

**EFFECTS OF LOAN REPAYMENT ON SMEs BUSINESS
PERFORMANCE IN TANZANIA: A CASE OF CRDB BANK
PLC; MOROGORO BRANCH**

**EFFECTS OF LOAN REPAYMENT ON SMEs BUSINESS PERFORMANCE
IN TANZANIA: A CASE OF CRDB BANK PLC; MOROGORO BRANCH**

By

Linael Makundi

**A Dissertation submitted in Partial fulfilment of the Requirement for the Award
of the Degree of Master of Business Administration (MBA-Corporate
Management) of Mzumbe University**

2015

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **Effects of Loan Repayment on SMEs business performance in Tanzania: A case of CRDB Bank PLC; Morogoro branch**, in partial fulfillment of the requirements for award of the degree of Master of Business Administration (MBA-CM) of Mzumbe University.

Dr. Mushumbusi Kato (Supervisor)

Internal Examiner

Accepted for the Board of School of Business

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ACKNOWLEDGEMENTS

I am grateful to the Lord Almighty God for giving me strength and courage throughout my study period and enabling me to accomplish this work.

I extend my heartfelt gratitude to my supervisor Dr Mushumbuzi Kato of Mzumbe University for his invaluable guidance rendered to me and taking time to read through my work. I am extremely grateful for his tireless criticisms and suggestions made from development of research proposal up to final report writing.

I am indebted to Dr. Christopher J. Kasanga for his mentorship; guidance and moral support he provided throughout my studies and research work. He was always available whenever I needed him.

My sincere thanks also go to my mum (Mrs Berther Monyo), sisters (Mrs. Joyce Moshiro and Mrs Loveness Makundi) and brothers (Eden Makundi and Kennedy Makundi) for their encouragement and support rendered to me throughout my study duration.

I would also like to thank the management of CRDB Bank PLC for allowing me to use bank data for preparation of this dissertation.

Last but not least, I would like to express my appreciation to all fellow staff and students for their continuous friendship and support throughout my studies.

DEDICATION

This work is dedicated to my lovely friend Dr. Christopher Kasanga for his mentorship, encouragement and support.

LIST OF ABBREVIATIONS AND ACRONYMS

GDP	Gross Domestic Product
MDA	Multiple Discriminant Analysis
SMEs	Small and Medium Enterprises
SVM	Support Vectors Machine
SPSS	Statistical Package for Social Sciences
URT	United Republic of Tanzania

ABSTRACT

Access to external finance is needed for new SMEs to start and expand operations, develop new products, invest in new staff or production facilities. Despite the role played by SMEs in employment creation and poverty alleviation, SMEs in Tanzania are currently faced with many serious loan repayment difficulties which act as a barrier to their emergency and growth. Besides, no study has examined the effects of loans repayment on SMEs business performance within Morogoro municipality. The general objective of the study was to examine the effects of loan repayment on SMEs business performance. A cross sectional research design was used in this study. A total of 100 respondents were involved. Data collected were analysed descriptively using SPSS[®] computer software version 16. The results showed that 90% of respondents stated that individual or borrower specific socio-economic and demographic factors, credit period and high interest rates influence SMEs repayment capacity hence, SMEs fail to repay the loans and at the end become bankrupt. However, 80% of respondents were of the opinion that SMEs failure includes the business that has no market potential, business not being financially viable and the business that does not have business plan. It was found that these issues were absent among SMEs as some could not know if what they marketed were viable financially, had market potential and were strategically incorporated in the business plan. Moreover, 87% of respondents stated that, networking influenced SMEs performance as through communicating with other SMEs, techniques were sought thus enabling good exchange of ideas and innovations. On the other hand, 80% of respondents stated that SMEs lack credit data and collateral or capital that would help in accessing loans due to the fact that they were not able to mobilize funds and invest in various income generating activities. This study revealed that out of 100 respondents only 40 were able to produce credit data and collaterals that would enable them access funds from financial institutions. This little amount of SMEs suggests for the need of support of the upcoming SMEs in order to enhance prosperity among beneficiaries. It is concluded that if SMEs would be provided with customer service skills or knowledge, they could be in position to deliver services that attract customers hence attain profitability with ultimate goal of improved loan repayment.

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CHAPTER ONE

PROBLEM SETTING

1.0 Introduction

This chapter states and explains how this study was carried out that examined the effects of loan repayment on SMEs business performance in Morogoro municipality with reference to CRDB Bank PLC; Morogoro branch. It further describes the background to the problem; statement of the problem, research objectives and questions; significance and the organisation of the study.

1.1 Background of the study

Small and medium enterprises (SMEs) play a major role in economic development in every country, including African countries, Tanzania being among them (Rweyemamu, Kimaro and Urassa, 2003). The potential of SMEs in promoting economic growth and poverty alleviation in both developed and developing countries is widely accepted and documented by both scholars and policy makers. Studies indicate that in both advanced economies and developing countries, SMEs contribute on average 60% of total formal employment in the manufacturing and service sectors (Ayyagari, Demirgüç-Kunt, and Maksimovic, 2007). Taking into account the contribution of the informal sector, SMEs account for about three-quarters of total employment (Ayyagari *et al.*, 2007). In Tanzania, SMEs sector is seen as a key to Tanzania's economic growth, alleviation of poverty and unemployment in the country. Available data shows that SMEs contribute about 40% to the country's Gross Domestic Product (GDP) (Tamara, 2006). SMEs are said to be 80% of registered business each employing between 5 and 99 people. Therefore, promotion of such enterprises in developing economies like Tanzania is of paramount importance since it brings about a great distribution of income and wealth, economic self-dependence, entrepreneurial development employment and a host of other positive, economic uplifting factors (Aremu, 2004). Moreover, a crucial element in the performance of the SME sector is access to finance along with loan

repayment, given the relative importance of the banking sector in serving this segment.

In a study done by Rweyemamu *et al.*, (2003) revealed that, formal financial institutions have failed to serve the SMEs by providing loans in both urban and rural communities because of loan repayment challenges. These include poor financial management; existence of information asymmetry and bank credit rationing (Chijoriga and Cassimon (1999). Ogawa and Suzuki (2000) pointed out that bank do not want to offer loans to SMEs because the nature of loans required is too small and those banks find it more expensive to offer such loans. According to Chijoriga and Cassimon (1999), most formal institutions regard low-income SMEs as too poor to save, and are not personally known to them, do not keep written accounts or business plans, they usually borrow small and uneconomic sums. However, Nawai and Shariff (2010) classified the underlying variables/challenges encountering SMEs under four distinct headings: individual/borrower, firm, institutional/lender and loan characteristics affecting loan repayment. However, Derban, Binner and Mullineux (2005) preferred grouping the factors into three main categories: the inherent characteristics of borrowers and their businesses; characteristics of the lending institution and suitability of the loan product to the borrower; and the systematic risk from the external factors, like the economic, political and business environment in which the borrower operates. They argued that each of these could make it unlikely that the loan would be repaid.

Atieno (2009) observes that access to external finance is needed for new SMEs to start and expand operations, develop new products, invest in new staff or production facilities. The availability of finance for investment in positive net present value projects is vital to the sustainability and viability of new SMEs. A vast majority of new SMEs depend on internal finance (contribution from the owners, family and friends). Internal finance is often inadequate for new SMEs to survive and grow. It is increasingly difficult to keep the costs within the constraints of self-financing. Therefore new SMEs need capital from external sources (Oke, Adeyemo and

Agbonlahor 2007). Moreover, financing theories suggest, that all being equal, banks will finance lower risk, lower growth ventures (Nawai & Shariff, 2010). Most of the time, banks face greater liquidity constraints, leading to preference for collateral, transparent valuation, and other lower risk sectors (Winton & Yerramilli, 2008). Furthermore, intermediated financing provided by banks, will impose stricter demands for payback but at the same time can provide financial flexibility (Nawai & Shariff, 2010).

However, failure of SMEs cannot be limited to lack of funding. Nieman and Niewenhuizen (2009) pointed out that the largest percentage of SMEs fail during the first two years of their existence due to cash flow problems. Cash flow problems can ensue as a result of lack of access to bank finance or lack of financial management knowledge (Nawai & Shariff, 2010). Nawai and Shariff (2010) further endorsed the belief that SME owners must themselves be able to interpret and understand financial statements. In addition to this, most owners and operators of SMEs are financially illiterate, which leads to mismanagement of business finances causing most enterprises to fail. Foxcroft, Wood, Kew, Herrington and Segal (2002) asserted that lack of education and training has reduced management capacity in new firms.

Lack of education and skills can as well mean, or lead to lack of, financial management knowledge. In support of this notion, Fatoki and Garwe (2010) argued that lack of knowledge and training are some of the reasons for the low level of entrepreneurial creation and the high failure rate of small businesses. Moreover, lending to SMEs remains a laborious and daunting activity as many factors influence the sustainability of these ventures and their loan repayment behaviour. The main challenge is getting information about the business (López, 2007). Furthermore, owners of SMEs lack accounting skills, leading to improper accounting procedures. Small business owners often mix their personal finances with business finances which complicate the assessment of affordability and confusing to the assessor. It is from this background that the study aimed at examining the effects of loan repayment on SMEs business performance in Morogoro municipality,

1.2 Statement of the problem

Loans play a vital role in economic transformation and development of SMEs and are crucial inputs required to establish and expand SMEs business undertaking (Rweyemamu *et al.*, 2003). Loans enable the SMEs to tap the financial resources and take advantage of the potentially profitable investment opportunities in their immediate environment (Zeller and Sharma, 1998). The need for loans or credit facilities is necessitated by the limitations of self-financing, uncertainty pertaining to the levels of output, and the time lag between inputs and output (Kohansal and Mansoori, 2009). However, the repayment of loan for SMEs is a primary concern for owners of SMEs because it has a direct impact on the success, creditworthiness and growth of entrepreneurial ventures (López, 2007). Efficient loan repayment determines the cash flow and the success of the day-to-day operations of the business. Poor loan repayment and management leads to late payment to creditors and other stakeholders in the supply chain. Thus loan repayment needs to ensure ample monitoring of cash flow as well as collection strategies from debtors. Crucial to this practice are measures to assess with due caution the customer's ability to meet the business's loan payment terms (Nawai & Shariff, 2010).

Despite the role played by SMEs in employment creation and poverty alleviation, SMEs in Tanzania are currently faced with many serious loan repayment difficulties which act as a barrier to their emergency and growth. Besides, no study has examined the effects of loans repayment on SMEs business performance within Morogoro municipality. Taking the above reasons into consideration, this study aimed at examining the effects of loan repayment on SMEs business performance with reference to CRDB Bank borrowers.

1.3 Research objectives

The research objectives of this study were divided into two main categories, that is; general objective and specific objectives as given hereunder.

1.3.1 General Objective

The general objective of the study was to examine the effects of loan repayment on SMEs business performance in Morogoro municipality.

1.3.2 Specific objectives

The study was guided by the following objectives

- i) To examine the factors influencing repayment capacity of SMEs in Morogoro municipality
- ii) To determine the factors for SMEs failure to repay loans in Morogoro municipality
- iii) To identify the factors influencing SMEs business performance in Morogoro municipality
- iv) To identify the challenges associated with loan repayment among SMEs in Morogoro municipality

1.4 Research questions

- i) What are the factors that influence repayment capacity of SMEs in Morogoro municipality?
- ii) What are the factors for SMEs failure to repay loans in Morogoro municipality?
- iii) What are the factors that influence SMEs business performance in Morogoro municipality?
- iv) What are the challenges associated with loan repayment among SMEs in Morogoro municipality?

1.5 Significance of the study

Findings from the study might help SMEs and the entire citizens engaging in business undertakings to realise the need to utilize well the loans accessed from financial institutions for the better support of their business.

This study offers empirical evidence on the effects of loan repayment on SMEs business performance for use in short term and long term interventions especially in the fight against poverty.

Furthermore, this study might serve as a reference for other researchers studying on a related subject in order to enhance their work.

1.6 Organisation of the study

The study consisted of five chapters. The first chapter was an Introduction and Background Information. The second chapter presented the Literature Review, the third chapter discussed the Research Methodology, the fourth chapter presented and analysed the research findings and the fifth chapter presented the Conclusions and Recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter examines some of the literatures from different studies in order to capture ideas which guided the development of the study. It is based on theoretical, review of empirical literature and conceptual framework.

2.1 Theoretical Review

This subsection operationalises the terms/concepts which are used in the study along with scholarly literatures from various experts.

2.1.1 Small and Medium Enterprises (SMEs)

The term SMEs has been severally defined by institutions, regions and based on number of people employed, sales or assets (Mensah, 2004). According to the World Bank, a venture employing up to 300 people with US\$15 million in annual revenue, and US\$15 million in assets is an SME. But to the Inter-American Development Bank, an SME is a business employing up to 100 employees and earning not more than US\$3 million in revenue (Dalberg Global Development Advisors, 2011). Furthermore, European Union defines SMEs as a venture that employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. Small and medium enterprises are thus defined as firms with 10 to 250 employees, as and more than 10 million euro turnover or annual balance sheet total (Akorsu and Agyapong, 2012).

The UNIDO defines SMEs in terms of number of employees by giving different classifications for industrialized and developing countries. The definition for industrialized countries is given as follows; a) Large - firms with 500 or more workers; b) Medium - firms with 100-499 workers; c) Small - firms with 99 or less workers and the classification given for developing countries is as follows; a) Large -

firms with 100 or more workers; b) Medium - firms with 20-99 workers; c) Small - firms with 5-19 workers; d) Micro - firms with less than 5 workers (UNIDO, 1999). It is clear from the various definitions that there is not a general consensus over what constitutes the SME (Ayyagari *et al*, 2006). Definitions vary across industries and also across countries. SMEs include a wide range of businesses, which differ in their dynamism, technical advancement and risk attitude. Many are relatively stable in their technology, market and scale, while others are more technically advanced, filling crucial product or service niches. Others can be dynamic but high-risk, high-tech “start-ups” (Mensah, 2004).

In Tanzania, SMEs are those engaging up to four people and in most cases the family members under informal sector with capital investment of up to five million Tanzania shillings; while the Small enterprises are mostly formalized businesses engaging five to forty nine employees or with the capital investment from five to two hundred million Tanzania Shillings (URT, 2003). The SMEs are categorized as shown in the table below according to Tanzanian perspective:

Table 2.1: Categories of SMEs in Tanzania

CATEGORY	EMPLOYEES	CAPITAL INVESTMENT (TShs)
Micro Enterprise	1 – 4	Up to 5 million
Small Enterprise	5 – 49	Above 5million to 200million
Medium Enterprise	50 – 99	Above 200million to 800 million
Large Enterprise	100+	Above 800 million

Source: SMEs Policy, 2002

CRDB Bank Plc categorizes SMEs in accordance with the number of employees SMEs possess as ranging from 1-100 employees; capital invested ranging from Tzs 5-800 million, turnover of Tzs 20 million to 1 billion and the loan size ranging from Tzs 1 million to 750 million. Table 2.2 summarises as follows.

Table 2.2: Categories of SMEs as per CRDB Bank

Category	Description
Employees	1-100 Employees (usually with a mix of family and fully-paid employees)
Capital invested (net worth)	Tzs 5 million-800 million
Turnover	Tzs 20 million-1 billion
Loan size	Tzs 1 million- 750 million

Source: CRDB, 2014

As presented in the Recommendation 2003/361/EC in Europe, the category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. To check if an entity is an SME the first step is to verify if it is an enterprise and if it fits to the following three criteria: staff headcount, annual turnover and annual balance sheet total. The main categories of SMEs, based on their relations with other enterprises are autonomous – by far the most common category – a partner or linked enterprises. The calculations for each of the three types of enterprise are different and will ultimately determine whether the enterprise meets the various ceilings established in the SME definition and later if or not benefits of special financing programs, created both by the European Union and by national governments. The ceilings apply to the figures for individual firms only. A firm which is part of larger grouping may need to include employee/turnover/balance sheet data from that grouping too (European Commission, 2003).

The main factors determining whether a company is an SME are: number of employees and either turnover or balance sheet total.

Table 2.3: Categories of SMEs in Europe

COMPANY CATEGORY	EMPLOYEES	TURNOVER	BALANCE SHEET TOTAL
Medium sized	<250	≤ € 50 m	≤ € 43 m
Small	<50	≤ € 10 m	≤ € 10 m
Micro	<10	≤ € 2 m	≤ € 2 m

Source: "User Guide and Model Declaration", 2004

2.1.1.2 Microfinance

This refers to loans, savings, insurance, transfer services and other financial products targeted at low-income clients (Husain, 2008). Microfinance is a general term to describe financial services to low-income individuals or to those who do not have access to typical banking services. Microfinance is also the idea that low-income individuals are capable of lifting themselves out of poverty if given access to financial services. The extent to which microfinance, entrepreneurship and sustainability are interrelated is dependent on the extent to which it addresses the economic development process. Yunus (1994), claims, "If we are looking for one single action which will enable the poor to overcome their poverty, I would go for credit. Money is power." Credit invested in an income-generating enterprise as working capital or for productive assets leads to establishment of a new enterprise or growth of an existing one. Profit from the enterprise provides income, and a general strengthening of income sources.

2.1.1.3 Credit facilities offered by CRDB bank Plc to SMEs

Finance, as one of the driving force is critical to increasing efficiency, improving product quality, and raising the productivity and income of entrepreneurs. Without access to finance, small and medium entrepreneurs will continue to make little investment, have low-return production systems, and be unable to use their resources optimally. On that background the CRDB bank plc is providing different credit facilities like short term credit facilities, medium, and long term credit facilities. The repayment of these facilities ranges from one month to five (5) years.

2.1.2.4 Small and Medium Enterprises Situation in Tanzania

According to statistics from Tanzania's Trade and Industry Ministry, the state of SMEs in Tanzania has continued to deteriorate despite the government efforts of initiating and enabling environment for their survival such as setting up of a funding kitty to act as a guarantor in order to secure loans from financial institutions. Tanzania boasts over 1800 registered SMEs. In this country, SMEs operate at the lowest rank of the cash economy, competing and surviving on the basis of low cost, low price and quality. However, despite their low rank in the development of the country's economy, they account for a large share of the enterprises activity in Tanzania.

In fact, SMEs are the emerging private sector and do form the base for private sector - led growth. In recognition of the importance of SME sector, the government has continued to design and implement a number of policies and programs supportive to the development of the sector. In consideration of the important role that SMEs play in the development of the Tanzania economy, the Government has set aside a fund which will be used as a guarantee for the SMEs to secure loans in a number of commercial banks.

Through such avenues, players in the SME sector will have a chance to secure loans from a number of commercial banks for the development of the SMEs sector. Entrepreneurs who qualify for such loans are those whose working capital base ranges between \$ 3,891 (Tshs. 5 mil) and \$ 15,5642 (Shs. 200mil). Of the 1800 registered SMEs only about 10 percent do access the government - allocated funds. (Tanzania ministry of work and industries document 2002).

2.1.1.5 Small and Medium Enterprises business performance

SMEs business performance refers to the firm's success in the market, which may have different outcomes. Firm performance is a focal phenomenon in business studies. However, it is also a complex and multidimensional phenomenon (Derban Binner, Mullineux 2005). Performance can be characterized as the firm's ability to

create acceptable outcomes and actions. However, performance seems to be conceptualized, operationalized and measured in several ways. Strategically, SMEs performance is often referred to as firm success or failure (Ostgaard and Birley, 1995).

2.1.2 Importance of Small and Medium Enterprises

SMEs help create bulk of the jobs as well as contribute to the national revenue by way of tax revenue, but also improve upon national income (Abor and Quartey, 2010). Kayanula and Quartey (2000) and Aryeetey (2001) found among others that SMEs are sources of employment generation, help conserve foreign exchange, increase exports through the non-traditional commodities exports as well as contributes to economic growth and development through innovation and creativity. These businesses are also considered by Abor and Quartey (2010) as providing about 85% of employment in the manufacturing sector and are believed to contribute about 75% to countries' GDP and also account for 92% of businesses. They have often been described as improving the efficiency of domestic markets and making productive use of scarce resources, and thus facilitating long-term economic growth in poor countries (Aryeetey and Ahene, 2005). According to Buame (2004), SMEs are very important to an economy because they make more efficient use of resources, act as a source of skill creation, cradle of entrepreneurship, utilises financial resources that are otherwise dormant like family savings, innovative, have a much lower cost per job created, wider geographic spread, wider presence in rural areas, and higher capacity for absorbing labour.

SMEs are often found to have some advantages over large firms (Rweyemamu *et al.*, 2003). Large firms have been found often to have undesirable working conditions, such as weaker autonomy, stricter rules and regulations, less flexible scheduling, and a more impersonal working environment (Edmiston, 2007). Also, SMEs are seen to rely on a personalised, tailor-made service. Moreover, they tend to provide quicker services, quality products, fair prices as well as providing both formal and informal after sales service. As Vossen (1998) opined, while large-firm strengths are mostly

material in nature, small-firm strengths are mostly behavioural. Perhaps the most critical strength is the lack of an entrenched bureaucracy that often characterizes larger firms. An entrenched bureaucracy can lead to long chains of command and subsequent communication inefficiency, inflexibility, and loss of managerial coordination (Edmiston, 2007). Further, SMEs to the extent that they operate in more competitive environments, may have a greater incentive to innovate so as to stay ahead of rivals. Finally, because ownership and management are more likely to be intertwined at smaller firms, the personal rewards of potential innovators are higher. As a related factor, smaller firms may be better able to structure contracts to reward performance (Zenger, 1994). But despite such advantages SMEs continue to face especially financial difficulties because they often start with inadequate capital. So in society where fewer bureaucratic firms exist, and given the significant role of SMEs in job creation if strategies are devised in solving their (SMEs') problems, they could contribute more to the development of the society (Mensah, 2004).

2.1.3 SMEs Challenges and Implications to SMEs Growth

2.1.3.1 Market Access

According to Tanzania policy position paper on SMEs (2009) on market access through private and public procurement it was highlighted that; the government being the largest spender in terms of procurement fails to support SMEs in respect of market access from its various public procurements as a result most SMEs participating as suppliers to the government are very limited; hence have failed to penetrate the market and hence slow growth.

2.1.3.2 Cost Effective System

There is lack of specific affirmative programmes by the government in favour of SMEs which will create a cost effective system of encouraging and promoting SMEs in a wide spectrum of public services (Ngowi, 2006). For example, there is a need to revise the Public Procurement Act of 2004 as to eliminate issues like; a need for bid securities, performance bond or guarantee since SMEs have limited finance capital, management skills and technology.

2.1.3.3 Low competitiveness ability

Due to the high operating costs such as power (e.g. current power, water rationing) all over the country, limited access to public infrastructure services (e.g. serviceable roads) place a major constraint to indigenous SME survival (Darroch and Clover, 2005), high tax rates which reduce the profit incentive drastically, poor quality products/services due to limited skills in product development, use of outdated production technologies and low economies of scale lead the SMEs unable to compete with large enterprises nationally or internationally.

2.1.3.4 Limited Access to Finances

Majority of SMEs depend on loans from the banks or financial institutions to finance their activities. Banks are reluctant to give loans to SMEs because they consider them as risky. Stringent loan conditions from the financial institutions during start up and for survival including high interest rate, tax, need for security/guarantee and bureaucracy hinder the easy accessibility of finance capital.

2.1.3.5 Human Capital

Due to lack of finance SMEs tend to employ cheap and unskilled labour. Quality management is another challenge to SMEs sector as management skill is key growth factor. Sustenance of growth in the SME sector largely depends on the availability of quality human resource available to a firm. This measure is indicative of entrepreneurial management skills available for growth and success of a firm (ILO, 2000).

2.1.3.6 Business Management Training

According to Bouri (2011) business management training programmes for SMEs should impart a package of skills needed in the current business environment. For start-ups, this includes training in formulating business plans, identifying markets, hiring skilled workers and complying with government regulations which has a positive relationship with SMEs profitability. For more established SMEs, it might

comprise developing skills in marketing and exporting; product development and process improvements; identification and use of new technology, including information and communication technologies (ICT); increasing co-operation among staff and promoting internal teamwork; enhancing networking with suppliers, clients and other firms; and generally improving adaptability and flexibility to respond to changing market conditions and client needs (Oni, 2012).

Upgrading the skills of all types of workers, including managers, is central to firm performance and profitability in knowledge-based economies (Olagunju, 2004). The quality of management is particularly important for small and medium-sized enterprises (SMEs), which must be able to adapt quickly to evolving markets and changing circumstances, but which often have limited resources. Such constraints also put limits on their ability to engage in training, even though studies indicate that there is a positive correlation between the degree of management training and the bottom-line performance and profitability of an SME. Ayyagari *et al.*, (2006) argue that there is preliminary evidence that formal management training can reduce the failure rates of small firms, which are far more likely to fail than larger firms, particularly in the early years.

2.1.3.7 Technological change

According to Mbamba (1999) argued the change of technology has posed a great challenge to small businesses. Since the mid 1990s there has been a growing concern about the impact of technological change on the work of micro and small enterprises. Even with change in technology, many small business entrepreneurs appear to be unfamiliar with new technologies. According to his observations, those who seem to be well positioned, they are most often unaware of this technology and if they know, it is not either locally available or not affordable or not situated to local conditions. Foreign SMEs still remain in the forefront in accessing the new technologies.

2.1.3.8 Tax Policies and Regulations

There is uneven enforcement of tax laws resulting from ad hoc exemptions for some businesses and general lack of transparency. Well established SME, face unfair competition from tax evaders including informal operators (World Bank, 2002), also large businesses pay income taxes on their profit. However, small businesses have to pay taxes whether they make profit or loss. This is the case since for SMEs taxes are set on the basis of type of activity and approximate size rather than income. This may limit their capacity to grow. There are numerous taxes and levies, for example there are twenty seven different taxes and levies that apply to various businesses and one has to know which apply to their particular enterprise. This is just too cumbersome especially for a small business. The tax assessment and collection system is non transparent and unpredictable, giving opportunities for tax officials to exhort bribes from small business operators (Finseth, 1998).

2.1.4 Theories of SMEs performance

The SMEs performance has its foundation from three theories – the social network theory, social exchange theory and the theory of large numbers according to Jorgensen and Ulhoi (2010).

2.1.4.1 Social Network Theory

The Social Network theory is of the view that actors are not as significant as the relationships (ties) and contacts with other actors in the network (Borgatti and Li, 2009). The theory focuses on the assessment of social relationships between or among actors in a network. The SME Network Fund model is based on this premise that once SMEs pool resources they can have adequate funds to be given to one at a time. Besides, fund manager(s) can invest the pool in short term securities to enable it appreciate.

2.1.4.2 Social Exchange Theory

In addition, according to the social exchange theory, humans in social situations choose behaviours that maximize their likelihood of meeting self interests in those situations. This theory assumes that the individuals (owners of the venture) are rational and engage in costs-benefits analysis in social exchanges. This implies that they act as both actors and reactors in social exchanges (Nomaguchi and Milkie, 2003). But at the core of social exchange theory are the concepts of equity and reciprocity; where the group in this network, pool resources and give it to a member at a time. This theory has been applied in various economic and social relationships (Monge and Contractor, 2003). Although some weaknesses have been reported e.g. Miller (2005), several empirical works (Liu and Deng, 2011) have reported gains from its application.

2.1.4.3 Theory of Large Numbers

The theory of large numbers (the law of large numbers) is a financial risk management practice often used in insurance and for individuals with little funds to invest. The law of large numbers is simply pooling little resources into the fund (Miller, 2005). Although SMEs are deemed to be cash starved, they can periodically make little contributions into the fund. As per the model proposed, together with contribution by other stakeholders, SMEs could have access to funding and at a cheaper rate than other lenders. In terms of management, if necessary, a fund manager can be employed to manage such a fund (Borgatti and Li, 2009).

2.1.4.4 Transactional cost theory regarding loan and repayment

Transaction cost approach to the theory of the firm was created by Ronald Coase (1937) in his article "The Problem of Social Cost" He stated that *"In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on"*. More succinctly transaction costs are: search and information costs; bargaining and decision costs; policing and enforcement costs.

The transaction cost can be conceptualized as a non financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan (Oladeebo and Oladeebo, 2008). The cost incurred by the lender include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts. On the other hand, the borrowers that is SMEs for this case may incur cost ranging from cost associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings, etc (Bhatt and Shui-Yan, 1998). The parties involved in a project will determine the transaction cost rate. They have the sole responsibility to reduce the risk they may come across (Afolabi, 2010).

2.1.5 Models used to access loan applications

2.1.5.1 Credit Scoring Model

The most widely used credit measure to predict future loan performance is credit scoring models. Feldman (1997) explained credit scoring as “the process of assigning a single quantitative measure or score, to potential borrower representing an estimate of the borrower’s future loan performance”. The models are statistical in nature such as logistical regression analysis or discriminant analysis and more recently neural networks and Support Vector Machine (SVM). Credit scoring methods are used to estimate the likelihood of default based on historical data on loan performance and characteristics of the borrower (Kohansal and Mansoori, 2009). In the small business environment, if the customer statistics produce a score above the cut-off score, the application is considered for further assessments by specialised small business units and then later progresses to the small business credit department for approval or otherwise. The basic assumption is that there exists a metric which can distinguish between good and bad credits and segregate them into two separate distributions (Nawai & Shariff, 2010). Credit scoring has its limitations.

Feldman (1997) considered the credit scoring models used in SME lending to be more intricate than those used in consumer lending and have a propensity of placing substantial weight on factors related to the financial history of the business owner. Berger & Frame (2005) have found that credit scoring is associated with an increase in overall lending because of the inclusion of more marginal classes of borrowers.

2.1.5.2 Accounting-based Model

Accounting ratios are also widely used by banks in a bid to limit adverse selection and moral hazard problems in loan advancements. The methodology of the accounting-based approach is based on Multiple Discriminant Analysis (MDA) and logistic models that are the most useful in accounting based variables for classifying company default (Berger & Frame, 2005). Khorasgani (2009) argued that although there are numerous drawbacks to using accounting ratio based models in predicting defaults, SMEs' financial ratios derived from balance sheets and profit and loss accounts are regarded as good predictors of default. In addition, liquidity and activity are the most crucial factors in predicting an SME's default, as well as the positive effect of age and size variables on an SME's default prediction.

2.1.5.3 Survival-based Credit Scoring Model

Some banks take the process to another level by making use of the survival analysis method to measure response or time of an occurrence of an event. Luoma and Laitinen (1991) pointed out that the aim of the survival analysis method is to measure the link between illustrative variables and survival. Investigating the timing when customers are likely to go "bad" is important for effective credit management policies. The bank can manage and monitor profitability of clients to the bank over a customer's lifetime. It has been shown previously by Narain (1992) that survival analysis can be useful to estimate default and repayment.

2.1.6 Loan default

Liu and Zhu (2006) argued that credit is granted on faith and defined credit as "the ability of a business or individual to obtain economic value on faith, in return for an

expected future payment”. Since trust is built on faith to commit and meet agreed financial obligations, trust, faith, respect and sometimes relationships are compromised if those obligations are not met. Not meeting the obligations is considered as default. Prior to 2004, when the Basel II accord was endorsed, financial institutions could adopt their own strategic definitions of default (Oke Adeyemo, Agbonlahor 2007). Client classifications such as good payers, poor payers and bad payers were commonly used and a payment in arrears for more than three months was considered to be a default in the retail context. The fact that every organisation could use any definition meant different scoring systems; risk measures and risk management practices could be used (Gestel and Baesens, 2009).

Moreover, different authors and researchers have different definitions of default. Moody’s, a global rating agency, defined default as any missed or delayed payment of interest and/or principal. Standard and Poor, another global rating agency, defined corporate default as “...a default is recorded upon the first occurrence of a payment default on any financial obligation, rated or unrated” (Nawai and Shariff, 2010). According to Chorafas (2007), Basel II defines default as “four different events or a combination of them; ninety days past due, write down, placement on internal non-accrual list and/or outright bankruptcy”. According to the Basel Committee 2006, “a default is considered to have occurred with regard to a particular obligor when either or both of the two following events take place: i) the bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the bank to actions such as realising security (if held) and; ii) the obligor is past due more than 90 days on any material obligation to the banking group” (Saita, 2007).

Simply put, a loan is considered to be in default as soon as payment is missed; a loan default occurs when a borrower fails to meet a principal or interest payment of a loan, unless arrangements are made to pay at a later date than previously agreed upon (Saita, 2007). The undesirable trend of increasing rates of default proves costly to all parties concerned in the process of borrowing and lending. Non-payment

equally impacts the lender and the borrower negatively (Darban *et al.*, 2005). On the one hand, the lender loses the part of the principal loan disbursed and earnings in the form of interest. Further, the borrower faces a bleak future in obtaining credit due to lower credit rating and an unhealthy lifestyle primarily caused by high financial stress levels (Saita, 2007).

2.1.7 Factors for loan repayment

The literature on factors influencing loan repayment performance among financial institutions targeting the poor is very sparse and limited mainly to microfinance experience in low-income countries (Derban *et al.*, 2005). The results of the studies show mixed result. Based on past literature, the factors affecting repayment performance of SMEs can be divided into four factors namely individual/borrowers factors, firm factors, loan factors and institutional/lender factors. Ozdemir and Boran (2004) show that when a loan is not repaid, it may be a result of the borrowers' unwillingness and/or inability to repay. Stiglitz and Weiss (1981) recommend that the banks should screen the borrowers and select the "good" borrowers from the "bad" borrowers and monitor the borrowers to make sure that they use the loans for the intended purpose. This is important to make sure the borrowers can pay back their loans. Greenbaum and Thakor (1995), suggest to look at a borrower's past record and economic prospects to determine whether the borrower is likely to repay or not.

According to Derban *et al.*, (2005) the causes of non-repayment could be grouped into three main areas: the inherent characteristics of borrowers and their businesses that make it unlikely that the loan would be repaid. Second, are the characteristics of lending institution and suitability of the loan product to the borrower, which make it unlikely that the loan would be repaid. Third, is systematic risk from the external factors such as the economic, political and business environment in which the borrower operates. Vigenina and Kritikos (2004) find that individual lending has three elements namely the demand for non-conventional collateral, a screening procedure with combines new with traditional elements and dynamic incentives in

combination with the termination threat in case of default, which ensure high repayment rates up to 100 percent.

2.1.7.1 Other factors influencing Loan Repayment

Interest in factors affecting loan repayments led some researchers more than three decades ago to develop the theoretical contributions that remain undisputed in this modern era. The stance of Stiglitz and Weiss (1981 cited by Godquin, 2004), that problems of adverse selection, information asymmetry and moral hazard impose the greatest limitations on productive credit granting, is still valid. Numerous factors have been identified in various studies as having an impact on credit management and loan repayment. Several factors such as interest rates, age, marital status, location and numbers of dependents are said to impact on the likelihood of default (Lodha, 2011). Some of these factors are discussed below.

i) Interest rate in credit management

The pioneering work of Stiglitz and Weiss (1981 cited by Godquin, 2004) marked the beginning of attempts at explanations of credit rationing in credit markets. They asserted that “... interest rates charged by a credit institution are seen as having a dual role of sorting potential borrowers (leading to adverse selection), and affecting the actions of borrowers (leading to the incentive effect)”. Weinberg (2006) advocated that interest charged and the amount of debt are the two main factors affecting repayment obligations. Some banks use the interest rates that an individual is willing to pay as a screening device to identify borrowers with a high probability of repayment. This may be dangerous since high risk-takers are the worst rate payers, in the process affecting default by borrowers on loans.

ii) Gender in credit management

Studies endorse gender as a variable that could influence loan or credit management practices among SMEs. Halkias (2008) pointed out that there is still a significant and systematic gap between genders in relation to business ownership and entrepreneurial involvement. Evans and Winston (2008) concurred with Halkias

(2008) that single, college-educated women managed their credit more prudently than both men in general and married women, in a study conducted in Ghana. A number of important gender issues are recognised in terms of investigating successful SME development in Africa.

iii) Indebtedness of owner/business in loan repayment

Akhavein (2001) indicated that the personal credit history or indebtedness of small business owners is highly predictive of the loan repayment prospects of their businesses. López (2007) asserted that both “hard” and “soft” information has an impact on the repayment patterns of the borrowers. Hard information such as borrowers’ capacity, indebtedness and monthly instalments need to be taken into consideration. In the small business environment, bankers actually deal with two customers: the members of such a business and the business itself. In actual fact, the indebtedness of the owner plays a pivotal role in loan repayment to such an extent that when a close corporation applies for finance and has to rely on the personal assets of the members to secure the finance, the two characteristics are seen as one (Afolabi, 2010).

v) Loan size in credit management

Godquin (2004) reported that both age and size of loans have an inverse relationship to repayment performance. This concept is related to a study done by Pang (1991 cited by Chong, 2010) who pointed out that the main determinants of repayment obligations are the interest charged and the amount of debt. Furthermore, loans that are too big also lead to repayment problems, dissatisfaction and high dropouts (Hietalahti and Linden, 2006).

v) Loan period in credit management

The loan period or term of a loan is usually classified as either short-term or long-term. A short term loan in bank parlance is one that is repayable within a period of one year. A long-term loan on the other hand, is any loan with payment terms extending beyond one year (Halkias, 2008). Although the relationship between loan

maturity and borrower risk has been addressed in some theoretical models (Ortiz-Molina and Penas, 2004), there is very little observed research that tests these theoretical models in the context of bank lending to small firms (Berger and Frame, 2005). Bragg (2010) asserted that “the short time frame reduces the risk of non-repayment to the bank, which can be reasonably certain that the business’s fortunes will not decline so far within such a short time period that it cannot repay the loan, while the bank will also be protected from long-term variations in the interest rate”.

vi) Location in loan repayment

Some studies consider various factors such as location as a determinant of business success and the performance of loan repayment (Kang *et al.*, 2005). McPherson (1995 cited by Rogerson, 2000) attested to this in a study conducted about key determinants of the survival rate of SMEs. The results indicated that businesses in commercial districts exhibit high success in comparison with the high failure rate experienced by home-based enterprises. In addition, soft information like distance between the borrower and the lender is important. A larger borrower lender distance is associated with higher default risks because distance interferes with information collection.

vii) Age and family circumstances of an entrepreneur in credit management

Cromie (1991), in a study of male and female owners of young firms, found that businesses managed by young people experience general management problems such as lack of people management and accounting skills. Age and the family circumstances of owners can negatively or positively affect the performance of the business. Small business owners with a supportive, experienced family structure tend to be able to cope with the pressure of running the business. Godquin (2004) reported that both age and size of loan have an inverse relationship to repayment performance. Athmer and De Vletter (2006) added that 70% of defaulters in their study samples experienced a family problem such as death or health circumstances.

viii) Education and training in credit management

There is an indication of a positive link between flourishing SMEs with education and training. The World Bank (1993) endorsed this concept by showing a direct correlation between sales and education in South African SMEs. The World Bank's investigation concluded that entrepreneurs "who have achieved a Standard 10 level of education have average turnover nearly twice that of those who have completed Standard 8". In an exploration of the determinants of success in a sample of emerging black-owned manufacturing SMEs in the Western Cape, Sawaya (1995 cited by Rogerson, 2000) concluded that "the rate of success was highly correlated with the level of education attained by the owner".

ix) Sector of business in credit management

Mead and Liedholm (1998) pointed out that survival rates of small businesses vary by sector. The study concluded that enterprises in the service sector and manufacturing are less likely to close down than those in the wholesale and retail sector.

x) Cash flow management in credit management

Chong (2010) identified capacity (sufficient cash flow to service the obligations), collateral (assets to secure the debt), character (integrity), condition of the economy as well as capital (net worth) as needing to be included in the credit scoring model. The credit scoring model is a classification procedure in which data collected from application forms for new or extended credit line is used to assign credit applicants to "good" or "bad" credit risk classes, compared with enterprise start-ups (Constantinescu *et al.*, 2010).

2.1.8 Challenges for SMEs loan repayment

There is a growing body of literature attesting that the success or failure of SMEs is dependent on managerial competencies (Amin, 2003). It is widely accepted that lack of appropriate management skills is the primary cause for small business failure (Moore and Petty, 2003). Hellriegel *et al.*, (2008) discussed managerial capabilities

as personal effectiveness demonstrated by different skills, attitude, behaviour and understanding. A research study by Smallbone and Welter (2001) and Hisrich and Drnovsek (2002) endorsed managerial competencies, measured by experience, training and knowledge of the industry, as having a positive impact on the performance. Herrington *et al.*, (2009) suggested that the reason for the high failure rate of SMEs is a result of lack of education and training.

Martin and Staines (2008) scrutinised the implication of management competence on SME performance and their findings indicated lack of managerial skills, poor economic conditions, resource starvation and poorly thought-out business plans, among other things, as crucial to SME success. The distinctive feature of growth and failure is equated to education, training and experience of owners or managers. SMEs lack information as well as appreciation from such services and can hardly afford to pay the services. As the result, operators of the sector have rather low skills. Institutions and associations supporting SMEs are weak, fragmented and uncoordinated partly due to lack of clear guidance and policy for the development of the sector (URT, 2003). In the banking industry, information remains a crucial input in the process of lending to SMEs. Banks are confronted with information asymmetry problems because of borrowers' informational capacity. In SMEs financing, collateral is a particular challenge in developing countries.

According to Coco (2000), collateral can limit asymmetries in project evaluations, riskiness of the borrower and the cost associated with continuous monitoring and evaluation of projects. Moral hazard problems are also reduced if the business owner puts his/her heart into the business in the form of collateral. This necessarily implies a cost to borrowers if they do not make their best effort to make the business a success. The borrower may be willing to divert funds towards private use or extract the whole surplus from the project but when collateral requirements are in place this perverse incentive is diminished. Barbosa and Moraes (2004) argued that firms pledging high collateral tend to attract lower interest rates from lenders, resulting in more advantageous financial leverage. This suggests that the availability of collateral

will impact on access to debt finance for new SMEs. Collateral pledging and proper management of information asymmetry, adverse selection and moral hazard can play a critical role in reducing probability of default in small businesses.

2.2 Empirical Review

Mintzberg (1989) reasoned that four functional areas of business management, namely finance, operation, general management and marketing, have an impact on small business growth. Adding to this, the size and start-up conditions of a small enterprise may play a big role. This implies that the enterprise-level barriers should be considered when analysing constraints to SMEs success and economic development. In the opinion of Gray (1990), the key limiting factor of small businesses is the control exerted by the owner and business independence. Small business owners struggle to separate business finances from personal finances. This independence and control eventually leaves the owner misusing the finance of the business and in the process crippling the business by starving it of resources. From such an insight, one can understand why small business owners end up failing to employ skilled, experienced and educated personnel to lead the organisation into the phase of growth and sustainability. Nawai & Shariff (2010), however, challenged the view that entrepreneurial competence and access to funding are barriers to small business growth. However, their studies could not examine the factors influencing repayment capacity of SMEs.

In his study of small-scale farmers of Oyo State, Nigeria, Afolabi (2010) also using the OLS regression technique found that borrower's farming experiences, and gross farm income had positive influence on loan repayment while family size and non-farm expenses had negative influence. Another study in Ogbomoso zone of Oyo State identified loan size, farming experience with credit and level of education to have significant positive influence on loan repayment as against age of farmers that had significant negative influence (Oladeebo and Oladeebo, 2008). In their analysis of loan default among poultry farmers in Ogun State, Nigeria, Oni *et al.*, (2005) found that farmer's age and income had positive and significant influences on loan

default while their level of education had a significant negative influence. Based on this finding, the study recommended targeting of the young and better educated farmers during loan disbursements. In all, it can be concluded that the results of the empirical analysis had led to mixed conclusion on the effect of the individual/borrower-specific socioeconomic and demographic characteristics of borrowers on their loan repayment capacity. Moreover, their studies could not determine the factors for SMEs failure to pay loans.

According to Nawai and Shariff (2010), access methods generally ensure that the poorer and not the richer people access the loans, the features define the maximum loan ceilings and interest rate while screening methods are used to screen out bad borrowers. Also, most available empirical studies on loan repayment established existence of significant positive effect of loan size (Afolabi, 2010; Kohansal and Mansoori, 2009). Specifically, Kohansal and Mansoori (2009) in their investigation of the loan repayment of farmers in Khorasan-Razavi Province of Iran using the logit regression approach found that loan size and collateral value had significant positive influences while interest rate charged on loan and number of instalments for which loan is due for repayment had significant negative influences on repayment. The most reported markets-related, institutional and environmental factors include availability and accessibility of improved innovations and management practices, availability and accessibility of tractor for mechanization, number of days per month group members meet, size of the borrower's cooperative/farmers' group, penalties for lateness to group meetings, crop failure and poverty level. However, these studies could not identify challenges associated with loan repayment among SMEs.

Amin (2003) used a unique panel dataset from northern Bangladesh with monthly consumption and income data for 229 households before they received loans. He found that while microcredit is successful in reaching the poor, it is less successful in reaching the vulnerable, especially the group most prone to destitution (the vulnerable poor). Coleman (1999) also found little evidence of an impact on the programme participants. The results, Coleman (1999) further explains, are consistent

with Adams and von Pischke's (2006) assertion that "debt is not an effective tool for helping most poor people enhance their economic condition" and that the poor are poor because of reasons other than lack of access to credit. In Tanzania several studies have been done on microfinance institutions service, one of the researcher who have done research on MFI service is Kuzilwa and Mushi (1997) examined the role of credit in generating entrepreneurial activities. They used qualitative case studies with a sample survey of business that gained access to credit from a Tanzanian government financial source. The findings revealed 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. They 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. Moreover, their studies could not examine the factors influencing repayment capacity of SMEs.

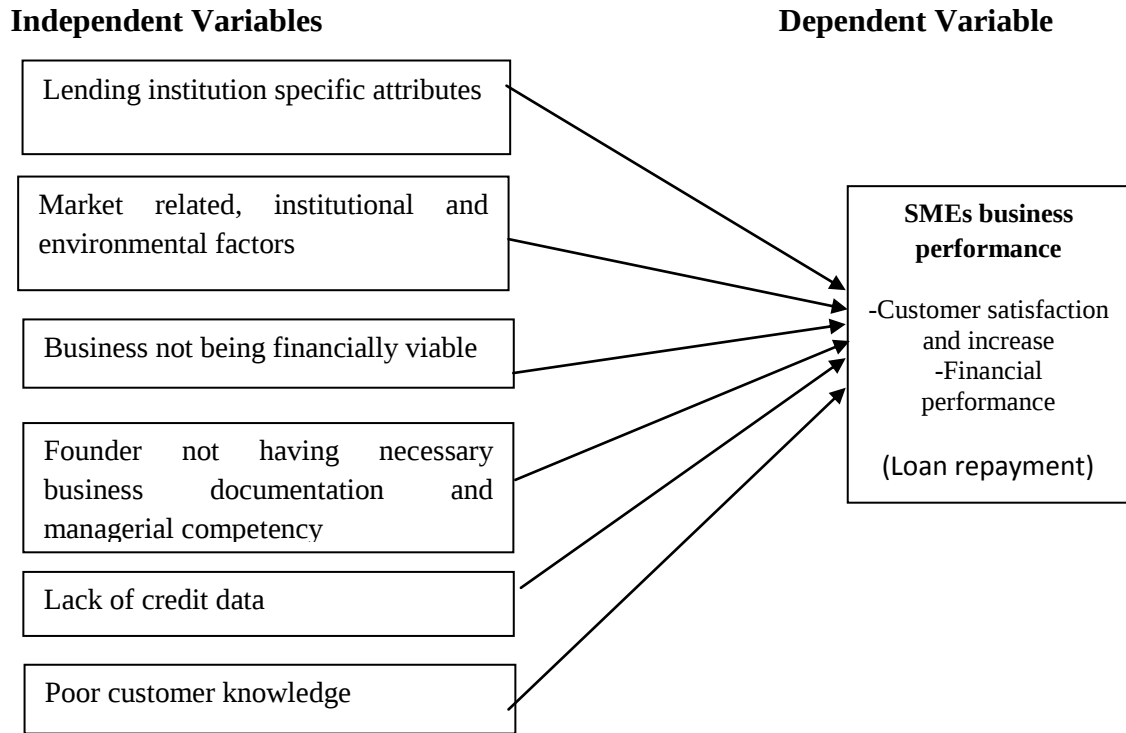
Another study on microfinance in Tanzania were carried out by Rweyemamu *et al.*, (2003), and evaluated the performance and constraints facing semi-formal microfinance institutions in providing credit in Mbeya and Mwanza regions. The primary data were collected through a formal survey of 222 farmers participating in the Agriculture Development Programme in Mbozi and the Mwanza Women Development Association in Ukerewe. In the analysis of their study the interest rates were found to be a significant barrier to the borrowing decision. Also the borrowers cited other problems like lengthy credit procurement procedures and the amount disbursed being inadequate. On the side of institutions, Mbeya and Mwanza credit programme experienced poor repayment 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-repayment. Moreover, their studies could not identify the challenges associated with loan repayment among SMEs.

2.3 Conceptual framework

Figure 2.1 provides the conceptual framework. It gives the relationship between the dependent and independent variables. SMEs business performance is the dependent variable while the independent variables include loan repayment variables such as; lending institution specific attribute; market related, institutional and environmental factors; business not being financially viable; the founder not having necessary business documentation and managerial competency; lack of credit data and poor customer knowledge.

Lending institution specific attributes influence SMEs to adhere to the rules and regulations that enable the institution to monitor the SMEs in order to utilize well the loan accessed; likewise market related, institutional and environmental factors may affect SMEs business performance in a good manner and vice versa while the business that might be found not financially viable may be boosted by the financial institution in order to make the business attain its goals such as raising the customers' satisfaction. Moreover, SME business performance may be affected by having a founder lacking necessary business documentation and management competency. The financial institutions consider management competency in assessing ability of the borrower to repay the loan. The business with one man key risk is likely to face repayment problems as a result fall into limited finance which later on affects business performance. What the financial institution may do is to provide training to the SMEs for the thorough enhancement of business. Also, lack of credit data influences SMEs from the fact that when a need arises for loan provision the SMEs may be in trouble; thus proposing its importance that can lead to enhancing customer increase.

Figure 2.1; Conceptual Framework model



Source: Researcher's Own Construct, (2015)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The chapter presents the materials and methods which were used in the study. It comprises of the following sub-sections such as; research design, study area; population and sample size; sampling techniques; data collection methods; data analysis techniques and ethical considerations.

3.1 Research design

A prospective cross sectional study design was used in this research. This involves data collection at once using structured questionnaire. It usually provides rich details about the variables under investigation. A cross sectional study generally aims at providing insight into a particular situation and often stresses the experiences and interpretations of those involved. It uses direct observation to give a complete snapshot of a case that is being studied. It is useful when not much is known about a phenomenon (Bryman, 2004).

3.2 Study area

The study was conducted at Morogoro Municipality. The area is selected because despite, the role played by SMEs in employment creation and poverty alleviation, SMEs in Tanzania are currently faced with many serious loan repayment difficulties which act as a barrier to their emergency and growth. Besides, no study has examined the effects of loans repayment on SMEs business performance within Morogoro municipality. Taking the above reasons into consideration, this study aimed at examining the effects of loan repayment on SMEs business performance with reference to CRDB Bank borrowers.

Morogoro Municipality is one of the 6 districts in Morogoro region. The municipal council lies between 07° 00' and 10° 00' south and between 37° 40' and 38° 22' east at the central part of the Eastern Arc of Mountain Uluguru. It covers an area of 531

square kilometres. It is bordered by Morogoro Rural district to the East, Mvomero district to the North West and South West. In the South it is bordered by Uluguru Mountains around Morogoro municipality. Morogoro municipality has 302, 622 (National census, 2012). Morogoro municipal council has one division called Morogoro Urban. This division is divided into 29 wards, which in turn are sub divided into sub wards commonly known as hamlets (*mitaa*). There are 295 hamlets.

3.3 Population and sample size

3.3.1 Population

According to Sekaran, (2003) population is a group of individuals, objects or items from which samples are taken for measurement or it is an entire group of persons, or elements that have at least one thing in common. Population is whatever you are counting: there can be a population of people, a population of households, a population of events, institutions, transactions, and so forth (Bryman, 2004). Anything you can count can be a population unit. But if you can't get information from it, and you can't measure it in some way, it's not a unit of population that is suitable for survey research (Yin, 2003).

The population comprised of SMEs including whole sellers, retailers and service delivery operators in Morogoro municipality. However, according to CRDB Bank credit facility report of 2013/14, there are about 130 SMEs who accessed the fund.

3.3.2 Sample

Sample size was calculated according to methods described previously (Pfeiffer, 2002). The sample size of 100 respondents was selected from target people whom information required for the study was obtained. These are the classification, out of 100 sample size; 40 were obtained from SMEs Managers and 60 from SMEs Owners. Sekaran (2003) argues that too large sample size could become a problem and recommends the sample size to be between 30 and 500. Similarly, Enon (2002) recommends that a minimum number of samples for research should be 30. Based on

the above literatures, the sample size of 100 respondents was selected for inclusion in this study. Table 3.1 below shows the distribution of respondents.

Table 3.1: Distribution of respondents

Category of Respondents	Population	Sample size
SMEs owner/managers		
SMEs Owners	75	60
SMEs Managers	55	40
TOTAL	130	100

Source: Research data, 2015

3.4 Sampling Techniques

The sampling technique used in the study was purposive sampling.

3.4.1 Purposive sampling

This method was used to select (40) SMEs managers whereby the personal experience of each respondent regarding loan repayment for SMEs business performance was sought. Also the same procedure was used to select (60) SMEs Owners. Therefore, SMEs managers and owners were selected by using this method believing that they possess key information regarding the matter. Thus respondents were selected purposively in order to attain the study objectives.

3.5 Methods of data collection

Data collection refers to the process of gathering specific information aimed at providing or refuting some facts (Kombo and Tromp, 2006). This study utilized both primary and secondary data collection methods to get information from respondents and other sources.

3.5.1 Primary data collection methods

Primary data are those collected afresh from the field for the first time. They happen to be original in character. Therefore, primary data collection methods were used by the researcher to collect data from the field whereby interviews and questionnaires were employed.

i) Interview

The researcher used face-to-face interview to (40) SMEs managers in order to solicit information regarding loan repayment on SMEs business performance (Appendix 2). Yin (2003) affirms that the interview tool is very important source of getting information and it is helpful in handling case study related matters as the research design indicates. The advantage of using interviews is demonstrated by the fact that it is a quick method in gathering information and the researcher could know whether the respondents understand the questions or not. The information obtained from interviews was transformed into text and presented.

Pilot study was done to ascertain the reliability and validity of the instrument to be used for collecting data (Mugenda and Mugenda, 2003). A pilot study was carried out using 5 SMEs [3 from SMEs owners and 2 from SMEs managers]. This exercise determined the time needed to carry out the study and the time required to interview one respondent. After the pilot study, certain items that seemed unclear were altered or eliminated.

ii) Questionnaires

Structured and semi-structured questionnaires were used to obtain information from SMEs owners in Morogoro municipality. The information asked included; the influence of loans accessed on SMEs business performance, factors for SMEs failure to repay loans and challenges associated with loan repayment among SMEs in Morogoro municipality (Appendix 1).

Copies of questionnaires were prepared based on the essentials of a good questionnaire, i.e. short and simple, and organized in a logical sequence moving from relatively easy to more difficult issues. Technical terms, vague expressions and those affecting emotions of the respondents were avoided.

3.5.2 Secondary data collection method

The researcher used different documents in order to access accurate and reliable data. The documents included; personal profiles (for SMEs loan repayment), policies and regulations (regarding credit and SMEs development), books and journals (used as literatures) and performance reports (quarterly and annual reports) on loan repayment.

3.6 Data Analysis Methods

Data collected were analysed both qualitatively and quantitatively. These were summarized, coded and analyzed descriptively by Statistical Package for Social Science (SPSS). Descriptive statistics was applied to obtain frequency and percentage distribution as major variables.

Qualitative data from interviews were analyzed using content analysis focusing observer impressions. Content analysis involved recording the verbal discussions with respondents which were followed by breaking the recorded information into meaningful smallest units of information, subjects and tendencies and presented them as text. However, coding which is an interpretive technique that seeks to both organize the data and provide a means to introduce the interpretations of it into certain quantitative methods were employed along with Hermeneutical Analysis which served on interpreting the meaning of the context.

3.7 Ethical considerations

In order to ensure ethical conduct in the study all respondents were informed about the study in order to have willingness to corporate (i.e. informed consent was given). The information provided by respondents was treated as confidential and for academic purposes only. This enabled respondents to corporate with minimum risk. Other ethical considerations included; briefing the respondents as to the purpose of the research, their relevance in the research process and expectations from them. Again plagiarism, fabrication of data was avoided, privacy was maintained and anonymity of respondents was ensured.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents and discusses results arising from the data analysis regarding the effects of loan repayment on SMEs business performance in Morogoro municipality with reference to CRDB Bank Plc. The findings are presented and discussed under six main sections namely; the first section presented and discussed the response rate; the second section presented the respondents' characteristics; the third section examined the factors influencing loan repayment capacity of SMEs, the fourth section determined the factors for SMEs failure to repay loans; the fifth section identified factors influencing SMEs business performance and the sixth section identified the challenges associated with loan repayment among SMEs in Morogoro municipality.

4.1 Response rate

Primary data were obtained by using interviews and questionnaires while secondary data being obtained from published and unpublished reports as highlighted in chapter 3. In this research 60 questionnaires were spread among SMEs owners that were responsible for running business undertakings in Morogoro municipality. Moreover, 40 interviews were carried out among SMEs managers.

All questionnaires (60) were successfully filled along with interviews and allowed the researcher to code, summarize and analyse by using SPSS computer software.

4.2 Respondents' characteristics

The respondents' characteristics were categorised in two; i) SMEs characteristics that included age, sex, work experience in running business, level of education and ii) characteristics of SMEs that included; origin of enterprise, length time in operation, size of enterprise and capital source.

4.2.1 Small and Medium Enterprises characteristics – Personal information

As given above these included age, sex, work experience and level of education.

Table 4.1 provides the results as follows.

Table 4.1: Small and Medium Enterprises characteristics

No	SMEs characteristics	Categories	Frequency	Percentage
1	Age	18-20 years	11	12.2
		21-30 years	23	25.5
		31-40 years	40	44.4
		41-50 years	12	13.3
		>51 years	04	4.6
2	Sex	Male	48	53.3
		Female	42	46.7
3	Work experience	Yes (1-5 years)	60	66.7
		Never (Starting i.e. 0-1 year)	30	33.3
4	Level of education	No formal education	04	4.4
		Primary education	22	24.4
		Secondary education	35	38.9
		Diploma	21	23.4
		Higher education	08	8.9

Source: *Research results, 2015*

The results in table 4.1 show that the age distributions (in years) were between 1 to 51 years and above. Those who were between 18 to 20 years occupied (12.2%), those between 21 to 30 years occupied (25.5%). Likewise, those who were between 31 to 40 years occupied (44.4%), those between 41 to 50 years occupied (13.3%) and those with 51 years and above occupied (4.6%). Those between 20 and 40 years were in opinion that formal business characteristics needed by financial institutions hinder many SMEs thus, failure to access adequate loan to run their business and accommodate the risk of repayment while those with above 40 years could point out that the SMEs lack networking which could make them to prosper.

The sex distributions included male and female. Those who were male occupied (53.3%) and female occupied (46.7%). The work experience of respondents contained those who had 1 to 5 years occupying (66.7%) and those who were at the starting point between 0 to 1 year occupied (33.3%). With regard to the level of

education of respondents; (4.4%) had no formal education, (24.4%) primary education, (38.9%) secondary education, (23.4%) had diploma education and (8.9%) had attained higher education.

4.2.2 Characteristics of Small and Medium Enterprises

As provided above, these included the origin of enterprise, length time in operation, size of enterprise and source of capital. The findings are given in Table 4.2

Table 4.2: Characteristic of Small and Medium Enterprises

No	Characteristics of SMEs	Frequency	Percentage
1	Origin of enterprise		
	Established	80	88.8
	Inherited	06	6.6
	Other	04	4.6
2	Length time in operation		
	Older player (>5 years)	53	58.8
	New comer (<5 years)	37	41.2
3	Size of enterprise		
	Large	55	61.1
	Small	35	38.9
4	Capital source		
	Personal savings	38	42.2
	Joint venture with colleagues/friends	22	24.4
	Family investment	20	22.2
	Bank	10	11.2

Source: *Research results, 2015*

The results in table 4.2 show that origin of enterprise focused on being established by the entrepreneur (88.8%), inherited (6.6%) and other which were neither established nor inherited (4.6%). Length time in operation regarded older players who operated for more than 5 years (58.8%) and those who were new comers operating below 5 years (41.2%). The size of enterprise considered those which were large (61.1%) and small in size (38.9%). With regard to the source of capital, the ones from personal savings occupied (42.2%), those from joint venture from colleagues/friends occupied (24.4%), those supported from family investment occupied (22.2%) and those supported by banks occupied (11.2%). The respondents'

background information contributed to some extent for the examination of the effects of loan repayment on SMEs business performance in Morogoro municipality.

4.3 Factors influencing repayment capacity of SMEs in Morogoro municipality

The first objective of this study was to examine the factors influencing repayment capacity of SMEs in Morogoro municipality. To obtain the information, the researcher asked the respondents to tick various factors according to their understanding and perception thereafter added others that were analyzed in terms of agree or disagree as there were no uncertain responses. Table 4.3 summarises the factors as follows.

Table 4.3: Factors influencing repayment

Factor	Percentage %	
	Agree	Disagree
Inherent characteristics of borrowers and their business characteristics of the lending institution and the sustainability of the loan product to the borrower	80	20
Systematic risk from the external factors such as economic, political and business environment in which the borrower operates	83	17
Financial situation of the lending bank	85	15
Situation of the borrowing SMEs	75	25
Market related, institutional and environmental factors	80	20
Loan characteristics	75	25
Lending institutional specific attributes	70	30
Formal business specific characteristics	83	17
Individual or borrower specific socio-economic and demographic factors	90	10
High interest rates	90	10
Inability or outright unwillingness to repay	70	30
Credit period	90	10

Source: Research data, 2015

The results in table 4.3 show that 70% of respondents stated that lending institutional specific attributes and inability or outright unwillingness to repay the loan were among the factors that influence repayment of loans among SMEs. This is due to restrictions put by financial institutions that hinder SMEs especially that are at the starting point to fail to access loans; hence necessitating collaterals that they lack.

The finding is in line with Barbosa and Moraes (2004) who argued that firms pledging high collateral tend to attract lower interest rates from lenders, resulting in more advantageous financial leverage. This suggests that the availability of collateral will impact on access to debt finance for new SMEs. Likewise, 75% of respondents argued that the situation of the borrowing SMEs and loan characteristics impinge SMEs to access loans and ultimately non-repayments. This would be accompanied by inflation situation or economic slump something that when SMEs access loans would be in position to hardly prosper from the fact that many SMEs lack business and financial management skills to run business. If that situation persists, loan repayment among SMEs becomes difficulty.

On the other hand, 80% of respondents stated that market related, institutional and environmental factors, inherent characteristics of borrowers, the business characteristics of the lending institution and the sustainability of the loan product to the borrower are among the factors that influence loan repayment in one way or another. It was found that if SMEs are unable to access the market, their goods or products won't be sold to enable the attainment of profits. If that is the case, SMEs might become bankrupt and unable to repay loans. Yet, there could be borrowers who have bad characters on credit repayment which might distort the better faith entrusted on SMEs that perform better to accidentally get involved and rendering inaccessibility of loans to boost their business. One of the respondents had the following to comment on this issue that;

“SMEs needs better loan packages designed by financial institutions and also understand the nature and operations of SMEs in order to propelled their growth potential in creating more jobs, wealth accumulation and long term sustainability of their businesses. However, loan size might contribute more to financial performance followed by cost of money and lastly loan repayment period. Thus, financial institutions when providing loans to SMEs need to consider the size of the loan since SMEs interest to get more loans to improve on their growth and performance increases as the business expands”.

Moreover, 83% of respondents argued that the availability of formal business specific characteristics and systematic risk from the external factors such as economic, political and business environment in which the borrower operates influence loan repayment among SMEs because many SMEs are found to operate their business undertakings in an informal way which hinders them to easily access and repay loans. Likewise, in many occasions, SMEs do not consider risks as threats for their business because of not having business plans that could orient them towards adjustments whenever they happen. In addition, 85% of respondents argued that SMEs fail to access loans because of the financial situation of the lending bank. This situation becomes relevant when SMEs have information on a given financial institution regarding its liquidity and vice versa. If SMEs are informed of the situation, cautions are taken in order to search for new avenues that may be queer to them and enable their business to repay loans in accordance with the market situation. Yet, unpredictable markets and inflations that occur hinder SMEs to attain profitability.

Furthermore, 90% of respondents stated that factors such as individual or borrower specific socio-economic and demographic factors, credit period and high interest rates influence SMEs repayment capacity as when doing business with people who are unable to purchase commodities followed with little credit period and high interest rates; SMEs fail to repay the loans and at the end become bankrupt. This was found to be necessitated by the availability of higher running costs among SMEs that could lead to business failure. One of the respondents stated that;

“Findings on the loan period indicate that the loan period contributed less than cost of money but contributed less than loan size. Therefore, it means that owners consider less importance to loan period than cost of money in creating more assets, ability to meet daily obligations and reducing the possibility of loan default”.

4.4 Factors for SMEs failure to repay loans in Morogoro municipality

The second objective of this study was to determine the factors for SMEs failure to repay loans in Morogoro municipality. To obtain the information, the researcher asked the respondents to tick various factors according to their understanding and added others that were analyzed in terms of agree or disagree as there were no uncertain responses. Table 4.4 summarises the factors as follows.

Table 4.4: Factors for SMEs failure

Factor	Percentage %	
	Agree	Disagree
Lengthy credit procurement procedures	85	15
Business not being financially viable	80	20
The business that has no market potential	80	20
The business that has no growth potential	75	25
The business that does not have business plan	80	20
The founder not having necessary business documentation	85	15
The founder not having suitable business premises	70	30
The founder not being familiar with the market or industry he/she operates in	77	23
Lack of managerial competency	88	12
Loan type	75	25

Source: Research data, 2015

The results in table 4.4 show that 70% of respondents argued that failure of SMEs could be resulting from the founder not having suitable business premises. This was found to be true as many SMEs could not choose suitable business locations where their business would be done. It was envisaged that, the one who sold home accessories was found hidden in the corner the scenario that rendered difficulties among customers. If it was placed along the high way or where people pass always, the SMEs owner would be in position to sell commodities and repay loans. The affirmation above is in conformity with Darban *et al.*, (2005) who stated that the largest percentage of SMEs fail during the first two years of their existence due to location related matters as well as cash flow problems. Location of business contributes to over 50% of attraction customers and cash flow problems can result into lack of access to bank finance.

Likewise, 75% of respondents stated that the SMEs failure could be caused by the business that has no growth potential and loan type whether it is a short time or long time loan. It was found that the growth potential needs to be accompanied by the ability of the SMEs owner to possess business and marketing skills that are viable to enable thorough facilitation of business undertakings. This is in agreement with Demirgüç (2005) that inability to access finance may be one of the reasons why we do not see a robust correlation between SME prevalence and economic growth and financial constraints are particularly preventing small firms from reaching their growth potential in terms of financial performance.

Moreover, 77% of respondents reported that SMEs business failure would be caused by the founder not being familiar with the market or industry he/she operates in. This is true with regards to how SMEs owners were unable to understand the market they operated in lead to failure of the business. Also, lack of experience in business especially new comers rendered them to fail. However, 80% of respondents were in opinion that factors for SMEs failure include the business that has no market potential, business not being financially viable and the business that does not have business plan. It was found that these issues were absent among SMEs as some could not know if what they marketed were viable financially, had market potential and were strategically incorporated in the business plan. Thus, the end result was to fail in the market. This necessitates the availability and provision of business management skills among SMEs.

Furthermore, 85% of respondents stated that SMEs business failure among SMEs resulted from the founder not having necessary business documentation as documents reflect the real business undertaking in terms of profit and loss which is needed when accessing loans as well as lengthy credit procurement procedures from those who are supplied with commodities or goods. If those supplied with goods or services take long time to repay the SMEs owners would be in position to fail. Likewise, 88% of respondents argued that the other factor for SMEs failure is the

lack of managerial competency among SMEs. It was found that a few of SMEs were competent while many being incompetent when it comes to running business. What was envisaged is the usual or day to day business dealings that do not make SMEs yield much, hence necessitating non-repayment of loans that are accessed from financial institutions. The statement above support Darban *et al.*, (2005) that non-payment of loans equally impacts the lender and the borrower negatively. On the one hand, the lender loses the part of the principal loan disbursed and earnings in the form of interest. Further, the borrower faces a bleak future in obtaining credit due to lower credit rating and an unhealthy lifestyle primarily caused by high financial stress levels.

4.5 Factors influencing SMEs business performance in Morogoro municipality

The third objective of the study was to identify factors influencing SMEs business performance in Morogoro municipality. However, respondents were able to tick and add some factors that they thought would influence SMEs business performance and the results were analyzed in terms of agree or disagree as there were no uncertain responses. Table 4.5 below summarizes the results.

Table 4.5: Factors influencing SMEs business performance

Factor	Percentage %	
	Agree	Disagree
Capital sought for	85	15
Length in time on operations	80	20
Management competency	90	10
Customer service provision	85	15
Employees' commitment	80	20
Networking	87	13

Source: Research data, 2015

The results in table 4.5 show that 80% of respondents argued that length in time on operations and employees' commitment influence SMEs business performance. This was true from the fact that SMEs that have worked for a long time encountered

challenges that were accommodated to allow the smooth running of business than those who are new comers. Also, having committed employees served SMEs to perform well along with enabling creativity as well as innovations in the SMEs they work to. Likewise, 85% of respondents stated that capital sought for that accommodates SMEs needs according to the requirement and customer service provision that would be provided to attract customers influenced SMEs performance. This was envisaged by one SME that utilized well the capital accessed from one of the financial institution and after being provided with business skills enabled customers to see the difference and get attracted towards the goods and products produced. A quick look showed that, after enhancing the business in that manner, many SMEs were able to perform well and repay the loans promptly.

Moreover, 87% of respondents stated that, networking influenced SMEs performance as through communicating with other SMEs, techniques were sought thus enabling good exchange of ideas and innovations. One of the respondents stated that;

“Networks represent a means for entrepreneurs to reduce risks and transaction costs and also to improve access to business ideas, knowledge and capital because a social network has a significant relationship with business adaptability; and secured support from the government as government support is of necessary condition to foster SMEs development and other financial institutions”

In addition, 90% of respondents argued that management competency influenced SMEs as through it many SMEs were able to plan and execute plans that are relevant for the enhancement of business. This statement is in line with Rogerson (2000) who concluded that the rate of success is highly correlated with the level of education attained by the owner along with competency in implementing what is planned. One of the respondents commented that;

“Through applying management competency and innovations among SMEs, there appeared stiffer competition in the market that was responded proactively by SMEs by doing market development because new market opportunities included findings new products or services to offer existing customers and obtaining new customers for existing product or services and enhance information required for the marketing of their business”.

Furthermore, it was stated by respondents that other factors that influenced SMEs business performance included easy and availability of goods and products, lack of logistic supply knowledge, competition from outside competitors and poor visibility study that rendered SMEs not to forecast well the outcome.

4.6 Challenges associated with loan repayment among SMEs

The last objective of the study was to identify the challenges associated with loan repayment among SMEs in Morogoro municipality. Thus, respondents were able to identify those provided to them and add some that they thought were associated with loan repayment and the results were analyzed in terms of agree or disagree as there were no uncertain responses. Table 4.6 below summarizes the results.

Table 4.6: Challenges associated with loan repayment

Challenge	Percentage %	
	Agree	Disagree
Poor business enablers	85	15
Lack of collateral or capital	80	20
Lack of credit data	80	20
Low profitability	75	25
SMEs skills and literacy	85	15
Poor customer knowledge	90	10
Corruption among government officials	83	17
Lack of networking	70	30

Source: Research data, 2015

The results in table 4.6 show that 70% of respondents argued that lack of networking was among the challenges associated with loan repayment as those who practiced

networking were able to have more avenues to sell their commodities with easiness in many areas while those who lacked networking could rely on only customers who pass by their business locations. Likewise, 75% of respondents stated that SMEs encountered low profitability due to little capital they instil in their business. This was an hindrance towards success in business as with stiffer competition, capital enhancement is vital for the facilitation of business undertakings that could necessitate the availability of adequate commodities that would serve the customers without problems. The statement above conquer with Chijoriga and Cassimon (1999) who argue that most formal institutions regard low-income SMEs as too poor to save, and are not personally known to them, do not keep written accounts or business plans, they usually borrow small and uneconomic sums. In so doing their profitability become low as they lack enough capital to run their business properly.

On the other hand, 80% of respondents stated that SMEs lack credit data and collateral or capital which could help in accessing loans as well as collateral from the fact that they are unable to mobilize funds and invest in various income generating activities. The study found that out of 50 respondents only 20 were able to produce credit data and collaterals that would enable them access finance from financial institutions. This little amount of SMEs reflects the situation of a need to support upcoming SMEs in order to let them prosper. However, 83% of respondents argued that SMEs always encounter corruption among government officials as a challenge throughout their business dealings, because officials render services after being provided with money that can be termed as corruption. This is a great challenge among upcoming SMEs.

Furthermore, 85% of respondents argued that SMEs are challenged by having poor business enablers and absence of skills and literacy regarding business matters that undermine their business ventures and loan repayment. The statement above is in line with Chong (2010) who pointed out that the main determinants of repayment obligations are the interest charged and the amount of debt. Furthermore, loans that are too big also lead to repayment problems, dissatisfaction and high dropouts. From

that regard, without skilled business enablers and business literacy, SMEs have been deemed to failure. One of the respondents argued that;

“Lack of knowledge and training are some of the reasons for the low level of entrepreneurial creation and the high failure rate of small businesses”.

Finally, 90% of respondents stated that SMEs encounter a big challenge of poor customer knowledge as customers need to be entertained and oriented to the extent of being able to buy ones commodities or products other than the other. If SMEs would be provided with customer service skills or knowledge could be in position to deliver services that attract customers hence attain profitability. However, SMEs encounter challenges associated with loan repayments such as income tax charged that is too high in comparison with what they earn, poor record keeping leading to repeated problems and unforeseen calamities. One of the respondents had the following comment;

“The costs of money charged by financial institutions to SMEs are high and unfavorable as they significantly increase the cost of borrowing. This raises varying arguments with the literature as some are concerned with access to financial services and willingness to pay the cost of money borrowed because it's only alternative available source of finance”.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter presents the conclusion and recommendations arising from the study findings. It commences with the conclusion followed by the recommendations thereafter suggests a need for further research.

5.1 Conclusion

Based on the empirical findings from the study, it is concluded that, the situation of the borrowing SMEs and loan characteristics impinge SMEs to access loans and ultimately non-repayments. This was accompanied by inflation situation or economic slump when SMEs access loans would be in position to hardly prosper from the fact that many SMEs lack business and financial management skills to run business. It was found that SMEs business failure could be ascribed to the founder not being familiar with the market or industry he/she operates in. This is true with regards to how SMEs owners are unable to understand the market they operate in leading to failure of the business. Also, lack of experience in business especially new comers rendered them to fail. In addition, management competency influenced SMEs as through it many SMEs were able to plan and execute plans that are relevant for the enhancement of business. It was found that the rate of success was highly correlated with the level of education attained by the owner along with competency in implementing the planned business. Finally, SMEs encountered a big challenge of poor customer knowledge as customers needed to be entertained and oriented to the extent of being able to purchase commodities among themselves. It was insisted that if SMEs would be provided with customer service skills or knowledge they could be in position to deliver services that attract customers hence attain profitability.

5.2 Limitation of the Study

The main limitation of this study was the research study is confined only to the prime areas of Morogoro as such it is not representative of the whole of the Town.

The study is based on only 100 samples and inferences derived there from may not be a true representation of the universe which is pertinent for the present study. Due to cost and time constraints also the study could not be undertaken in a massive manner. Also the study was cross-sectional and as such, results need to be applied with prudence in informing long term actions as the factors that explain causes of loan repayment failure and business performance could have revolve.

5.3 Recommendations

From the above conclusion, it is recommended as follows;

- i) There is a need to establish SMEs credit bureaus to compile the credit ratings of SMEs and provide financial institutions and other lenders with easy access to timely, accurate and reliable credit information on SME
- ii) Promote ways in which local SMEs could use their positive credit history as ‘collateral’ to access loans at better rates and seek more competitive terms from different lending institutions.
- iii) SMEs owners should avoid trade credits since it can lead to high cash outflow of financial resources to the suppliers and reduce multiple loans to pay old loans.
- iv) SMEs should endeavor to prepare and keep proper books of accounts to avoid deficit accounting.
- v) Financial institutions should careful understand the SMEs nature of businesses in order to offer reasonable loan sizes and the booming seasons of SMEs business so that they can give reasonable loan period which in turn leads to better financial performance.

5.4 Areas for further research

The study focused on examining the effects of loan repayment on SMEs business performance in Morogoro Municipality. It is advised that further studies be done on the following issues;

- a) What obstacles do new SMEs encounter when entering new markets?
- b) To what extent do SMEs engage themselves on R&D of their products?

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APPENDICES

Appendix 1: Questionnaires for SMEs owners

PART A: Background information

1) SMEs characteristics-personal information (tick where appropriate)

Characteristics	Put a tick
a) In which category of Age do you belong?	
18-20 yrs	
21-30 yrs	
31-40 yrs	
41-50 yrs	
> 51 yrs	
b) What is your gender/sex?	
Male	
Female	
c) Work experience in running business	
I have experience in running business (1-5 years)	
I have never run a business (starting)	
d) What is your highest level of education?	
No formal education	
Primary education	
Secondary education	
Diploma	
Higher education	

2) Characteristics of SMEs (tick where appropriate)

Variable	Put a tick
a) Origin of enterprise	
Established	
Inherited	
Other	
b) Length time in operation	
Older player (>5 yrs)	
New comer (< 5 yrs)	
c) Size of enterprise	
Large	
Small	
d) Capital source/source of capital	
Personal savings	
Joint venture with colleagues/friends	

Family investment	
Bank	

PART B: Factors influencing repayment capacity of SMEs

3. Please indicate your agreement or disagreement regarding the factors as follows;

	Agree	Disagree
Inherent characteristics of borrowers and their business characteristics of the lending institution and the sustainability of the loan product to the borrower		
Systematic risk from the external factors such as economic, political and business environment in which the borrower operates		
Financial situation of the lending bank		
Situation of the borrowing SMEs		
Market related, institutional and environmental factors		
Loan characteristics		
Lending institutional specific attributes		
Formal business specific characteristics		
Individual or borrower specific socio-economic and demographic factors		
High interest rates		
Inability or outright unwillingness to repay		
Credit period		

4. What other factors do you know?

.....,

PART C; Factors for SMEs failure to pay loans

5. Please indicate your agreement or disagreement regarding the factors:-

Factor	Agree	Disagree
Lengthy credit procurement procedures		
Business not being financially viable		
The business that has no market potential		
The business that has no growth potential		
The business that does not have business plan		
The founder not having necessary business documentation		
The founder not having suitable business premises		
The founder not being familiar with the market or industry he/she operates in		
Lack of managerial competency		
Loan type		

6. What are the other factors do you know? (specify)

- i).....
- ii).....
- iii).....

PART D; Factors influencing SMEs business performance in Morogoro municipality

7. Please indicate your agreement or disagreement regarding the factors as follows;

Factor	Agree	Disagree
Capital sought for		
Length in time on operations		
Management competency		
Customer service provision		
Employees' commitment		
Networking		

8. What are the other factors do you know? (specify)

i).....

ii).....

iii).....

PART E: Challenges associated with loan repayment among SMEs

9. Please indicate your agreement or disagreement regarding the challenges:-

Challenges	Agree	Disagree
Poor business enablers		
Lack of collateral or capital		
Lack of credit data		
Low profitability		
SMEs skills and literacy		
Poor customer knowledge		
Corruption among government officials		
Lack of networking		

10. What are the other challenges do you know? (specify)

i).....

ii).....

iii).....

Appendix 2; Interview guide for Managers

- i) What are the factors that influence repayment capacity of SMEs in Morogoro municipality?

- ii) What are the factors for SMEs failure to repay loans in Morogoro municipality?

- iii) What are the factors influencing SMEs business performance in Morogoro municipality?

- iv) What are the challenges associated with loan repayment among SMEs in Morogoro municipality?