

**THE IMPACT OF MICROFINANCE INSTITUTIONS ON THE
GROWTH OF MICRO AND SMALL ENTERPRISES IN
TANZANIA:
CASE STUDY OF MWANZA CITY**

BY

Karim S. Nendakulola

**A Thesis Project Submitted in Partial Fulfillment of the Requirement for the
Award of the Masters of Science in Accounting and Finance of Mzumbe University**

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled: **The Impact of Microfinance Institutions on the Growth of Micro and Small Enterprises in Tanzania, case study of Mwanza city** in a partial fulfillment of the requirements for award of degree of Masters of Science in Accounting and Finance of Mzumbe University.

Major Supervisor

Internal Examiner

External Examiner

Accepted for the Board of.....

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DECLARATION

I, **Karim S. Nendakulola**, declare that this research is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

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DEDICATION

This work is dedicated to my family for their encouragement, tolerance, and willingness during my studies and their contribution towards my academic development.

ACKNOWLEDGMENT

The completion of this project involved kindly contribution, support and encouragement of many people. I am indebted to all who encouraged me in the process and give me the courage when I was really in need. It is a pleasant aspect that I have now the opportunity to express my gratitude for them especially my family for their encouragement during the all period of my study.

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LIST OF AGRONOMY'S

MFIs	-	Micro Finance Institutions
SMEs	-	Micro and Small Enterprises
SPSS	-	statistical package for social scientist
MSEs	-	Micro finance Savings Enterprises

ABSTRACT

This study discusses the impact of Microfinance Institution (MFIs) on the growth of Small and Medium Scale Enterprises (SMEs) in Mwanza City. The study examined the detailed profile of SMEs in Mwanza City, the contribution of MFIs to entrepreneurial growth, the challenges encountered by SMEs in accessing credit and the rate of credit utilization by SMEs. An analysis of the profile of SMEs show that most SMEs are at their Micro stages since they employ less than six people and the sector is hugely dominated by the commerce sub-sector. The research also indicates that MFIs have had a positive effect on the growth of SMEs. Some of the critical contributions of MFIs include; greater access to credit, savings enhancement and provision of business, financial and managerial training. Irrespective of the contributions of MFIs to SMEs, there are challenges that affect their operations of both SMEs and MFIs. The major challenge faced by SMEs is the cumbersome process associated with accessing credit of which collateral security and high interest rate are major setback. The MFIs on the other hand, face some challenges relating to credit misappropriation and non-disclosure of the relevant facts of their businesses. In the final analysis, the research clearly reveals that MFIs have a positive effect on the growth SMEs. In other to enhance a sustained and accelerated growth in the operations of SMEs credits should be client-oriented and not product- oriented. Proper and extensive monitoring activities should be provided for clients who are granted loans.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Since Tanzania attained independence in 1961, considerable efforts have been directed towards the nation's industrial development. The initial efforts were government-led through the vehicle of large industry, but lately emphasis has shifted to Small and Medium Enterprises (SMEs). Since 1986, government had played down its role as the major driving force of the economy by a process of commercialization and privatization. Emphasis, therefore, shifted from large-scale industries mainly to small and medium scale industries, which have the potentials for developing domestic linkages for rapid and sustainable industrial development. Attention was focused on the organized private sector to spearhead subsequent industrialization programmes. Incentives given to encourage increased participation in these sectors were directed at solving and/or alleviating the problems encountered by industrialists in the country, thereby giving them greater leeway towards increasing their contribution to the national economy.

Small and Enterprises (SMEs), sometimes referred to as micro, small and medium enterprises (MSMEs) play an important economic role in many countries (Parenzee, 2003). The growth of SMEs has been in the recent past of great concern to many government policy makers and researchers globally because of realization of their economic contribution to Gross Domestic Product (GDP) and economic growth. As such they are no longer viewed as "stepping stones" to real business but as a means of industrial and economic growth and as well as tools of poverty eradication (ILO, 1986).

According to Organization for Economic Co-operation and Development (OECD) (2004), SMEs are known to contribute to over 55% of GPD and over 65% of total employment in high – income countries. They also account for over 60% of GPD and over 70% of total employment in low-income countries.

In Tanzania, according to the 1999 Micro and Small Enterprises baseline survey, the number of enterprises in the sector had grown from 910,000 in 1993 to about 1.3 million in 1999. The survey also points out that SME contribution in terms of output product and services reached a significant 30% of the GDP in 1999 (URT, 1999). On the other hand, the Tanzania's economy is led by private sector that majored by small and medium scale enterprises (SMEs) (Milanzi, Ngowi, and Ogutu, 2006). The United Republic of Tanzania (URT) SME policy clarifies that Tanzania intends to attain strong economy by year 2025 (URT, 2002). Therefore the promotion of SMEs and, especially, of those in the informal sector is viewed as a viable approach to sustainable development because it suits the resources in Africa.

Small and Micro Enterprises are a major source of entrepreneurial skills, innovation and employment. They are the main source of employment in developed and developing countries alike, comprising over 90% of African business operations and contributing to over 50% of African employment and GDP (Okafor, 2006). In Tanzania, they create employment at low levels of investment per job, lead to increased participation of indigenous people in the economy, use mainly local resources, promote the creation and use of local technologies, and provide skills training at a low cost to society. Emphasizing further on their role in employment creation, Wachira (2006) points out that 12.8% of the retrenches who received the golden- handshake" in Kenya in the year 2002 started their own business.

In Tanzania, entry into small business entrepreneurship is usually not seen as a problem. One can start small business at any time and in any place. However, studies reveal that most MSEs have no growth incentive and majority remain at their initial level, or choose to expand horizontally by starting other similar ventures or change to other unrelated activities (Ng'ang'a, 2003). In Kenya, despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (KNBS, 2007). It is generally recognized that SMEs, face unique problems which affect their growth and profitability and, hence, diminish their ability to contribute effectively to

sustainable development. These problems include lack of access to credit, inadequate managerial and technical skills, poor market information, inhibitive regulatory environments, and lack of access to technology (House, Ikiara, and McCormick, 1991). Likewise, infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the growth of SMEs (Bokea, Dondo and Mutiso, 1999). This constructs a major problem which is slow growth. As a result, they stay small over long period '*stagnate*' without experiencing rapid expansion growth stage until closure. This is contradicting with micro and small scale enterprises growth theories which depicts that through learning process an enterprise as a living body would go through time course from start-up, growth to closure or death stages. Also, an enterprise can grow in terms of scale and scope as a strategy to exit closure stage (Mao, 2009). However, MSE's growth herein is manifested in terms of increase values of revenue and capital investment in machinery.

Therefore, this study seeks to assess inadequate managerial and technical skills, access to credit and other associated factors that successful influence the growth of MSEs in Mwanza Region, Mwanza City. This paper borrows Milanzi et al (2006) definition of enterprise as another name for business institution but include ideals of being adventurous, innovative, and taking risk that means entrepreneurship.

1.2 Statement of the Problem

Small and medium enterprises are the major agents of economic growth and employment. However, despite government efforts in Tanzania to promote SMEs activity, not much progress seems to have been achieved, judging by the performance of the informal sector (Nkonoki, 2010). When the state of the macro economy is less favorable, by contrast, the opportunities for profitable employment expansion in SMEs are limited.

SME's need both financial and non-financial services to enhance their productivity, profitability and growth. Sievers and Vanderberg (2004) hold the view that access to

financial and business development services are essential for growth and development of Micro and Small Enterprises.

The Microfinance industry has become a major backbone in the sustenance and survival of SMEs in Mwanza City. Microfinance Institutions (MFIs), as part of their core business, provide credit to SMEs. In addition to these financial services, MFIs also provide non-financial services like business training, financial and business management to help improve the capacity of their clients in managing the loan resources granted them.

An informal discussion with entrepreneurs in the SME industry revealed that there is great reliance on credit as tool for business growth and profitability. However, most entrepreneurs asserted to the fact that they are faced with a challenge of inadequate capital in their businesses and this inhibits their growth. Some MFI institutions also believe that credit obtained by entrepreneurs are misappropriated. Another constraint of most SMEs is the lack managerial and business skills. There is the need to build these capacities in addition to financial resources in order to achieve growth.

The number of MFI institutions in Mwanza City continues to grow rapidly. However, their wide presence does not correspond with the extent of reduction in the major challenges that affect the growth of SMEs in the country. This study is designed to analyze the impact of MFIs on the growth of SMEs in Mwanza City and to propose a more effective approach that MFIs can adopt in order to meet the growth-oriented needs of SMEs.

Unfortunately, there is very little information on how the small business sector is structured. Starting and operating a small business includes a possibility of success as well as failure. According to K'Obonyo (1999) enterprises size and failure are inversely related, with smaller enterprises facing higher risks of failure than larger ones. Stokes (1995) found that the smallest firms were most vulnerable and that those that grew were less likely to fail than those that did not hence there is a great danger of remaining small.

However, and most unfortunate about 80% of SMEs firms begin small and stay that way without any growth taking place (Mwilongo,2011). What factors influence the growth of these enterprises? This study aims at answering this disturbing question.

The study hypothesizes that the factors at play include availability of finance, business management, poor market information, High cost of credit (interest rate, bank charges, monitoring charges), government policies and regulations and tax rates to SMEs. This study will therefore scrutinize on how MFIs have impact on the growth of MSEs in Mwanza City.

1.3. Objectives of the Study

1.3.1 General objective

The General objective of this study is:-

To assess the impact of MFIs on the growth of SMEs in Tanzania, a case study of Mwanza City.

1.3.2 Specific objectives

- 1) To analyze the relationship between credit financing and SMEs growth in Mwanza City.
- 2) To examine the challenges SMEs face in accessing credit.
- 3) To examine the utilization of credit by SMEs

1.4. Research Questions

The study was guided by the following research questions:

- 1) What is the relationship between credit financing and SMEs growth in Mwanza City?
- 2) What are the challenges facing SMEs in accessing credit?
- 3) How do SMEs utilize the credit?

1.5. Significance of the Study

To the Government

The results of this study will be used by the Government through the Ministry of Trade and Industries to develop better policies for establishment and growth of Micro and Small businesses. The Government of Tanzania will use the results of this study to develop policies and regulations that will guide the favorable location for growth of SMEs in Mwanza city and other urban areas in Tanzania.

To Academicians

Academicians who wish to undertake further research on the subject are able find the literature arising from this study to be of great value since it will add value on the existing literature. Likewise the findings of this study will enable the researcher to make recommendations on ways to improve performance of SMEs particularly SMEs.

Researcher

The researcher will manage to graduate after this study is completed. The study will be useful even for the other coming researchers; by using it as reference and adding unique recommendations.

1.6 Scope of the study

This study is based on the urban small business trends and specifically it focuses on Mwanza city which is located on the southern shores of Lake Victoria in North West of Tanzania. The study will focus on the impact of MFIs to the growth of Micro and Small Enterprises in Mwanza City while holding other factors constant.

1.7 Limitations of the Study

The researcher experienced time constraint in data collection, analyzing of data and in final presentation of the report. However, the researcher will overcome this problem by

ensuring that the time element is put into consideration and that all appointments agreed upon with respondents were fully met.

The researcher also experienced a problem of non response from respondents who were given the questionnaires to fill. However, the researcher assured the respondents that any information given will be treated with maximum confidentiality.

The respondents were found to be uncooperative from the respondents because of the sensitivity of the information required for the study. The researcher will overcome this by explaining to the respondents that the information they provided will be held confidential and only for academic purpose.

The respondents approached are likely to be reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or their Micro Finance Institution. Some respondents may even turn down the request to fill questionnaires.

The major problem was the delays to fill questionnaires which may arise due to busy schedules of technical staff that are targeted.

1.8 Organization of study

The study is carefully organized into five (5) chapters:

The first will focus on the introduction, which will include the background of the study, statement of problem, research questions, research objectives, and significance of the study. Chapter two of the research study will deal with a review of related literature on Micro Finance and Small and Medium Scale Enterprises in Mwanza City.

Chapter three forms the methodology of the study. This chapter would give details of how the research would be conducted; it would include issues such research design, population sample and sampling procedure, data collection and organization procedures. Chapter four would be the presentation, analysis and discussion of data collected. Chapter five would deal with summary, conclusion and recommendation on the outcome of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Jovanovic's Learning Effect Model (1982) asserts that firms learn about their efficiency overtime. New firms entering the market are unaware of their true efficiencies immediately, but as they mature they are able to uncover their productive efficiencies (Staines, 2005). Empirical implication derived by this model is that young firms have accumulated less information than older ones about their managerial abilities. For this reason there will be more failure among young firms than older firms. According to entrepreneurial choice theory by Papadaki and Chami (1982), people have certain characteristics that are associated with the propensity for entrepreneurial behavior and individuals who have more of these characteristics are more likely to grow faster than those who have fewer ones (Papadiki and Chami, 2002). In other words the attitude of the individual in taking risks, motive of going into self employment, his or her managerial abilities to raise capital and perceive new markets, will determine the growth of the firm.

2.2 Definition of the key terms

The concept of microfinance

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance (Robinson, 1998). In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management (Ledgerwood, 1999). There are different providers of microfinance (MF) services and some of them are; Non-Governmental Organizations

(NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non bank financial institutions. The target group of MFIs are self employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith etc (Ledgerwood, 1999).

Small and micro enterprises (SMEs)

In the Tanzanian context, Small enterprises are those undertakings engaging 5 to 49 employees or with capital investment of TSHS.5.0 million to TSHS.200 million. Micro enterprises are those engaging up to four people in most cases family members or with an investment not exceeding TSHS 5.0 million (URT, 2002).

Performance of small businesses

Performance in this case is defined as the capability to lead to the creation of employment and wealth by business start-up, survival and sustainability (Sandberg, Vinberg, and Pan, 2002).

Business success

Business success is the process of improving some measure of an enterprise's success. Which is achieved either by boosting the top line or revenue of the business with greater product sales or service income, or by increasing the bottom line or profitability of the operation by minimizing costs (Sexton, 1988).

Regulations/Legislative process

This is process of developing detailed plans, procedures and mechanisms needed to ensure legislative and regulatory requirements are achieved.

2.3 Theoretical Framework

Although the significance of rapidly growing small businesses in creating employment, especially in a third world countries, is very obvious to many, the empirical and theoretical understanding of the growth of small firms remains unclear. This is partly because of the fact that small firms make the transition from small to large changes in

characters (Penrose 1959). This makes importance of technological advancement and incorporate institutions as well as theory of the firm into growth theory.

In this case, new growth models, specifically of a firm treats a firm as living body that can grow in terms of scale and scope. According to Scott and Bruce (1987), the stage models suggest that a small firm moves from one stage to another in track of growth. This is based on an ability to transform its resources and capacities into viable output in lifecycle (Mao, 2009). Therefore, Enterprise growth is argued to mean a development process of enterprise from small to big and from weak to strong (Mao, 2009). Even though it has become very common to view small firm growth as a life-cycle development process through which a firm passes, these stage models are not free of drawbacks.

2.3.1 Measuring Growth

When researching factors affecting growth it is necessary to define firm growth and how growth is measured. Various indicators are used to measure growth and there is no any general measurement. Measuring sales growth and relative employment growth during a specific time period are the more common indicators used than other indicators (Lind 2005). For instance, output and market share vary greatly within industries and is therefore hard to compare. Total assets also depends on the industry's capital intensity and changes over time and profits is not that relevant unless measured over a long period of time. Therefore sales and employment are the two most important indicators measuring firm's size and growth because studies have found that growth in sales and growth in the number of workers are highly correlated. Evans (1987) for example, reports that estimates using employment figures are similar to those using sales. Additionally, in her detailed study of two manufacturing sectors in the Kibera slum near Nairobi, Kenya, Parker et al (1991) reports that these measures have a correlation coefficient of 0.428, significant at the 0.001 level. Employment numbers is also a measure that is easily accessible, since it is an important figure for governments.

2.4 Empirical Literature review

2.4.1 Internal factors

Lévy, Margi and Powell (2005) argued that growth is determined by a combination of the entrepreneur, strategy and the firm organization. The author also defined key influences on SMEs growth as internal factors that reveal how decisions and features effect the growth of a firm. Internal constraints or factors are those constraints that affect the SME owner or manger's ability to operate efficiently (Baloyi, 2010). According to Stokes and Wilson (2006) internal factors are the personal attributes, skills and competencies of the individual owner - manager which are crucial to how well the business faces up to the inevitable crises that arise. The factors include: lack of management capabilities, lack of capital, personal characteristics, marketing, financial management, human resource, and the availability of a sound business plan. The discussion on each of these follows here under.

2.4.2 Management capabilities

A successful manager is one who understands his business environment, both internal and external. He or she does not only understand, but is prepared, equipped and ready to handle any confusion that emanates from the environment. These include competitors, suppliers, customers, government agencies, labour organizations, and financial institutions (Hisrich, Peters, and Shepherd, 2010). What makes management of MSEs difficult is the vastness of the range of issues confronting the owner - managers, which they have to deal with personally. In his multi functional role as a manager, he/she is in charge of planning and implementation, production, human resource management (recruiting and firing of employees), marketing and finances (Stokes and Wilson, 2006). All these demands his attention simultaneously, and in most cases he/she ends up tackling the most immediate first, which may mean overlooking a less obvious but more significant problem which has a critical impact.

Even with all these responsibilities and challenges, the majority of the owner or managers of MSEs were not trained or poorly trained or unskilled in the various disciplines. According to the training needs assessment on Jua Kali (GOK, 1997), the owner - manager were found not only lack financial management skills but also methods of identifying staff with appropriate skills and effective decision making. Informal management structure and the owner/ manager's personal control of strategic and operating decisions hinder MSEs output growth significantly. He further found that MSEs that adopted a more less formal structure and those that were more innovative depicted higher rate of growth and more especially where the entrepreneur of such firms had undertaken formal training. Hogarth, Orser, and Riding (2000) further found a positive correlation existed between performance and high level of management skills.

2.4.3 Start-up capital

All business ventures regardless of size require finances from commencement and throughout their life cycles. The amount invested will influence greatly the size of the venture, which in turn determines the early survival of an enterprise if other factors are held constant. The entrepreneur will require seed capital to start the business, to operate and manage the business enterprise. Hogarth et al, (2000) noted that unavailability or lack of information about alternative sources of finances and inability of SMEs to evaluate financing option were some of the major problems facing the SMEs. Mambula (2002) singled out lack of access to finances as the main bottleneck facing MSE growth which was similarly echoed by Florida et al, (1996) and Livard Pang (2006) who found that start-up capital is a barrier to entry in most entrepreneurial activities.

2.4.4 High Cost of Finance

During the early stages of starting a business, many owners commit themselves to taking any sources of finance they have available to them including loans. This can be disastrous as high interest rates and unfavorable repayment schedules are overlooked due to the pressure of financing their business. For the entrepreneur and small business owner, taking on high risk of borrowing is a simple choice between starting a business,

or never starting a business. As a result, profits can often only meet the interest payable and the actual credit used is paid off very slowly leading to further monthly interest charges. In a continuing cycle, it is only a matter of time before the business reaches a cash crisis (Mulugeta, 2008).

2.4.5 Characteristics of the Entrepreneur

The characteristics of the entrepreneur are widely accepted as vital ingredient that influences growth. Research indicates that particular characteristics of the entrepreneur that are associated with growth of the enterprise include motivation, previous management experience and demographics of the entrepreneur (age, education) (Dutta, 2009). If the entrepreneur's reasons for starting the business originated in pull or opportunity driven motivates rather than 'push' or necessity driven motivates, the resulting enterprise is more likely to grow. Research in developed countries has shown that an entrepreneur's level of education may be associated with MSEs' characteristics such as growth and performance. This is because higher levels of education are associated with greater verbal communication and comprehension skills, all of which are important in business decision making and management (McCormick and Pedersen, 1996). Previous experience from an entrepreneurial activity or occupation is considered to be an incentive for one to become a successful entrepreneur. McCormick and Pedersen (1996) found that entrepreneurs with no previous occupation began firms which were relatively small and remained in the smallest category. On the other hand it was found that the largest enterprises were almost entirely set up by entrepreneurs with previous experiences either in manufacturing or in the retail trade.

2.4.6 Education level

Education is a key constituent of the human capital needed for business success. It is argued that education and training provides the basis for intellectual development needed by entrepreneurs in business to be successful. Moreover, they provide the entrepreneurs with confidence to deal with clients (Storey, 1994). SMEs face difficulties in employing and retaining skilled professional skilled workers, because they prefer to

work for Large Enterprises that can offer higher salary, job security and career possibilities. In order to meet the demands of the fast changing work environment which is typically associated with SMEs, it is essential that smaller firms ensure that they are able to attract, retain and motivate high quality employees with effective transferable skills through the existence of a strategic training plan and a specific budget for training (Jameson, 2000).

2.4.7 Marketing

According to Brush et al. (2009) marketing is another obstacle for companies to grow since many businesses confront challenges of establishing effective distribution channels, communicating product features, pricing products and services in an attractive way, implementing sales and marketing efforts to win and retain customers and undertaking constant product development in order to sustain sales. SMEs generally do not have the knowledge or information about other markets, thus, this limit their ability to market their products to larger groups of customers and expand their business. Market competition has a larger affect for SMEs chance of survival and uncertainty is high as most of the smaller companies tend to have smaller share of the capital. This leads SMEs to have one or two major customers and do not have big influence on prices. Larger companies with higher market share usually determine prices (Levy et al 2005)

2.5 External factors

2.5.1 Financial support

Financing the firm is essential and getting access to finance plays a crucial role on firm's growth process. There are various ways the business owners can finance the growth of their firms but the fundamental decision is whether or not to accept external equity finance return for part ownership of the business. If owners allow external equity finance they choose to surrender part of their control to either a financial institution or other individuals (Guffey, 2008). For many lenders it is almost impossible to assess the risks

of an investment of MSEs. This is mainly because of the high level of uncertainty shown by these MSEs.

2.5.2 Policy, Laws and regulations

There is a widespread perception that informal enterprises are avoiding regulation and taxation and, therefore, are operating under semi-legal or illegal conditions in the sense that they do not comply with one or more existing government regulations (Sethuraman, 1997). The World Bank researchers argued that constraints that face the growth of SMEs are complex tax systems. There are also regulations which essentially define the framework within which business should be conducted for instance, those concerning establishment and operation of business such as location, registration, licensing, and tax obligation. The consequences of not complying with these and other regulations are many for the informal operators. It could mean paying a penalty in the form of a lump sum fee which resulted in a reduction in incomes. In extreme cases it could mean closure of business or confiscation of business property. The net result is to create uncertainty and discourage business investment (Mulugeta, 2008).

Moreover, there is a matter of government policy concerning SME's. The policies are there but they are not really benefiting the majority of MSEs. In Tanzania, the government has an SME reform policy which insists provision of government support promoting growth to SME's in the form of loans at subsidized interest rates, free or subsidized information and advice, ensuring smaller firms get shares of government contracts and so on and so forth. However, the MSEs are not able to access these loans (Nkonoki, 2010).

2.5.3 Business location

The location of your business must be accessible to the customer base and should be built to ensure efficient accessibility for future clients. When choosing a location of the business owners must take into account the costs of moving or establishing their business in that location. According to Guffey (2008) when choosing locations many

different factors must be taken into account. The labor costs, transport, proximity to suppliers, workforce interference, and language factors, are some of the essential location factors.

According to Herzong et al (1991), the change that initiates a location search could be changes in perceived market opportunities, or changes in the entrepreneur's own situation. After location consideration the decisions makers can gather information on the tax levels, wage-rate levels, and other cost levels at various locations.

2.5.4 Competition

Defining competition can be done in several ways. It is important to recognize that, entering into competition an organization is seeking competitive advantage; this competitive advantage is the key of corporate success. A survey by World Bank for SMEs in developing countries demonstrates that to any individual firm, competition poses a threat to survival. Likewise competition can also encourage the lack of funds, as your business will be forced to offer competitive prices to try to penetrate a highly competitive market. By doing so, you are leaving yourself with a small profit margin that will be difficult for funding other areas in the business (Mulugeta, 2008).

2.5.5 Role of MFIs on the growth and development of SMEs

The purpose or goal of any firm is to make profit and growth. A firm is defined as an administrative organization whose legal entity or frame work may expand in time with the collection of both physical resources, tangible or resources that are human nature (Penrose, 1995).

The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements (Penrose, 1995). The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state (Penrose, 1995). The growth of a firm can be determined by supply of capital, labour and appropriate management and

opportunities for investments that are profitable. The determining factor for a firm's growth is the availability of resources to the firm (Ghoshal, Halm and Moran, 2002).

Enterprise development services or business development services or nonfinancial services are provided by some MFIs adopting the integrated approach.

The services provided by nonfinancial MFI services are; marketing and technology services, business training, production training and subsector analysis and interventions (Ledgerwood, 1999).

Enterprise development services can be sorted out into two categories. The first is enterprise formation which is the offering of training to persons to acquire skills in a specific sector such as weaving and as well as persons who want to start up their own business.

The second category of enterprise development service rendered to its clients is the enterprise transformation program which is the provision of technical assistance, training and technology in order to enable existing SMEs to advance in terms of production and marketing. Enterprise development services are not a prerequisite for obtaining financial services and they are not offered free of charge. These charges are subsidized by the government or an external party since to recover the full cost in providing the services will be impossible by the MFI. The enterprise development services may be very meaningful to businesses but the impact and knowledge that is gained cannot be measured since it does not usually involve any quantifiable commodity. It has been observed that there is little or no difference between enterprises that receive credit alone and those that receive both credit packages and integrated enterprise development services (Ledgerwood, 1999).

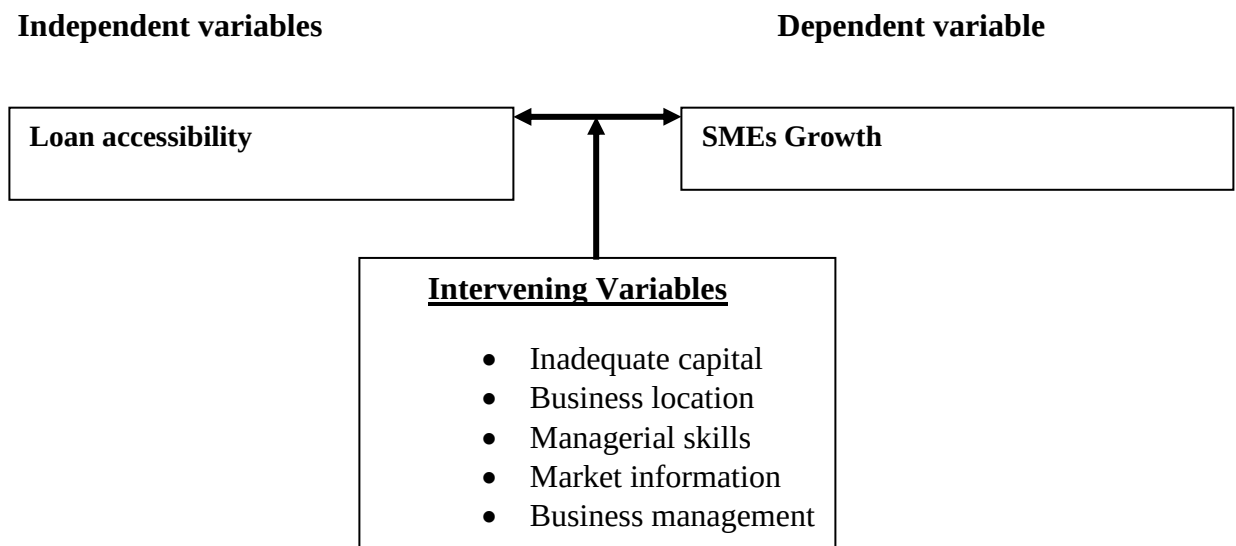
2.6 Conceptual framework.

A conceptual framework is an analytical tool with several variations and contexts. It is used to make conceptual distinctions and organize ideas. Strong conceptual frameworks capture something real and do this in a way that is easy to remember and apply. Isaiah

Berlin used the metaphor of a “Fox” and a “Hedgehog” to make conceptual distinctions in how important philosophers and authors view the world. Berlin describes hedgehogs as those who use a single idea or organizing principle to view the world (examples given include Dante, Pascal, Dostoevsky, Plato, Ibsen and Hegel).

In this study, the variable of primary interest is the dependent variables and dependent variables Microfinance institutions and micro and small business growth. The independent variables explaining how micro and small businesses grow while dependent variable explain about the loan accessibility and intervene explain about lack of management capabilities, lack of capital, personal characteristics, marketing, financial management, human resource, Competition, Business location, Policy, Laws and regulations and the availability of a sound business plan. The conceptual framework theory above explains that there is a positive correlation and relationship between loan accessibility from microfinance institutions and growth of micro and small businesses enterprises.

Fig 2.1 Conceptual model



Source: Researcher survey 2015

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design and methodology which will be used in conducting this study. It contains the following information, the research design and area of study, target population, the Sampling frame and sample size, sampling procedures, data instruments, data collection procedure, data processing and analysis techniques and validity and reliability of the research instruments. Finally it describes how ethical issues will be considered.

3.2 Research Design

Survey research design is adopted in this study to assess the effect of MFI's on the growth of SMEs in Mwanza City. A survey is an investigation about the characteristics of a given population by means of collecting data from a sample of that population and estimating their characteristics through the systematic use of statistical methodology. The survey is a non-experimental, descriptive research method. It tends to be quantitative and aims to collect information from a sample of population such that the results are representative of the population within a certain degree of error. Survey research design was chosen because the sampled elements and the variables that are being studied are simply being observed as they are without making any attempt to control or manipulate them. Also the design is chosen because quantitative information needs to be collected through the use of standard and structured questionnaire.

However, some of the weaknesses are that the researcher may not have sufficient information about all the variables occurring at the time. The researcher does not have control or regarding what variables was controlled and this makes causal statements very difficult to make.

3.3 Area of Study

This research will be conducted in both Nyamagana and Ilemela municipals of Mwanza city which is located on the southern shores of Lake Victoria in North West of Tanzania. It covers an area of 1325 km² of which 425 km² is dry land and 900 km² is covered with water. Mwanza was founded in 1892 as a regional administration and commercial center and it obtained the status of a city in 2000. The city has a population of 1,800,000 people with a growth rate of 11% per annum (2002 census). The economic activities of Mwanza city include manufacturing industries, food and beverages (fish processing, breweries, soft drinks factories, bakeries, cotton seed oil industries, etc). The city has been very attractive to micro, small and medium businesses from the late 1990s. Factors such as flourishing fishing industry, mining sector, construction industry and good transport and communication network have been so influential leading to rapid emergence of these investments. Therefore the city has been chosen for this study due to the observed increase of economic activity in terms of micro and small business especially at the largest open market in east and central Africa; high population of SMEs in the city, and viable micro and small businesses in recent have started up in this city but most of them fail to celebrate the second year of life (MFTD, 2008). Unemployment, low family income, poor housing conditions, poor access to basic facilities, disempowerment, etc., are some the major challenges of the residents in this city.

3.4 Target population

Target population is the population which the researcher wants to generalize results of the study on (Mugenda and Mugenda 2003). The researcher will focus on MFIs and SMES Managers, Employees and Customers and loan officials. The target population is therefore 140 people from MFIs and SMEs including Managers, Loan officials, employees and customers.

3.4.1 Sampling frame and Sample size

Sampling frame is a list, directory or index of cases from which a sample can be selected (Mugenda and Mugenda, 2003). Mugenda and Mugenda, (2003) states that the rule of

thumb should be to obtain as big a sample as possible, however resources and time tend to be major constraints in deciding on sample size to use. A simple random sampling technique was used to select a total of 70 respondents from MFIs and SMEs that constituted our sample size. Simple random sampling was used because it gave all the respondents equal chance of being selected.

Sample size

According to Adam (2008), purposive and random sampling permits the selection of respondents considering certain criteria and for certain purposive functions in the study. In our case the sample size comprised of 55 Customers from SMEs, 3 loan officials from MFIs, 2 Managers from MFIs and 10 Employees from MFIs, hence the total sample applied was 70. These people were randomly and purposely sampled by believing that they provided the information required.

Table 3.1 Sample size selection

Strata	Population	Sample size
Customers (SMEs)	110	55
Employees (MFIs)	20	10
Managers (MFIs)	02	02
Loan officials(MFIs)	6	03
Total	140	70

Source: Primary data 2015

3.5 Sampling procedures

Kothari (2004) defines sampling as the selection of some parts of an aggregate or totality on the basis on which judgment or inference about an aggregate or totality is made. In other words, it is the process of obtaining information about an entire population by examining only a part of it. For the purpose of this research purposive and convenient sampling techniques have been used.

According to Adam (2008), purposive and random sampling permits the selection of respondents considering certain criteria and for certain purposive functions in the study. Therefore, management, customers and loan officials and employees were selected purposively because of the position they hold and roles they play. 70 members were randomly and purposely sampled. The researcher believes that they have the information required for this research.

3.6 Sources of Data

According to Ghauri, Gronhaug & Kristianslund (1995,) depending on the sources and techniques one uses for gathering data it can be divided into secondary and primary data. This study will be carried out using both primary and secondary data.

Primary data

Primary data is the information collected by using techniques like interviews, questionnaires and direct observation direct from respondents.

In order to realize the target, the study will use well designed questionnaire as best instrument. This will be completed by the owners- managers of SMEs. Besides, face to face interviews with relevant owners -managers of these shops in the city will be conducted. The interview method of data collection is preferred due to its high response rate. That is it gives the two people concerned an opportunity to interact and get details on the questions and answers. Through interviews, clarification of issues is easily achievable leading to accuracy of data from the respondents.

Secondary data

Secondary data refers to information from sources like literature, articles and documents that have been collected by another researcher or institution. The tools the researcher will use to collect the primary data include interview guide and questionnaire.

In other words secondary data are data from files, pamphlets, office manuals, regulations, circulars and policy papers will be used to provide additional information

where appropriate. Besides, variety of books, published and/or unpublished government documents, websites, reports and newsletters will be reviewed to make the study fruitful.

3.7 Data collection instruments

According to Mugenda and Mugenda (2003), structured questions are those accompanied by a list of all possible alternative responses. They have the advantage of being cheaper, easy to administer and analyze. Unstructured questions are those that give the respondents all freedom of response. They are simple to form, permit greater depth of personal response, and stimulate feelings of respondents. In this study the main collection instrument will be administered questionnaire. An interview schedule will be conducted on a face to face encounter. An interview guide and administered questionnaire is developed by paying special consideration to the objectives of the study and will be used on all the respondents.

Questionnaire:

These are written questions printed on the paper to be filled by the respondents of a certain area. Questionnaire is a method for the elicitation, recording and collecting of information made up of items to which the users supplies answers or reactions. According to Kothari (2004) a structured questionnaire is a good way of assessing and eliciting people's perceptions, feelings, attitudes, experiences, meaning and definitions of situation and construction of reality. For this study the researcher used a self administered questionnaires. Both open and closed ended Questions were distributed to the respondents.

Observation

It was done by observing physically what is taking place in the field or study area. The method has been facilitated by taking short notes. Observation methods are useful to researchers in a variety of ways. In this research they provided to the researcher with ways to check for nonverbal expression of fillings, determine who interacts with whom, grasp how participants communicate with each other, and check for how much time is

spent on various activities. Participant observation allows researchers to check definitions of terms that participants use in interviews, observe events that informants may be unable or unwilling to share when doing so would be impolitic, impolite, or insensitive, and observe situations informants have described in interviews, thereby making them aware of distortions or inaccuracies in description provided by those informants.

Interview guide

Interview guides targeted at different groups for the field research prepared. In this study the researcher will use flexibility in interview depending on the understanding of the respondents. In this case, the researcher will use the interview schedule to guide the discussion with the respondents who are key informers and thus needed to elaborate on several issues.

3.8 Data collection procedure

This research will be conducted using administered questionnaire and interview guide where a face to face encounter between the researcher and the respondent is performed. This method of data collection has the advantage of providing in depth data collection, that is both qualitative and quantitative data can be easily collected. The method also facilitates clarification through interaction and effectiveness. Since a good part of the population is semi literate, it is possible to translate the questions to understandable the language to them through interaction in the interview.

The researcher will contact the respondents prior to conducting the interview and distributing administered questionnaire so as to establish a rapport and a friendly relationship with them. This will help to prepare them for data collection exercise. The Permission to carry out the exercise will be sort from the relevant municipality administration Authority.

3.9 Data processing and analysis techniques

In this study descriptive data analysis will be used. The descriptive method is employed to describe the results that will be obtained to provide a summary of what will be gathered. Data collected from the questionnaire were analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques such as total score and simple percentage.

Qualitative as well as quantitative methods were used in the analysis of the primary data collected. The quantitative data was analyzed using Statistical Package for Social Scientists (SPSS) and other findings were presented in the form of tables, charts and figures.

3.10 Reliability and validity

For the assurance of this research objectivity, reliability and validity of the data are very important. The tendency toward consistency found in repeated measurements is referred to as reliability (Carmines & Zeller, 1979). Therefore reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials. Although unreliability is always present to a certain extent due to change of time, there will generally be a good deal of consistency in the results of a quality instrument gathered at different times.

Validity of research instruments ensure scientific usefulness of the findings arising thereof (Nachmias and Nachmias, 1996). Validity therefore refers to the question if the results of the research are applicable to other populations, setting and periods; that is, can the results be generalized (Ghauri, Gronhaug & Kristianslund, 1995). To uphold content validity, the researcher will discuss the contents of the questionnaires with the supervisor before going to the field. These will ensure that vague and unclear questions are eliminated or corrected.

3.11 Ethical considerations

The researcher will consider the research values of voluntary participation, anonymity and protection of respondents from any possible harm that could arise from participating in the study. Thus the researcher will introduce the purpose of the study and not for any other hidden agenda by the researcher and request the respondents to participate in the study on a voluntary basis and refusal or abstaining from participating is permitted. The researcher also will assure the respondents of confidentiality of the information given and protection from any possible harm that could arise from the study since the findings will be used for the intended purposes only.

CHAPTER FOUR

DAT PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter comprises of presentations of results, and their interpretation. The results are presented according to study objectives which were:

- 1) To analyze the relationship between credit financing and SMEs growth in Mwanza City.
- 2) To examine the challenges SMEs face in accessing credit.
- 3) To examine the utilization of credit by SMEs.

4.2 Response rate

The results that follow show the background characteristics of the respondents that were involved in the study. 70 questionnaires were administered to respondents in MFIs and SMEs in Mwanza City. Overall, 70 responded to the questionnaires which represented a response rate of 100% as reflected in the table 4.1 below.

Table 4.1 Response Rate

Strata	Population	Response rate	Percentage
Customers (SMEs)	110	55	57
Employees (MFIs)	20	10	10
Managers (MFIs)	04	02	02
Loan officials(MFIs)	6	03	03
Total	140	70	100

Source: Primary data 2015

4.3 Sample Characteristics

This section presents the sample characteristics of the survey respondents and cross tabulations were used to present these as detailed in the sections below;

Qualification by Gender Distribution

The results in the table below present the distribution of the qualification by the gender of the respondents (Table 4.2 below)

Table 4.2 Qualification by Gender Distribution

			Gender		Total
			Male	Female	
Qualification	Degree	Count	5	5	10
		Row %	50.0%	50.0%	100.0%
		Column %	13.9%	14.7%	14.3%
	Diploma	Count	9	11	20
		Row %	45.0%	55.0%	100.0%
		Column %	25.0%	32.4%	28.6%
	Form six	Count	11	8	19
		Row %	57.9%	42.1%	100.0%
		Column %	30.6%	23.5%	27.1%
	Form four	Count	9	7	16
		Row %	56.3%	43.8%	100.0%
		Column %	25.0%	20.6%	22.9%
	Certificate	Count	2	3	5
		Row %	40.0%	60.0%	100.0%
		Column %	5.6%	8.8%	7.1%
Total		Count	36	34	70
		Row %	51.4%	48.6%	100.0%
		Column %	100.0%	100.0%	100.0%

The results of the table above revealed that the majority of the respondents are Males (51.4%) while the females comprised only 48.6% of the sample. In addition, the majority of the males were observed to hold Form six (30.6%) while some 25.0% of these males held Diploma and 25.0% held form four with a smaller proportion holding certificate qualifications (5.6%). The results were further presented using a graph in the figure below;

4.4 Age Group by Gender Distribution

The table below shows the distribution of the age group by gender of the respondents

Table 4.3 Age Group by Gender Distribution

			Gender		Total
			Male	Female	
Age Group	18-25 yrs	Count	9	10	19
		Row %	47.4%	52.6%	100.0%
		Column %	25.0%	29.4%	27.1%
	26-33 yrs	Count	10	7	17
		Row %	58.8%	41.2%	100.0%
		Column %	27.8%	20.6%	24.3%
	34-40 yrs	Count	8	9	17
		Row %	47.1%	52.9%	100.0%
		Column %	22.2%	26.5%	24.3%
	41-49 yrs	Count	4	6	10
		Row %	40.0%	60.0%	100.0%
		Column %	11.1%	17.6%	14.3%
	Above 50 yrs	Count	5	2	7
		Row %	71.4%	28.6%	100.0%
		Column %	13.9%	5.9%	10.0%
Total		Count	36	34	70
		Row %	51.4%	48.6%	100.0%
		Column %	100.0%	100.0%	100.0%

The results show that the majority of the respondents were of the 18-25 year age group (27.1%).

In addition, equal proportions of the sample i.e. 24.3% comprised the 18-25 years and the 34-40 year age groups. Featuring least in the sample were the respondents who are over 50 years of age and these comprised 10.0% of the sample.

4.5 Qualification by Age Group Distribution

The results in the table below show the distribution of the qualification by age group of the respondents.

Table 4.4 Qualification by Age Group Distribution

			Age Group					Total
			18-25 yrs	26-33 yrs	34-40 yrs	41-49 yrs	Above 50 yrs	
Qualification	Degree	Count			1	4	5	10
		Row %			10.0%	40.0%	50.0%	100.0%
		Column %			5.9%	40.0%	71.4%	14.3%
	Diploma	Count	6	5	6	2	1	20
		Row %	30.0%	25.0%	30.0%	10.0%	5.0%	100.0%
		Column %	31.6%	29.4%	35.3%	20.0%	14.3%	28.6%
	Form six	Count	3	8	6	2		19
		Row %	15.8%	42.1%	31.6%	10.5%		100.0%
		Column %	15.8%	47.1%	35.3%	20.0%		27.1%
	Form four	Count	7	4	3	1	1	16
		Row %	43.8%	25.0%	18.8%	6.3%	6.3%	100.0%
		Column %	36.8%	23.5%	17.6%	10.0%	14.3%	22.9%
	Certificate	Count	3		1	1		5
		Row %	60.0%		20.0%	20.0%		100.0%
		Column %	15.8%		5.9%	10.0%		7.1%
Total		Count	19	17	17	10	7	70
		Row %	27.1%	24.3%	24.3%	14.3%	10.0%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The results above revealed that the Diploma holders (28.6%) dominated other qualification holders in the sample and in addition, the majority of these Diploma holders were in the 18-25 and the 34-40 year age group, each of which comprised 30.0% of the sample.

4.6 Relationships between the variables

Pearson correlations (r) were employed to establish the relationships between the variables and the results are as indicated in the table below.

Table 4.5 Relationships between the variables

	Loan accessibility	Inadequate capital	Business location	SMEs growth
Loan accessibility	1.000			
Inadequate capital	.522**	1.000		
Business location	.348**	.651**	1.000	
SMEs growth	.464**	.381**	.588**	1.000
** Correlation is significant at the 0.01 level (2-tailed).				

4.6.2 The relationship between loan appraisal and SMEs growth.

The results in the table above revealed a significant and positive relationship between the Loan accessibility and the SMEs growth ($r = .464^{**}$, $p < .01$). The results show that the greater the Loan accessibility, the better the SMEs growth.

4.6.3 The relationship between loan appraisal, inadequate capital and business location.

In addition, the Loan accessibility were also observed to be significantly and positively related to both Inadequate capital ($r = .522^{**}$, $p < .01$) and business location ($r = .348^{**}$, $p < .01$). The results are indicative of the fact that the Loan accessibility if well managed can enhance enough capital as well as better business location.

4.6.4 The relationship between inadequate capital and SMEs growth.

On the certificate hand, the Inadequate capital was observed to be significantly and positively related to SMEs growth ($r = .381^{**}$, $p < .01$). In addition, the Inadequate capital also had a significant and positive relationship with Business location ($r = .651^{**}$, $p < .01$). Inadequate capital therefore has the potential to enhance both business location and SMEs growth.

4.7 Multiple Regression model

The regression model below was used to determine the extent to which the predictors i.e. Loan accessibility, Inadequate capital and Business location can explain the dependant variable i.e. SMEs growth.

Table 4.6 multiple regression

Model	Un standardized Coefficients		Standardized Coefficients	T	Sig.	Dependent Variable: SMEs growth	
	B	Std. Error	Beta				
(Constant)	.500	.403		1.241	.219	R Square	.439
Loan accessibility	.465	.141	.358	3.288	.002	Adjusted R Square	.413
Inadequate capital	.208	.151	.185	1.382	.172	F Change	16.923
Business location	.586	.123	.583	4.779	.000	Sig. F Change	.000

The results revealed that the predictors have a potential to explain up to 41.3% of the SMEs growth variable (Adjusted R Square = .413). In addition, the regression model was significant (sig. F Change = .000).

However the researcher has noted that the result on expansion capacity of MSEs was also split into kind of business activities to know the variables that are significant to different kind of trade. To facilitate comparison across different sector of the economy as used in this study, the significance and marginal effects of explanatory variables is discussed in order of appearance across the five models. As expected there is substantial variation of growth performance both within and across individual sectors and firm characteristics as well as microfinance variables.

The observed differences in enterprise growth and performance across sectors reflect the general business environment in which enterprises operate and its effect on specific sector/market structures, including the level of financial and human capital, value added/output per employee, nature and level of competition and ability of firm to adapt their pricing policy to internal and external changes (Fafchamps & Gabre-Madhin, 2001). For example, performance in the manufacturing sub sector is affected by inefficiency, poor regulation and other structural problems including seasonal fluctuations in operations (Fagbenle, Adeyemi, & Adesanya, 2004).

4.8 Other findings

The contribution of MFIs in the growth of SMEs

All the MFIs indicate vast knowledge about the activities of SMEs, and mostly provide credit to them on short term basis alone, and on rare occasions provide medium term loans mostly for the manufacturing industry. Out of the five (5) MFIs, three (3) indicate they give a percentage of 75-99 percent of the loan requested while the remaining two (2) give a fixed amount which is considered to be 100 percent. The researcher's observation shows that, most of the beneficiaries normally do not request for a huge loan facilities, thereby making it possible for the MFIs to provide the entire credit facility to them.

On the issue of the period it takes before a loan is granted, the MFIs indicate that, it takes within 1-4 weeks before credits are granted, however, the speediness, to a large extent, depends on the information provided by the clients since the MFIs authenticate the information before authorization is given for the granting of credits. This assessment of the client's credit worthiness is mainly based on his/her ability to repay the loan and the managerial skill of the client.

Prerequisites for accessing MFI credits--Collateral Securities

On the provision of collateral securities, it was observed that, security is required for certain kinds of credits. Some MFIs do not require any form of security at all but rather grant credit based on the savings capacity of the client. In situations where collaterals are needed, it was found that, the MFIs requested any of the following collaterals;

Land

Car

Shops as a reference point for guarantee

On the total percentage of applicants who qualify for loans within a month, the researcher found that, less than 25 percent of loan applicants qualify for loans as per data given by MFIs.

Challenges MFIs face in granting credits

The operations of the MFIs were also associated with some challenges as were enumerated by the MFIs. These challenges are provided below:

Problem of repayment of loans

Lack of collateral security required on the part of the SMEs

Poor records keeping on the part of the SMEs

Non disclosure of detailed operations of the SMEs

Lack of transparency in the business accounts and related business information

Misappropriation of loans granted

Lack of proper documentation in terms of business registration and a permanent business address

The rate of credit utilization

All MFIs indicate that, regular clients very often requested for credit. As per their evaluation, this leads to growth in their business hence, the need for recapitalization always.

Nevertheless, as to whether loans granted are injected in to the business activities of clients, MFIs were very doubtful as to right appropriation of the credit granted to the SMEs.

Due to the doubtfulness, the MFIs respondents gave some of the activities they think clients use the loans for. Some of these activities are:

To finance funerals

To pay school fees of their wards

To solve family matters

To finance medical bills

For payment of travelling tickets

To the above aforementioned misappropriation of the loans, these suggestions were given in order to avoid the misappropriation of funds.

Proper monitoring of clients business

Strict assessment of clients' credit worthiness before granting loan facilities

Thorough analysis of client's business information

Moreover, for the general improvement of MFI services to ensure accelerated and sustained growth of the SME sector, the following suggestions were given by MFIs:

MFIs should make registration of business and having permanent address criteria of giving out of loans

Credits should be a client-need oriented and not a product oriented

MFIs should grant loans with moderate interest rate.

Constant evaluation and monitoring should be put in place to provide appropriate remedy to some of the challenges of the SMEs that may be arise, it imperative to note that MFIs have helped to improve the future of most SMEs.

However, the success of MFIs cannot be measured just by what they do, but also by the effects of their activities on their clients.

In the light of this, Buckley (1997), argue that, the indicators of success of microcredit programs; namely high repayment rate, outreach and financial sustainability does not

take into consideration what impact it has on micro enterprise operations and only focusing on consideration what impact it has on micro enterprise operations and only focusing on microfinance evangelism.

4.9 Analysis of Variance (ANOVA) results for the age group by Variable

ANOVA results for the age group by variable of the respondents are indicated in the table below and these were generated to compare the various age groups on each of the constructs.

Table 4.7 ANOVA

		Mean	Std.Deviation	Std. Error	F	Sig.
Loan accessibility	18-25 yrs	2.806	0.565	0.130	1.248	.300
	26-33 yrs	2.978	0.512	0.128		
	34-40 yrs	2.905	0.420	0.102		
	41-49 yrs	3.139	0.205	0.065		
	Above 50 yrs	3.216	0.776	0.293		
Inadequate capital	18-25 yrs	2.945	0.577	0.132	.870	.487
	26-33 yrs	3.072	0.607	0.147		
	34-40 yrs	3.077	0.626	0.152		
	41-49 yrs	3.182	0.539	0.171		
	Above 50 yrs	3.411	0.571	0.216		
Business location	18-25 yrs	2.877	0.667	0.153	1.230	.307
	26-33 yrs	2.910	0.711	0.172		
	34-40 yrs	2.815	0.589	0.143		
	41-49 yrs	2.702	0.624	0.197		
	Above 50 yrs	3.374	0.660	0.249		
SMEs growth	18-25 yrs	3.025	0.927	0.213	.665	.618
	26-33 yrs	3.002	0.591	0.143		
	34-40 yrs	2.714	0.452	0.110		
	41-49 yrs	2.895	0.503	0.159		
	Above 50 yrs	3.056	0.607	0.229		

The results revealed that as far as age is concerned, there were no significant differences on all the variables even though on SMEs growth, the respondents in the Above 50 year age group (Mean = 3.056) had a higher mean than the rest of the certificate members, with those in the 34-40 year age group ranking with the lowest mean on this important variable (Mean = 2.714).

4.10 t-test results for gender across variable

The t-test results for the gender by variable in the table below indicated that there are significant differences across the gender categories on Business location (sig. = .015). On this essential element of the study, the Males (Mean = 3.078) were observed to have a higher mean than the females (Mean = 2.7000).

Table 4.8 T - test

	Gender	N	Mean	Std. Deviation	Std. Error Mean	T	df	Sig.
Loan accessibility	Male	35	3.068	0.586	0.099	1.807	67	.075
	Female	34	2.849	0.401	0.069			
Inadequate capital	Male	36	3.166	0.582	0.097	1.135	68	.260
	Female	34	3.006	0.594	0.102			
Business location	Male	36	3.078	0.594	0.099	2.490	68	.015
	Female	34	2.700	0.675	0.116			
SMEs growth	Male	36	3.020	0.560	0.093	1.197	68	.235
	Female	34	2.832	0.746	0.128			

However, on the certificate study variables, there were no significant differences across the gender groups though the males had slightly higher means than the females on all these variables.

CHAPTER FIVE

DISCUSSION, SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Discussion

The main findings of this research revealed that micro-financing as practiced in Mwanza microfinance banks do not enhance growth and expansion capacity of micro and small enterprise in Mwanza. The findings confirmed the views expressed by Olutunla and Obamuyi (2008) that the growth of SMEs is not just dependent on accessing bank loan but accessing the right size of loan at the right time. Looking at the result critically, it was also revealed that among small firm sample, variables such as technology related training received by the entrepreneur, business location, business age and business registration in that order are the variables that impact significantly on small business growth, none of the micro finance variables was found to have significant impact on small business growth for small firm sample. The result also revealed that variables such as owners' education, loan interest, duration of asset loan, business location, technology related training received and size of asset loan, all impact significantly on micro firm growth but the magnitude of the beta coefficient of micro finance variables are so small. When the result was split by type of business activities, the result obtained shows variation in the type of variables that impact significantly on small business growth and expansion. In the service sub-sector, only owners' education, gender, business age and size, and duration of asset loan appears to be statistically significant. In the trading sub-sector, repayment of asset loan, loan interest, duration of asset loan and business location and other owner and firm characteristics variables were positively correlated with sales growth and statistically significant too. In the manufacturing sector, it is technology related training received by the entrepreneurs, loan interest, business location, business registration and business age that appears to be statistically significant.

5.2. Summary of the findings

5.2.1. Profile of SMEs in Mwanza City

The contribution of the SME sector to the economy in terms of employment cannot be ignored.

The SME sector is made up of various sub-sectors such as; commerce, Service, Manufacturing and other artisan bodies. The research shows that the sector is hugely dominated (93%) by commerce which is basically buying and selling. This, the researcher believes, is due to the fact that very little capital is needed to begin and operating such businesses does not require any regulatory processes. It was also revealed that about 72 percent of the total population of SMEs in the Mwanza City is at their Micro stages since they employ less than six people in their businesses. This shows that the sector though has a potential for growth is faced with a high capital constraint.

In terms of start-up capital, the research unveils that Financial Institutions play an important role as most respondents indicated that the source of their start-up capital were financial institutions.

5.2.1.2 The Contribution of MFIs to the Entrepreneurial Activities of SMEs

As mentioned earlier, the major setback in the SME sector is capital constraint and this constraint, as it were, are supposed be minimized by the existence of the traditional banks through credits. However, most entrepreneurs have indicated that access to credit from the traditional banks has been their major problem.

The research finding show that MFIs have contributed enormously to the growth of the SME sector through several activities as enumerated below:

1. Greater access to credit - The MFIs have provided SMEs a greater access to credit than the commercial banks. Most respondents indicated that 100% of their credit demand was granted. Since most of these SMEs are Micro, their credit needs are very small and their credit needs are most of the times meet. Most SMEs were found to be

dealing with more than one MFI, and the credits granted helped to boost their capital and expand their businesses.

2. An enhanced saving habit. The traditional banking sector is unable to introduce saving products that will attract Micro businesses. MFIs have been able to create a platform that enables Micro businesses to save the little income they earn on daily basis with little cost.

For most MFIs, the saving accumulated is the basis for the amount of loan to be granted. The habit of saving has been enhanced through the activities of MFIs.

3. Business, Financial and Managerial Training. A majority of SMEs revealed that they have been beneficiaries of Business, Financial and Managerial training activities of MFIs.

Knowing that most entrepreneurs lack or have very little knowledge in financial management, these support services have gone a long way to make them more competitive and very alert to the implications of their financial decisions.

4. General effects. The findings also revealed a majority of 86 percent respondents indicating that the operations of MFIs had had a positive effect on their businesses.

5.2.1.3 The challenges SMEs face in accessing credit. Despite the contribution of MFIs in the activities of SMEs, there are some challenges faced by SMEs in the process of accessing credit.

Some of the SME respondents find the process of accessing credit as cumbersome. Some these challenges are: Inability to provide the collateral securities in cases where they are demanded.

High interest rate was as mentioned as one of the challenges faced in accessing credit. The high interest rates in most cases make clients unable to repay their loans.

The MFIs on their part provided some of the challenges they also face in granting credit. These are:

1. Problem of repayment of loans

2. Lack of collateral security required on the part of the SMEs
3. Poor records keeping on the part of the SMEs
4. Lack of BUSINESS LOCATION in the business accounts and related business information
5. Lack of proper documentation in terms of business registration and a permanent business address.

5.2.1.4 Rate of credit utilization

It is a fact that if credits are misapplied, SMEs will be unable to achieve business growth. The research revealed that 43 percent of respondents in the SME sector felt the need to use business loans for other purposes while 31 percent actually indicated that they have misapplied their business loans. This phenomenon is a bit worrying as the increase in this practice will defeat the goals of the MFIs and in the worst scenario make clients unable to repay their loans.

5.3 Conclusion

The research which was undertaken to find the effects of MFIs on the growth of SMEs reveals that MFIs have a positive effect on the growth of the latter, notwithstanding the inherent challenges. It has been noted that, access to credit which is a major challenge in the SME sector has been reduced to a large extent through the operations of MFIs. The findings also show that MFIs have also contributed to the growth of SMEs through the provision of non-financial service such as Business, Financial and Managerial training programmes.

MFIs have also contributed largely in the area of mobilizing savings through their saving schemes that make saving more accessible, less costly and ready to receive little amounts.

The habit of saving is enhanced as low income earners who were hitherto unable to save with traditional banks are offered an opportunity to save. The practice helps to improve capitalization as most of these savings are ploughed back in their businesses.

It is also critical to highlight the challenges that have the tendency of derailing the efforts of the MFIs in granting credit. Some of these are the inability of clients to repay

their loans and the rate of credit misappropriation. It is worth noting that MFIs provide better access to credit than the traditional banks. However, the research reveals that a good number of MFIs require collateral security before loans are granted and this negatively affects the SMEs as some are unable to provide the collateral requested. High interest rate has also been mentioned as one of the challenges in accessing credit facilities of MFIs. In relation to high interest rate, MFIs have explained that the risk attached to the granting of loans is on the high side and are unable to reduce the interest rates.

In the midst of these challenges, I wish to emphasize that the finding of this research clearly indicates that MFIs have had a positive effect on the growth of SMEs.

5.4 Recommendations

In view of the findings made and conclusions drawn from the study the following recommendations are provided to help enhance an accelerated and sustained growth in the

SME sector and also provide recommendations to help in the improvement of the services of MFIs.

The MFIs may be quick to measure their success rate by considering factors like high repayment, outreach and financial sustainability, but these may not be success if their activities do not reflect in the growth of SMEs. The growth of SMEs does not only rely on access to credits but also the creation of favorable and formidable business environment.

The MFIs have a great responsibility of ensuring the proper use of credit which is an important facility in business acceleration. To achieve this, credits should client-oriented and not product-oriented.

Proper and extensive monitoring activities should be provided for clients who are granted loans.

In order to reduce the rate of default, MFIs can research into very profitable business lines and offer credit to clients who have the capacity to exploit such business lines.

Finally, the researcher recommends that business and financial training should be provided by MFIs on a regular basis and most cases should be tailored toward the training need of the client

This study suggests that policies aimed at promoting the growth of micro and small enterprises should adopt a sectoral approach and, within that, address specific issues that affect enterprises at the lower and upper ends of the spectrum of growth and expansion. Thus, approaches and resources should address the most critical determinants of growth in focal sub-sectors, aiming to augment access to critical resources and, perhaps, overcome the disadvantages that cannot be easily varied.

The study recommends that MFIs should increase the duration of their clients' asset loans, or spread the repayment over a longer period of time, or increase the moratorium. This will enable the clients to have greater use of the loan over a longer period for the acquisition of capital assets and technology.

In order to encourage technology acquisition for MSE expansion, MFIs can categorize their loans into low and high interest loans. The conventional loans to clients can be maintained as high interest loans, while loans for capital assets or technology acquisition should be low interest loans, which can be secured by a mortgage over the fixed asset so acquired by the micro-borrower. To achieve this, the Microfinance Banks should be recapitalized to enable the banks to support MSEs growth expansion adequately.

The Government should urgently tackle the problem of infrastructure development and maintenance. These include electricity, water and efficient transportation system which impact greater on MSE operations. The bureaucratic bottleneck involved in small business registration should also be removed.

Lastly, Government should establish relevant well adapted and appropriately structured institutions and organizations to provide support for MSEs in such aspect as; procurement, supply and distribution of raw material, supply of local/imported machines

for use on concessional terms, training in several technical grades, and create favorable market conditions.

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APPENDIXES

Appendix I Introduction

Introduction

My name is Karim S.Nendakulola, I am carrying out a research on topic on the Impact of MFIs on the growth of SMEs in Tanzania, with a case study of Mwanza City. Members of staff of these institutions and customers have been selected as a unit of analysis. Please kindly respond to the questionnaire by filling in as appropriate. The information given through this questionnaire is purely for academic purposes, but the recommendations there from may be beneficial to your organization. Your response will be treated with utmost confidentiality.

Appendix II General Information

Section A: Background information

1. Qualification of respondent

Degree Diploma Form six Form four Certificate

2. Age of respondent

18 - 25 26 – 33 34 – 40 41- 49 above 50.

3. Sex of respondent

Male Female

On a scale of 1-5, tick in the appropriate box on how you strongly agree or disagree with the statements given.

Scale	1	2	3	4	5
	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree

1. You had the objective for establishing your business?					
2. Your line of business is manufacturing					
3. Your line of business is Manufacturing Commerce					
4. Your line of business is manufacturing					
5. Your line of business is Manufacturing Service					
6. The source of your business capital Friends & Relatives					
7. The source of your business capital Friends & Relatives Partnership					
8. The source of your business capital Friends & Relatives loans from banks & finance institutions					
9. You have adequate capital for your business?					
10. You know about the operations of Micro Finance Institutions?					

11. You have ever benefited from any services of Micro Finance Institution(s)?					
12. You have benefited from Credits products of Micro Finance Institution					
13. You have benefited from financial and management training products of Micro Finance Institution					
14. The availability of MFIs contributed to the enhancement of your managerial skill, financial management skill					
15. You have ever applied for credit facility from any MFI					
16. After the loan application you were granted 100 percent					
17. After the loan application you were granted less than 100 percent					
18. It takes a week to access credit from your MFI					
19. It takes less than a week to access credit from your MFI					
20. It takes more than a week to access credit from your MFI					
21. You are working with less than one Micro Finance Institutions do you work with?					
22. You are working with more than one Micro Finance Institutions do you work with					
23. You do access more credit from MFIs than the traditional banks					
24. You had a positive expectation about MFIs before doing business with them?					
25. You have met those expectations been met					

26. Existence of MFIs affected your business?					
27. You normally request Short term kind of credit from MFIs					
28. You normally request medium term kind of credit from MFIs					
29. You normally request long term kind of credit from MFIs					
30. You have applied loans for more than one time from MFIs					
31. You find the criteria for accessing loans from MFIs cumbersome					
32. MFIs always require collateral securities before granting loans					
33. You always get the collateral requested					
34. You face some major challenges in accessing loans from MFIs?					
35. Often you need a loan for your business?.					
36. Often you apply for loans from MFIs?					
37. You have ever felt the need to acquire a loan for other purposes apart from business?					
38. Have you ever used loans for other purposes apart from business purposes?					
39. You always use exactly what you acquired as loan for solely business use					
40. You use the loan you requested for other purposes					
41. The loans acquired lead to increase your capital					
Questionnaires MFIs (managers, Employees and loan officials)					
42. When did your Micro Finance Institution (MFI) begin					

operations?					
43. There was a main objective for establishing this Micro Finance Institution					
44. You provide savings products					
45. You provide Loan/Credit products					
46. You provide Investment products					
47. Manufacturing category of SMEs serve as your target market					
48. Commerce category of SMEs serves as your target market					
49. Service category of SMEs serves as your target market					
50. There are challenges you face in doing business with SMEs?					
51. You know about the activities of SMEs?					
52. You offer a Long term kind of credit facility					
53. You offer a Medium term kind of credit facility					
54. You offer a Short term kind of credit facility					
55. I take Less than a week to process and disburse loan					
56. I take 2 weeks to process and disburse loan					
57. I take 3 weeks to process and disburse loan					
58. I take more than 3 weeks to process and disburse loan					
59. You find the criteria for loan processing cumbersome					
60. Do you always require collateral securities before granting loans to SMEs?					
61. You request any kind of collateral during loan processing					
62. SMEs always get the collateral requested?					

63. What percentage					
64. Less than 25 of total applicants qualify for loans within a month?					
65. Less than 26 to 50 of total applicants qualify for loans within a month?					
66. Less than 51 to 75 of total applicants qualify for loans within a month?					
67. Less than 76 to 100 of total applicants qualify for loans within a month?					

Thank you for your cooperation.