprise are those that have as objective to create jobs, and to move micro entrepreneurs from informal sector to a formal sector. Microfinance institutions (MFIs) prefer to provide products and services to meet the needs of this group since they are more reliable and posing them the least risk (Ledgerwood, 1999)
Table 1 Categories of financial providers

<table>
<thead>
<tr>
<th>FORMAL SECTOR</th>
<th>SEMI - FORMAL SECTOR</th>
<th>INFORMAL FORMAL SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Central Bank</td>
<td>• Savings &amp; credit cooperatives</td>
<td>• Rotating Savings &amp; credit Associations</td>
</tr>
<tr>
<td>• Banks (Commercial, Savings, Postal Savings, Rural Cooperatives)</td>
<td>• Multipurpose cooperatives</td>
<td>• Non Registered SHG</td>
</tr>
<tr>
<td>• Development Banks (State owned, Private)</td>
<td>• Village Banks</td>
<td>• Individual Money</td>
</tr>
<tr>
<td>• Non Banking Financial Institutions (Insurance)</td>
<td>• Developments projects</td>
<td>• Lenders (commercial, non commercial)</td>
</tr>
<tr>
<td>• Markets (stocks)</td>
<td>• Registered Self helped groups (SHGs) and saving clubs</td>
<td>• Traders &amp; shopkeepers</td>
</tr>
</tbody>
</table>

Source: *adopted and developed from Joanna Ledgerwood (2000)*
2.3 Empirical Literature Review

This part contains the literatures or previous studies that relate or argue positively with researchers study hypothesis and variables or it involves systematic identification, location, and analysis of documents containing information related to a research problem under investigation.

Chiyah Boma Ngehnevu Forchu Zachary Nembo (2010) conducted a study on The Impact of Micro Finance Institutions (MFIs) in the Development of Small and Medium Size Businesses (SMEs) in Cameroon. They had to gather data from primary and secondary sources in the rural areas of Cameroon. The primary sources where from questionnaires and interviews. The population was drawn from two different groups; the members of Cameroon Cooperative Credit Union League (CamCCUL) and the credit unions constituting CamCCUL league. They made used of closed and open ended questions. The responses were analyzed using percentage frequency tables.

From the information they had, it is realized that CamCCUL has a positive impact in the development of the members” businesses. CamCCUL provide its members with financial and social intermediation services to help improve their businesses. Securing micro-financing by SMEs is determined by the stage or level of development in which the business is. Businesses that were viewed as growing had it easy to get a loan. But the main criteria used were the ability to pay back and to meet the set requirements to obtain a loan. The main requirement is fixed tangible assets such as land. They noticed that the poorest of the poor were not included in designing and implementing their policies. The entry requirements were difficult for the poorest to meet thus they do not enjoy the services of Cooperative Credit Union League (CamCCUL).

Ojo(2009) in his research on the role of microfinance institutions in entrepreneurship development found out that there was a significant difference in the number of entrepreneurs who used Microfinance Institutions and those who do not.
Microfinance is sustainable to the development of entrepreneurship activities in Nigeria and that Microfinance has affected entrepreneurship in the country positively. He concluded that Microfinance institutions have a positive relationship with the Nigerian economy represented by expanded GDP. Although the interest rate is not significantly influential, microfinance institutions and their activities go a long way in the determination of the pattern and level of economic activities and development in the Nigerian economy. Recommendation was that the financial institutions need to put more effort in financing MSEs, their role need to be felt by the MSEs in terms of growth and development.

Bhasin and Akpalu (2001) conducted a study on Impact of Micro-Finance Enterprises on the Efficiency of Micro-Enterprises in Cape Coast. It has been observed that the nation board for small scale industries (NBSSI) has been performing very well as far as the training services are concerned. As far as the provision of credit is concerned, National Board for Small Scale (NBSSI) has not performed well according to the expectations of hairdressers, dressmakers and wood-processors because of lack of funds. It has been observed that the informal sector caters for the needs of these microenterprises and they generally take loans from their friends/relatives and suppliers/clients. There exist many variations in the efficiency of hairdressers, dressmakers and wood-processors within each group and across these groups, which indicates that there is ample scope for raising the level of efficiency in these micro-enterprises. The most significant determinants of technical efficiencies of hairdressers, dressmakers and wood-processors are the age of operator, business experience, level of education, training programs, credit, and contact with the lender.

Idowu Friday Christopher (2010) conducted a study to find the Impact of Microfinance institutions on Small and Medium-Sized Enterprises in Nigeria. The fundamental objective of this study is to assess the impact of Microfinance on Small and Medium Enterprises (SMEs) in Nigeria. Simple random sampling technique was employed in selecting the 100 SMEs that constituted the sample size of the research. Structured questionnaire was designed to facilitate the acquisition of relevant data which was used for analysis.
Descriptive statistics which involves simple percentage graphical charts and illustrations was tactically applied in data presentations and analysis. The findings of the study reveal that significant number of the SMEs benefitted from the MFIs loans even though only few of them were capable enough to secure the required amount needed. Interestingly, majority of the SMEs acknowledge positive contributions of MFIs loans towards promoting their market share, product innovation achieving market excellence and the overall economic company competitive advantage. Other than tax incentives and financial supports, it is recommended that Government should try to provide sufficient infrastructural facilities such as electricity, good road network and training institutions to support SMEs in Nigeria.

Rahmat, Megananda and Achmad Maulana (2006) conducted a study on The Impact of Microfinance to Micro and Small Enterprise’s Performance and the Improvement of Their Business Opportunity. Results of this study find several interesting issues, such as Microfinance has positive impact to improvement of MSE’s Performance Indicated by sales, the difference of regional characteristic of MSE is also play role in determining its business scale, Since doubling amount of loan has negative impact to the performance, it’s very important to allocate the loan to the productive activities, such as investment, in the way to improve the business opportunity.

Sam Afrane (2002) conducted a study on impact of Microfinance interventions in Ghana and South Africa Synthesis of Major Impacts and Lessons. Delivery of microcredit to operators of small and microenterprises in developing countries is increasingly being viewed as a strategic means of assisting the so-called “working poor” (ILO, 1973). Over the past decade, a considerable amount of multi – and bilateral aid has been channeled into microfinance programs in the third world with varying degrees of success. Like all development interventions, donors, governments, and other interested parties demand evaluations and impact assessment studies to ascertain the achievements and failure of these programs. This paper reviews two such studies conducted in Ghana and South Africa that focused mainly
on impact results. The outcomes of the two case studies have established that microfinance interventions have achieved significant improvements in terms of increased business incomes, improved access to life enhancing facilities, and empowerment of people, particularly women.

Aczel (2000) conducted a study in Thailand on the role of Microfinance in supporting micro entrepreneurial endeavor. The findings of the study indicating that the involvement of Microfinance institutions in promotion of micro enterprise and processing industry plays a key role in economies of developed countries as a source of goods and services, income, savings and employment. Furthermore, the industry provides information, knowledge, and skills and often links entrepreneurs to information service providers.

K’Aol (2008) in his research paper on the role of microfinance in fostering women entrepreneurship in Kenya assessed the impact of Microfinance funding on women entrepreneurship in Kenya. The population consisted of women entrepreneurs who had benefited from four major Kenya Rural Enterprise Program (K-REP) microfinance schemes within Nairobi and Nyeri. The findings revealed that most of the respondents in this study reported that their income had increased significantly as a result of having taken microfinance loans from K-REP. The most significant impact evident among the women entrepreneurs involved in farming activities was that the number of cattle they owned had doubled after taking the loan.

**Research done in Tanzania**

In the research carried out by Kuzilwa (2002) and Rweyemamu et al, (2003). Kuzilwa examined the role of credit in generating entrepreneurial activities. He used qualitative case studies with a sample survey of business that gained access to credit from a Tanzanian government financial source. The findings reveal that the output of enterprises increased following the access to the credit. It was further observed that those enterprises, whose owners received business training and advice, performed better than those who did not receive training. He recommended that an environment
should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses.

Rweyemamu et al evaluated the performance of, and constraints facing, semi-formal Microfinance institutions currently providing credit in Mbeya and Mwanza regions. The primary data, were supplemented, by secondary data, were collected through a formal survey of 222 farmers participating in the Agricultural Development programme in Mbozi and Mwanza women Development Association in Ukerewe. The Analysis of this study revealed that the interest rates were a significant barrier to the borrowing decision. Borrowers also cited problems with lengthy credit procurement procedures and the amount disbursed being inadequate. On the other side of institutions, the study observed that both credit programmes experienced poor repayments rates, especially in the early years of operation, with farmers citing poor crop yields, low producer prices and untimely acquisition of loans as reasons for non-payment.

It was further revealed that poor infrastructure of the MFIs led to high transportation costs, which increased transportation cost in credit procurement, and disbursement and this ultimately hindered the effectiveness of the credit programmes. This happened because most of borrowers lived in rural areas, far from credit offices. The coverage by Kuzilwa was on the National Entrepreneurship Development Fund only, while Rweyemamu et als’ study was on assessing the micro-finance services for the agricultural only.

2.7 Conceptual framework
A conceptual framework is an assembles set of research concepts cum variables together with their logical relationships often presented in form of diagrams, charts, graphs, pictographs, flow charts, organ gram or mathematical equations (Nduguru P,C 2007). Also a conceptual framework can be defined as a set of broad ideas and
principles taken from relevant field of inquiry and used to structure subsequent presentation (Reichel and Ramey 1987) cited by (Kombo and Tromp 2006).

Having identified the research questions, theoretical and empirical literature review it was important to build a richest possible conceptual framework on a research topic. Conceptual research framework unveils a studied phenomenon of conceptual cum variables into simple set of relationship that can be easily understood, modeled and studied. Besides, conceptual framework seeks to describe research concepts cum variables as isolated but in a unified system of relationships (Ndunguru PC 2007)

Below is a diagram that shows the required relationship among the variables in this study.

2.7.1 Conceptual framework

Figure 2. Conceptual Framework

Source: Researcher’s design (2012)
2.7.2 Independent Variables.

i) Amount of Loan delivered
Amount of loan delivered had a positive relationship with dependent variable. Loan can be used as capital. Businessmen use loans to finance their capital base. Large amount of loan delivered is depicted to be directed to capital increment which in turn will be earning large returns (sells).

ii) Technical support
Training given to loan clients is cemented to affect gross operating profit positively. Training (technical support) arranged and disseminated by financial institution to borrowers increases capital use knows how (investment techniques) among borrowers so that they sustain allocate it sustainably to earn increasingly high profits. Technical support includes training on: business formulation, marketing strategy and business handling.

iii) Operating cost
Operating cost is positively relating to gross operating profit. Are those costs which associated with administering a business on a day today basis. It includes both fixed costs and variable costs. Fixed costs includes overhead, this remain the same regardless of the number of product produced or services provided. While variable costs include things like materials, can vary according to how much product is produced.

2.7.3 Control Variable
i) Amount saved
Saving means postponed consumption. It may mean postponed investment (in business environment). Amount saved has always been one of the criteria to quality for loan especially for financial institutions which support saving services for instance banks. Saving in this content is a control variable as it is taken into consideration as revenue accumulated from business and therefore it is taken into
account as it contributes to the sum of gross profit unless otherwise stated as not to have resulted from business.

2.7.4 Dependent Variable
i) Gross operating profit
This is dependent variable. The aim of enterprise is profit making. Gross profit is the sum of the returns from business not including cost of production. Gross profit is therefore profit before tax that enterprises earn in a specified period of business operation. In this case a period of 1 year.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
This chapter describes how the study was conducted in data collection and analysis. It describes the research design, the area of study, the research approaches, the research sampling, the population of the study, the sample size, data collection methods, the data collection instruments and the analytical tools for data analysis.

Methodology is a body of knowledge that describes and analyses methods, indicating their limitations and resources, clarifying their presupposition and consequences and relating their potentialities to research advances. It refers to a blue print that enables the investigator to come up with solutions to the problems and guide him or her in various stages of research. (Babbie E, 1986; 71)

3.2 Research design
Research design is an arrangement of conditions for collection and analysis of data in such a way that it aims to combine relevance with the research purpose with economy, or is a plan for doing a research (Chamwali, 2007).

On the other hand Orodho (2003) defined a research design as the outline or plan that is used to generate answers to research problem. Also it is a detailed plan of work to be done to achieve the research objectives. Research design is a science and art of planning procedures for conducting studies so as to get the most valid findings (Vogt, 1993:166).

Research design is also defined by Kothari (1990) as the detailed blue print used to guide a research study towards objectives. It is a detailed plan of work to be done to achieve the research objective.
The study was more quantitative in nature using cross section study design. The cross section study method was adopted for three aims;

1. Nature of the study, its one short time study aimed at finding out the prevalence of a phenomena/problem.

2. The design was useful in obtaining an overall picture as it stands at the time of the study.

3. Flexibility of method in data collection where it provides complete study in itself in which a social unit was observed and studied in detail and in its totality.

3.3 The area of the study

Dodoma municipality covers an area of 2,669 square kilometers of which 625 square kilometers are urbanized. Based on the 2012 National Population and Housing Census the population of Dodoma municipal council was 410,956, of whom 199,487 were male and 211,469 were female. Average household size was 4.4 and sex ratio was 94.

The municipality of Dodoma is subdivided in 4 divisions which in turn are divided into 30 wards and 42 villages as shown in the table below.

<table>
<thead>
<tr>
<th>Division</th>
<th>No. of wards</th>
<th>No. of villages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Division</td>
<td>17</td>
<td>7</td>
</tr>
<tr>
<td>Hombolo Division</td>
<td>5</td>
<td>16</td>
</tr>
<tr>
<td>Kikombo Division</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Zuzu Division</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>42</td>
</tr>
</tbody>
</table>

Source: *National Population and Housing Census 2012*

The 17 wards of the urban division, having a total area of 426 kilometer square.
3.4 Population of the study
Methodologically the term population means “the aggregate of cases that conform to some designated set of the specifications” (Nachmias 2008). Therefore the targeted population for this study was Dodoma municipality (small and business enterprises which are operated in Dodoma town). Information/data were collected from those people who own business, by taking into consideration micro and small enterprises.

3.5 Sample design
Sampling is the process by which a relatively small number of individuals or meaning of individual, objectives otherwise events be selected and analyses in arrange to locate out something about the entire population from which it was selected (Koul 1984).

The study used the case study research design as it is appropriate for descriptive purposes and determination of relationships between variables.

3.6 Sample size
To constitute sample size out of the population of the study, simple random sampling technique was used to select 73 Micro and Small Enterprises operators/owners in Dodoma municipality. All the enterprises were served with questionnaires, even though the concept of simple random procedure allows unbiased sampling and accords the research work more scientific feature, thereby concretizing the validity of the research findings.

3.7 Sampling Methods
The methods used in drawing sample from a population usually in such manner that the sample was facilitated determination of some hypothesis concerning the particular population.

3.7.1 Purposive sampling
A purposive sampling is commonly called a judgmental sampling, is one that is selected based on the knowledge of a population and the purpose of the study. The subjects are selected because of some characteristics. (Ashley Crossman, 2013).
The researcher in this study used this technique purposely to collect the appropriate data/information from the business owners (by taking into consideration micro and small businesses) concern the study topic of assessment of the impact of microfinance institutions to micro and small enterprises performances. So the information needed was specifically from the business owners.

3.7.2 Simple random sampling
In this method each item of the population has the same probability of being selected in the sample. The selection is usually made with the help of random numbers. The study also uses simple random sampling technique to collect relevant information about the subject matter as everyone belonging to the population was selected randomly. This was because the researcher wanted to give chance to everyone from those categories of businesses which were selected for the study.

3.8 Data collection and Instruments
The nature of the research design, determines the data collection method. In this study the researcher used data collection methods such as questionnaires and interviews.

The use of more than one data collection method enables the researcher to combine strengths and correct some of the deficiencies of one technique. In so doing, it increases the validity and reliability of data collected. (Bond, 2006:34-39)

For the better achievements of data on the proposed study, the researcher collected primary data; basically the research uses two techniques in the collection of information or data, which are interviews and questionnaires in the collection of primary data.

3.8.1 Interviews.
Interviewing it is a technique that is used to gain or know the general understanding of the impact of microfinance institutions to micro and small enterprises performances. This technique was conducted between interviewer and interviewees.
The researcher met with the interviewee part so as to ask the questions and have some records to note down in responses.

Verbal interview was designed to solicit information and opinion from the respondents. Structured and unstructured interview were mainly used to gather information supplementary to that obtained through questionnaires and able to validate the data available.

### 3.8.2 Questionnaires

Both open ended or closed ended questions were used to get the information from the respondents. Normally the questionnaires techniques were flexible in the enabling of the respondent to feel express on their ideas and feelings.

Questionnaires written in English were used to the micro and small business owners. But, later some the questionnaire was translated to Kiswahili so as those people who were not good in English to understand each and everything well. The open ended questions and close questions were used throughout the questionnaire. This made the respondents to be free to air their own views, which enabled the researcher to get the most needed information about the problem of study. The questionnaires were distributed to all targeted sample business owners who were 73 in number.

All 73 business owners returned the filled questionnaire and this makes the studied sample from questionnaire being 100%

Before conducting a research there was preliminary visit of the area in order to understand the characteristics of the people and location of the area.

The questionnaire was be extracted from the four main areas as identified in conceptual frame work.

- Operating cost
- Loan
- Savings
Training

For the purpose of this study the variables representing (determining) Gross Operating Profit were regressed on Gross Operating Profit. Factors determining Gross Operating Profit which are independent were: operating cost, loan, saving and training.

3.9 Regression Model and Estimation technique.

3.9.1 Regression model

Based on different review of the literatures it is clear that there is extensive evidence which suggests that amount of loan delivered may be explained by both macroeconomic and bank specific factors. In this study a reduced form econometric model that is similar to Jimenez and Saurina (2005) to ascertain the determinants of loan delivery in the Tanzanian Microfinance sector. The model was simple linear regression. The general econometric model or mother model used was

This standard Gross operating profit model was specified as follows.

\[ GOP = \beta_0 + \beta_1 OP + \beta_2 L + \beta_3 S + \beta_4 T + \mu \]  

Where:

GOP = Gross Operating Profit

\( \beta_0 \)=Autonomous term

L = Loan

S= Saving

T = Training

\( \mu \)=Error Term
3.10 Estimation model

Estimation model was as follows;

\[ GOP = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 D_1 + \mu \] .................................(2)

Where:

1. GOP – is a dependent variable, indicating enterprise gross operating profit for the previous loan delivered (TShs).
2. \(X_1\) – an independent variable indicating the operating cost (TShs)
3. \(X_2\) – an independent variable indicating the amount of loan delivered (TShs)
4. \(X_3\) – Is an independent variable indicating amount saved (TShs).
5. \(D_1\) is a dummy regressor for technical service (training) upon loan delivery. 1 if client got training; 0 otherwise.
6. \(\beta_0\) – is an autonomous term
7. \(\mu\) - Is an error term.

3.11 Estimation Techniques

The Ordinary Least Square regression (OLS) model was used. This technique helped the researcher in decision making as by running the model by using computer software packages which are STATA and SPSS. Results of this program were providing tools to test hypothesis such as the use of t-test, F-test, p-value and Se-test (standard error test).

The model was also a multiple regression model due to the fact that the dependent variable or regressand “GOP” (Gross Operating Profit) depends on two or more explanatory variables which are Operating Cost, Loan, Saving and training (Technical support).
For the overall test of the model the null hypothesis was:

\[ H_0: \beta_0 = X_1 = X_2 = X_3 = D_1 = 0 \] Implies that the overall model is statistically insignificant

\[ H_1: \beta_0 = X_1 = X_2 = X_3 = D_1 \neq 0 \] Implies that the overall model is statistically significant
CHAPTER FOUR

PRESENTATION OF FINDINGS

4.1 Introduction
This chapter presents the findings obtained from the study conducted in Dodoma Municipal council. The aim of making data presentation is to find answers to the research’s objective and questions as formulated in chapter one. The main objective of this study was to assess the impact of the Microfinance Institutions (MFIs) to Micro and Small enterprises performances.

The findings have been presented with reference to the study objectives and research questions which were developed by the researcher. The specific objectives of the study were:

1. To determine the impact of operating cost to the performance of Micro and Small Enterprises (MSEs) in Tanzania.
2. To determine the impact of loan provision to the performance of Micro and Small Enterprises (MSEs) in Tanzania.
3. To determine the impact of saving to the performance of Micro and Small Enterprises (MSE) in Tanzania.
4. To determine the impact of MFI technical support (Training) to the performance of Micro and Small Enterprises (MSEs) in Tanzania.

4.2 Multiple Regression analysis:
This part presents the multiple regression analysis of Gross Operating Profit (Operating Cost, Loan, Savings and training).

The model guiding the multiple regression analysis was as follows;

\[
Gop = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 D_1 + \mu \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldOTS
Where;

1. **GOP** – is a dependent variable, indicating enterprise gross operating profit for the previous loan delivered (TShs)
2. **X<sub>1</sub>** – an independent variable indicating the amount of operating cost (TShs)
3. **X<sub>2</sub>** – is an independent variable indicating the amount of loan (TShs) delivered
4. **X<sub>3</sub>** – is an independent variable indicating amount saved (TShs).
5. **D<sub>1</sub>** (dummy variable) is an independent variable indicating the level of technical support (training).
6. **β<sub>0</sub>** – is an autonomous term
7. **µ** – is an error term.

The main reason for the study to use a multiple regression analysis model in this study was to determine the joint impact of the four variables under scrutiny.

The coefficients of the above model were statistically significant, so the independent variables have a joint impact on the dependent variable and vice versa holds true.

**Table 3. Regression output results**

<table>
<thead>
<tr>
<th>GOPt</th>
<th>Coef.</th>
<th>Std. Err</th>
<th>t-Stat</th>
<th>P- Value</th>
<th>Conf. Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-4432.953</td>
<td>47125.7</td>
<td>-0.09</td>
<td>0.925***</td>
<td>-98470.82</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>89604.92</td>
</tr>
<tr>
<td>X&lt;sub&gt;1&lt;/sub&gt;</td>
<td>.0227896</td>
<td>.0190377</td>
<td>1.20</td>
<td>0.235***</td>
<td>-.0151996</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.0607787</td>
</tr>
<tr>
<td>X&lt;sub&gt;2&lt;/sub&gt;</td>
<td>.2450308</td>
<td>.0787904</td>
<td>3.11</td>
<td>0.003 **</td>
<td>.087807</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.4022545</td>
</tr>
<tr>
<td>X&lt;sub&gt;3&lt;/sub&gt;</td>
<td>1.218331</td>
<td>.0583583</td>
<td>20.88</td>
<td>0.000 *</td>
<td>1.101879</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.334783</td>
</tr>
<tr>
<td>D&lt;sub&gt;1&lt;/sub&gt;</td>
<td>-88664.27</td>
<td>71733.6</td>
<td>-1.24</td>
<td>0.221***</td>
<td>-231806.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>54477.89</td>
</tr>
</tbody>
</table>
The variable is statistically significance at 1% level of significance.

** The variable is statistically significance at 5% level of significance

***The variables is statistically insignificance at 1%, 5% even at 10% level of significance.

**Interpretation:**
From the summary table above, it can be seen that the coefficient of determination ($R^2$) was = 0.9683 showing that approximately 96% of the variation in Gross Operating Profit (GOP) of the businesses was explained by operating cost, Loan, Savings and training.

4.3 Multiple Regression equation;

$$Gop = -4432.953 + 0.0227896\chi_1 + 0.2450308\chi_2 + 1.218331\chi_3 - 88664.27 D_1$$

Where;

$GOP$ = Gross Operating Profit

$\chi_1$ = Operating Cost,

$\chi_2$ = Loan,

$\chi_3$ = saving,

$D_1$ = Training ($D_1$ = 1 if someone was trained, 0 if no training)
The regression equation shows the rate of change in Gross Operating Profit as the result of changes in either one of the following, namely; Operating Cost, Loan, Savings and Training or as the joint changes in both variables. It helps to predict Gross Operating Profit with any of the four variables of the GOP.

The regression equation shows that there was positive relationship between mean GOP and the four variables namely; Operating cost, Loan and Saving. Except for one variable which is training.

1. Operating Cost
The correlation between GOP and Operating Cost is positive. That’s as operating cost increases GOP increases. The coefficient of Operating Cost (\(\chi_1\)) =0.0227896. This means that a unit absolute increase in operating cost results to an increase in GOP by 0.022 units in the same direction, ceteris paribus.

H\(_0\): the variable was statistically insignificance (\(\beta_1=0\)). Operating Cost has no significant effect on GOP

H\(_1\): the variable was statistically significance (\(\beta_1\neq0\)). Operating Cost has a statistically significant effect on GOP. This was two-tailed test.

The t-test value for \(\beta_1\) is 1.20 .The tabulated t-test value at 5% level of significance was 2.086. Therefore the null hypothesis was rejected and it can therefore be concluded that operating cost is statistically significant and thus, it has an effect on GOP. This makes sense because there was an increment in GOP, so those who had more operating cost were likely to earn more than those who had less operating cost.

2. Loan
Theoretically GOP and Loan have positive correlation. That’s as Loan increases it will be compensated in GOP. The coefficient of loan (\(\chi_2\)) =0.2450308. This means
that a unit absolute increase in loan results to an increase in GOP by 0.245 units in the same direction, ceteris paribus.

$H_0$: the variable was statistically insignificance ($\beta_2 = 0$). Loan has no significant effect on GOP

$H_1$: the variable was statistically significance ($\beta_2 \neq 0$). Loan has a statistically significant effect on GOP. This was two-tailed test.

The t-test value for $\beta_2$ is 3.11. The tabulated t-test value at 5% level of significance is 2.086. Therefore the null hypothesis is rejected and it can therefore be concluded that Loan is a statistically significant and thus, it has an effect on GOP.

3. **Saving**

The correlation between GOP and saving is positive. That’s as saving increases GOP increases. The coefficient of saving ($\chi_1$) =1.218331. This means that a unit absolute increase in saving results to an increase in GOP by 1.218 units in the same direction, ceteris paribus.

$H_0$: the variable was statistically insignificance ($\beta_1 = 0$). Saving has no significant effect on GOP

$H_1$: the variable was statistically significance ($\beta_1 \neq 0$). Saving has a statistically significant effect on GOP. This was two-tailed test.

The t-test value for $\beta_1$ is 20.88. The tabulated t-test value at 5% level of significance was 2.086. Therefore the null hypothesis was rejected and it can therefore be concluded that saving is statistically significant and thus, it has an effect on GOP. This also makes sense because there was an annual increment in GOP, so those who save more were likely to earn more than those who save less.
4. Training

Theoretically GOP and Training have positive correlation. That’s as when clients are well trained it will be compensated in GOP. The coefficient of training ($\chi^2$) = -88664.27. This means that a unit absolute increase in training results to decrease in GOP by -88664.27 units in the same direction, ceteris paribus.

$H_0$: the variable was statistically insignificance ($\beta_2=0$). Training has no significant effect on GOP

$H_1$: the variable was statistically significance ($\beta_2\neq0$). Training has a statistically significant effect on GOP. This was two-tailed test.

The t-test value for $\beta_2$ is 3.08. The tabulated t-test value at 5% level of significance is 2.086. Therefore the null hypothesis is rejected and it can therefore be concluded that training is a statistically significant and thus, it has an effect on GOP.

$H_0$: $\beta_0 = X_1 = X_2 = X_3 = D_1 = 0$ Implies that the overall model is statistically insignificant

$H_1$: $\beta_0 = X_1 = X_2 = X_3 = D_1 \neq 0$ Implies that the overall model is statistically significant

If the $F$ calculated was greater than $F$ table we reject the null hypothesis that model was statistically significance at a certain level of significance.

$$Fc > FT \alpha (k-1, n-k),$$

Where

$\alpha$= level of significance

K= number of parameters

n= number of observation
$F_{c} (4, 68) = 531.07$ and $F_{T} = F_{0.05} (4, 68) = 2.53$, therefore $|531.07| > |2.53|$ which concludes that the overall model was statistically significance at 5% level of significance.
CHAPTER FIVE
DISCUSSION OF FINDINGS

5.1 Introduction
This chapter aim to discuss the findings based on the study “assessment of the impact of microfinance institutions to micro and small enterprises performance”.

5.2 Discussion of the findings
From the findings in chapter four it can be observed the model is significant at 96% confidence interval. This means that, for every 100 of the same kind as this one, 96 inquiries would come out with the same results as in this research. This means that the research has represented real world by 96% percent.

Being the case; the independent variables: operating cost, training, amount of loan delivered and the amount saved by the entrepreneur are prominent determinants of enterprise’s gross operating profit. This implies that for the enterprise that aims to alter (increase) its gross operating profit, therefore, important to consider these factors.

The variable Operating cost has shown to be positively related to gross operating profit but with very weak correlation. This is to say that, the entrepreneur who aims at increasing gross operating profit of the firm would face diseconomies of scale if rely on altering (increasing) operating cost. This is because operating imposes cost on firm’s operations and is deducted from total sales (revenue).

Small increment (0.2% increase) which the model has shown is resulted from additional production/ provision of service that the firm/enterprise allocated that particular cost to (assuming that at any production point at least the enterprise is not incurring loss).
Amount of loan delivered has significantly shown to have more than double (2.4%) increment effect to gross operating profit as entrepreneur increase 1 percent of the amount of loan she/he delivers. This is because the loan applied by the firm is directed to increasing the invested capital which in turn is accounted in gross operating profit. But also, big investment results to increase profits than small capitals. This pushes the need for entrepreneurs to partner with MFIs to secure loans. In this research, the entrepreneur that delivered loan from MFIs had profit (gross operating profit) bigger by 2.4% than that who did not receive it.

Amount saved has also revealed to have greatest correlation with gross operating profit. The enterprises which increasing their savings level (for instance by 1%) would have meant to have increased their operating profit by 12% in the same direction. This fact derives its truth from the fact that amount saved is what is considered by MFIs as the guideline for the projecting payment flows or collateral for the applied loans. The enterprise with high saving level wins big loan than the firm with small/poor saving outlay. The impact of the amount of loan delivered has already been discussed above.

Training, the result table it shows the existing of negative correlation between training and Gross Operating Profit (GOP). This is likely biases from the data which were collected.

Theoretically training has positive correlation with gross operating profit. This is because training enables the client’s to change behavior and how they perceived their daily activities, it adds to the skills of Micro and Small Enterprises (MSE’s) owners, change their behavior on how they perceive and conduct business activities and in turn enhance their ability to increase the performance. This is due to the fact that through training those enterprise owners or managers can attain networks from their fellows also from those institutions, transferring of different kind and forms of technologies, also to build up the commercial entities and acquire new and better management techniques.
So definitely the one who is well trained will have positive impact to their gross operating profit (GOP) due to the benefits which can be found within training compared to those people who operate their business without any training.
CHAPTER SIX

SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

6.1 Introduction
This chapter is divided into three main parts. The first part gives the summary of the research findings and discussions, the second part gives conclusion based on the results of the findings and discussion, and the last part provides recommendations or policy implications drawn from the research study.

6.2 Summary
The aim of this research was to find out the impact of Microfinance institutions (MFI) on micro and small business performance. The problem under the study was poor performance of some businesses. The methodology used was cross-section research design, whereby 73 enterprises operating in Dodoma municipality were used to study the variable flows as in year 2012.

The variables were, operating cost, Training, saving and loan upon the research, there has been revealed that Microfinance Institutions (MFIs) service to enterprises has great importance to influence business performance whereby in some instances alteration of one variable could alter GOP by more than 12% in the same direction.

From the results of the variables regressed shows that the model was statistically significance by 96%, which means if people involve in the business are educated (well trained) this means if they have been provided with management skills, also provided with loans, save together with reducing operating cost there is positive impact on gross operating profit.
6.3 Conclusion
From the study conducted, the researcher came out with the conclusion that there is a need to stabilize Microfinance institutions (MFIs) capacity to expand services by increasing more products and coverage so that many people are reached.

Sometimes the services seem not to be enjoyable to the most of the people because the products which are provided are not enough, there should be different number of loans so as the clients could be able to touch different angle they want too (flexibility). Also the coverage of those Microfinance institutions (MFIs) is not well balanced; most of them keep their eyes in town. Although in reality not only the people or clients who are in town need those services. But the reason behind is awareness, most of the people in rural areas are not aware on MFIs. Also availability of these services limit them to access most of financial institution are located in town.

Also the conditions should be softening so as to increase capacity for entrepreneurs to partner with Microfinance Institutions (MFIs). Due to the fact that those conditions do not favor the clients that much, at the end of the day very few people manage to acquire a loan. Sometimes some enterprises faces difficulties or crisis, at the end of the day those enterprises collapse because when they face their downfall there is nothing to be done, they cannot ask for loans from the microfinance institutions because of the conditions.

Again there’s a need to lay emphasis on entrepreneurs’ partner with the Microfinance institutions (MFIs) to access loans services and to save in financial services (deposits) so as to create loan ability and through tracing their financial flows. But this can easily occur if the Microfinance institutions (MFIs) prepare the nice environment for the interaction between them and those enterprises. If those clients have no idea if they are going to benefit from those institutions it is difficult for them to interact with the Microfinance institutions (MFIs).
Another thing is to create attention to business owner’s concerning training. This is very important due to the fact it going to have impact to those businesses in one way or another. When clients are provided with management skills they can be able to boost the activities and the performances of their businesses. Sometimes those businesses may face their downfall because of lacking the technical support (training). It could also be better if those businesses which cannot afford to poses loans from the Microfinance institutions (MFIs) also get a chance to attain the technical support (training). Because the number of those businesses which lack such knowledge is very large comparing to the number which is able to get training.

6.4 Recommendations

Based on the study findings the study implies the following to policies related business management:

First thing to be done is to stabilize Microfinance institutions (MFIs) capacity to expand services by increasing more products and coverage so that many people are reached. In reality most of these Microfinance institutions are well established in townships especially and leave behind the remoteness areas, and the truth is those people who are not in town also needs the services. So the policy must also focus on the coverage at least those people could access those services. Also the number of the products being provided by Microfinance institutions (MFIs) is not that much enough, so the policy should focus on this too, to make sure that the client’s choices are wider.

The second is to soften the conditions so as to increase capacity for entrepreneurs to partner with Microfinance Institutions (MFIs). Again the conditions in most of the Microfinance institutions (MFIs) are not client’s friendly for instance excessive interest rates. Most of the clients are poor so it is difficult for some of them to manage to apply for those loans; this may also lead to Microfinance institutions (MFIs) losses as borrowers cannot pay.
Also to emphasize entrepreneurs’ partner with the Microfinance institutions (MFIs) to access loans services and be able to save in financial services so as to create loan ability and through tracing their financial flows. The knowledge out there concerning how the Microfinance institutions works is very rare, only few people at list have good looking picture on how these institutions perform their activities and if they can be benefited from them or otherwise. So the policy must make sure that those Microfinance institutions provide enough knowledge and education concerning their services and activities. So it will be easy for the client’s to interact with those Microfinance institutions after being aware of the activities and services.

Also to put emphasis on MFIs to provide training and advice to all their clients so as to boost up the performance of their businesses. Training in the microfinance institutions (MFIs) context refers to a series of organized activity aimed at imparting information on microfinance institutions (MFIs) services, products instructions and information geared at improving the client’s performance in loan use and loan repayment. It has been observed that some clients although they were provided with loans by those Microfinance institutions (MFIs) but still they were not given training. Microfinance institutions (MFIs) must also provide training so as to bridge the gap among micro and small scale entrepreneurs in a bid to enable them cope with the ever changing business environment also it can help to boost the performance of their business.

Another thing is to give emphasis to capacity in credit management and business skills to the MFIs employees, due to the fact that in some of the Microfinance institutions (MFIs) employees lack these things and they have great impact to clients. Sometimes the clients need immediately support so as to escape from an emerge risk, so when they fail to get assistance from those employee it is very dangerous to their businesses.

Also another emphasis should on the availability of information concerning Microfinance Institutions (MFIs). Most of the Microfinance Institutions does not often display the information concerning products and services which they provide,
while those information are very important to the clients. If they display such information on other hand it will help even them to expand.
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1. INTRODUCTION

Dear entrepreneur, I would like to take this opportunity to request your assistance on collection of data on your business performance taking into account the impact of partnering or not partnering with micro-financial institutions. The information you will give will remain a secret and will be used for research purpose only. This research is a partial fulfillment of the award of Master degree of science in entrepreneurship of Mzumbe University. Moreover, this research will help government and the stakeholders to respond accordingly with the findings to improve MFIs and MSEs sub-sectors of the economy. I beg your cooperation.

2. ENTERPRENEUR’S PERSONAL DETAILS

Name: [fill the blank]...........................................................................................................

Sex: [write ‘v’ where applicable] male [ ]; female [ ]

Street/ Plot: [fill the blank]...................................................................................................

District: [fill the blank].......................................................................................................

3. BUSINESS INFORMATION [fill the blank]

i. In which year was the enterprise started?
..............................................................................

ii. How much was the initial capital invested (Tshs)?
..............................................................................
iii. How many people are employed by your enterprise?…………………?

iv. Are you a member of any MFI? [write ‘v’ where applicable]: YES [ ];

NO[ ]

v. Did you get loan?.................................

vi. If yes, how much............................

vii. If the answer in (iv) above is yes; mention it…………………………………………………………

viii. Do you save...............................?

ix. If the answer is yes, is it daily saving or monthly saving……………………………………………………..?

x. What is the operating cost for your business………………………………………

4. ON THE SERVICES OFFERED BY THE MFI’s [put ‘v’ where appropriate]

   i. Technical support (entrepreneurial training) ..............................................[ ]

   ii. Loans service .........................................................................................[ ]

   iii. Saving services .....................................................................................[ ]

5. WHETHER MFI’s SERVICES ARE SATISFACTORY

   [Assign numbers 1 to 3 to show the level of satisfaction. Note: 1=poorly serviced, 2=good, 3=satisfactory]

   i. Technical support (entrepreneurial training) ..............................................[ ]

   ii. Loans service .........................................................................................[ ]

   iii. Saving services .....................................................................................[ ]
6. WHETHER MFI’s SERVICES HAVE IMPACTED YOUR BUSINESS IN THE FOLLOWING AREAS

[Write **YES** if you have experienced it; **NO** if otherwise]

i. Expanding business

ii. Increased markets

iii. Increased savings (profits)

iv. Easy loan delivery
Appendix 2

Table 1 Categories of financial providers

<table>
<thead>
<tr>
<th>FORMAL SECTOR</th>
<th>SEMI FORMAL SECTOR</th>
<th>INFORMAL FORMAL SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Central Bank</td>
<td>• Savings &amp; credit cooperatives</td>
<td>• Rotating Savings &amp; credit Associations</td>
</tr>
<tr>
<td>• Banks (Commercial, Savings, Postal Savings, Rural Cooperatives)</td>
<td>• Multipurpose cooperatives</td>
<td>• Non Registered SHG</td>
</tr>
<tr>
<td>• Development Banks (State owned, Private)</td>
<td>• Village Banks</td>
<td>• Individual Money</td>
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<tr>
<td>• Non Banking Financial Institutions (Insurance)</td>
<td>• Developments projects</td>
<td>• Lenders (commercial, non commercial)</td>
</tr>
<tr>
<td>• Markets (stocks)</td>
<td>• Registered Self helped groups (SHGs) and saving clubs</td>
<td>• Traders &amp; shopkeepers</td>
</tr>
<tr>
<td></td>
<td>• NGOs</td>
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</table>

Source: adopted and developed from Joanna Ledgerwood(2000)
reg gopctsh opctsh ltsh stsh tryes1no0

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<td>Model</td>
<td>1.5991e+14</td>
<td>4</td>
<td>3.9977e+13</td>
<td>F(4, 68) = 531.07</td>
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<tr>
<td>Residual</td>
<td>5.1188e+12</td>
<td>68</td>
<td>7.5276e+10</td>
<td>R-squared = 0.9690</td>
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<tr>
<td>Total</td>
<td>1.6503e+14</td>
<td>72</td>
<td>2.2920e+12</td>
<td>Adj R-squared = 0.9672</td>
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</table>

| gopctsh          | Coef.       | Std. Err. | t     | P>|t|   | [95% Conf. Interval] |
|------------------|-------------|-----------|-------|-------|---------------------|
| opctsh           | 0.0227896   | 0.0190377 | 1.20  | 0.235 | -0.0151996 - 0.0607787 |
| ltsh             | 0.2450308   | 0.0787904 | 3.11  | 0.003 | 0.087807 - 0.4022545 |
| stsh             | 1.218331    | 0.0583583 | 20.88 | 0.000 | 1.101879 - 1.334783 |
| tryes1no0        | -88664.27   | 71733.6   | -1.24 | 0.221 | -231806.4 54477.89  |
| _cons            | -4432.953   | 47125.7   | -0.09 | 0.925 | -98470.82 89604.92  |
Table 2. Regression output results

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<th>t-Stat</th>
<th>P- Value</th>
<th>Conf. Interval</th>
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Where

* The variable is statistically significance at 1% level of significance.

** The variable is statistically significance at 5% level of significance.

*** The variables is statistically insignificance at 1%, 5% even at 10% level of significance.
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