

**ASSESSMENT OF THE CONTRIBUTION OF FINCA MFIS
SERVICES ON SMES GROWTH IN DAR ES SALAAM CITY: A
CASE OF FINCA DAR ES SALAAM**

**By
Arnold MugishaKagaruki**

**A Dissertation Submitted in Partial Fulfillment of the Requirements for the
Award of the Degree of Master of Business Administration in Corporate
Management (MBA-CM) of Mzumbe University College**

2013

CERTIFICATION

We, undersigned have read and hereby recommends for acceptance by the Mzumbe University a dissertation titled ***“Assessment of the Contribution of FINCA MFIs Services on SMEs Growth in Dar es Salaam City; A Case Study of Finca;Dar esSalaam*** in partial fulfillment of the requirements for degree of Master in Business Administration-Corporate management.

.....

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.....

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DEDICATION

To my mother, Adelaida, my sister Jorlin and brothers Justinian and Davis and lastly to my late father Philbert for their assistance and giving me a hearted confidence all over my study period. Let it be a challenge.

ABBREVIATIONS AND ACRONYMS

FINCA	Foundation for International Community Assistance
MFIs	Microfinance Institutions
SMEs	Small and Medium Enterprises
SPSS	The Statistical Package for Social Sciences
TZS	Tanzania Shillings
URT	United Republic of Tanzania

ABSTRACT

This study assessed the contribution of Microfinance Institutions to the SMEs growth in Tanzania using the case study of FINCA. The objectives of this study were to evaluate the trend of MFIs in assisting SMEs to access various types of loan products, to assess the relationship between MFI loans and SMEs growth by evaluating whether the SMEs businesses have improved after receiving loans from MFIs. Also the study intended to determine the challenges faced by SMEs in accessing loans from MFIs. Lastly, this study had an objective of suggesting constructive measures to improve SMEs access to MFIs loans which would help their growth.

The study used primary data collected by using questionnaire from 157 selected SMEs and officers of FINCA. The analysis of data was mostly descriptive and which was done using the Statistical Package for Social Sciences (SPSS).

The findings revealed that MFIs offer various types of loan products ranging from small group loans, village bank loans and business loans. Each of these has different interest rates but which are relatively lower compared to the rates charged by commercial banks. However SMEs still consider the interests to be high and the loan conditions to be somehow difficult. It was also established that MFI loans have helped the growth of businesses which had small capital bases prior to accessing the loans. Lastly, it was established that lack of collateral, default on previous loans and failure to maintain proper records to be the most challenging factors hindering SMEs access to loans from MFIs.

The study recommends that MFIs should keep the costs of loans lower and vary the loan conditions because the nature of businesses differ in terms of the revenue cycle and production cycle. So repayment schedules should consider this factor to avoid default.

TABLE OF CONTENT

CERTIFICATION	i
DECLARATIONAND COPYRIGHT	ii
ACKNOWLEDGEMENT	iii
DEDICATION.....	iv
ABBREVIATIONS AND ACRONYMS	v
ABSTRACT	vi
TABLE OF CONTENT	vii
LIST OF TABLES	xii
LIST OF FIGURES	xiii
CHAPTER ONE	1
INTRODUCTION AND BACKGROUND.....	1
1.1 Introduction	1
1.2 Background of the Study.....	1
1.3 The Emerging Challenge.....	2
1.4 History, Vision and Mission of FINCA	2
1.5 Statement of the Problem	3
1.6 Research Question.....	3
1.6.1 General Research Question	3
1.6.2 Specific Research Questions	4
1.7 Research Objectives	4
1.7.1 General Research Objective	4
1.7.2 Specific Objectives.....	4
1.8 Significance of the Study	4
1.9 Limitations of the Study	5
1.10 Delimitations of the Study	5
1.11 Scope of the Study	6
CHAPTER TWO	7
LITERATURE REVIEW.....	7
2.0Introduction.....	7

2.1 Definitions of Concepts	7
2.1.1 Microfinance Institution.....	7
2.1.2 Small and Medium Enterprises	8
2.2 Theoretical Literature Review.....	9
2.2.1 FINCA.....	9
2.2.2 FINCA's Mission Statement	9
2.2.3 FINCA's Vision Statement	9
2.3.5 Importance of Growth/Development	10
2.3.6 Analysis of the underlying theories	10
2.3.7 Difference between Large and Small Firms.....	11
2.3.8 The Role & Characteristics of SMEs	12
2.3.9 Constraints facing SMEs.....	13
2.3.10 Input Constraints	13
2.3.11 Regulatory environment for SMEs in Tanzania	17
2.3.12The Need of Micro and Small Enterprises (MSEs)	18
2.3.13 Microfinance's Finance Offerings to Micro and Small Enterprises (MSEs)..	19
2.3.14 New Financial Products Suitable to MSEs	20
2.3.15 Constraints causing SMEs fail to get services from MFI	20
2.3.16 Focus on MSEs with high potential	21
2.3.17 Rural & Urban areas: a different approach	21
2.3.18 Addressing the sector through the banks	21
2.3.19Other bank interventions	22
2.3.20 Mobilization of external support.....	22
2.4 Empirical Literature Review	23
2.4.1 Studies Conducted Abroad.....	23
2.4.2 Studies Conducted in Tanzania.....	24
2.4.3 Microfinance market in Tanzania	25
2.4.4 The knowledge gap	26
2.5 The Conceptual Framework.....	27
2.5.1 Description of the Framework	27
2.5.2 Underlying Assumptions.....	27
2.5.3 Description of the Variables.....	28

2.5.4 Relationship between the Variables	28
2.6 Statement of hypothesis	28
CHAPTER THREE	29
RESEARCH METHODOLOGY AND PROCEDURES	29
3.0 Introduction	29
3.1 Description of the area to be studied.....	29
3.2 Research Strategy/Design	29
3.3 Location of the Case.....	30
3.4 Sampling Procedures/techniques	30
3.4.1 Target Population	30
3.4.2 Sampling techniques	30
3.4.3 Sample size.....	31
3.5 Nature of the data required.....	31
3.5.1 Primary data	31
3.5.2 Secondary data	32
3.6 Data Collection Methods and Tools.....	32
3.6.1 Questionnaires.....	32
3.6.2 Interviews	32
3.6.3 Documentation review	33
3.7 Data Analysis and processing	33
3.8 Measurement of Variables	33
3.9 Validity and Reliability of Data	34
3.9.1 Validity.....	34
3.9.2 Reliability.....	34
CHAPTER FOUR.....	36
FINDINGS, DATA ANALYSIS AND DISCUSSION	36
4.1 Introduction	36
4.2 General Profile of Respondents	36
4.2.1. Distribution of Respondents by Sex.....	36
4.2.2. Distribution of Respondents by Marital Status	37

4.2.3. Distribution of Respondents by Age Groups	37
4.2.4. Distribution of the Respondents by the Level of Education	38
4.3. Research Findings Analyzed According to Research Questions	39
4.3.1.What is the trend of FINCA’s MFIs services to SME’s in Dar es Salaam city?39	
4.3.1.1. The Effectiveness of Services Offered by FINCA to SMEs.....	40
4.3.1.2. The Loan Products Offered by FINCA to the SMEs	41
4.3.1.3. The Loan Product Portfolio of FINCA	43
4.3.1.4. The Average Loan per Borrower for the Loan Products.....	44
4.3.1.5 The Loan Interest Charged on Loan Products.....	45
4.3.2. What is the relationship between the FINCA MFI’s loans and SME’s growth?46	
4.3.2.1. Form of SMEs Business Ownership	46
4.3.2.2 The Amount of Business Start-up	47
4.3.2.3 Loan Access by SMEs	48
4.3.2.4 The Number of Approved Loan Applications	49
4.3.2.5 Credit policy and procedures in addressing the Credit accessibility.....	50
4.3.2.6Rate of Improvement in Performances of SMEs as a Result of Loans	52
4.3.2.7 Assessment of whether the loans provided did help to increase the size of SME’s.....	53
4.3.2.8 Household Consumption as a Result of Loans Taken to Support Their Business	54
4.4What are the challenges facing SMEs who have accessed loans from FINCA? ..	56
4.5 What measures are needed to improve SMEs access to Loans from MFIs?	58
4.5.1 The practicability of loan conditions fromMFIs	59
4.5.2 Overall Measures to Improve SMEs Growth.....	61
CHAPTER FIVE.....	63
CONCLUSION AND RECOMMENDATIONS	63
5.1 Introduction	63
5.2 Conclusion	63
5.3 Recommendations	65

5.4 Suggestion for further studies	66
REFERENCE	68
APPENDICES	71
Appendix I: Gant Chart showing a Schedule of Activities	71
Appendix II: Proposed Budget.....	72
Appendix III: Questionnaires	72
Appendix IV: Questionnaire for the loan officers.....	80
Appendix VI: Kiswahili Questionnaire.....	82

LIST OF TABLES

Table 2.1: UNIDO's Definition for SMEs in Developing Countries.....	8
Table 2.2: UNIDO's Definition for SMEs in Industrialized Countries: (1976)	9
Table 3.1: Distribution of the Expected Sample Size	31
Table 3.2: Reliability Statistics	35
Table 4.1: Distribution of Respondents by Sex	36
Table 4.2: Distribution of Respondents by Marital Status	37
Table 4.3: Distribution of Respondents by Age Groups	38
Table 4.4: Distribution of respondents by level of education	39
Table 4.5: The Average loan per borrower for the loan products	44
Table 4.6: Applicants who received the Desired Loan	50
Table 4.7: Distribution of the Received Size of Loans	51
Table 4.8: Usage of Loans	51
Table 4.9: Performance of business owned by the beneficiaries after loans	53
Table 4.10: Improvements in businesses of the beneficiaries.....	54
Table 4.11: Household consumption as a resulting of loans for business support	55
Table 4.12: Challenges facing SMEs in Accessing Loans from FINCA.....	56
Table 4.13: Conditions of loans and their practicability	59

LIST OF FIGURES

Figure 2.1: Conceptual Framework of FINCA Microfinance Services	27
Figure 4.1: A pie chart showing the distribution of borrowers for FINCA's products	43
Figure 4.2: A Pie chart showing loan portfolio for FINCA's products in Tzs	44
Figure 4.3: A bar chart showing Interest rate and upfront costs for loan products.....	45
Figure 4.4: A Pie chart showing business ownership	47
Figure 4.5: A Pie chart showing the Business start-up year	48
Figure 4.6: Number of respondent applied for Loan.	49

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 Introduction

This chapter introduces the whole study. It provides brief background information of the study, the context of the study. It includes the statement of the problem, general and specific objectives, research questions, significance of the study, scope and limitations of the study.

1.2 Background of the Study

Microfinance Institution (MFI), according to Otero (1999) is “the provision of broad range of financial services such as deposits, loans payment services, money transfers and insurance to poor and low income households and their micro enterprises, including consumers and the self-employed who traditionally lack access to banking and related services. Microfinance does not only cover financial assistance but also financial services such as training and business advice.

The principal providers of financial services to the poor and low income households in the rural and urban area of Tanzania consist of licensed commercial banks and credit co-operatives societies and several Non-Governmental Organizations (NGOs) whose micro-credit delivery operations are founded and supported with technical assistance by International donors.

Small and Medium Enterprises (SMEs) are the backbone of development of any economy. In order for this sector to develop and be of significance to the economy there is a need for the Financial sector to provide financial needs to this sector. It is increasingly recognized that the Small and Medium Enterprises (SMEs) play a crucial role in employment creation and income generation in Tanzania. SMEs all over the world and in Tanzania in particular, can be easily established since their requirements in terms of capital; technology, management and even utilities are not as demanding as it is the case for large enterprises. These enterprises can also be

established in rural settings and thus add value to the agro products and at the same time facilitate the dispersal of enterprises. Indeed SMEs development is closely associated with more equitable distribution of income and thus important as regards to poverty alleviation. At the same time, SMEs serve as a training ground for emerging entrepreneurs (Ngowi, 2008).

In Tanzania, the full potential of the SME sector has yet to be realized due to the existence of a number of constraints hampering the development of this sector. They include: unfavorable legal and regulatory framework, underdeveloped infrastructure, poor business development services, limited access of SMEs to finance, ineffective and poorly coordinated institutional support framework etc. It is for this course that in 2003, the SME's Development Policy was formulated so as to address the constraints and to tap the full potential of the sector.

1.3 The Emerging Challenge

While ad hoc and piecemeal measures will then be replaced with sustainable, integrated and coordinated interventions, the SME policy should serve as a guideline to all stakeholders and thus stimulate new enterprises to be established and existing ones to grow and become more competitive. The expected outcome is to have a significantly increased contribution of the SME sector to economic development of Tanzania. SMEs are said to play a major role in socio-economic development in Tanzania, as stated in the policy, that "SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas" (URT, 2003). There have been uncertainties whether the objective of the said policy has been and or is being achieved as intended.

1.4 History, Vision and Mission of FINCA

FINCA's Village Bank loans empower women, inculcates leadership skills and confidence in them. FINCA's loans support the government's poverty reduction strategies by allowing communities access to better medical services, food and education, particularly improving the wellbeing of people especially in rural areas.

FINCA grew its client base by over 200% since 2001 by expanding to cover 60% of the country and introducing new products. FINCA ,Tanzania works in Dar es Salaam, the Coast region, Morogoro, Dodoma, Ifakara, Iringa, Mbeya, Njombe, Mwanza, Mara, Shinyanga, Tabora, and Bukoba. Currently, it covers about 40% of the country and 65% of the population in centers where they are located.

1.5 Statement of the Problem

The introduction of FINCA as an MFI is seen as an alternative source of financial services for low-income earners in rural and urban areas. Once the targeted beneficiaries access the fund and utilize it efficiently, it can be a means of poverty reduction which may lead to alleviation of poverty level in Tanzania. Over the years MFIs have steadily increased, despite the increase and growth of the MFIs over the last decade, poverty on the other hand has also increased instead of declining. The presence of such Financial Institution look impressive but one would like to know more about its economic implications which is to be tested in the course of this study during the field before concluding whether FINCA's MFI has a positive impact to the SME's in Tanzania.

Thus, the statement of the problem “the contribution of FINCA MFI's services on SMEs growth in Dar es Salaam” intends to provide answers to the stated uncertainties. One would like to know also the trend of MFIs and amount of service provided, amount of credits granted to individual SMEs, low-income earners by FINCA and whether such credits have anything to do with poverty reduction or has been a burdensome to the SMEs. This will also identify the challenges facing SMEs who have accessed loans from FINCA MFI.

1.6 Research Question

1.6.1 General Research Question

What is the contribution of FINCA MFI's services on SMEs growth in Dar es Salaam City?

1.6.2 Specific Research Questions

- (a) What is the trend of FINCA's MFIs services to SME's in Dar es Salaam city?
- (b) What is the relationship between the FINCA MFI's loans and SME's growth?
- (c) What are the challenges facing SMEs who have accessed loans from FINCA?
- (d) What measures are needed to improve the situation?

1.7 Research Objectives

1.7.1 General Research Objective

The general objective of this study was to examine the contribution of FINCA MFI services on SMEs growth in Dar es Salaam city.

1.7.2 Specific Objectives

The study was guided by the following specific objectives:

- (a) To examine the trend of FINCA's MFI services to Small and Medium Enterprises in Dar es Salaam City.
- (b) To examine the relationship between FINCA loans to SMEs development and growth.
- (c) To examine/identify the challenges facing SMEs who have accessed FINCA loans.
- (d) To suggest measures necessary to improve the situation.

1.8 Significance of the Study

This study is of great benefit to different parties in various aspects as explained below;

- (a) The study gives various facts related to economic struggles for subsistence and growth in the informal sector, facing many constraints including limited resources and poverty. The study findings will expand the body of knowledge to professionals and academicians and will provide a way forward towards other studies on how to enhance the existing financial and administrative support to facilitate self-employment among women and youth in our society.

- (b)The study will allow the targeted groups to understand the importance of proper preparation before borrowing for establishing and operating self-employment economic activities, to minimize or avoid the possibilities of failure. It will intensify the entrepreneurial knowledge on responsibilities, commitments, benefits and risks associated with small scale loan facilities offered by the Government to SMEs.
- (c)The study is of benefit to stakeholders, MFIs, SMEs, and the community at large. This study covered and recommended potential areas for MFI to improve when delivering their services to be effective with the intended results on the part of authorities' problems that face MFIs or SMEs that can be handled by change in policies or provision of incentives were clearly revealed so that things can be improved. The improvement of all these would improve the community's well-being.
- (d)The study is an integral part of the Researcher's qualification for the award of a Master's degree in Business Administration. Thus the study will provide an opportunity for the researcher to accomplish his course of study as a student at Mzumbe University.

1.9 Limitations of the Study

As a result of insufficient time and funds for this research, it was therefore expected that the study would be limited to a single entity as a case study, FINCA in particular located in Dar es Salaam city. However, limited information from government institutions due to the so called secrecy and or confidentialities was encountered during this study as the study required sensitive information from the entity.

1.10 Delimitations of the Study

Information obtained from a case as well as beneficiaries of the FINCA was used to overcome the challenges or limitations mentioned above. Therefore unlimited information from those borrowing from this institution helped to provide the researcher with sufficient data for the purpose of this study.

1.11 Scope of the Study

The scope of this study was that it covered the SMEs that are located in Dar es Salaam city where the researcher currently resides and works, thus as stated earlier in this study, that the microfinance that covered in this research work was FINCA.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The word literature means an analysis based on textbooks or manuscripts. It refers to the work of various researchers used to investigate and get to know the research problem at hand. As such, literature review takes from what has been published by scholars and researchers (Kombo and Tromp, 2006).

Therefore, in this chapter, there are five sections; the first one is the definitions of key terms used in the research, the second section is an analysis of the underlying theories or identifying some relevant models; the third section is an analysis of the empirical studies; the fourth part deals with the conceptual framework with its related analysis, while the last section looks at the statement of hypothesis.

2.1 Definitions of Concepts

2.1.1 Microfinance Institution

Microfinance according to Otero (1999) “is the provision of broad range of financial services such as deposit, loans payment services, money transfer and insurance to poor and low income households and their micro enterprises”. Microfinance according to Ledger Wood (1999) does not only cover financial assistance but also financial services such as training and business advice.

MIX (2005) defines microfinance institution (MFI) as “an organization that offers financial services to the very poor. This study has adopted the definition given by Otero due to the fact that many Savings and Credit Cooperatives Societies (SACCOS) in Tanzania are mostly providing financial services to the low-income poor and very poor self-employed people.

2.1.2 Small and Medium Enterprises

The SME nomenclature is used to mean micro, small and medium enterprises. The SME covers non-farm economic activities mainly manufacturing, mining, commerce and services. There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. In the context of Tanzania, micro enterprises are those engaging up to four (4) people, in most cases family members or employing capital amounting up to Tshs 5.0 million. The majority of micro enterprises fall under the informal sector (Mead, 1994).

Alternative Definitions: World Bank since 1976 - Firms with fixed assets (excluding land) less than US\$ 250,000 in value are Small Scale Enterprises. Grindle et al (1989) - Small scale enterprises are firms with less than or equal to 25 permanent members and with fixed assets (excluding land) worth up to US\$ 50,000.

USAID in the 1990s - Firms with less than 50 employees and at least half the Output is sold (also refer to Mead, 1994). The tables below provide UNIDO's definitions of the SME for developing countries and industrialized countries respectively.

Table 2.1: UNIDO's Definition for SMEs in Developing Countries

ENTREPRISES	NUMBER OF EMPLOYEES.
Large	100+
Medium	20-99
Small	5-19
Micro	<5

Source: UNIDO, 1976

Table 2.2: UNIDO’s Definition for SMEs in Industrialized Countries: (1976)

ENTREPRISES	NUMBER OF EMPLOYEES.
Large	500+
Medium	100-499
Small	<99

Source: UNIDO, 1976

2.2 Theoretical Literature Review

2.2.1 FINCA

FINCA stands for the Foundation for International Community Assistance. Established in 1984, FINCA is best known for having pioneered the "Village Banking method"--one of the major forms of microcredit and for leadership in microfinance overall.

2.2.2 FINCA’s Mission Statement

The mission of FINCA International is “to provide financial services to the world’s lowest-income entrepreneurs so that they can create jobs, build assets and improve their standard of living”.

2.2.3 FINCA’s Vision Statement

The vision of FINCA International is “to be a global network collectively serving more low-income entrepreneurs than any other microfinance institution, while operating on commercial principles of performance and sustainability”.

2.2.4 Growth/development

Growth/development means increase in size or an improvement in quality as result of a process of development, in which an interacting series of internal changes leads to increase in size accompanied by changes in the characteristics of object (Penrose,

1959). Two kinds of growth have been identified; qualitative and quantitative growth.

Qualitative growth/development can occur through changes in or sophistication of the firm. For example, a firm that changes from being owner operated to owner directed can be considered to have grown substantially organizationally.

Quantitative growth or development has to do with changes that are quantifiable such as workforce size, sales revenue, profitability, investments, and product mix.

Horizontal growth/development occurs when the number of establishment or firms that fall under the same managerial control, increase. These can be related or unrelated to existing activities.

2.3.5 Importance of Growth/Development

Growing firms are needed to accelerate the rate of economic and social development. The business owners benefit from increased incomes, status and feeling of personal accomplishment. In relation to society, individual firm growth plays an important role in determining the structure and dynamism of any economy.

Various benefits are associated with growth. First, the growth process yields new value in increased output or quality. Second, growing firms are more likely to innovate. Thirdly as a group, growing businesses generate most of the new jobs in an economy. Fourth, growing indigenous businesses tend to create and maintain linkages among the various sectors of the economy. Fifth, as firms grow they become more formalized and therefore bound by tax and labor laws (Olomi, 2009).

2.3.6 Analysis of the underlying theories

Several studies have been undertaken in relation to SMEs in Tanzania and abroad. Bavillo (1993), in his study argues that lending to small firms is risky and this makes lending rates high, unaffordable and he suggested that in order to help those firms to operate and grow special credit management should be put in place. Though it is true

that lending rates are high, there are a lot of SMEs which have accessed these loans since the inception of microfinance services, so it is the desire of the researcher of this study to examine the impact of these loans to SMEs, including the rates charged therein.

Kuzilwa (2002) examined the role of credit in generating entrepreneur activities and 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. Of course one may agree with Kuzilwa's recommendation but it is the intention of this research to show the extent of services to support these MFIs.

Severine and Fratern (2006), in their research titled "The Contribution of Microfinance Institutions to Poverty Reduction in Tanzania" found that to a large extent MFIs operation in Tanzania has brought about positive changes in the standard of living of people who access their services. Though some of the clients have not benefited, most MFIs clients have benefited positively. Despite the achievement of MFIs clients, most of them complained that the interest rates charged by MFIs were very high.

The study by Severine and Fratern (2006) seem to provide some clues to this study, however, the difference is that in Severine and Fratern concentrated much on the contribution of MFIs to poverty reduction which is the wider subject compared to this study which will try to assess the contribution of MFIs services on the SMEs development, in order to enable the researcher find out how it has helped these enterprises to expand in generation of income, creation of employment and linkages with big organizations.

2.3.7 Difference between Large and Small Firms

Storey (1994) has stated that there are three key distinguishing features between large and small firms. Firstly, the greater external uncertainty of the environment in

which the small firm operates and the greater internal consistency of its motivations and actions.

Secondly, they have a different role in innovation; small firms are able to produce something marginally different, in terms of product or service; this differs from the standardized product or service provided by large firms. A third area of distinction between small and large firms is the greater likelihood of evolution and change in the smaller firm; small firms which become large undergo a number of stage changes.

2.3.8 The Role & Characteristics of SMEs

Small-scale rural and urban enterprises have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. It is estimated that SMEs employ 22% of the adult population in developing countries (Daniels, 1994; Daniels & Ngwira, 1992; Daniels & Fisseha, 1992; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson, 1995).

However, some authors have contended that the job creating impact of small scale enterprises is a statistical flaw; it does not take into account offsetting factors that make the net impact more modest (Biggs, Grindle & Snodgrass, 1988). It is argued that increases in employment by Small and Medium Enterprises are not always associated with increases in productivity. Nevertheless, the important role performed by these enterprises cannot be overlooked. Small firms have advantages over their large-scale competitors. They are able to adapt more easily to market conditions given their broadly skilled technologies.

SMEs are able to withstand adverse economic conditions due to their flexible nature, they are more labor intensive than larger firms and therefore, have lower capital costs associated with job creation (Anheier & Seibel, 1987; Liedholm & Mead, 1987;

Schmitz, 1995). SMEs perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centers and rural areas, where they can contribute to the more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Because of their regional dispersion and their labour intensity, the argument goes; small scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus, facilitating long term economic growth.

2.3.9 Constraints facing SMEs

Due to the wide-ranging economic reforms instituted in the region, SMEs face a variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to smaller firms (Schmitz, 1982; Liedholm & Mead, 1987; Liedholm, 1990; Steel & Webster, 1990). Following below is a set of constraints identified with the sector.

2.3.10 Input Constraints

SMEs face a variety of constraints in factor markets (also see Levy, 1993), however; factor availability and cost are the most common constraints. The specific problems may differ by country, but many of them may be related, varying according to whether the business perceive that their access, availability or cost is the most important problem and whether they are based primarily on imported or domestic inputs (World Bank, 1993; Parker et al, 1995). SMEs in Ghana and Malawi emphasize the high cost of obtaining local raw materials; this may stem from their poor cash flows (Parker et al, 1995). Aryeetey et al (1994) found that 5% of their sample cited the input constraint as a problem. However, Daniels & Ngwira (1993) reported that about a third of Malawian SMEs reported input problems. This can also be contrasted with only 8.2%, 7.5% and 6.3% of proprietors in Botswana,

Swaziland and Lesotho respectively. It was further identified by Daniel and Ngwira (1993) that input constraints vary with firm size. But they include the following;

(a) Finance

Access to finance remains a dominant constraint to small scale enterprises in Ghana and Malawi. Credit constraints pertaining to working capital and raw materials were cited by respondents (between 24% and 52% in Parker et al, 1995). Aryeetey et al (1994) reports that 38% of the SMEs surveyed mentioned credit as a constraint, in the case of Malawi, it accounted for 17.5% of the total sample (Daniels &Ngwira, 1993:30-31). This stems from the fact that SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity.

(b) Labor Market

This is also a constraint to SMEs considering the widespread unemployment or underemployment in developing countries. SMEs generally use simple technology which does not require highly skilled workers. However, where skilled workers are required, an insufficient supply of skilled workers can limit the specialization opportunities, raise costs, and reduce flexibility in managing operations. Aryeetey et al (1994) found that 7% of their respondents indicated that they had problems in finding skilled labor, and 2% had similar problems with unskilled labor. However, only 0.9% of Malawian firms were reported to have had labor problems.

(c) Equipment & Technology

SMEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SME competitiveness. Besides, other constraints on capital, and labor, as well as uncertainty surrounding new technologies, restrict incentives to innovation. Eighteen percent of the sampled firms in Aryeetey et al (1994) mentioned old equipment as one of the four most significant constraints to expansion (18.2% in Parker et al, 1995), this is in contrast to the 3.4% reported in Malawi (Daniels &Ngwira, 1993; Makoza&Makoko, 1998).

(d) Domestic Demand

Twenty five percent (25%) of Malawian proprietors indicated that they had marketing constraints (Aryeetey et al, 1994). The business environment varied markedly among SMEs in Ghana and Malawi, reflecting different demand constraints after adjustment. There were varying levels of uncertainty caused by macroeconomic instability and different levels of government commitment to private sector development. Recent economic policies have led to a decline in the role of the state in productive activity but a renewed private investment has created new opportunities for SMEs. Nonetheless, limited access to public contracts and subcontracts, arising from cumbersome bidding procedures and/or lack of information, inhibit SME participation in these markets. Also, inefficient distribution channels often dominated by larger firms pose important limitations to market access for SMEs. As noted in the case of Ghana, demand constraints limited the growth of SMEs (Parker et al, 1995).

(e) International Markets

Insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. However, this problem is mostly identified in medium-sized enterprises in Ghana (12.5% in Aryeetey et al, 1994:13), less than 1% of the total sample complained there were too many imported substitutes coming into the country. Daniels & Ngwira (1993) also reported a similar figure for Malawi (0.9%).

However, Riedel et al (1988) reported that Tailors in Techiman (Ghana) who used to make several pairs of trousers in a month went without any orders with the coming into effect of trade liberalization. Limited international marketing experience, poor quality control and product standardization and little access to international partners, impede expansion into international markets. It is reported that only 1.7% of firms export their output (Aryeetey et al, 1994).

(f) Regulatory Constraints

Wide ranging structural reforms have improved; prospects for enterprise development remain to be addressed at the firm-level. High start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on SME's. The high cost of settling legal claims and excessive delays in court proceedings adversely affect SME operations. In Malawi, prohibitive laws like The Business Licensing Act, The Electricity Act, The Control of Goods Act, and The Export Incentives Act, have severely constrained SME development (Makoza&Makoko, 1998). Five percent (5. 3%) of proprietors in Malawi mentioned this as a constraint (Daniels &Ngwira, 1993). In the case of Ghana, the cumbersome procedure for registering and commencing business were key issues often cited. However, Aryeetey et al (1994) found that this accounted for less than 1% of their sample. Meanwhile, the absence of antitrust legislation favors larger firms, while the lack of protection for property rights limits SME access to foreign technologies.

(g)Managerial Constraints

Lack of Entrepreneurial & Business Management Skills

Lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on SMEs. The lack of support services or their relatively higher unit cost can hamper SME efforts to improve their management because consulting firms often are not equipped with appropriate cost effective management solutions for SMEs. Furthermore, the absence of information and/or time to take advantage of existing services results in weak demand for them.

(h)Institutional Constraints

The lack of cohesiveness and the wide range of SME interests limit their capacity to defend their collective interests and their effective participation in civil society. Associations and collective action: Associations providing a voice for the interests of SMEs in the policy-making process have had a limited role compared to those of

larger firms. Many of the entrepreneurs associations have yet to complete the transition of their goals from protectionism to competitiveness (World Bank, 1993). Additionally, the potential economies of collaborative arrangements in production and sales among SMEs have not been adequately explored. It is reported that about 98% of all SMEs in Malawi sell their products to the final consumer with the exception of chemicals, plastics, and wholesale trade which sell to other commercial or manufacturing enterprises (Makoza&Makoko, 1998).

2.3.11 Regulatory environment for SMEs in Tanzania

The government is concerned about the state of poverty in Tanzania. It is therefore, actively involved in providing some poverty alleviation interventions. The government views microfinance not only as an effective tool for poverty alleviation but also as an important in that direction. To this end the government has been keen to improve and develop the microfinance industry. It has established a fully-fledged directorate of microfinance within the central bank - the Bank of Tanzania (BOT), which has spearheaded a number of key processes towards the development of the industry. One of the unique aspects as a first step was the formulation of the National Microfinance Policy in year 2002 to guide the microfinance activities in the country.

The policy gave rise to the formulation of legal, regulatory and supervisory framework for microfinance activities. It is important to point out that the entire process starting from policy formulation to the development of legal, regulatory and supervisory framework was highly participatory involving all the stakeholders in the industry including MFIs. The legislation was concluded in 2003 by an amendment of the Banking and financial Institutions Act 1991, Bank of Tanzania Act 1995, Cooperative Societies Act 1991 and other related statues giving the Bank of Tanzania (BOT) the mandate to license, regulate and supervise deposit taking equity-based microfinance companies to be established.

The legislation also empowers BOT to regulate and supervise cooperative based institutions whose sizes are above a certain threshold. Therefore under the

framework, MFIs could now be licensed to take public deposits and hence carry out financial intermediation just like banks. Under the legal framework, only the NGOs will not be subjected to prudential norms but will be required to abide by non-prudential guidelines and supervised under the Ministry of Finance. On the other hand, cooperative based microfinance institutions other than those to be regulated by BOT would be regulated and supervised under the Ministry responsible for Cooperatives. However, up to the time of this discourse, the regulatory framework had not been made public and therefore it is still unknown as to when the licensing, regulation and supervision of MFIs by the Bank of Tanzania will take place.

The microfinance industry in Tanzania is still young. The fact that only around 5% of the market is being served by all institutions involved in microfinance combined is an indication that there is a huge demand for microfinance services in Tanzania particularly in the rural areas, which are prone to high risks and costs. There are only a handful of MFIs that operate in the market mostly concentrating in the urban centers an aspect that has left the rural areas grossly under-served. The government has played its part by creating an enabling environment. All in all, it can be concluded that the microfinance market in Tanzania promises a potential avenue for investment of sufficient capital (URT, 2002).

2.3.12 The Need of Micro and Small Enterprises (MSEs)

SMEs need finance for various reasons as explained hereunder;

In working capital: Stocks for sufficient amount of raw materials or spare parts are a basic problem for the entrepreneurs of the informal sector. The cost effectiveness of their activities is impeded by various problems of supply including their incapability to make wholesale purchases. Therefore, the craftsmen buy their raw materials in small quantity at high cost: they do not have any stock and they cannot manufacture their products in advance.

In investment: Credit is necessary, may be crucial for the most dynamic entrepreneurs, especially when they have been up-graded through skill training. In

order to progress, they must buy modern equipment to replace their second hand tools and market more competitive products: despite poverty, the consumption habits of the population have changed during the last thirty years with urbanization, globalization and international competition.

2.3.13 Microfinance's Finance Offerings to Micro and Small Enterprises (MSEs)

Most of the MFIs give small loans over a short-term period, with relatively high interest rate, which are more appropriate for the financing of working capital than of investment (equipment, etc.).

Lack of appropriate offer

The loans granted by many MFIs are more adapted to survival type micro enterprises than to the dynamic ones. This is observed in the following indicators:

(a) Amount of loans: The amount of credit is in general too small to finance the enterprises with potential growth: average loans of euro 300, all MFIs considered together, and of less than euro 100 for joint credit (peer-group). Most of the MFIs offer mainly small loans for working capital to traders or craftsmen. Although the loan amount is increasing every year, it remains insufficient for the most dynamic micro MSEs whose needs have evolved to between euro 1,000 to euro 5,000 and above.

(b) Term: Medium term loan is a financial product incompatible to most MFIs: the weakness of the guarantees (collaterals), the insufficiency and the structure of their resources do not allow them to give medium term loans. Thus, only small productive investments are to be financed.

(c) Interest rate: The MFIs of Grameen Bank type (joint credit) give small loans on a shorter term basis with interest rate of at least 24% flat per year (equal 43% declined). Quite often, the rate climbs up to 70% or more than 100%, meaning a monthly rate higher than 3% and sometimes 7%.

(d) Peer-group guarantee: Most of the MFIs are using the joint solidarity or peer-group guarantee which does not apply for most of the MSEs: they need loans on individual bases.

(e) Initial savings: For most of the MFIs, except those who give direct credit, savings must precede credit. According to the rules of several cooperative networks, loans cannot be granted prior to 6 months of savings. Besides, the savings must cover at least 25% of the applied credit.

2.3.14 New Financial Products Suitable to MSEs

For several years, micro finance has been affected by a small revolution with the appearance and the development of direct credit. These MFIs, specialize in the financing of micro & small enterprises (MSEs), and grant loans without prior savings or joint solidarity guarantee. The MFIs granting direct credit such as PRODIA, CAECE, ACEP or Dede-bit offer significant loans to micro & small entrepreneurs: up to euro 3000 for PRODIA or Dede-bit and even higher for ACEP and CAECE (up to euro 45,000). This is for the purchase or the renewal of equipment. Following their example, some cooperative networks as RCPB grant nowadays loans up to euro 5000 effective.

2.3.15 Constraints causing SMEs fail to get services from MFI

Micro & small enterprises potentially eligible for credit belong to the higher segment of the informal sector. These MSEs cannot resist foreign or local competition if they do not have access to modern equipment; the resources of the craftsmen are tiny, most of them having purchased their equipment by progressive auto-financing through personal inputs or family assistance. Nevertheless, some improvements can be proposed.

This is why MFIs providing loans to urban MSEs require such high collateral. Moreover, if their growth is too fast, some MFIs may become subjected to embezzlement, crisis of liquid assets and non-repayments (11% of the outstanding loan in 2000 in the UMOA zone) – which can lead to termination of projects or

restructuring of networks. Credit demands patience: by accelerating its process, one increases the risks. As soon as the problem of non-repayment is declared, the situation degenerates rapidly: the bad payers who are not penalized absorb the credit and destabilize the good payers like bad currency chases the good.

2.3.16 Focus on MSEs with high potential

Most of the MFIs practicing joint credit are rather dealing with survival micro enterprises whose needs are small (less than average euro 100). They have an irrefutable social impact, especially on women for whom they increase the income for the schooling and the health of the children. Unfortunately, these MFIs do not meet or try to meet the needs of the dynamic MSEs which are between euro 1,000 to euro 10,000.

2.3.17 Rural & Urban areas: a different approach

Credit and savings cooperatives with credit committees entrusted to elected officers are efficient in villages where the pressure of shareholders is significant. In rural areas, a peer-group approach secures excellent results in villages with strong solidarity and cohesion. On the contrary in urban areas, one can see the obliteration of this solidarity whereas the amounts and the demands are higher and more complex; cooperatives are weaker and repayment rates are sometimes less than 85%.

2.3.18 Addressing the sector through the banks

The emergence of micro finance is due to the absence of banks for the informal market. So, after the discovery of Yunus – the poor are bankable – micro finance has become an increasingly flourishing industry, partly thanks to subsidies offered by the public authorities craving for any formula to get out of the stagnation of non-development. Banks are still uneasy with the informal sector even if it has become a cost-effective market. Their technology and their analysis tools are not adapted to this zone which is hostile to modern accounting: the MSEs remain for them an elusive and risky target with no guarantees (Yunus, 2001).

In addition, the follow-up costs for small credit is relatively important compared to those of higher credit. Accordingly, many African banks prefer to invest their abundant liquidity in lucrative commercial operations holding less risk and which are easier to handle.

2.3.19 Other bank interventions

Banks are used to grant credit to medium & large enterprises which are another category. Regardless of the problems of identification related to the micro & small enterprises (MSEs), the needs of medium & big enterprises are higher, the analysis of the risk and the means of securing collateral are quite different (no social pressure or peer-group guarantee). Moreover, the bank credit officers are too remote both physically and culturally from the informal sector and they have difficulties in analyzing and understanding it.

The key to success for micro finance is its proximity approach: The entrepreneurs in the informal sector must be sensitized before they can welcome any support (Microfinance or BDS) as they are very suspicious of any Institutional or State initiative. Concerning the credit & savings institutions, they are closer to clienteles untouched by business banks. Accordingly, some of them have developed ties with micro finance networks. Some of the most famous networks are the Desjardins (Canada) which intervened with success through their credit & savings cooperatives in many African countries (Bierzeck, 2000).

2.3.20 Mobilization of external support

MFIs represent one of the most convincing success stories in African development during the last three hopeless decades. Therefore, many donors want to use them and try to reinforce the present MFIs in their target areas. New relations have been established with the African socio-economic environment and confidence built with the MFIs. However, despite their impact on the field, the MFIs do not meet many of the needs of the informal sector whose diversity is huge. In the same way, their management is not professional enough and their financial balance depends

frequently on external subsidies. Therefore, it is necessary for many of the MFIs (i) to adapt their methodologies to their new targets, especially the clientele of the urban informal sector; and (ii) to revise and drastically modify their strategies in this period of micro credit expansion.

2.4 Empirical Literature Review

2.4.1 Studies Conducted Abroad

The case of informal financing will be rapidly raised with the tontines in which several people unite and save for a fixed period of time, a variable amount of money, each member receiving one after the other the total of the contributions. Tontines are an efficient way "to save between friends; their optimal size is between 5 to 10 persons and women traders often use them to build their initial capital. These revolving saving associations are sometimes used by the MFIs who specialize in joint credit. Regarding the money lenders, their role is variable: they supply credit at a very high interest rate of 20-40% per month. Banks are not interested in micro enterprises under the pretext that they are elusive; do not have proper accounting or adequate guarantee. So, the donors have tried to bridge this gap by becoming bankers. Instead of allocating credit lines to the banks, they have been managing credit funds themselves, especially through projects financed by the European Union in Mali, Senegal and Burkina Faso.

However, at a macroeconomic level, the impact of microfinance remains small. In Malawi, FINCA operates as well on the principles of the Grameen Bank: small groups secure the reimbursement of loans granted without any previous savings. FINCA targets the poorest of the women, mainly in urban areas but also in rural zones. Beneficiaries from a village bank consist of 25 to 40 members. The village bank elects a board of directors who meet once a week to discuss business problems such as loan repayment, etc. FINCA started its activities, thanks to an initial credit fund of 1 million USD allocated by USAID. The program gives average loans of 50 euro mainly for small commercial operations. The repayment period is four months with no grace period allowed in most of these countries. The interest rate (flat) is

higher than 40%, i.e. around 75% declined per year, and recipients have to undergo training before they receive credit. In these countries, the loan is enjoyed by the recipients as such facilities as consultancy and progressive loans are given to people. Education is seen as a key factor to the success of the beneficiaries in countries like Senegal (Severine S.A. Kessy and Fratern M. Urio, 2006).

2.4.2 Studies Conducted in Tanzania

It is estimated that about one third of the GDP originates from the SME sector. According to the informal sector survey of 1991, micro enterprises operating in the informal sector alone consisted of more than one million businesses employing about three (3) million persons which is about 20% of the Tanzanian labor force.

SMEs also tend to be more effective in the utilization of local resources using simple and affordable technology. SMEs technologies are easier to acquire, transfer and adopt. Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industries requirements. Since 2002, The Tanzania Government hatched a policy on SMEs and has institutionalized the small industries development organization (SIDO) to create an avenue for promoting SMEs growth. (Mwilima, 1991).

SMEs play a crucial role in employment creation and income generation in Tanzania. SMEs in Tanzania can be easily established since their requirements in terms of capital and technology, management and even utilities are not so demanding as large enterprises. Since SMEs tend to be labour –intensive, they create employment at relatively low levels of investment per job created. One of the constraints that hamper the development of a vibrant SME sector in Tanzania is the banking and finance structure. Previous studies reveal that the SME sector in Tanzania has limited access to finance.

Microfinance involves activities directed at provision of access to financial services for small and micro-enterprises. Micro financial services comprise of micro credit, savings, micro leasing, micro insurance and other forms of financial services. The

micro finance market consists of the poor who are essentially involved in some form of economic activities. The small and micro enterprises in Tanzania operate in the informal sector, which is estimated to support about 60% of the economically active population.

2.4.3 Microfinance market in Tanzania

(a) Demand

It is estimated that there are close to 8 million small and micro entrepreneurs who need financial services and the number is growing by 4% annually, the majority of whom are found in the rural areas. The SMEs are involved in a wide range of businesses including trading, small scale manufacturing, agriculture (crop farming and animal husbandry) and services (food vending, transport, hair and beauty salons etc).

(b) Supply

Microfinance institutions operating in Tanzania provide financial services to the SMEs mainly in the form of micro credit with an exception of cooperative based microfinance institutions, which are predominantly savings based. The credit based institutions number between 80 and 100 out of which 42 are registered members of the Tanzania Association of Microfinance Institutions (TAMFI), the local microfinance network. The main microfinance institutions can be categorized as non-governmental organizations (NGOs), Cooperative based institutions, namely SACCOS and SACCAAs while the third category is banks.

The major players in the NGOs category include PRIDE Tanzania, FINCA (Tanzania), Small Enterprise Development Agency (SEDA) and Presidential Trust for Self-Reliance (PTF). Others, which are relatively smaller in size, include Small Industries Development Organization (SIDO), YOSEFO, SELFINA, Tanzania Gatsby Trust, Poverty Africa and the Zanzibar based Women Development Trust Fund and Mfuko. The rest consists of very tiny programmes scattered throughout the

country mainly in the form of community based organizations (CBOs) (SeverineS.A.Kessy and Fratern M. Urrio, 2006).

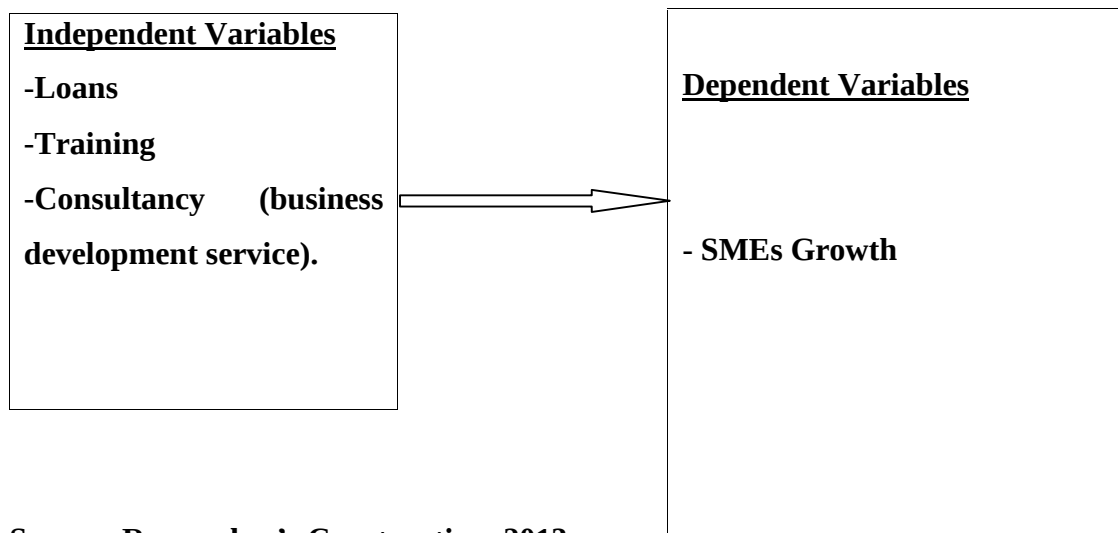
It is estimated that all the MFIs in Tanzania put together serve a combined client population of about 400,000 SMEs, which is only around 5% of the total estimated demand. Commercial banks including community banks account for around 50,000 while the NGO category accounts for the an estimated population of 220,000 clients. PRIDE Tanzania being the largest single player accounts for about 29% of the market share in this category or 16% of the existing total market share

2.4.4 The knowledge gap

It is necessary to think of the real time benefits brought about by the MFIs in the development of SMEs in Tanzania. These benefits are overwhelming; the needs are so great for the SMEs to take off. The MFIs seem to be satisfactory with the service level offered to the SME sector; however, there are still complaints from the beneficiaries to the extent that instead of feeling the lighter, they feel overburdened with the assistance given from the MFIs such as the FINCA. Perhaps the challenge remains to the recipients, that they do not know their responsibilities to the assistance from the said institutions, or the institutions do not comprehend their duty toward this most important sector in Tanzania that provide employment to most of the population in Tanzania. This study therefore has tried to establish the trend of FINCA's MFIs services to SME's in Dar es Salaam city, the relationship between the FINCA MFI's loans and SME's growth and find out challenges facing SMEs who have accessed loans from FINCA.

2.5 The Conceptual Framework

Figure 2.1: Conceptual Framework of FINCA Microfinance Services



Source: Researcher's Construction, 2013

2.5.1 Description of the Framework

In this framework, several factors which make SMEs important key to any economy have been highlighted as independent variables. Variables such as well-planned and progressive loans, training to the recipients prior to issue of the loan but also on how to run their business, provision of consultancy services to the recipients and SMEs at large will eventually lead to growth of the said sector, even the SMEs. Thus, in the context of this study, the researcher will try to relate independent and dependent variables and see the contribution of these independent variables named to SMEs development and expansion.

2.5.2 Underlying Assumptions

In this study the assumption is whether the services provided by the microfinance institutions have certain contribution to small and medium enterprises growth. It is further assumed that once microfinance's services have been reshaped either positively or negatively, SMEs will as well be affected respectively.

2.5.3 Description of the Variables

Independent variables in this topic are loans provision, training facilities and consultation on management by the MFI and dependent variables are increase of profit, creation of employment and expansion of business.

2.5.4 Relationship between the Variables

When independent variables are changed, for instance like when microfinance institution provides credit facilities to SMEs, then they will stir the enterprise to expand its services, the move which will lead to development of the enterprise. Other examples of the possible relationship between the variables are such as;

- (a) Issuing of loans help enterprises expand.
- (b) Issuing of loans help enterprises create employment.
- (c) Provision of training services help enterprises to increase their income i.e. learning new business techniques and the sort.

2.6 Statement of hypothesis

A statement of hypothesis may be stated as a null or alternative rather. In this study however, hypothesis has not been used, thus a statement of hypothesis has not been used due to the fact that this study used the research questions and objectives to establish the relationship between variables, whether there is a positive or negative relationship between the assumption made in the research and the data from the field.

CHAPTER THREE

RESEARCH METHODOLOGY AND PROCEDURES

3.0 Introduction

Kothari (2008) defines research methodology as a systematically way of solving a research problem. This chapter presents research design, geographical study area, target population, sampling procedures, sources of data, methodologies used to collect data, tools that helped in collection of data, and analysis techniques used to analyze the collected data and how the results are interpreted.

3.1 Description of the area to be studied

The area of the study was in Dar es Salaam city where a few selected sites where small businesses are found and FINCA Tanzania Limited a microfinance institution office was studied.

Mission of FINCA

FINCA succeeds to provide financial services to the Tanzanian's lowest income-earners so that they can create jobs, build assets and improve their standard of living.

Vision of FINCA

The vision of FINCA is to become a global microfinance network collectively serving more low-income entrepreneurs than any other MFI while operating on commercial principles of performance and sustainability (FINCA Policy of Tanzania, 1998).

3.2 Research Strategy/Design

Research design is the blueprint of the research that the major areas of data that will be obtained to achieve the research objective (Ian Jones, 2002). Kothari (2004) defines a research design as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It is a conceptual structure within which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data.

This research applied a combination of qualitative and quantitative research approaches. With quantitative research approach, descriptive studies were used i.e. questionnaires. Likewise, with qualitative research approach, interview was used; the qualitative research approach helped to get the quality data about the problem area and explained more about the research questions.

A case study approach of Dar es Salaam's FINCA was used, where interaction was also the case to beneficiaries of the FMIs. Therefore, this strategy was used because there was a need to concentrate and study in detail on a single microfinance institution, which was FINCA Tanzania Limited.

3.3 Location of the Case

FINCA is located along Morogoro Road in Magomeni area, on the right hand side of the road from City centre towards Morogoro. Dar es Salaam is one and the largest city of Tanzania. It is the business city of the country, where the state house is located and most of the large and small businesses are found.

3.4 Sampling Procedures/techniques

3.4.1 Target Population

The study population was a group of individuals taken from the general population of both beneficiaries, and FINCA officers in Dar es Salaam, who shared common characteristics. The target population was 177 individuals and or groups, small and medium enterprises inclusive, who have accessed FINCA MFI's loan, beside FINCA Personnel.

Thus the study population was mainly small and medium enterprises that are clients of FINCA Tanzania Limited, with a few workers in the FINCA office.

3.4.2 Sampling techniques

The study used both the probability and non- probability sampling techniques during research work and in particular simple random sampling technique. Probability sampling technique is a method of sampling that utilizes some form of random

selection. It is the techniques in which the probability of getting any particular sample may be calculated. Simple random procedure was used because it is simple to use, cheap, collection of data is faster, and since the data set was small it was possible to ensure homogeneity and to improve the accuracy and quality of data. Simple random technique was be used to obtain small and medium enterprises respondents out of all enterprises found in Dar es Salaam city. Judgmental sampling was used for the top management of FINCA and other officers of FINCA.

3.4.3 Sample size

It was expected that there would be the total of 177 respondents for the purpose of this study, eighty percent (80%) of which were small business people and 20 percent from the staff at FINCA Tanzania (see table below)

Table 3.1: Distribution of the Expected Sample Size

Categories of the Respondents	Sample size
Mama Lishe	43
Shop owners	55
Loan officers at FINCA	10
Machinga at Karume Market	59
Top Management at FINCA	10
TOTAL	177

Source: Author's Selection, 2013

3.5 Nature of the data required

3.5.1 Primary data

Primary data is the data collected for the first time by the researcher. These include the information which is obtained using instruments such as interviews, questionnaires and observation. The study collected the required accurate data according to the research need, time and in the form they were needed. This study

applied both closed ended and open- ended questions. Person to person interviews with the recipients and the staff of FINCA Dar es Salaam were conducted so as to get more reliable primary information.

3.5.2 Secondary data

Secondary data are information already collected and compiled by others, and which have already been passed through statistical process (Kothari, 2004). This study employed secondary data in order to get relevant information about the research and to collect useful references from specific publications, standard policies and procedures governing FMIs.

3.6 Data Collection Methods and Tools

3.6.1 Questionnaires

Primary data was collected using questionnaires. Questionnaire is the method of data collection that use typed questions used to interview. It can contain several responses and it is easier to collect data as it exerts less pressure by respondents. It is cost effective when compared to other methods, easy to analyze, familiar to most people and reduces biasness.

An individual was given a separate questionnaire, which contained questions relevant to this study topic. Questionnaire translated into Swahili was also administered by the researcher to those who are not competent in English language, mostly the small business people in the townships of Dar es Salaam.

3.6.2 Interviews

This is the method used to collect data whereby the main task is to understand the meaning of what the interviewees say. It is useful for getting the story behind a participant's experiences. The interviewer can pursue in-depth information around the topic.

Interviews were used especially while collecting data in the study area –FINCA Tanzania Ltd and around Dar es Salaam City. The researcher used semi-structured interviews so that he could be able to have a chance of probing and get elaborations where need arose.

3.6.3 Documentation review

A number of sources were reviewed including past research papers, published reports, and journals, textbook, and national and international reports relevant to SMEs, internet and websites.

3.7 Data Analysis and processing

Both quantitative and qualitative techniques were applied during the analysis of the data collected. Quantitative techniques involved an analysis of numerical data. Data collected using questionnaire was analyzed using Statistical Package for Social Science (SPSS). The main objective was to seek precise measurements and analysis of target concepts, e.g. use of survey, questionnaires etc. quantitative data were more efficient.

Qualitative techniques involves analysis of data such as words e.g. from interview. Data analyses from qualitative research design were analyzed through content analysis with the aim of finding supportive explanation to the quantitative data. Presentation of data was conducted in the form of graphs, tables and figures as suggested by Smith (2003).

3.8 Measurement of Variables

Variables were measured in accordance with the measurement criteria and indicators with its related sources of information. For example, provision of training to the recipients of the loan from FINCA as the independent variable, may be found by looking at the knowledge and skill possessed by particular recipients and the small

business people in Dar es Salaam on how to operate their respective businesses as an indicator. The sources of information were interviews and questionnaires.

3.9 Validity and Reliability of Data

3.9.1 Validity

Validity defines the extent to which the instrument accurately measures what it intends to measure. In other words validity is to do with how close to the study findings reflect true situation. Validity is concerned with whether the findings are really about what appears to be about, (Sounders, 2003). To ensure validity of data collected an in-depth interview with members of the SMEs and FINCA staff was conducted after the data were fully collected.

3.9.2 Reliability

While reliability is the ability to obtain similar results by measuring an object trait or constructs with independent but comparable measures. In other words is the situation where there is consistency of the test even if it is done by different people will yield the same results. Reliability is an essential pre condition for validity. Any valid measure must be reliable. According to Barbadian (2006), reliability is concerned with whether the measure used in a research will yield the same results in different occasions. Reliability is concerned with an estimate of the degree to a measurement being free of random or unstable error; it is assessed by posing the following questions: will the measures yield the same results on other occasion? And; is there transparency in how sense was made from raw data? To ensure reliability of the study only related specific data were collected, reviewed and tested for relevance in relation with this study. Reliability was also tested mathematically using Cronbach alpha measure. The results from the reliability test indicated the Cronbach alpha (α) value of 0.897, which is considered acceptable for further analysis.

The results for this test are presented below;

Table 3.2: Reliability Statistics

Cronbach's Alpha	N of Items
.897	41

Source: Field Data, 2013

CHAPTER FOUR

FINDINGS, DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter analyses data and discusses the study findings. It deals with a general profile of the respondents which included the selected SMEs and various personnel of FINCA MFI. The analysis is based on the research objectives. The main objective was to examine the contribution of FINCA MFI's services on SME's growth in Dar es salaam City.

4.2 General Profile of Respondents

The respondents for this study were divided into two (2) groups; SMEs and FINCA personnel. Questionnaires were distributed to 177 respondents, but only 157 were duly filled and collected by the researcher. Therefore the response rate was 88.7 percent.

4.2.1. Distribution of Respondents by Sex

The distribution of respondents by sex has been presented in the table below;

Table 4.1: Distribution of Respondents by Sex

Sex	Frequency	Percentage (%)
Male	113	72.0
Female	44	28.0
Total	157	100.0

Source: Field Data, 2013

From table 4.1 above, 72% of the respondents were males and only the remaining 28% were females. These findings show that majority of the respondents i.e. SMEs and FINCA personnel are comprised of males with only a few females.

4.2.2. Distribution of Respondents by Marital Status

The distribution of respondents by marital status is presented in the following table;

Table 4.2: Distribution of Respondents by Marital Status

Status	Frequency	Percentage (%)
Single	49	31.2
Married	57	36.3
Divorced	7	4.5
Widowed	5	3.2
Cohabiting	39	24.8
Total	157	100.0

Source: Field Data, 2013

The findings presented in the table 4.2 show that, 31.2% of the respondents were single, 36.3% were married and 4.5% were divorced. Furthermore 3.2%, of the respondents were widowed and the remaining 24.8% were cohabiting (living with partners but not married). The findings show that large numbers of respondents were single, married or cohabiting.

4.2.3. Distribution of Respondents by Age Groups

The following table presents the age groups of the respondents:

Table 4.3: Distribution of Respondents by Age Groups

Age Group	Frequency	Percentage (%)
20 –25	15	9.6
26 –30	27	17.2
31 –35	31	19.8
36 –40	52	33.1
41 –45	20	12.7
46 –65	12	7.6
Total	157	100.0

Source: Field Data, 2013

Table 4.3 above shows that 33.1% of the respondents were in the age group 36-40 years, 19.8% were in the age group 31-35 years, while 17.2% were in the age group 26-30 years. Moreover, 12.7% were in the age group 41-45 years, while 9.6% and 7.6% of the respondents were in the age group 20-25 years and 46-65 years respectively. These findings indicate that the majority of respondents were the most economic portion of the population i.e. 20-45 years.

4.2.4. Distribution of the Respondents by the Level of Education

The following table presents the distribution of respondents by the levels of education;

Table 4.4: Distribution of respondents by level of education

Education Level	Frequency	Percentage (%)
Master Degree	5	3.2
Bachelor Degree	13	8.3
Diploma	32	20.4
Advanced Level Education	50	31.8
Ordinary Level Education	42	26.8
Standard 7 Education	15	9.6
Total	157	100.0

Source: Field Data, 2013

The findings from table 4.4 show that 31.8% of the respondents possessed advanced level education, 26.8% possessed ordinary level education and 20.4% were diploma holders. Furthermore, 9.6% were standard seven (7) leavers, 8.3% had bachelor degrees and the remaining 3.2% had master degree. The findings show that a large number of the respondents which was composed of SMEs were not very educated, that is O-level and A-level education qualifications which is a characteristic of many SMEs in Tanzania i.e. lack of formal employment due to low education hence they are forced to earn a living by starting small businesses.

4.3. Research Findings Analyzed According to Research Questions

The findings of this study have been analyzed by their respective research questions. These are observed hereafter;

4.3.1. What is the trend of FINCA's MFIs services to SME's in Dar es Salaam city?

The researcher assessed the trend of FINCA's MFIs services by evaluating the initiatives taken by this institution to assist SMEs in their business undertakings. The following issues were assessed;

4.3.1.1. The Effectiveness of Services Offered by FINCA to SMEs

The researcher evaluated whether the range of services offered by FINCA are effective in assisting SMEs to grow. This is due to the fact that many SMEs are in informal sector, and these are the ones who are supposed to benefit from MFI i.e. by being provided with cheaper loans with reasonable conditions, training on the proper use of loans e.t.c. The following services are discussed by the researcher;

a) Financial/Credit to SMEs

FINCA offers loans to SMEs especially those in informal sectors. This is because these SMEs have failed to access credit from commercial banks because they cannot afford the costs i.e. interest and legal fees and also they cannot possibly meet the loan conditions. Therefore FINCA acts as a savior for these SMEs in informal sectors by offering them small loans which are cheaper and have no strict conditions. But one can argue that how does FINCA manage to offer loans to these lenders who are considered risky due to low and unstable income generated from their businesses? To overcome this FINCA disburses loans using a “Village banking mechanism”, this system requires SMEs to form small groups and apply for loans as a group. This helps to reduce default as the group members who usually support each other and enhance control in the use of funds by group members.

b) Savings services

FINCA offers savings services to its customers who are usually SMEs in the informal sectors. This is due to the fact that most of these SMEs cannot afford to have bank accounts in commercial banks due to the costs involved and the small amount of money that they generate which they consider very low to be saved in the accounts. This service helps SMEs to have the savings account with FINCA, hence enabling them to have proper control over the funds rather than keeping the business fund at home which is risky.

c) Training Services

FINCA offers training services to the SMEs in informal sectors who are also their respective customers. This is deemed important because offering credit to the

SMEs who do not have proper knowledge of how to utilize the funds to help the business grow is meaningless. This is due to the fact that there is a tendency of these SMEs to use the business loans for personal uses e.g. paying rent, school fees e.t.c. So to overcome this, FINCA has designed a training program which teaches the borrowers how to utilize credit for business growth, and this has proved to be useful.

d) Offering Credit Services to the SMEs in under privileged sectors

Most commercial banks and other MFIs do not offer credit to those underprivileged sectors. One of these sectors is the agricultural sector which is one of the biggest sectors, but it has been underprivileged hence considered risky by banks. However, FINCA has designed its services to allow it to offer loans even to those SMEs in the agricultural sectors. This helps these SMEs in increasing their capital to buy good seeds, pay for fertilizers, cultivating using good tools and selling their products.

e) Coverage of the Services

FINCA has a wider coverage compared to many other MFIs in Tanzania. Its services cover the following areas; Arusha, Dar es Salaam, Dodoma, Iringa, Kagera, Kilimanjaro, Manyara, Mara, Mbeya, Morogoro, Mwanza, Pwani, Ruvuma, Shinyanga, Tabora, Tanga. This shows that this MFI is not only confined to the urban areas where there are many potential customers i.e. Dar es salaam, it has also extended its services to other places including rural areas where there are also SMEs e.g. in agriculture and animal husbandry who are in dire need of capital because they cannot easily access financial services from banks.

4.3.1.2. The Loan Products Offered by FINCA to the SMEs

The researcher needed to evaluate the type of loan products offered by FINCA to various SMEs in both urban and rural areas. The loan products offered by FINCA are as follows;

a) Business Loan

These loans are given to SMEs who want to improve their businesses and they have the ability to provide collateral individually. The loans are relatively cheaper but are

given in smaller amount compared to those loans from commercial banks. This loan product is offered to registered businesses who can borrow loans between TZS 500,000 to 30,000,000.

b) Village Banking Loan

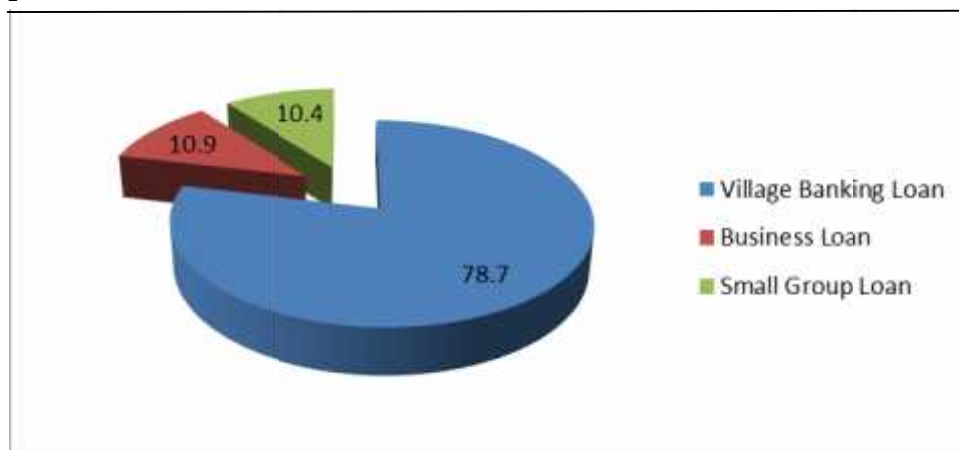
This is a loan product whereby neighbors in a village join together in financial support groups called “Village Banks.” Individuals borrow working capital for their microenterprises, and because they have little to offer for collateral, the group guarantees those loans hence enabling them to improve their businesses and improve the standard of their livelihoods. These loans are given to groups that range from between 15 and 30 and the loan size varies from Tzs 30,000 to Tzs 3,000,000.

c) Small Group Loan

This loan requires SMEs to form small groups to carry out the business together as a group hence allowing them to get loans from FINCA which are guaranteed by a group. Just like village banking loans where individuals can borrow and get guarantee from a group, small group loans are provided to SMEs in groups. This loan is given to groups of between 5 to 10 members who can borrow up to TZS 4,000,000.

The following pie chart presents the loan products offered by FINCA and the percentage of SMEs who have accessed each type of a loan product from the commencement of the service to 2013;

Figure 4.1: A pie chart showing the distribution of borrowers for FINCA's products



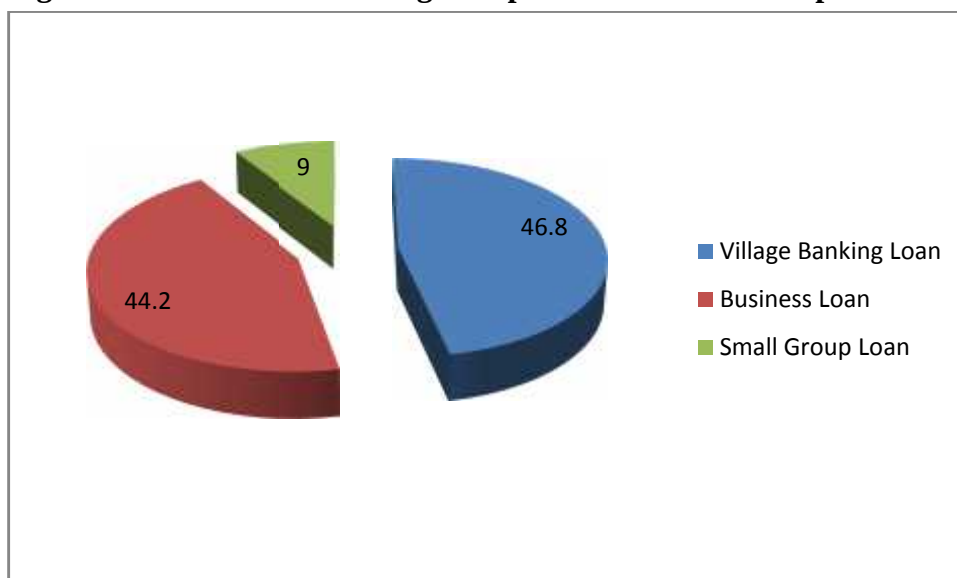
Source: Field data (2013)

From the above pie chart, 78.7% of the SMEs have accessed the village banking loan product, 10.9% have accessed the business loan product and the remaining 10.4% have accessed the small group loan product. The results show that village banking loan is the most used product by SMEs. This is promising as this product allows low income SMEs who don't have collaterals to get loans using the group collateral hence providing these SMEs to develop their enterprises which would be practically impossible with the absence of this service.

4.3.1.3. The Loan Product Portfolio of FINCA

As discussed before, FINCA has three main SMEs loan products; village loan product, business loan product and the small group loan product. The researcher analyzed the size of the loan portfolio for the three (3) products so as to determine the amount of funds that have already been lent to various SMEs. The following pie chart presents the loan portfolio of FINCA up to May 2013;

Figure 4.2:A Pie chart showing loan portfolio for FINCA's products in Tzs



Source: Field data, 2013

The loan portfolio of FINCA is comprised of Tzs 17,803,594,362 in village banking loan which is 46.8% of the total loan portfolio, Tzs 16,835,114,875 in business loan which is 44.2% of the total loan portfolio. The remaining 9% of the loan portfolio is in small group loan which totals Tzs 3,423,127,197. The results show that the village banking loan is slightly above the business loan in loan size. So it is necessary to determine the average loan per borrower for each loan product.

4.3.1.4. The Average Loan per Borrower for the Loan Products

This measure is helpful in determining the type of borrowers who have obtained the higher amount of loans for the loan products on average. The following table presents the results for the average loan per borrower in each loan product;

Table 4.5: The Average loan per borrower for the loan products

Village Banking Loan	17,803,594,362	62,002
Business Loan	16,835,114,875	8,607
Small Group Loan	3,423,127,197	8,196

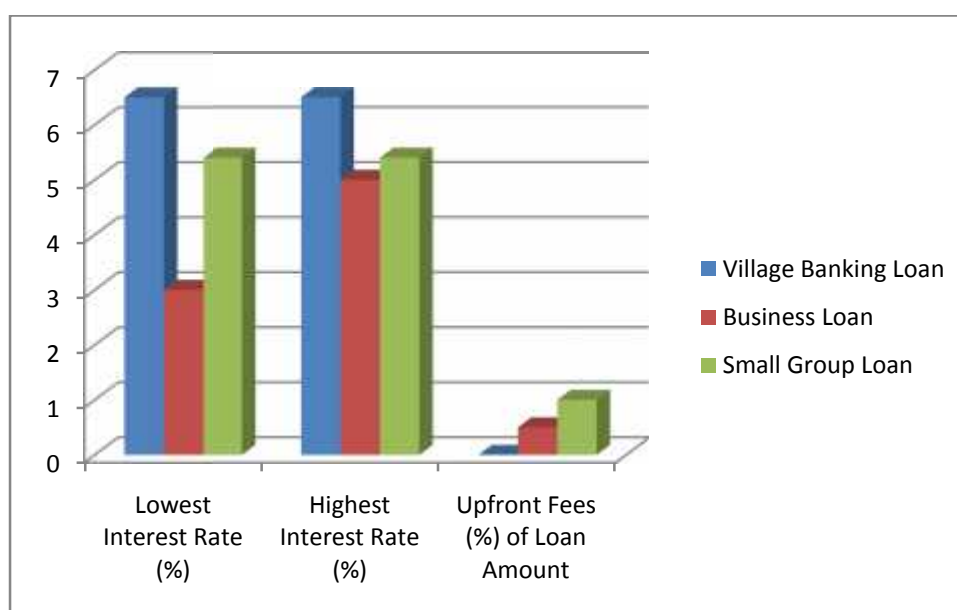
Source: Field data, 2013

The results from the above table show that the average loan per borrower for business loan is the highest which is approximately Tzs1,955,979 per borrower. It is followed by small group loan of which the average loan per borrower is approximately Tzs 417,658 and lastly by village banking loan whereby the average loan per borrower is approximately Tzs 287,146. This implies that the borrowers in the business loan category have received the highest amount of loans compared to the other categories. Hence there is a higher prospect of business development for those SMEs in the business loan group compared to the other two (2) groups because they are able to receive large amounts of loans.

4.1.1.5 The Loan Interest Charged on Loan Products

In order to determine if FINCA is able to help SMEs growth, it is vital to assess the loan costs to the SMEs which includes the interest rate on loan and other ongoing or establishment fees. The following bar chart presents the interest rates and upfront fees for the three (3) loan products;

Figure 4.3: A bar chart showing Interest rate and upfront costs for loan products



Source: Field data, 2013

From the chart above, the lowest interest rate is 6.5% for the village bank loan, 3% for business loan and 5.4% for small group loans. So business loan has the lowest minimum interest rate because its loan size is larger compared to the other products. Also the highest interest rate is 6.5% for village bank loan, 5% for business loan and 5.4% for small group loans. Furthermore, the upfront fees for the small group loans is 1% of the loan amount, 0.5% of the loan amount for business loan and 0% of the loan amount for village bank loans.

After this analysis it can be observed that the overall finance costs of the loans provided by FINCA to SMEs are low and can be affordable by those SMEs with low income levels. These costs are low in comparison to the costs charged by commercial banks which range from 18%-25% for various banks which precludes the low income SMEs to access these loans. So by charging low interest rates, it enables SMEs to access these loans, develop their businesses and service the loans. It also helps to reduce the default rate of the loans as default is usually associated with high interest rates.

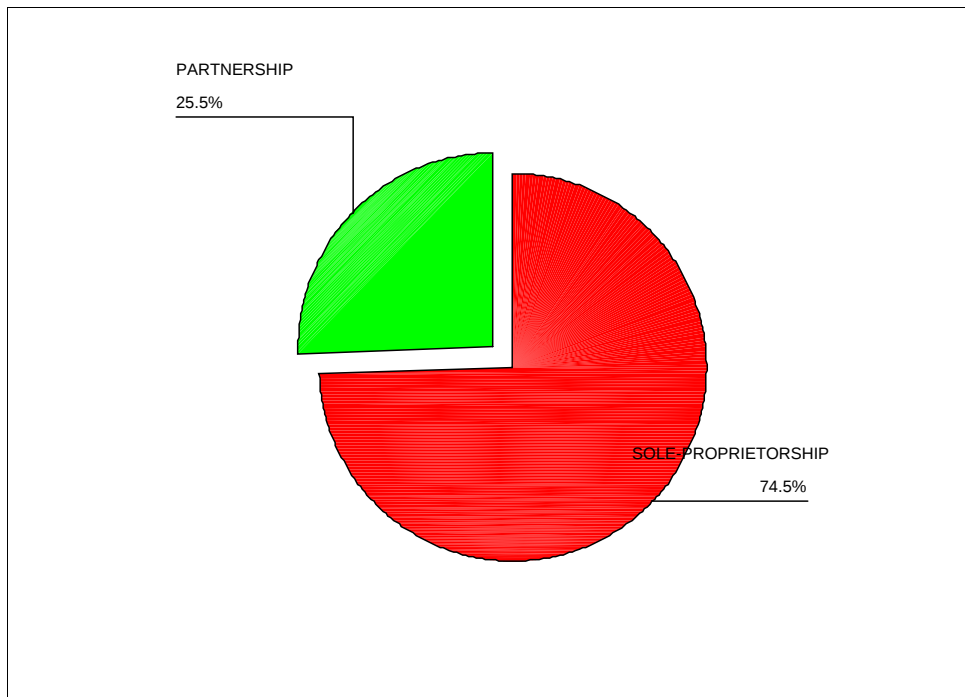
4.3.2. What is the relationship between the FINCA MFI's loans and SME's growth?

After evaluating various aspects of FINCA services and their appropriateness in assisting SMEs growth the researcher needed to establish the impact that the loans provided by FINCA have on SMEs growth. The following issues were assessed;

4.3.2.1. Form of SMEs Business Ownership

Before assessing the impact that FINCA loans have on SMEs growth, it is vital to understand the forms of business ownership of the sample of SMEs used in this study. This is because the type of ownership has a tremendous effect on the business. For instance, in sole proprietorship there is no separation of business and personal affairs of the business. Hence it is easier for the SME under sole proprietorship to use the business loan for personal uses. The following chart presents the statistics for business ownership of respondents;

Figure 4.4: A Pie chart showing business ownership



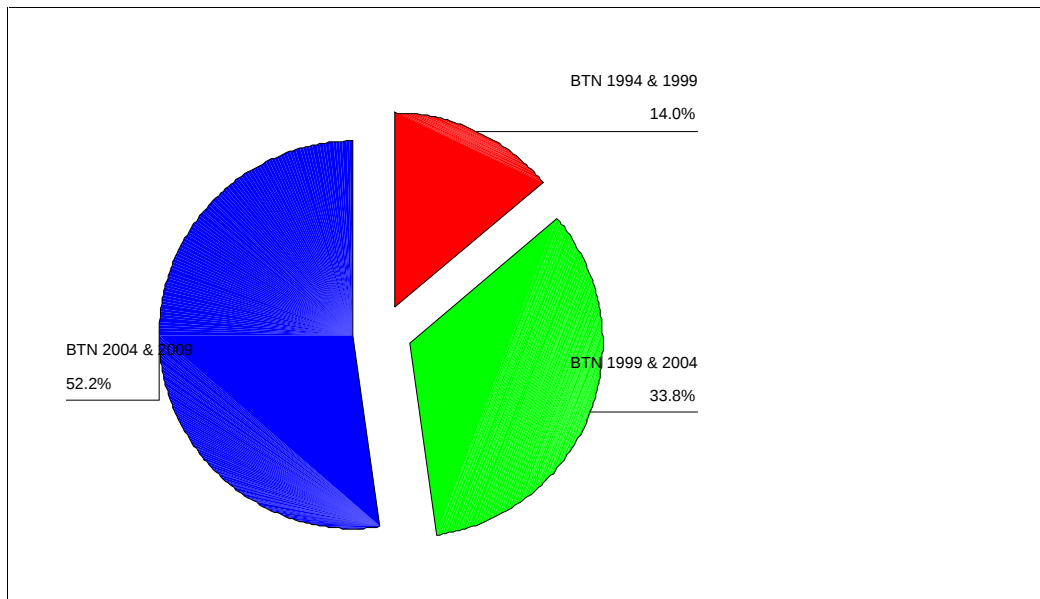
Source: Field data, 2013

The field data revealed that 74.5% of respondents out of all were sole-proprietors while 25.5% of respondent's the business ownership was in terms of partnership. These demonstrate that most of the Small and medium enterprises needs to own their business on their own for easy management, since the business itself are not large enough to join with others.

4.3.2.2 The Amount of Business Start-up

The researcher went further to analyze the amount of business startups in various periods to determine whether MFIs including FINCA have a role to play in the growth in the number of small and medium businesses. The results are presented in the following chart;

Figure 4.5: A Pie chart showing the Business start-up year



Source: Field data, 2013

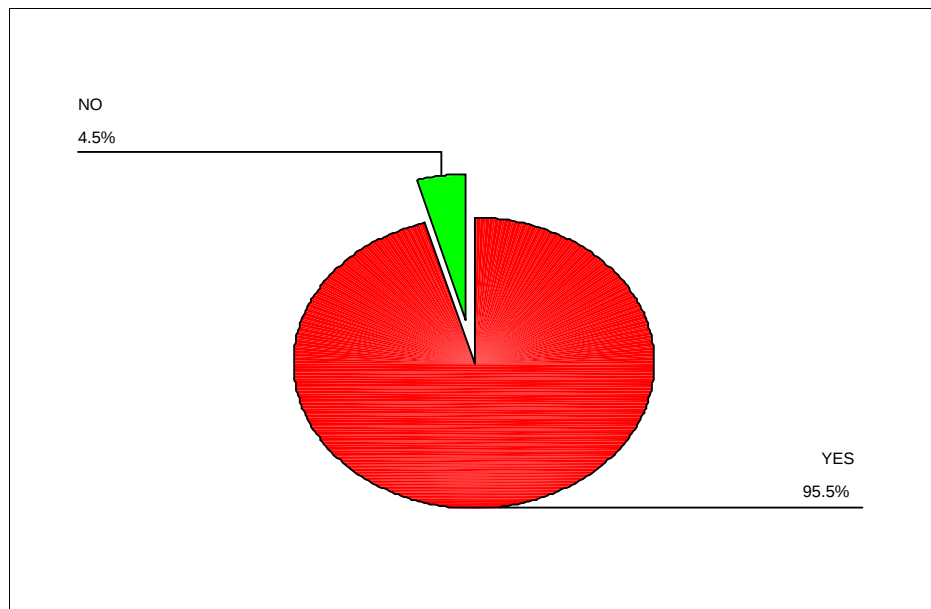
The research revealed that business that started between 2004 and 2009 was 52.2%, whilst 1994-1999 which was 14% and 2000 and 2004 which was 33.8% respectively. These demonstrate that the entrepreneur knowledge is increasing yearly which drives small and medium enterprises to look for loan accessibility. Also it implies that SMEs are able to get capital from external sources to start new business ventures or improve the existing ones.

4.3.2.3 Loan Access by SMEs

The study also aimed to establish if SMEs are able to access loans from MFIs specifically FINCA. The ability of SMEs to access loans in financial institutions is limited by the costs involved, conditions and coverage of the services. So the researcher needed to determine whether the sampled SMEs have been able to access loans from FINCA. This may be a good implication of whether FINCA is able to

help SMEs growth by offering cheaper loans with soft conditions. The results are presented in a pie chart below;

Figure 4.6: Number of respondent applied for Loan.



Source: Field data, 2013

The findings revealed that 95.5% of respondents had applied for Loans from FINCA. This demonstrates that most of Small and Medium Enterprises need loans from micro finance institutions for their enterprises to grow and since FINCA has less strict conditions compared to commercial banks, many SMEs have tried to access these loans.

4.3.2.4 The Number of Approved Loan Applications

The researcher also determined the number of sampled SMEs whose loan applications were successfully approved hence receiving the loan funds. The results for this aspect have been presented in the table below;

Table 4.6: Applicants who received the Desired Loan

		Frequency	Percent
Missing	NO	80	51.0
	YES	70	44.6
	Total	150	95.5
	System	7	4.5
Total		157	100.0

Source: field data, 2013

The field study revealed that 51% of the respondents did not get the loan as they requested, only 44.6% accessed loan as per their applications while 4.5% of the respondents did not apply for the loans, this means that, for every 100 applications; 47 applications are dishonored, this demonstrates that many applicants, are fail to get the required loan from MFIs for businesses growth.

4.3.2.5 Credit policy and procedures in addressing the Credit accessibility

The research revealed that FINCA MFI's policy are too general, it does not focus on the constraints for the business the SME's are doing at that particular time interval and the way they can enhance the business. This to some extent made loan accessibility to be un-effective.

Loan Size

The table below shows the percentage of SME's accessing loan becomes low as the amount increases. This means that there is no way that the SME's could succeed unless otherwise the lending policy should be made in order to favor them due to the historical background of SME's and traditional nature of their businesses.

Table 4.7: Distribution of the Received Size of Loans

Tanzanian Shillings	Frequency	Percentage
Less than 1,000,000	83	52.9
1,100,000- 2,000,000	59	37.6
2,100,000-4,000,000	15	9
4,100,000-6,000,000	-	0
6,100,000 – Above	-	0
Total	157	100

Source: Field Data, 2013

Fifty two percent of the respondents interviewed accessed loans of less than Tshs. 1,000,000, 37.6% accessed loans ranging from Tzs1,000,000-Tzs 2,000,000,9.6% of the respondents accessed the loans ranging from Tzs 2,100, 000 – Tzs 4,000, 000. No one accessed the loans ranging from 4,100,000 and above,. According to this table, it appears that, the range that is less than 1,000,000, contains the biggest number of clients as compared to other categories,

The Loans Uses

According to FINCA MFI's conditions borrowers are required to:

Table 4.8: Usage of Loans

Total Sample	Uses of Loans	Frequency	Percentage
Number = 157	Expanding the firm	114	76%
	Diverging into new business	36	24%
	Consumption	-	-
	Other Uses	-	-
	Total	157	100%

Source: Field Data 2013

The group of those who used the loans to expand their firms appears to have the highest proportion which is 76%. Some of the activities that were involved in this expansion are like buying clothes material by tailors, increasing the assets of the firm, increasing the shop stock, increasing purchases and increasing branches of the business.

About 24% of the respondents used the loans to diversify the business. This was for the purpose of exploiting some new business opportunities so as to increase profit and avoiding investments risks such as broilers to Layers.

4.3.2.6Rate of Improvement in Performances of SMEs as a Result of Loans

Out of 150 respondents, 68 (52%) said that the loan taken helped them to increase their business performance very highly. That is to say, looking on profit and expansion of the business at large, they can see a very great change when comparing the period before loan and after loan; 42 which is 28% respondents said that comparing the period before and after loan the performance is moderate. That is to say there is some profits and expansion experienced. 18 which are 12% said that, the performance of their businesses in comparison of the time before and after loan is generally low, that is to say there is a certain change but not a very serious change.

Finally there were 10 which are 8% who said that to them, comparing the business performance before the loan and after the loan they find that, the performance is very much low. In other words, they want to say that, they have experienced no changes in the performance of their business and to others; it was to say that the loan has brought problems to the business rather than success. The above explanations are summarized in the table below:

Table 4.9: Performance of business owned by the beneficiaries after loans

Total Sample	Performance	Frequency	Percentage
Number = 150	Very Low	10	8
	Low	18	12
	Moderate	42	28
	High	68	52
	Total	150	100

Source: Field data, 2013

4.3.2.7 Assessment of whether the loans provided did help to increase the size of SME's

For any business which is conducted with sound principles, there is normally a great relation between the volume of sales and the profit of such a business. In this study, out of 150 respondents 114 which are 76% said that, the loaned monies helped them to increase their volume of sales. The increased sales obviously had the impact on the operation of the business as well as the repayment of the loan. The 36 which are 24% respondents claimed that the loaned money did nothing on the increase of sales of their businesses.

Out of 150 respondents 108 which are 72% said that profit from their businesses have been the major source of repayment of the loan, while 42 which are 28% claimed that, profit was not enough to make repayments of the loans and hence they had to opt on other sources like their salaries or sale of assets. 114 which are 76% of the respondents confessed that the Micro financing loans are the best way of financing their businesses due to nature and scope of their firms. 36 which are 24% respondents claimed that, the micro financing loans are not the best ways of financing their businesses. On the other hand, 114 which are 76% respondents said that they will look for other loans as they finish the current loans and they will continue to be clients of the Small Enterprise Development Agency, while only 36 which are 24% respondents claimed that, they are no longer interested to be clients of

Micro financing firms. This shows clearly that, the society we live still finds micro financing as the solution to their financing problems. This information is summarized in table below;

Table 4.10: Improvements in businesses of the beneficiaries

Checklist	Yes	Percentage	No	Percentage
Increase of Sales as a result of the loaned monies	114	76%	36	24%
Use of profit as a source for loan repayment	108	72%	42	28%
Do you think that the loans of this nature are the best way to finance your business	114	76%	36	24%
Do you have any plan of taking another loan/Loans of this nature	114	76%	36	24%

Source: Field data, 2013

4.3.2.8 Household Consumption as a Result of Loans Taken to Support Their Business

Stability of a Business after loan resulted to profit to business owner which leads to affordability of health services, education fees, clothes, food e.t.c. The table below shows the survey result.

Table 4.11: Household consumption as a resulting of loans for business support

Category	Yes	Percentage	No	Percentage
Afford to Finance Health Services	114	76	36	24
Afford to finance primary education	138	92	12	8
Afford to finance secondary education	108	72	42	28
Afford to provide food	138	92	12	8
Afford to buy clothes	132	88	18	12
Afford food without further loan	138	92	12	8
Afford food and cloth without further loan	132	88	18	12
Afford to maintain savings of money in bank	72	48	78	52

Source: Field data, 2013

Going through the table above, it appears that, 114 which are 76% out of 150 respondents said that they have managed to finance their family health services throughout the year while 36 which are 24% said that they did not manage to finance their health services throughout the year. On education for the family, 138 which are 92% said that they have managed to finance education of their families at primary education level while 12 which are 8% said that they still have problems in funding primary education for their families. On the other hand the number of those who managed to finance secondary education for their families and those who did not manage are 108 which are 72% and 42 which are 28% respectively.

Out of 150 respondents 138 which are 92% said that, they managed to have food throughout a year while 12 which are 8% said that they could not manage food all around the year. 132 which are 88% said that, they managed to have both food and clothes throughout a year without having a need to ask for another loan, that is to say these people had their businesses improved in a better way such that they can depend on them while 18 which are 12% said that they could not manage food and clothes all around the year. Without another loan that is to say, their businesses do highly

rely on loans and probably they even depend on loan to finance food and clothes instead of investing the loaned money to the intended business.

4.4 What are the challenges facing SMEs who have accessed loans from FINCA?

This study also assessed the challenges that face SMEs when accessing loans from microfinance institutions. The sampled SMEs were asked to indicate one major factor that they consider to be most challenging to them in accessing loans from MFIs. The following table presents the results and the ranking of these challenges;

Table 4:12: Challenges facing SMEs in Accessing Loans from FINCA

	The Potential Challenge	Frequency	Percentage (%)	Ranking
1	Lack of collateral/security	31	19.7	1
2	Refusal to use own collateral	20	12.7	4
3	Joint ownership of collateral	14	8.9	6
4	Blacklisting	8	5.1	9
5	Default on previous loan	23	14.6	2
6	Failure to keep attractive financial records and/or Business plans	22	14.1	3
7	High costs associated with the loans	4	2.5	10
8	High risk of small entrepreneurs	11	7.0	7
9	Small Capital Base	17	10.8	5
10	Unfavorable loan conditions	7	4.6	8
	Total	157	100	-

Source: Field data (2013)

The results presented on the table show that lack of collateral is 1st ranked challenge that faces SMEs in accessing loans from FINCA. This is due to the fact most of the customers of FINCA are those SMEs with low income levels. These customers usually do not possess reasonable assets that can be used as collateral in securing the loans hence they fail to get the loans either individually or even in groups. Default on

previous loan was ranked 2nd most challenging factor hindering SMEs in accessing loans at FINCA. It was indicated that due to the unpredictable nature of the business environment and family issues, businesses fail to operate well and sometimes the loans are used to solve family problems. This leads to loan default by these SMEs which cause them to be marked as risky borrowers which limit their chances of getting other loans in the future.

Failure to keep proper and attractive financial records was ranked 3rd most challenging factor hindering SMEs in accessing loans from MFIs. Most small businesses are operated by those people who are not well educated i.e. have no college education or even secondary education. So they do not know how to prepare and maintain proper books of accounts, this diminishes their probability of getting loans as the lenders are interested in seeing the financial records to assess the credit worthiness and the profitability prospects of the borrower.

Refusal to use own collateral and small capital base were ranked 4th and 5th respectively. Some borrowers have a tendency to refuse to use their own collateral when borrowing because of the fear that once they default, they will lose the collateral which could be devastating to the business and the personal life of the borrower.

Also small capital base is the other challenge due to the fact that when borrowing MFIs are interested to know the capital base of the SMEs and how the loan can assist to boost the capital base. However many SMEs have very small capital base because the business and personal affairs are not separate, hence one cannot starve while there is the business money in the counter. This prevents SMEs to increase their capital base hence failure to access loans.

The joint ownership of collaterals and high risk of small entrepreneurs ranked 6th and 7th respectively. Joint ownership of collaterals usually occurs in families where the properties are jointly owned by the husband and wife. Hence, one cannot decide to use the joint property as collateral without the consent of the other partner. This

usually prevents SMEs from accessing loans from MFIs as the other partner may fear that the collateral may be lost upon default and the loss would be to them both. Conflicts arising due to use of joint property as collateral have been widely documented.

Also, SMEs are considered to be risky borrowers in the view of MFIs, so they have to be very careful in screening them for loan purposes. SMEs are riskier because most of them are sole proprietors hence there is no separation of business affairs and personal affairs. This indeed causes MFIs to be very cautious when lending funds to SMEs causing many of them to fail in the screening process hence failing to get loans.

Unfavorable loan conditions, blacklisting and high costs of loans were ranked 8th, 9th and 10th challenging factors hindering SMEs in accessing loans from MFIs. These challenges have been ranked low because they are considered by most SMEs not to limit their access to loans from MFIs. However a few SMEs indicated that they find the loan conditions to be difficult, especially the monthly repayment of the loan has been observed to be difficult. Also blacklisting has been experienced by a few SMEs, this happens when they have defaulted to pay loans several times as a result the MFIs blacklist them as risky borrowers who should not be given the loan facilities again. Lastly, some SMEs indicated that they still find the costs of loans from MFIs to be high to them despite the fact that they are very low compared to the rates charged on commercial bank borrowings.

4.5 What measures are needed to improve SMEs access to Loans from MFIs?

The researcher also needed to suggest the measures that would help to improve SMEs access to loans from MFIs. To do so it was crucial to first evaluate the loan conditions and their practicability so as to determine the aspects that need improvement.

4.5.1 The practicability of loan conditions from MFIs

Respondents were asked to present their opinions on various loan conditions from MFIs. The following table presents the responses for practicability of loan conditions;

Table 4.13: Conditions of loans and their practicability

Category	Yes	Percentage	No	Percentage
Is the age of 18 as minimum to be issued loans favorable?	120	80	30	20
Should the size of loans be increased?	114	76	36	24
Are there a lot of red tapes and cumbersome procedures in securing loans?	60	40	90	60
Experience of at least 3 months for group loans and one year for individual loans favorable?	90	60	60	40
Necessity of being in a group for those who do not have reasonable collateral favorable?	78	52	72	48
Repayment installment's intervals favorable?	60	40	90	60
Discouraging close relatives to form one group for group loans favorable?	120	80	30	20
Condition that members in the group must know each other well and be ready to guarantee each other favorable?	96	64	54	36
Do FINCA staffs have good cooperation in starters?	138	92	12	8

Source: Field data, 2013

Going through the table 8 above we can see the way the beneficiaries of FINCA do view different conditions of the loans which they have been taking. On the minimum age of 18 years old, 80% of interviewed respondents saw it to be favorable in the

sense that at this age someone is considered to be a legal person and if you join with him in a group you know he is a reasonable person. But 20% of respondents said this condition is not favorable because in our society we have a lot of young people who fail to go on with the secondary education, and then they start taking care of themselves and others; by getting some supports they have emerged very successful businessmen later.

On the size of the minimum loan, 76% of respondents said that the minimum loan size should be increased. But these were most of them group loan beneficiaries who find that the minimum loan of 150,000 is not practical. 24% said that the loan size is reasonable. 80% of the respondents said collateral conditions are favorable and manageable, while 20% of the respondents said that collateral conditions are not manageable.

About the presence of red tapes in the whole process of securing loans 40% of the respondents said that yes there is a lot of red tapes, while 60% said that they do not see that the procedures involve a lot of red tapes. On experience required about 60% of the respondents said that the experience required to be given a loan is favorable while 40% said that the condition is not favorable.

Condition of being in a group if you do not have other collateral, 52% said the condition is favorable and 48% said that the condition is not favorable. About 88% of the respondents said that condition that you must participate in the initial training and group meetings is important and favorable, while 12% claimed that, the condition is not favorable. Only 40% of the respondents said that the repayment installment's intervals are favorable, while 60% claimed that this condition is unfavorable. 80% saw that it is favorable for close relatives not to form one group, but 20% of the respondents said that it is unfavorable to insist that close relatives must be in different groups.

On the condition that members of the group should know each other well and be ready to guarantee each other, 64% respondents said that it is favorable, while 36%

said that the condition is not favorable. The response on the condition that the individual loan applicant must have the business license was highly opposed, only 28% of the respondents said that it is favorable, while 72% of the respondents said this condition is inapplicable since most of their businesses are not the ones operating under licenses. Finally 92% appreciated the services of the staff of FINCA MFI's while 8% of the respondents did not appreciate the services of the staff of FINCA MFI's.

4.5.2 Overall Measures to Improve SMEs Growth

MFIs alone cannot ensure the growth of SMEs in Tanzania; the government has also a role to play. This is due to the fact that many SMEs fail to access loans from MFIs due to the structural problems embedded in their business as a result of the government's inability to provide conducive environment for SMEs to work efficiently. For instance SMEs like "Mama Lishe" face a lot of problems from the government e.g. confiscation of their assets by the police because they are conducting businesses in the restricted areas e.t.c. This makes MFIs reluctant to provide loans to these SMEs. The following measures should be taken to encourage SMEs growth by ensuring them access to loans from MFIs;

- a) MFIs should provide loans to SMEs in accordance with the feasibility and cost required for running the business. They should not aim for super normal profits because they have been created to help those SMEs with lower income level that can't access and afford loans from commercial banks. The interest rate and other costs should be affordable and at the same time be able to meet the operating expenses of MFIs and at the same time earn satisfactory profit.
- b) The SMEs and MFIs should be able to mutually benefit from the loans. The SMEs should be able to use the loans to improve their businesses and be able to pay them back easily i.e. due to low interest rates and favorable repayment schedules. MFIs should also benefit from the loans they provide;

just because they help low income SMEs to get loans doesn't mean that they should not benefit from the venture.

- c) MFIs should consider the type of business and the duration of the production process when giving loans. This is due to the fact that the natures of businesses differ i.e. seasonal. So sometimes revenue generation takes time; however MFIs don't consider this which usually results into early default.
- d) The MFIs should develop those SMEs in rural areas to grow because unlike their counterparts in urban areas, SMEs in rural areas are at a disadvantage. This is because of lack of infrastructure, electricity and customers with low income levels.
- e) MFIs should ensure that the loan procedures are simple and straightforward to allow greater access to loans by SMEs. Also the credit return schedules should be adjusted to the nature of the SMEs business. Furthermore, all MFIs should strive to keep interest rates relatively lower than those of commercial banks.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is going to give the conclusion and recommendations of the study. This study focused on the contribution of FINCA Microfinance services on small and Medium Enterprises (SME's). The understanding before the study was that, though empowerment appears in a lot of development literatures as a tool for poverty alleviation, it has not been given a proper practical attention in our society. This understanding was developed without any in-depth study on the efforts made to empower informal sectors, small and medium enterprises. The study was conducted in Dar es Salaam City in order to assess how those who got chance to secure loans exploited and invested the loan and how much they were economically empowered and the growth of their enterprises.

5.2 Conclusion

1. As per outcomes of this study, the study has revealed that, the existence of micro financing organizations in our society has the positive impact to their beneficiaries. This is due to the fact that, the beneficiaries interviewed revealed that, and the types of loans and the methodologies of issuing those loans are justified. As per the results of this study, there is a positive association between the participation in micro financing schemes and the increase in sales volumes of the business. There is a positive connection between participating in micro financing schemes and development of social status of the owners. There is a positive association between the participation in micro financing schemes and the development of business performances.

2. The world aim of having micro financing schemes is to fight against poverty. The majority of respondents of this study have improved their living standards. It is in the expectations of the researcher that, by this speed, with time the eradication of poverty will obviously be possible. Access to financial services forms a fundamental basis on which many of the other essential interventions depend. Moreover, improvements in health care, nutritional advice and education have been sustained because households have increased earnings and greater control over financial resources.

3. FINCA MFI's loans have tried to consider reasonable intervals to meet the demands of their beneficiaries. It was noted from the clients interviewed, that loan size was a determinant of the business growth. Clients who access lower loan amounts will not have significant effect on the business performance. Clients who are able to access larger amounts of loan, their sales, and assets base are also affected positively by recording the increase in sales, assets and even the capital base after the first loan. There are considerable size effects with growth rates being higher for clients with higher incomes. For those clients who had accessed the lowest amount of the loans, there were no significant changes in their businesses and they ended up closing the account.

4. The findings of this study have revealed that, the majority of the beneficiaries used the loans for the intended purposes. Therefore this makes the assessment of the importance of the loans taken. This to FINCA MFI's clients might be the result of their emphasis that, to get a loan someone must be ready to attend initial training and be ready to attend all group meetings. The trainings try to see the client's plan and give him/her important counseling on the best way to do his business. There were some others who did not use the loans for intended purposes, but they invested all their own monies in business and took loans to pay for school fees, health services and buying clothes. Somehow you may see that they used the loans to improve their status and hence leaving their capital untouched by any family necessities.

5. Most of the loan conditions of Foundation for international Community Assistance are practical to the environment of the beneficiaries. Most of the beneficiaries are of low income nature hence they fail to provide reasonable collateral, but FINCA MFI's introduced group guarantee to solve for that problem. Another problem is the lack of knowledge in different aspects of business; FINCA MFI's introduced the condition that to get a loan, someone must be ready to attend initial training classes. To make sure that they trade with legally recognized person, they introduced the condition that, minimum age should be 18 years which reveals contractual capacity of the client. The monthly repayments are not practical and people do manage them in pains. This is due to the fact that not all the business can manage to have enough income to carry on business and make loan repayment. Also starting to pay the loan at the same time for people with different business of different nature just because they took the same amount of loans is not fair. This may cause one of them to start repayments by using the loan money itself. Insisting on business license as a condition is another unnecessary complication. Most of SMEs owners do business in areas where they are not having licenses; they just pay to municipal authorities levies. Populace like Food vendors, Tailor in markets cannot have licenses but they are potential to micro financing schemes. The interest rates charged by FINCA MFI's are very much high. Though their loans have made a positive impact to their beneficiaries, the cry of group loaners who are just starting business has been the rate of interest. For group loans FINCA MFI's charges 36% per annum on the amount loaned. This rate is too high for beginners. To have more impact their institution has to consider some changes to the charged rates of interests.

5.3 Recommendations

As per findings of this study the following are recommendations by the researcher:-

1. Foundation for International Community Assistance should consider the fact that, access to reasonable amount of loan at start can make their clients successful and be empowered quickly. In order to do so, they have to increase the minimum loan amount for group loans from Tshs 150,000 to Tshs 350,000.

2. Training to beneficiaries should insist on the investment of the loan to intended business, and though financing health services, education and food are necessary to human being daily life; they must be done from the return from business and not the loan itself. This will bring the best result to their businesses.
3. Foundation for International Community Assistance through its loan officers should analyze business of their clients so that repayment time should match with the return nature of the business concerned. It is not true that all businesses have the same return nature. Others start paying earlier while others do start repayment a bit late.
4. The Government should speed up their programs of formalizing people's properties and the issue of citizenship identities to all citizens of this country. Also the Government should introduce a security number for citizens. All these will make identification of people easier and the micro financing firms like FINCA MFI's will leave insisting conditions like knowing each other well in the groups which is not possible.
5. The researcher also recommends that Foundation for international Community Assistance should consider charging fair rate of interest which will bring more impact and increase the speed of economic empowerment of their clients. The recommended rate of interest is the uniform rate of 20% per annum on all the loans they issue at microfinance level.

5.4 Suggestion for further studies

Research is a nonstop process of findings on unobserved phenomena in a social environment. After conducting this work the researcher found that there is still a need to conduct studies to cover some issues that were not possible to be covered in this study.

Microfinance industry is a very important theme as far as SME's growth is concerned especially in developing countries, Tanzania in particular. It is also crucial

in stabilizing economy and social development. Basing on this fact, there is a need to conduct as many researches as possible to establish the actual contribution made by this industry towards economic recovery in Tanzania.

This research assessed the role of microfinance support towards SME's development. Other researches can be conducted to see the level of poverty alleviation achieved by the beneficiaries as compared to those who are not clients of these schemes.

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APPENDICES

Appendix I: Gant Chart showing a Schedule of Activities

Months	Jan - Mar		Apr - May		June - Aug	
Proposal development and presentation						
Data Collection						
Data analysis and interpretation						
Report writing						
Binding and submission of final draft						

Appendix II: Questionnaires

I am ARNOLD MUGISHA KAGARUKI, currently pursuing a Master degree in Business Administration (Corporate Management) of Mzumbe university Dar es salaam campus. I would appreciate if you can assist to fill the questionnaires.

QUESTIONNAIRE TO FINCA MFI's

Please, for any multiple choices question Tick your chosen answer.

1. What is your occupation?

- (i) Employee
- (ii) Businessman/woman

☐

2. What is your gender?

- (i) Male
- (ii) Female

☐

3. Family/Marital Status

- (i) Single
- (ii) Married
- (iii) Divorced
- (iv) Widowed
- (v) Cohabiting

☐

4. Members of your Family

- (i) 1-5
- (ii) 6-10
- (iii) 10 and above

☐

5. How old are you?

- (i) 18-20
- (ii) 21-25
- (iii) 26-30
- (iv) 31-35

- (v) 36-40
- (vi) 41- 45
- (v) 46 – and above

☐

6. What type of business are you operating?

- (i) Manufacturing (Carpentry, Tailoring)
- (ii) Kiosk
- (iii) Tailoring
- (iv) Shop (Retail, Wholesale)
- (v) Others-Specify.

☐

2. What was the capital of your business when you started the business?

- (i) 50,000 - 100,000
- (ii) 110,000 - 500,000
- (iii) 600,000 - 1000,000
- (iv) 1,100,000 - 5,000,000
- (v) 5, 100,000 and above

☐

3. What were your daily sales from before receiving any loan?

- (i) 10,000 - 15,000
- (ii) 16,000 - 50,000
- (iii) 51,000 - 100,000
- (iv) 101,000 - 1,000,000
- (v) 1,100,000 - 2,000,000
- (vi) More than 2,000,000

☐

4. What was your average daily profit generated from the business?

- (i) 5,000 - 10,000
- (ii) 11,000 - 50,000
- (iii) 50,000 - 100,000
- (iv) 101,000 - 500,000

(v) 501,000 - 1500, 000

☐

(vi) Above 1,500,000

5. Have you ever received any loan from any financial institution?

(i) Yes

(ii) No

☐

6. What is the name of that institution?

.....

7. How much did you receive as a loan?

(i) 150,000 - 200,000

(ii) 201,000 - 500,000

(iii) 501,000 - 2000,000

(iv) 2, 1000 - 5,000,000

(v) Above 5,000,000

☐

8. What are your average daily sales after receiving a loan?

(i) 15,000 - 50,000

(ii) 51,000 - 100,000

(iii) 101,000 - 500,000

(iv) 501,000 - 1,000,000

(v) 1,100,000 - 2,000,000

(vi) Above 2,000,000

☐

9. What is your average daily profit after receiving a loan?

(i) 10,000 - 20,000

(ii) 21,000 - 50,000

(iii) 51,000 - 100,000

(iv) 101,000 - 500,000

(v) 501,000 - 1,500,000

(vi) Above 1, 500,000

☐

10. How long have you been a client of FINCA Microfinance?

(i) 3 months – One year

(ii) 1-1.5 Years

(iii) 2-3 years

(iv) 4-5 years

(v) 6-7 years

(vi) 8-10 Years

(v) More than 10 years

☐

11. Have you managed to improve your business after getting the loan?

(i) Yes

(ii) No

☐

12. Which area/s of your business have you improved after taking the loan?

(i) Increasing the number of assets

(ii) Increasing manpower

(iii) Increasing purchases

(iv) Increasing business branches

(v) Any other specify

☐

13. How much has been used to each area you improved?

(i) Assets.....

(ii) Manpower.....

(iii) Purchases.....

(iv) Branches.....

(v) Others.....

☐

14. Have you used the loan in other activity apart from your business?

(i) Yes

(ii) No

☐

15. If the answer in 14 is yes mention those activities

- (i)..... ☐
- (ii) ☐

16. How much did you use for each activity which is not the business

- (i)..... ☐
- (ii) ☐
- (iii) ☐

17. Are you comfortable with the process/ conditions set for securing a loan?

- (i) Yes ☐
- (ii) No ☐

18. Which condition/s do you think are more difficult to you?

- (i) ☐
- (ii) ☐
- (iii) ☐
- (iv) ☐

19. Can you suggest any improvement in these conditions for securing the loan?

- (i) ☐
- (ii) ☐
- (iii)..... ☐

20. Do you think that loans are the best way to improve your business?

- (i) Yes ☐
- (ii) No ☐

21. Do you think that performance of your business after loan has improved your life in the following areas? (tick)

- | | | |
|--|--------------|------------|
| (i) Spending in Food and accommodation | a) Yes | b) No..... |
| (ii) Spending in health services | a) Yes | b) No..... |
| (iii) Spending in education | a) Yes | b) No..... |

Thank you for your cooperation

Appendix iii: Questionnaire for the loan officers

1. Do you think that your customers know well what they want to do with the borrowed money?

(i) Yes

(ii) No

(iii) They are guessing

☐

2. Do you provide training to your clients on how to use the loans?

(i) Yes

(ii) No

☐

3. What are the problems in dealing with your customers?

(i)

.....

(ii)

.....

(iii)

.....

(iv)

.....

(v)

.....

4. Are there customers who default in paying their loans?

(i) Yes

(ii) No

☐

5. If the answer in 4 above is Yes or No. Why does that thing happen?

.....

.....

.....

.....

6. Do you charge different interest rate to different customers who have taken the same amount of loan?

(i) Yes

(ii) No

☐

7. If the answer in 6 above is Yes or No. Why?

.....

.....

.....

8. Does the starting time to pay back the loan differ for different customers who have taken the same amount of loan?

(i) Yes

(ii) No.

9. If your answer in 8 above is Yes or No. Why?

☐

.....

.....

.....

10. Do you think that the loans provided by your organization are enough to give positive impact to the poor clients?

(i) Yes

(ii) No

☐

11. If the answer in 9 is Yes or No why?

.....

.....

Thank you for your cooperation

Appendixiv: Questionnaire for the Financial Institution

1. What are the products /services offered to Micro finance clients?

- (i) Credit
- (ii) Training
- (iii) Servicing
- (iv) Other Specify

2. What are the interest rates you charge to your clients?

☐

(i)

.....

.

(ii)

(iii)

(iv)

3. Does the interest rate cover the running costs?

Yes

No

☐

4. If the answer to 3 above is no, what do you do to cover the costs?

(i).....

(ii)

(iii)

5. How many loan officers have you employed?

.....

6. Do you think that the loan officers available are sufficient for the work?

(i)Yes

(ii)No.

☐

7. Do you train your loan officers?

(i) Yes

(ii) No

☐

8. What are executed number and types of borrowers and what amounts have been disbursed since the introduction of the FINCA MFI's?

.....
.....
.....
9. How much (percentage wise) of the disbursed amount have been recovered on
time
.....

Thank you for your cooperation

Appendix vI: Kiswahili Questionnaire

“Questionnaire”

ya

Kiswahili

**kwaajiliyawafanyabiasharawadogonawakati.Kutathiminimsaadawa FINCA,
kwawafanyabiashara.**

Maelekezo :Tafadhaliwekaalamaya (x) kwenyekichumbambeleyajibusahihi.

1. Ainayabiashara.....

....

2. Mwakaulioanzishabishara.....

.....

3. Idadi ya wafanyakazi kwenye biashara
yako.....

4. Jinsiayammiliki/mwendeshaji

MmeMke

5. Kiwango cha elimu cha mmiliki/mwendeshaji.

(i) Elimuyamsingi econdary

(iii) Diploma Shahada/Diploma yajuu

(v) Shahadayausamili hahadayauzanifu

6. Ni kwa kiwango gani huduma za kibenki/FINCA ni za muhimu kwenye
maendeleo ya biashara yako?

(i) Sio muhimu kabisa Sio muhimu

(iii) Muhimu Muhimusana

(i) Sijui

7. Ni kwa kiasi gani ni tabu kupata mkopo toka FINCA?

(i) Ngumu sana Ngumukiasi

(iii) Sio ngumu wala si rahisi Rahisi kiasi

(ii) Rahisisana

7. Ni kwa kiasi gani umenufaika na mkopo toka FINCA?

(i) sijanufaikakabisa (iv) nimenufaikasana

(ii) nimenufaikakiasi

(iii) sijanufaikawalasijapatahasara

8. Ni huduma gani nyingine mnapata mbali ya mikopo toka FINCA?

.....
.....
.....
.....

9. Ni matatizo gani yanayochangia kurudisha nyuma maendeleo ya biashara yako?

.....
.....
.....
.....

Ninashukurukwaushirikianowako