

**AN EXAMINATION OF THE EFFECT OF LOAN INTEREST  
RATES TO SMEs' PERFORMANCE AND GROWTH IN TANGA  
CITY**

**CASE OF VISIONFUND TANZANIA**

**By**

**Leah Yesaya Msangula**

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

**Mzumbe University**

**June, 2015**



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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 **An Examination of Effect of the Loan Interest Rates to SMEs' Performance and Growth: A Case of Vision Fund Tanga Branch**, in partial fulfillment of the requirements for award of the degree of Masters of Business Administration in Corporate Management (CM) of Mzumbe University.

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Major Supervisor

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Internal Examiner

Accepted for the Board of

*Signature*

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DEAN/DIRECTOR,

FACULTY/DIRECTORATE/SCHOOL/BOARD

## DECLARATION

I, Leah Y Msangula declare that this thesis 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.

**Signature** \_\_\_\_\_

**Date** \_\_\_\_\_

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## **ACKNOWLEDGEMENT**

A work of this nature and magnitude cannot be completed single handedly without extensive moral and material support from different individuals and institutions. It is therefore impossible within such a limited space to make individual acknowledgement here, but I hereby thank all who made this work possible. May the Almighty God bless and reward you all abundantly. However to the following, in particular, I am particularly indebted: First and foremost, wish to express my heartfelt gratitude to the Vision Fund Tanzania for financing my studies, their constant encouragement, support and inspiration given to me throughout the duration of the study. I am also grateful to my Tanga Branch staff for their constant encouragement and constructive criticisms during proposal development and dissertation writing. Special appreciations are accorded to my supervisors, Dr. Kato Mushumbusi and Mr. Emanuel Akili, the programme Coordinator for offering expert advice. Without their guidance, love, willingness to offer constructive criticisms, tolerance, encouragement and timely constructive comments this study would have not been what it is.

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## **DEDICATION**

This work is dedicated to the **ALMIGHTY GOD**, the creator and giver of life to every living, the source of all wisdom and inspiration and the One who said “Let the water under sky be gathered to one place” and so it was! (**Genesis 1:1-31**).

To my beloved mother, Hilda Y. Msangula and my late father Yesaya Msangula who, in this case, as in most others could always see the wood from the trees.

To my beloved husband, Paulo E. Sangiwa for his moral support, indispensable prayers and innermost heart commitment to assist me during the data collection and thesis writing period. May the Almighty God bless and reward him abundantly.

## **ABBREVIATIONS AND ACRONYMS**

MUCOBA	Mwanga Rural Community Bank, Dar es Salaam Community Bank, and Mufindi Community Bank;
NMB	Commercial banks include; Akiba Commercial Bank and National Microfinance Bank.
PRIDE-Tanzania	Promotion of Rural Initiatives and Development of Enterprises Tanzania
FAIDA	Tanzania Finance and Advances in Development Association
SEDA	Small Enterprises Development Agency (currently Vision Fund Tanzania)
CEMIDE TRUST	Centre for Microfinance and Enterprise Development
CSDI	Centre for Sustainable Development Initiatives,
FEDA	Finance and Enterprise Development Associates,
NIGP	National Income Generation Programme
YOSEFO	Youth Self Employment Foundation
MEDA	Mennonite Economic Development Associates,
SELF	Small Entrepreneurs Loan facility Project,
FISEDA	Financial Services and Enterprises Development Association,
CETAT	Civic Education Tanzania Trust,
CREW	Credit Scheme for Productive Activities of Women in Tanzania
SMEs	Small and Medium Enterprises
COs	Credit Officers
URT	United Republic of Tanzania
TCCIA	Tanzania Chamber of Commerce Industry and Agriculture
MFI	Micro Finance Institutions
APR	Annual Percentage Rate
NMFP	National Micro Finance Police
R&D	Research and Development
NSGRP	National Strategy for Growth and Reduction of Poverty
TNMFP	Tanzania National Micro Finance Police
FGD	Focus Group Discussion
SPSS	Statistical Package for Social Sciences

## ABSTRACT

This study was carried out to examine effect of loan interest rates on SMEs' performance and growth with focus to customers who receives Vision Funds' loan services Tanga branch. Data for the study was collected from 83 respondents using structured questionnaire. Both qualitative and quantitative methods were used to analyze the data. The result of the study has revealed loan interest rates to have effect on SMEs' performance and growth; which is presented by majority 68.7 percent who had **yes** response. This particular response is further supported by 44.6 percent who reported to experience slow growth of business capital and 39.8 percent who responded to have continued operating on less profit respectively. However, a slow growth of business capital is explained as the decision of loan seeker opting to take small loan amount from the fear of paying more money charged on interest rate. Nevertheless, price fluctuation, business seasonality and economic hardship were emerged other factors challenged their business performance.

Analysis has revealed growth of business capital, creation of business assets and increase of income. This improvement has been an opportunity to open up new business which is observed by 47 percent. Moreover, an experience of 13 years in microfinance services, the charged interest rate has been relatively high compared to other loan providers and no change (36 percent annually has been maintained) is being effected despite the need to improve loan services. All in all, however, loans services remains facilitative to business operation as it open up opportunities/doors for self employment.

Loan services have been helpful. Business capital has increased, new businesses were established, and foremost, the capacity to attain social and economic services provision to families has improved. It was learnt that, clients have had receiving multiple loans (loaning among institutions) where it was so challenging in paying back the granted loan. Therefore, a similar study should be undertaken in other areas to ascertain the extent of applicability of the findings of this study.

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## CHAPTER ONE

### 1.1 Background Information

Since the late 1980s Tanzania's economy has gone through a period of profound change including, the government's economic reforms which have gradually necessitated the development of a market economy, and as part of this process, the government has withdrawn from direct involvement as a result, private sector has grown rapidly (Selejio, 2013). Private sector is significant in urban though today, this sector is as well in rural areas, most enterprises are located in towns and cities with an average of 2 employees per enterprise; and estimations of the percentage of labour force engaged in SMEs in urban areas range from 38% to 56%, while in rural areas it is approximately 15%. Most micro-enterprises are in the informal sector, i.e. neither registered nor licensed and have been set up for reasons of survival rather than with a longer-term plan for growth

In supporting financially, *Jalila, F.*, Yasir Hayat and Abu Hassan,(2014); J.O. Asantey and Tengey, (2014) argued that; small-scale financial services –primarily credit and savings are provided to people who operate small and micro enterprises where goods are produced, recycled, repaired, or sold and who provide services to other individuals and groups at the local levels both rural and urban. These financial services are charged interest; which is defined as a fee charged by a lender to a borrower for the use of borrowed money, usually expressed as an annual percentage of the principal; the rate is dependent upon the time value of money, the credit risk of the borrower, and the inflation rate. Globally it is recognized clearly that; Small and Medium Enterprise (SMEs) contributes to economic development in many countries. This sector of economy creates employments, lead to creation of goods and services as well as laying ground for skills acquisition and is an important source of innovation, and economic growth (Govori, 2013)

Like other countries of the world like SMEs in Tanzania have the tendency to serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute immensely to economic growth (URT, Micro-Finance Policy,

2000). Small firms are the engines for economic development. The Tanzania Chamber of Commerce Industry and Agriculture (TCCIA) stipulated that an estimates number of micro (up to 5 employees) and small enterprises (6 to 50 employees) range widely from 1 to 2.5 million countrywide. In supporting this view, Zambaldi (2011) reported that, small enterprises have fixed assets of \$100 thousand with medium enterprises employing between 30 and 99 employees with fixed assets of up to \$1 Million, while Satta (2003) put forward that SMEs account for majority of firms in an economy and a significant share of employment.

However, SMEs face many challenges, but the most significant among them is that of financing of their operations. This render these enterprises remains with no option but to run to financial institutions for assistance, where going to those financial institutions brings new phenomena of which among them are the interest rates. Likewise, there is a challenge in the efficiency and financial stability in every economy which can likely be felt by SMEs. Majority of the financial framework of SMEs came from the Micro Financial Institutions (MFIs); the interest rate they set on the SMEs that are lower or higher than the prevailing market rates is an issue.

What are the requirements do one need to have access to such facility? These are some of the few questions that come to mind when the issue of financial institutions and interest rates arise. This issue put SMEs' in a dilemma whether to depend on their own savings, family savings, friends 'assistance, government and donor support or financial institutions to finance their operations (Bawuah, 2014).

Governments in developing countries offer funding to small firms either directly or by guaranteeing the payment of such loans as lack of funding appeared as one of the major challenges faced by small businesses. However, due to limited resources by governments; Satta (2006) was on the view that, not all small firms receive funding from the government; therefore, the other option would be to go for bank loans, and despite its increasing roles, access to credit by SMEs remains one major constraint. In view of Ortiz-Molina (2008); most large companies usually start as small enterprises, so the ability of SMEs to develop and invest becomes crucial to any

economy wishing to prosper. Therefore, in view of the above background the study is interested to draw a wide analytical view on the question of loans' interest charged in due course to facilitate operationalization in the economy by examine the effect of loans' interest rates to SMEs' performance and growth to SMEs receiving financial services from Vision Fund Tanga branch.

## **1.2 Statement of the Problem**

Several studies and research work (Satta, 2006; Ortiz-Molina, et al 2008; Bernard, 2014, Govoria, 2013 and Quaye, 2011) in different context have observed the significant role played by MFIs in facilitating performance of SMEs as provision of financial and non financial facilities, where, the financial services offered are loans and non-financial services are business training, financial and business management to help improve the capacity of their clients in managing the loan resources granted to them, and likewise, required to pay an extra amount 'interest' after receiving the loans for their businesses.

In a likely observation pertaining to microfinance operations, studies by Govori, 2013; Akterujjaman, 2010; and Quaye, 2011 on SMEs' development; documented external macroeconomic environment such as; political, economic, social, technological, environmental and legal factors that they are rarely affected by management decisions because they are external factors and they are beyond the control of SMEs. Adding to these factors; access to finance, corruption, competition, and government policies affects the growth and development thus, insisted these factors not to be ignored because they affect the development of SMEs.

Adding to the above observations, Harvie (2010) hold the views that; SMEs have difficulties in accessing bank loans as a consequence to the high risk, low profitability and lack of collateral required by banks. The general argument is that, ears and eyes of lenders on loan's interest rates are not compatible with the performance of the SMEs and that most of these MFIs charge high interest rates and hence the SMEs tend not to be profitable. Larger firms usually comply with higher

disclosure requirements to a greater extent than SMEs because of their access to a broad range of external funds including bonds, equity and loans. This is the evidence that, financial institutions charge higher interest rates to SMEs than to bigger companies in order to compensate for the higher costs of information collection, the smaller volume of external financing and the greater risk of failure (Zhi Wang,2010)

Despite these observations on SMEs to ensure they increase their access to loan services, while taking into account the charged interest rates, as learnt by Harve (2010), Wang (2010), and Ping (2013) to mention but few, the link on loan interest rates to SMEs' performance and growth is not described as the available literature did not support this reality, therefore, it is in the best interest of this study to investigate and find out the extent to which the charged interest rates affect the performance and growth of SMEs. The findings of this study will help to fill into the existing knowledge gap and adding as well to the existing literature.

### **1.3 Objectives of the Study**

#### **1.3.1 General objective**

The general objective of the study is to examine the effect of loans' interest rates to SMEs' growth and development to Vision Funds' clients (clients managing SMEs) of Tanga branch.

#### **1.3.2 Specific objectives**

The study will be guided by the following specific objectives:

- To find out views on loan interest rates charged to borrowers.
- To examine the effect of loan interest rates on SMEs' performance and growth.
- To assess the significance contribution of loans to SMEs' growth and development.
- To find out issues challenging SMEs performance.

#### **1.4 Research Question (s)**

- What are the pertinent views on loan interest rates charged to borrower?
- What are the effects of loan's interest rates to SMEs' performance and growth?
- What are the significance contribution of loans to SMEs' growth and development?
- What are the cores issues challenging SMEs' performance?

#### **1.5 Scope and Significance of the Study**

##### **1.5.1 Scope of the Study**

The focus of this study is on the area of interest rates charged to SMEs' owners and the likely performance and growth of their business, trade or activities. The theory behind the growth of SMEs defined as increase in size or other objectives that can be quantified or a process of changes or improvements. Ngugi and Kerongo (2014) hold the views that size is the result of SMEs' growth over a period of time and in line of this, it is an observable state. Holding further, the growth of a firm can be determined by supply of capital, labor, appropriate management and opportunities for investments that are profitable.

Different range of indicators such as income, accumulation of business assets, improved settlements, revenue and employment are indicators of growth for the enterprises while household income, household expenditure on food, education and health, and asset accumulation are the indicators of livelihood of owners of SMEs. These are the likely parameters of this particular study.

##### **1.5.2 Significance of the study**

Provision of micro credits services to SMEs aims at promoting effective participation and engagement of SMEs in performing productive economic activities which are of significant benefits to house income generation, employment creation and hence poverty reduction among communities.

The existing literatures on the study of this nature is limited hence continued lacking a wider and clear picture on influence of loan interests to SMEs growth and development. This question is emanating because there has been a lot of discussion by financial lenders that; micro financial institutions are being charging high interest rate on loans acquired. Therefore through the study of this nature, this gap will likely be sought, filled and hence new knowledge added to the existing literature.

In terms of policies the study identifies effects of loan interest to SMEs performing and growth. This is important for policy makers and implementers in this particular the MFIs' because the study shows the gaps that exist in practice and identifies possible areas of intervention. Thus, the findings will help to inform actors at different levels on the appropriate design and implementation hence create a window for most of performing micro financial institutions to assess their practices and procedures particularly on the question of interests charged to their clients and in so doing sustain the efforts to promote the growth and development of SMEs.

### **1.6 Organization of the Dissertation**

This dissertation is organized into six chapters. Chapter one is the general introduction. It elaborates on the setup of small and medium enterprises (SMEs) and its financing options among others reviews also focuses on the impact of loans on SMEs and presents problems identified. It also presents the research objectives, significance and scope of the study. Chapter 2 presents an extensive review of studies related to this particular study. The focus of this chapter is to gain an insight of what is being reported and or documented by others feed to this study. Thus, gives a position in the assessment and analysis of the finding of this study. In chapter 3 the research context and methodological design of the study is presented. This chapter provide a more comprehensive picture. It introduce the research context in terms of the study area, discusses the study design used, reflects on the fieldwork processes, broadly describes the data collection methods that were used to answer the research questions, and how analysis, presentation of the findings is being done.

Chapter 4 presents findings of the study, whereby chapter 5 is special for discussion of findings in relation to other studies for the purpose leading to the establishment of facts. The final chapter 6 presents summary, conclusions and policy implications that are of beneficial consideration by policy maker and decision taking mechanism or tools and system in place.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Overview**

This chapter reviews existing literature on issues related to the study with the focus to examine the position of loan interest on SMEs performance and growth. The chapter is divided into seven (7) main sections. The second section presents the theoretical review of key concepts where within it, subsections defining key concepts under study are reviewed. Section three reviews the need for microfinance followed by the fourth one which presents SMEs growth and development where issues of concern are clearly described. Section five has looked at contribution of SMEs to economic development, section six is solely a section that presents reviewed empirical issues and finally, section seven of this chapter concludes with the conceptual model of the study.

#### **2.2 Theoretical Review of Key Concepts**

##### **2.2.1 Vision Fund Tanzania.**

Vision Fund Tanzania is a Micro Finance Institution (MFI) operating country wide with its branch in Tanga City. The institution was formally known as Small Enterprises Development Agency (SEDA) with headquarter in Arusha. This institution started its operations since 1996; and to date is over eighteen years. The branch offers micro financial facilities that meet the needs of SMES in the region and four products; namely Kitita product, Premium product, Jiendeleze product and lastly Biashara product are provided, where each product is limited in term of loan amount that, a client wants to acquire.

Kitita and Premium products were both classified as individual loan and each loan funds disbursed to clients has a limit. For instance; Kitita product loan amount ranges from Tshs.1million to Tshs.10 million, while Premium product has a loan amount above Tshs.10.1 million. A group loan category is classified into two products namely; Jiendeleze and Biashara. Each loan category differs in terms of

group member as well as amount of loan disbursed to them. For instance; Jiendeleze product has membership ranging of 3 to 5 members and the loan amount disbursed to them is ranging from Tshs.500,000/= to Tshs.5 million, the Biashara product comprised 6 to 25 members and the loan amount disbursed to them is ranging from Tshs.50,000/= to Tshs.5million.

### **2.2.2 Small and Medium Entrepreneurs (SMEs)**

Small and medium enterprises (SME) perceived differently, thus differently defined (as various countries had different definitions) depending on the phase of economic development and their prevailing social conditions. In European Union, SMEs defined not to a more than 250 employees and not more than 50 Million Euros turnover respectively, a balance sheet total of less than 43 Million Euro and if not more than 25% of the shares of such an enterprise are in the ownership of another enterprise (Govori, 2013). In the context of Africa Nageria; Govori (2013) argued that; SMEs are defined as “enterprises with a total capital employed of not less than N1.5 million, but not exceeding N200 million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300”.

The description brought up under the United Republic of Tanzania (URT) SMEs development policy (2003) stipulate that, the commonly used yardsticks for SMEs as total number of employees, invested capital, total amount of assets and sales (volume) turnover. Therefore; micro enterprises are those engaging up to 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. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million.

However, with these different perspectives, all SMEs all over the world are known for their significant contribution to social economic development. This is apparently the case of Tanzania, where SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas (URT; SMEs Development Policy, 2003). Kolawole (2013); Olowe, Moradeyo, and Babalola (2013); contends that small and medium scale enterprises play a very important role in developing economies. Chijah and Forchu (2010) cited by Olowe et al, (2013) supported this when argued that, promotion of micro enterprises in developing countries is justified in their abilities to faster economic growth, generate employment and hence alleviate poverty.

Never the less, in case of Tanzania SMEs' to the outside world, the global systems and practices have influence on their development. SMEs have issues of common when put in one bucket against the global outlook in their characteristics, advantages and disadvantages against globalization as stipulated in **Table No.2.2.2**.

**Table No.2.2.2: SMEs' characteristics, advantages and disadvantages (United Republic of Tanzania in particular)**

Characteristics	Advantages	Disadvantages
	In Relation to Globalization	
Dependence on a limited number of people (often owners and managers are one and the same persons)	<ul style="list-style-type: none"> <li>- Long-term thinking, perspectives</li> <li>- Stability</li> <li>- No pressure for short-term success</li> <li>- High identification with the business, stable culture</li> <li>- High commitment</li> </ul>	<ul style="list-style-type: none"> <li>- Static thinking, limited to the experiences and the knowledge of the owner(s)</li> <li>- Difficulties to adapt corporate culture to new situations and challenges</li> <li>- Potential conflicts between corporate objectives and personal objectives of the owner.</li> </ul>
Close relationships to customers and business partners	<ul style="list-style-type: none"> <li>- Stable basis for further business</li> <li>- Ability to cooperate successfully for mutual advantage</li> <li>- Ability and willingness to enter Partnerships</li> </ul>	<ul style="list-style-type: none"> <li>- Risk focusing too much on existing basis of business.</li> </ul>

Characteristics	Advantages	Disadvantages
	In Relation to Globalization	
Simple structures	<ul style="list-style-type: none"> <li>- High flexibility and adaptability</li> <li>- Short reaction times</li> <li>- Cross-functional communication and cooperation within the organization</li> </ul>	<ul style="list-style-type: none"> <li>- In many cases not suitable for the complex planning and implementing of international activities</li> <li>- Low willingness to introduce more sophisticated structures</li> </ul>
Small size	<ul style="list-style-type: none"> <li>- Basis for specialization ,often successful with function strategies</li> </ul>	<ul style="list-style-type: none"> <li>- Limited resources (in terms of financial means and manpower)</li> <li>- Limited funds to finance investments and initial operating losses for new activates</li> <li>- Spending for market research and market entry take a much higher proportion of total spending in SMEs than in larger businesses</li> <li>- Limited number of staff to take on additional tasks</li> <li>- Lack of internationally experienced employees</li> </ul>

**Source:** Tanzania Chamber of Commerce Industry and Agriculture. Retrieved from [http://www.uni-leipzig.de/sept/workshop/daessalaam/presentation\\_Chamber\\_Commerce.pdf](http://www.uni-leipzig.de/sept/workshop/daessalaam/presentation_Chamber_Commerce.pdf)

In view of the described characteristics to SMEs the learning which is depicted to the study is that, SMEs are not working on isolation to the globalization reality. Therefore, knowing these characteristics provide an opportunity for the SMEs to the global context. However, looking into advantages and disadvantages described in **Table No.2.2.2**; provide a picture that, effective and efficiency of SMEs to function is also a subject of the diverse global business environment. That is to say that, though working in local context the important thing to consider is the external business context ‘global’ which influence their performance and grow apart from just concentrating merely to the question of interest rates charged on the borrowed money to support their businesses.

### **2.2.3 Loan interest rates**

In the area of financial sector of economy, 'interest rate' is a common phenomenon, described as amount charged which is expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates typically noted on an annual basis, known as the annual percentage rate (APR). The assets borrowed could include, cash, consumer goods, large assets, such as a vehicle or building. Interest is essentially a rental, or leasing charge to the borrower, for the asset's use. When the borrower is a low-risk party, they will usually be charged a low interest rate; if the borrower is considered high risk, the interest rate that they are charged will be higher. However, interest is charged by lenders as compensation for the loss of the asset's use. In the case of lending money, the lender could have invested the funds instead of lending them out. With lending a large asset, the lender may have been able to generate income from the asset that they should have decided to use themselves.

As applied so in the financing sector, MFIs offers financial facilities to SMEs in terms of loans and non-financial services like; business training, financial and business management to help improve the capacity of their clients in managing the loan resources granted to them (Quaye, 2011) cited by Asantey and Tengey (2014), where they required to pay an extra amount 'interest' after receiving the loans for their businesses. However, SMEs faces difficulties in accessing bank loans as a consequence to the high risk, low profitability and lack of collateral required by banks. In the ears and eyes of lenders; loan's interest rates are not compatible with the performance of the SMEs and that these MFIs charge high interest rates and hence SMEs tend not to be profitable (Harvie, 2010).

Larger firms usually comply with higher disclosure requirements to a greater extent than SMEs because of their access to a broad range of external funds including bonds, equity and loans (Zhi Wang; 2010). All in all however; the general observation is that, financial institutions charge higher interest rates to SMEs than to

bigger companies in order to compensate for the higher costs of information collection, the smaller volume of external financing and the greater risk of failure.

### **2.3 The Need for Micro Finance**

For the majority of Tanzanians, whose income are very low, access to financial services offers the possibility of managing scarce household and enterprise resources more efficiently, protection against risks, provision for the future and taking advantage of investment opportunities, for economic returns. For households, financial services allow higher standards of living to be achieved with the same resource base, while for enterprises and farmers, financial services can facilitate the pursuit of income growth (Tanzania National Micro Finance Policy, 2000).

Savings services are among the most beneficial financial services for low-income people. Nearly all households need to save to protect themselves against periods of low income or specific emergencies (like school fees). Enterprises also need to store the value they accumulate from their profits until they can invest them to earn a higher return. Moreover, savings in financial form provide funds for investment by others. Thus, savings services can have a very broad outreach and value.

However, NMFP (2000) stipulated further that; credit services can perform some of the same services as savings and can allow enterprises and families to make some important investments sooner. Enterprises uses credit as a source of short-term working capital and longer term investment capital. Households use it to meet consumption needs, particularly during periods when income flows are low, such as during the off season before crops are harvested and to make investments, such as housing improvements.

In short, the policy put a note that, microfinance addresses the financial needs of major sectors of the Tanzanian population. They are primary facilitators rather than creators of the underlying economic opportunities that lead to widespread economic

prosperity. Micro-finance services are financial in nature. Thus, they differ materially from social welfare and resource transfer policies, yet they contribute to the improvement of income distribution and hence reduction of poverty among communities.

## **2.4 SMEs Growth and Development.**

SMEs growth and development has different indicators. The mostly preferred indicators are not limited to sales, increase of employment over a period of time, asset creation, market share, profits and output (Tanzania National SMEs Development Policy, (2000)). Indicators such as level of production and market share vary widely depending on the industry and as a result it is very difficult to use them for comparisons, while profit is not relevant unless measured for a period of time. Davidsson (2006) holds the views that, both sales and employment remain very important indicators for measuring the growth and development of enterprises. Data on the number of employees is usually easier to collect as they are much more important. On the other hand sales may be affected by inflation and it is very important to use several indicators together to study the growth and development of enterprises.

Moreover, enterprises are affected by other factors like access to finance, competition, and government policies. Macroeconomic factors which are external to the management decisions and beyond the control of SMEs. Morrison (2006) described them as; political, economic, social, technological, environmental and legal. However, they are not the subject of the study for review, whereas, areas of interest are described below.

### **2.4.1 Access to finance**

Lack of capital or financial resources is a major barrier to SMEs and entrepreneurs who usually have to mobilize their own capital or their own resources to establish or expand their business (Harvie, 2010). In developing countries; it was argued that, SMEs have difficulties in accessing bank loans as a consequence to the high risk for

failing loans, high bank interest rates (even higher rates charged by Micro Finance Institutions – MFIs) low profitability and lack of collateral required by banks. For many SMEs; the general argument is that, access to finance and capital appear to be difficult, this comes, as a consequence of weak banking institutions, lack of capital market and inefficient legal framework regarding credit and collateral assessment. Financing of SMEs and access to finance plays a crucial role in the growth process and development of the enterprises. Hongmei (2013) holds the view that, funds are the premise and foundation for investment and business activities and how to raise them is significant for modern financial management. In recognition of this reality is evidenced in experience of China, where about 99% of the country's business is SMEs, which made great contributions to the country's economic development.

#### **2.4.2 Competition**

By entering the competition, the company tries to find competitive advantages that greatly affect the success of the enterprise (Walley, 2007). SMEs are usually not very competitive in terms of market knowledge, innovation, prudent investment, business operations and good management, which are important factors in improving the quality.

Countries compete with other countries as a result of globalization and increased trade; thus barriers and other restrictions generally favor these countries (Lind, 2009). Competition is increasing by international companies as a result of the Free Trade Agreements. A survey of SMEs in developing countries by World Bank reported that; competition represents a risk for survival for individual enterprises. Although competition represents high risk, it is the one who pushes enterprises towards higher productivity which actually results in their growth and development.

#### **2.4.3 Government policies**

The importance of SMEs to the economy of a country indicates how important it is to have government policies that support SMEs, including regulations that enable them to operate efficiently and regulations that reduce their administrative costs

(Harvie and Lee, 2005 cited by Harvie,2010). Although there have been initiatives by governments to promote and support SMEs in order to enhance their development and reduce poverty, there is still a lack of genuine administrative procedures such as accessibility to assistance from the government agencies.

The URT SMEs policy (2003) recognizes the need to support the development of SMEs by putting more emphasis on the following:

- Reconsidering review of public policies and regulations that discriminate against or hinder the start-up, survival, formalization and growth of SMEs;
- Enhancing the growth of the sector by ensuring roles of every key actor is well identified and assigned to.
- Strategies that facilitate provision of financial and nonfinancial services to SMEs are developed.
- Public-private partnerships for SME development are institutionalized.

## **2.5 Contribution of SMEs to Economic Development**

The significance of SMEs cannot be overemphasized they include; contributions to the economy in terms of output of goods and services, and creation of jobs at relatively low capital cost. It is a vehicle for the reduction of income disparities thus developing a pool of skilled or semi-skilled workers as a basis for the future industrial expansion; improve forward and backward linkages between economically, socially and geographically diverse sectors of the economy. SMEs provide opportunities for developing and adapting appropriate technological approaches and offer an excellent breeding ground for entrepreneurial and managerial talent (Harvie, 2010).

Kolawole (2013) cited by Olowe *et al* (2013) hold the view that; in many developing countries, small proportion of micro and small firms grow beyond a certain threshold, due mainly to lack of specific management and/or marketing skills. Lack of trust in society is another impediment, limiting many small firms to what their families and immediate communities can control or supervise. He further argued that, small enterprises in developing countries mostly focus on low-tech routine

operations and use mature technologies as blue prints. On average, compared to their industrialized economy counterparts they are less capable of creating knowledge, applying new technologies and rarely performing R&D, often due to the lack of human capital, business competencies and skills. In developing countries, the export share of small enterprises tends to be much lower than in industrialized countries, with a few remarkable exceptions in Asia such as China, Taiwan and increasingly, Vietnam. This situation reflects the technology gap, and in turn, results in small enterprises being excluded from international best practices and sources of knowledge.

In recognition of the significant contribution of SMEs in Tanzania; the National Strategy for Growth and Reduction of Poverty (NSGRP) stipulated the need to reduce income poverty to people in both rural and urban areas. And as a matter of fact, NSGRP emphasizing that, the development of SMEs is one of the key strategies to attain the goals. This policy requirement is supported by observation that, SMEs' development provides an effective means for both reducing poverty and accelerating economic growth. This is normally achieved not only by increasing incomes for entrepreneurs and workers (Mnenwa and Maliti, 2009), but also by creating demand for non-tradable goods, namely services and local products. It is this indirect effect on demand, and the associated employment creation in the small businesses in rural and urban areas, that appears to be the main contributing factor to the reduction of poverty.

In putting more focus, Wang (2010) hold the viewed that, SMEs are seen to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature. These authors: (Harvie, 2010; TCCIA; Satta, 2003; Zambaldi *et al*, 2011) observed that small and medium enterprises are more labour intensive than larger firms and therefore have lower capital costs associated with job creation, thus they perform useful roles in ensuring income stability, growth and employment.

They further stated that, since small and medium enterprises are labour intensive, are more likely to succeed in smaller urban centers and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity argument is that, small-scale production units can promote a more equitable distribution of income than large firms. Zhi Wang (2010) argued that, small and medium enterprises also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth.

## **2.6 Empirical Literature Review.**

### **2.6.1 Micro financing in Tanzania.**

Micro Finance Institutions (MFIs) have considerable long history in Tanzania. However, the empirical evidence shows that, these institutions found it difficult to deal with micro entrepreneurs because of the latter's lack of collateral, high incidence of defaults and high transactions costs associated with issuing of small credits (Urrio and Kessy, 2006; cited by Mnenwa and Maliti, 2009). Following the economic reforms (financial sector restructuring in 1991) has encouraged more participation of private institutions and NGOs in micro entrepreneur (MEs') credit schemes, where reviews shows that, several public and private MFIs, including some of the banks, have been reported to provide micro finance services.

In Tanzania, there are various micro-finance institutions (MFIs) operating in different fields and to mention few, there are; community banks such as Mwanga Rural Community Bank, Dar es Salaam Community Bank, and Mufindi Community Bank (MUCOBA); Commercial banks include; Akiba Commercial Bank and National Microfinance Bank (NMB). NGOs microfinance institutions are; Promotion of Rural Initiatives and Development of Enterprises (PRIDE-Tanzania), Tanzania Finance and Advances in Development Association (FAIDA) and Vision Fund Tanzania (formally Small Enterprises Development Agency (SEDA), Centre

for Microfinance and Enterprise Development (CEMIDE TRUST), Centre for Sustainable Development Initiatives (CSDI), Finance and Enterprise Development Associates (FEDA), National Income Generation Programme (NIGP), Youth Self Employment Foundation (YOSEFO), Mennonite Economic Development Associates (MEDA), Small Entrepreneurs Loan facility Project (SELF), Financial Services and Enterprises Development Association (FISEDA), Civic Education Tanzania Trust (CETAT), FINCA Tanzania and Credit Scheme for Productive Activities of Women in Tanzania (CREW).

However, in their association these MFIs are driven by the vision of becoming strong in the entire microfinance sector, that through lobbying and advocacy create suitable environment that will guarantee them their sustainability in micro credit services provision to communities “SMEs”.

Moreover, the National Micro Finance Policy, commitment is making provision of financial services to households, small holder farmers, and small and micro enterprises in rural areas as well as in the urban sector. The financial services targeted by the policy include savings, credit and payments. The great attention by the policy is that, clients need these services to support their enterprises and economic activities as well as their households’ financial management and consumption needs. Low-income families and their enterprises lacked access to financial services from mainstream financial institutions, therefore, by so doing will ensure them growth (TNMFP, 2000)

### **2.6.2 Loan interest rates and SMEs performance**

Generally, theories agreed that; interest rates yielded by any investment taking into account the following parameters: the risk-free cost of capital, inflationary expectations, the level of risk in the investment and the costs of the transaction. Indeed, interest rates are thus made to keep inflation within a target range for the health of economic activities to safeguard economic momentum.

In a surveyed study to SMEs on the focus requested to anticipate if the future rise in interest rates would adversely impact their business, 86% say that their business has no borrowing but has cash reserves, which is shielding their business from such a rise. In the case to consider issues on consumer demand to fall, observation was however, that, cash reserves offset any interest rate rise. Therefore, higher interest rates will mean the cost of loans will go up, which will have a knock-on effect on peoples' disposable income.

Moreover, reduction in the volume of lending is heavily impact SMEs as these justifiable grounds supports that: rise in interest rate increases the costs of borrowing, this situation tend to discourages people from borrowing and saving. People who already have loans will have less disposable income because they spend more on interest payments, thus other areas of consumption tend to fall. Rising interest rates affect both consumers and firms, as the economy is likely to experience falls in consumption and investment as it tend to discourages investment as it makes firms and consumers less willing to take out risky investments and purchases. It reduces however, confidence in the sense that, interest rates have an effect on consumer and business confidence. In this ground it increases incentive to save rather than spend as the higher interest rates make it more attractive to save in a deposit account because of the interest gained.

## **2.7 Conceptual Model.**

The four concepts discussed in the preceding section and their interconnections to the theoretical and empirical perspectives described an existing connection and influence between and among concepts in this chapter, form the basis for the conceptual model presented graphically in **Figure 1.1**. The model departs from an understanding that, functioning of SMEs in the economy is determined by presence of supporting environment 'rules and regulations' for the performance and growth. The national level policies (for-instance URT, SMEs Policy, 2003 and Micro-Finance Policy 2000) are formulated for the purpose for embracing such an enabling environment for financing SMEs. This is in support of the National Strategy for

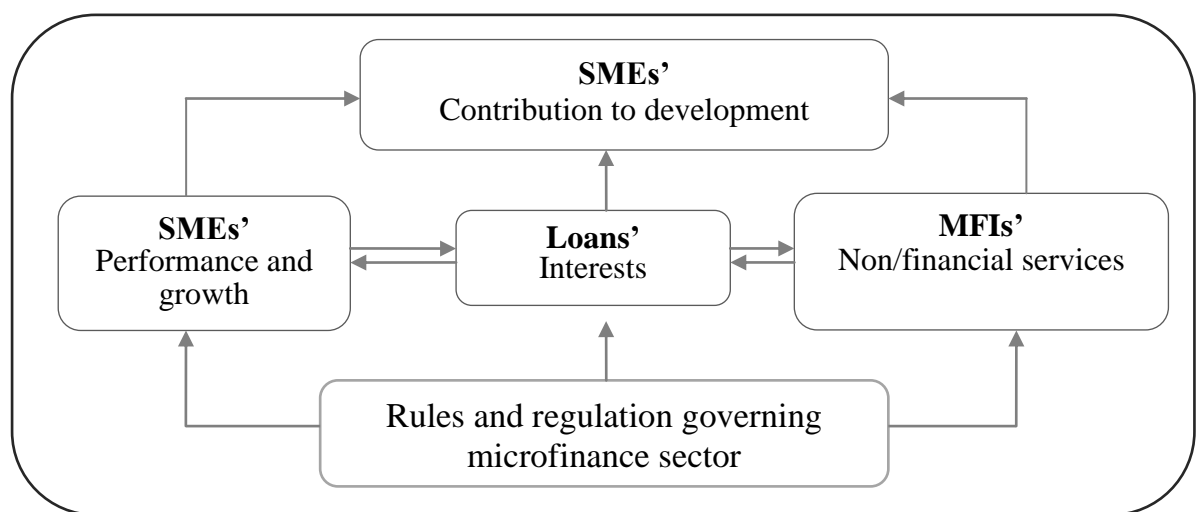
Growth and Reduction of Poverty (NSGRP) which recognizes the need to reduce income poverty to people in both rural and urban areas. This policy requirement supports the observation that, SMEs' development provides an effective means for both reducing poverty and accelerating economic growth (Mnenwa and Maliti, 2009). It is this indirect effect on demand, and the associated employment creation in the small businesses in rural and urban areas, that appears to be the main contributing factor to the reduction of poverty.

The question of accessibility to loan services many SMEs owners seeking for non/financial services, however; most of micro financing institutions always look for ways possible to ensure security of their money lent to SMEs; a conflicting interest. As Harvie, (2010) noted; loan's interest rates charged by lenders 'MFIs' are not well-suited with the performance of the SMEs and that most of them charge high interest rates compared to larger firms which usually comply with higher disclosure requirements to a greater extent.

In return, the determination or wish is to see nourishing of SMEs in their performance and growth, the question which is influenced by many factors including; competitive in terms of market knowledge, business operation and management, higher interest rates, the level of risk in the invested capital, and costs of the transaction to mention but few.

Similarly, interest rate is seen to influence the significance contribution of SMEs' to development. The likely indication for SMEs' significant contribution is observed in the economy in terms of output of goods and services, and creation of jobs at relatively low capital cost. It is a vehicle for the reduction of income disparities among skilled and none skilled individuals and is basis for the future industrial expansion; improve forward and backward linkages between economically, socially and geographically diverse sectors of the economy. SMEs provide opportunities for developing and adapting appropriate technological approaches and offer an excellent breeding ground for entrepreneurial and managerial talent (Harvie, 2010).

In many developing countries however, small proportion of micro and small firms grow beyond a certain threshold, due mainly to lack of specific management and/or marketing skills. On average, compared to their industrialized economy counterparts they are less capable of creating knowledge, applying new technologies and rarely performing R&D, often due to the lack of human capital, business competencies and skills (Kolawole, 2013 cited by Olowe *et al* (2013)).



**Figure 1.1: Conceptual for the study.**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Overview**

This chapter discusses how the necessary data needed for this research was gathered. The section provides information on the research methodology and techniques used to conduct the study. It defines the population from which the sample is selected and describes the sampling procedures used to select the sample. It also discusses the research design and the method of data collection which mainly involved in-depth interview. Operationalization of fieldwork, data organization and analysis were also included in this chapter.

#### **3.2 Research Design**

The research is descriptive in nature and employs empirical survey method in assessing the effect of charged loan interest rates on SMEs performance and growth to the surveyed SMEs in Tanga city. In order to effectively make valid analysis on the presentation and analysis of the data collected from the field, descriptive statistics such as tables, frequency and charts were used to depict the relevant data. The study utilized primary sources of data in which structured questionnaire were extensively used. The purpose was to generate data about the opinion and perceptions of SMEs owners in relation to the effectiveness of loans interest rates on the performance of their enterprises.

However, data for the study were obtained from primary sources during field survey carried between the fourth weeks of April, 2015 throughout the mid May, 2015. Mostly, data related to characteristics, performing SMEs activities and other information related to offered financial services were collected once (singly visit interview/cross-sectional survey) to target sample respondents and key (Credit Officers) informants.

A purposive sampling technique was used. This is the technique as to who can provide the best information to achieve the study objective (Kumar, 2011). In the instance, a list of clients who are being served by the Vision fund was prepared, followed by selection of respective wards (namely; Mabawa, Majengo, Duga, Msambweni, Nguvumali, Chumbageni, Usagara C and Tangasisi) visited and from these areas selection of households was done coming out with sample surveyed respondents. It was basically performed so due to the fact that, it was easily to survey these areas, and secondly they are accessible. Administrative area, such as, wards and ‘streets’ in particular were done during the first week of the research work.

**Table No.3.2.1: Tanga City Wards Surveyed (N=83)**

S/N	Ward Name	Sample Respondents	Percent (%) of Total
1	Mabawa	15	18.1
2	Majengo	12	14.5
3	Duga	6	7.2
4	Msambweni	9	10.8
5	Nguvumali	12	14.5
6	Chumbageni	12	14.5
7	Usagara C	6	7.2
8	Tangasisi	11	13.3

Prospective respondents and Focus groups were randomly selected and 2 FGs of 12 members each had invited and actively participated during the discussion. Also data in the form of questionnaires were distributed to 83 respondents.

### **3.3 Population and Sampling procedures**

The chosen population for the study comprised of Small and Medium Enterprises who are the prospective clients (receives financial services/loans) of VisionFund Tanzania operating in Tanga city.

The study has surveyed a total of 83 (9.6%) sample population who are clients of Vision Fund Tanga branch. The focus was to survey respondents who had at least five years experience in loan facilities, since the objective of the study is to

investigate the effect of loans interests' rates on SMEs performance. However, for each surveyed household/client, observation technique was used particularly to see what businesses are performed. The sample size and technique used in the selection could be considered representative enough to enable the researcher to generalize the results of this study.

### **3.4 Sources of Data**

Both primary and secondary sources of data were used in the research. The primary data were collected through questionnaires. The researcher conducted a survey using a questionnaire as an instrument for data collection. Face-to-face interviews and personal observations were also made during the survey period. At each point in time a questionnaire was administered on the sample population to ascertain the primary data.

The interview was highly formalized and structured using standardized questions for each respondent, or informal and unstructured conversation. In spite of making the interview process orderly, structured interview was used to restrict the interviewer from predetermination of questions. On few occasions however, unstructured interviews (particular in FG discussions) were also used to ensure clarity and also to prevent the interviewer from deviating. Additionally secondary data from other surveys, organizational records and data were used to augment the collected primary data. This was done to appreciate the theoretical and conceptual framework of the subject under study.

### **3.5 Data Collection Instruments**

Both structured interview and questionnaires were used as tools for data collection from the sample surveyed respondents. These tools were constructed to capture both qualitative and quantitative data. However, the first type of questionnaire (*refer Appendix I*) was designed to capture opinions on loan interest rates, response on significance contribution of loan services to growth and development and challenging issues to SMEs performance.

The second questionnaire (*refer Appendix 2*) was designed for focus group discussions. In it a list of guiding questions was designed and used during focus group discussion (FGDs) and it was made purposely to gather the qualitative information. The interview was done in Swahili and later translated in English. The third questionnaire (*refer Appendix 3*) was designed for Credit Officers where a list of guiding questions were formed purposely to gather their opinions. However, observation technique was employed during the survey to evaluate the status of the surveyed sample respondents; their physically performed entrepreneurial activities. It was also used to assess differences in physical settlements, status and environmental context of the surveyed sample respondents.

### **3.6 Operationalization of the Fieldwork**

Field survey was conducted in May, 2015 and operationalization of fieldwork had involved interviews and discussions with sample surveyed population. A total of 83 interviewees and one focus group discussions were carried out. Prior to the day of starting interviews, sampled population from 8 Wards (namely; Mabawa, Majengo, Duga, Msambweni, Nguvumali, Chumbageni, Usagara C, and Tangasisi), Three Credit Officers (COs) were contacted, visited and briefed on the purpose of the study.

Mostly likely, interview was done within homes or business places. Moreover, appointments were made at least one day before the interview date; this was done to firstly to prepare them and create good understanding between interviewer and interviewees. Respondents were interviewed once and their responses were recorded immediately. However, for smooth interview session, Kiswahili language was used after questionnaires have been interpreted to their language to fit the need of prospective clients. In some instance English languages was directly used particularly to credit officers. Besides questionnaires, informal discussions guided by checklists were held with Vision Fund Officers and Focus Groups.

### **3.7 Data Processing and Analysis**

#### **3.7.1 Data processing**

Data were coded and entered into the Statistical Package for Social Sciences (SPSS) 16 for windows and cleaned by running frequencies of individual variables and later analyzed.

#### **3.7.2 Data analysis**

A substantial part of the analysis was mostly based on descriptive statistics such as frequencies and to some cross-tabulations was applied. These statistics were used to assess respondents' characteristics, assessing views of pertinent to SMEs' owners on the charged loan interest rates, effects of these rates to SMEs performance and finally challenging issues during operationalization of SMEs.

## CHAPTER FOUR

### RESULTS

#### 4.1 Introduction

This chapter presents results of the carried out research study on examining effect of loan interest rates on SMEs' performance and growth with focus to customers who receives VisionFunds' loan services at Tanga branch . However, this chapter description is divided into three main sections. The first section presents findings of the surveyed sample respondents; the second section presents focus groups discussions and the third section presents responses of Loan Officers' (COs). Moreover, in the first section five sub-sections are inclusive. The first sub-section presents characteristics of the surveyed sample respondents (**refer Table 4.2**); the second sub-section views on loan services interest; the third sub-section presents on loan interest rates on SMEs' performance and growth; sub-section four is on contribution of loan services to SMEs' growth and development and the fifth section is on challenging issues to SMEs performance. FGDs issues are presented in the second section while the third section is views of Credit Officers.

#### 4.2 Characteristics of Sample Respondents

Table 4.2(i) presents the background information of the surveyed sample population, where age range of the respondents between the age group of 25 to 45 years has accounted 51.8 percent, while 42.2 percent is the population above 45 years. In the gender aspect, the study has revealed the male population to account 53 percent while 47 percent account female population. In the area of level of education attained, majority (47 percent) were attained primary education while 39 percent of the surveyed population had attended up to secondary (particularly O' level) education. However, the study revealed that, 67.5 percent of the surveyed population performs business/trade as the leading occupation. Most of business/trade identified as non-farm activities (source of their income) were listed as cloth shop selling (60.2

percent), retail shops (22.9 percent) and food vending (8.4 percent) to mention few (*refer Table 4.2(i)*).

**Table 4.2.(i): Background information of respondents (N=83)**

S/N	Description	Respondents	Percent
<b>1</b>	<b>Age of respondent</b>		
	Age 25 years old	5	6.0
	Age 25 – 45	43	51.8
	Age 45+	35	42.2
<b>2</b>	<b>Role in the household</b>		
	Head of household	46	55.4
	House wife	36	43.4
	Son/daughter	1	1.2
<b>3</b>	<b>Gender/sex</b>		
	Male	44	53.0
	Female	39	47.0
<b>4</b>	<b>Highest level of education attained</b>		
	Primary level	39	47.0
	Secondary '0' level	33	39.8
	Secondary A' level	2	2.4
	Diploma level	1	1.2
	Vocational training	8	9.6
<b>5</b>	<b>Marital status</b>		
	Married	68	81.9
	Single	4	4.8
	Widowed	6	7.2
	Divorced	5	6.0
<b>6</b>	<b>Occupation</b>		
	Wage employment	4	4.8
	Business/trade	56	67.5
	Employed and business men	13	15.7
	Farming/livestock keeping	9	10.8
	Others –carpentry	1	1.2
<b>8</b>	<b>Job Status</b>		
	Full time	73	88.0
	Part time	10	12.0
<b>9</b>	<b>Major Source of Income</b>		
	Non-farm activities	76	91.6
	Wage employment	7	8.4

**Table 4.2 (ii): Non-Farm Activities**

S/N	Non-Farm Activities	Respondents	Percent
1	Food vending	7	8.4
2	other- stationary shop	1	1.2
3	others- produces/cereals	1	1.2
4	Kiosks	1	1.2
5	Artisans-carpentry/welding/mason	2	2.4
6	Others- guest house	1	1.2
7	Others- retail shop	19	22.9
8	Others- clothes	50	60.2
9	Other- bodaboda	1	1.2

### 4.3 Views on Loan Interest.

Table 4.3 summarizes areas of interest to grasp the general view of respondents on the question of loan interest as applied in provision of loan services. Findings presented in Table 4.3 particularly section I shows majority (63.9 percent) of the surveyed population have been in loan services for the period of 5 to 10 years. In section II, majority (60.2 percent) have taken loan amount ranging 1 million to 2 million. When requested to give out their view on interest majority (about 77.1 percent) have viewed interest rate to be relatively high compare to other MFIs offering loan services in Tanga City.

**Table Table 4.3: Duration in loan services, loan amount and pertinent views (N=83)**

S/N	Description	Respondents	Percent
<b>I</b>	<b>Duration in loan services</b>		
a	Less than 5 years	16	19.3
b	More than 5 and less than 10 years	53	63.9
c	More than 10 years	14	16.9
<b>II</b>	<b>Loan amount have been taken</b>		
a	Less than 1mil	24	28.9
b	More than 1 mil and less than 2 mil	50	60.2
c	Above 2mil	9	10.8
<b>III</b>	<b>Views on interest rates</b>		
a	Relative high compare to other MFIs	64	77.1
b	Relative low compare to other MFIs	19	22.9

On the question to assess whether the surveyed population has been given training on mathematical computation of interest rates, the response was ‘yes’ where learning was that, it is most the orientation training on loan management and does not have emphasis on entrepreneurial management skills in business operation.

#### **4.4: Loan interest rates on SMEs’ performance and growth**

Table 4.4 presents summaries of areas in the perspective to examine loan interest on SMEs’ performance. In this regard, respondents were requested to show if there is any significant effect of loan interest to business ‘SMEs’ performance and growth. Section I of Table 4.4 present that, majority (68.7 percent) had **yes** response. Description for this particular response is confirmed in section II by 44.6 percent and 39.8 percent respectively. However, section III put clearly a mark that, even though there has been observed effect; that particular effect is not an issue (refer 18.1 percent) to business performance and growth.

Table **Table** 4.4.1: Loan interest rate on SMEs’ performance and growth

<b>S/N</b>	<b>Description</b>	<b>Respondents</b>	<b>Percent</b>
<b>I</b>	<b>Responses regarding effect for charged interest rate to business performance</b>		
a	Yes	57	68.7
b	No	26	31.3
<b>II</b>	<b>Observed effects in business performance and growth</b>		
a	Experiencing slow growth of business capital	37	44.6
b	Continue operating on less profit	33	39.8
c	None of the above	13	15.7
<b>III</b>	<b>If no, what are the significant explanations regarding the charged interest on your business performance and growth</b>		
a	It doesn't affect much business growth	15	18.1
b	Not applicable	68	81.9

However, experiencing a slow growth of business capital is explained as the decision of loan seeker opting to take small loan amount from fear of interest rate charged by VisionFund Tanzania.

Similarly, interest was drawn to find out whats’ other likely factors that could be in existence and at the same time influencing business performance and growth. Table

4.4.2 presents five factors observed to this effect, and from the list, three factors in the list differ slightly for 27.7 percent accounted for price fluctuation, business seasonality (25.3 percent) and 24.1 percent accounted for economic hardship.

**Table 4.4.2: Factors influences business performance and growth (N=83).**

<b>S/N</b>	<b>Other factors influenced business performance and growth</b>	<b>Respondents</b>	<b>Percent</b>
1	Business seasonality - up and down	21	25.3
2	Economic hardship	20	24.1
3	Price fluctuations	23	27.7
4	High government tariffs and fees charged to goods and services	14	16.9
5	Untruthful character of customers	5	6.0

#### **4.5 Significant Contribution of Loans to SMEs' Growth and Development**

In order to assess a significant contribution of loans to SMEs growth and development, respondents were requested to give out their general view focusing on business performance before and after loan services. Variables used to direct the assessment on this performance were three; business capital, assets and income. It was however, observed that, before loan services, individual business were characterized by low capital, few assets and low income was generated. In building up the argument after loan services revealed contribution were that; business capital was high than before, business assets were increased as well as high income. It was learnt however; that, after receiving loan services, opportunity to open up new business was observed by 47 percent though 53 percent did not have new business created.

**Table 4.5: General view on loan services on business growth and development; (N=83)**

<b>S/N</b>	<b>Description</b>	<b>Response/Percentage</b>
1	Contributed to our business growth and development	27(32.5)
2	Contributed to generation of new assets	31(37.3)
3	Facilitated growth of income	25(30.1)

Table 4.5 presents views on the question of loan services to business growth and development. Regarding this response, three observations were identified as follows.

There are those who said that, loan services contributed to business growth and development (accounted 32.5 percent), others accounted 37.3 percent said loan services contributed to generation of new assets and at last facilitated growth of income (30.1 percent accounted). General the standing argument on these findings is that, there is observable and significant contribution of loan services to business growth.

#### **4.6 Challenging issues on SMEs performance**

Business performance has always been subjected to internal and external challenging issues. This observation is supported by Ortiz-Molina (2008). In Table 4.6 few of these pertinent issues are being identified as the most challenging in business operations. In view of surveyed population; increased competition in business and trade performance is a leading challenging issue accounted 39.8 percent, followed by higher government tariffs and fees to goods and services (accounted 30.1 percent). Price fluctuation and untimely payment of goods and services by their respective clients has accounted 15.7 percent and 14.5 percent respectively.

**Table Table 4.6: Challenging issues to SMEs performance (N=83)**

<b>S/N</b>	<b>Description</b>	<b>Response/Percentage</b>
1	Untimely payment of goods and services consumed by the respective clients	12 (14.5)
2	Price fluctuation	13 (15.7)
3	Increased competition in business and trade	33 (39.8)
4	Higher government charges and fees to goods and services	25 (30.1)

#### **4.7 Focus Group Discussion**

Focus group discussion (FGD) is a semi-structured data gathering method in which purposively selected set of participants gather to discuss issues and concerns based on a list of key themes drawn up by the researcher/facilitator (Loice, 2013). In view of this research, key themes discussed during FGs were; views regarding loan interest rates in business performance and growth; factors influencing business

performance and growth; contribution of loans services to business performance and growth; and other challenges in business performance.

In facilitating discussion along these thematic areas, FGs participants were selected after establishing a list of individual clients. The researcher used the list to communicate to individual client(s) requesting them (individually) to participate in the FGDs which was scheduled one week later. It was finally done after 9 individuals agreed to appear for the discussion. As the basis of description of the qualitative information collected during field survey; findings are presented in each respective researched thematic area.

#### **4.7.1 Views regarding loan interest rates in business performance and growth.**

During group discussion participants were asked on the question how they view loan interest in their business performance and growth. The following are their observations:

“The charge interest rate is relatively high compared to other loan providers... considering that we’re needy individuals and thus, no way rather to go for it ensure continuity of our businesses ...”. In cementing this argument, one participant from Nguvumali (named Pili Waziri) was reported that,

“From 2003 to date (2015) the charged interest of 36 percent annually has not been changed, despite an increasing need to improve loan services provision so as to foster competitive business environment in the microfinance sector”.

Therefore, in view of these observations, the general learning from the group has been that, loans services remains facilitative to business operation as it open up more opportunities/doors for self employment to all those engaged in business activities.

#### **4.7.2 Effects that could be claimed not to contribute positively to business performance and growth.**

During group discussion participants were requested to show their responses if loan interest does have any effect to business performance and growth and their views are as stipulated;

“In respect of higher interest rate, we have been forced to opt going for small loans in return for small payment of interest instead of taking high loans which justify higher payment”. The group views of this nature, was supported by Godrich Mngala one of group participant from Tangasisi Ward that;

*“My businesses (clothes) require large capital but, I cannot opt for large loan (36% annual rate) due to the fact that, I will be supposed to pay more with interest”.*

#### **4.7.3 Other factors that could be claimed to influence business performance and growth.**

Majority of participants have had shown the same feelings; commenting on other influencing factors on business performance and growth. In this particular aspect participants have viewed the following:

“Our government has been regularly changing fees and charges, and currently fees and charges have risen thus, affect our business income; For-instance, introduction of new fees for health and sanitation services while license fees and amount has changed...” In view of this observation, the group commented that,

*“Due to economic hardship to many consumer of our goods and services, we have been forced to sell on credit on bases of paying on time but some of them have failed to do so thus, affects our business growth”.* This particular observation is being supported by the likely group remark that; ” *Seasonality in business affect growth and performance of our*

*business” in the sense that, there are times businesses are doing well and the vice versa is true.*

#### **4.7.4 Benefits acquired through loan services provide.**

It was learnt from the group participants that, loan services have benefited the group in several ways and few of explained benefits are described hereunder:

“Loan services has been so helpful in our business growth where we have managed to access loans, our capital has grown, our capacity to buy and sell goods and services have increased, new business have been opened, our children have been taken to school, and consistently managed to provide the required social and economic services to our families...”

In view of the group observations given in all subsections from 4.7.1 to 4.7.4 the learning is that, loan services have had impacted the groups’ entrepreneurial activities.

#### **4.8 Credit Officers’ Response**

Conducting a research study of this particular focus on micro-financing to business support through loans services is crucial. However, for more acquaintance to this area, special considering was put on interrogation of the Credit Officers. The consideration was put following the reality that, COs are technical people who have been vested such roles to provide technical advices and assistances to loan seeking clients. Thus, it is in their shoulders that, micro financing business would at least be done smoothly.

Moreover, through interrogation with COs, the learning’s have been that, most of clients’ views loan interest rates as relatively high, and the persisting argument among these clients is the question to have periodically reviewed the institutional policy on loan services. The suggestion to this observation is that, will encourage clients to take big loan than continue for years in taking small loans the issues which

will continue operating small business where profit generated is as well relatively low.

It was revealed during the discussion with COs' that, an influencing factor among many in their clients' business performance is the attitude of them to get involved in receiving multiple loans (loaning among institutions) where it becomes difficult for them to manage when it comes the time to pay back the granted loan with interest. Other factors identified, were lack of business management skills, and economic hardship which washout or reduce the purchasing power of people where to them in the business perspective is not good. The reason give to influence this particular situation has been described as poverty and poor eagerness to learning.

## **CHAPTER FIVE**

### **DISCUSSION OF FINDINGS**

#### **5.1 Introduction**

This chapter discusses findings as presented in chapter four where the focus is on reveals from the surveyed respondents, performed focus group discussion with inclusion of thereof interrogation with Loan Officers' (COs). In this part however, consider issues of loan services interest and SMEs' performance and growth; on loan services to SMEs' growth and development and challenging issues on SMEs performance are discussed in length.

#### **5.2 General View**

Involvement and active participation of an individual or group of individuals in any decently productive work is highly among other factors guaranteed by the physical fitness to do so. The productive man is normally above 20 to 50 years of age and some time could stretch to 60s. In view of this study, majority of the surveyed respondents' shows an age range of 25 - 45 (51.8 percent) years and 42.2 percent counted for the population of above 45 years old. This study suggests that, the surveyed population is an economically productive age group and therefore supporting findings by Mungai *et al.* (2000) and Nyagori (2001) that most of small-scale entrepreneur's workforce is constituted of economically active age group.

In the level of education attained, 47 percent of surveyed population has completed their primary school education and 39 percent had attended up to secondary (mainly 'O' level) education. Gender representation is nearly equal; male (53 percent) and 47 percent female. This is an indication that, women are not far behind in production process, and they are people with responsibilities in their families (refer 81.9 percent accounted married) to do.

In addition, the surveyed population (88 percent) is full time engaging in performing their productive works, and 67.6 percent shows seriously engagement in doing

business/trade mostly non-farm activities (accounted 91.6 percent). These non-farm activities were mentioned as: food vending (8.4 percent); retail shops (22.9 percent) and cloth sell (60.2 percent) while stationary shop, produces/cereals, Kiosks, guest house and bodaboda each accounted 1.2 percent while artisans-carpentry/welding/mason had 2.4 percent. This suggests that non farming activities in the study area provide employment opportunities almost throughout the year. And it concurs with the report by World Bank (2011) cited by Govori (2013) that, enterprises employ about 60% of the employees in the private sector.

### **5.3 Observation on Loan Interest.**

In view of the case presented in Table 4.3; majority (account 63.9 percent) have almost reached ten (10) years experience in business. This is a good period in business however, findings revealed in chapter four, shows a bit different picture on the side of loaned money during the whole period. As a fact of knowing how much has been taken to facilitate business, it was learnt that, majority (account 60.2 percent) have been taking loan amount ranging between 1 million to 2 million. The reveals to support this situation is associated with interest rate charged and when were requested to give out their observation majority (77.1 percent) had viewed interest rate to be relatively high compare to other MFIs offering loan services in Tanga city. The same report was learned during FGDs as well as during interrogation of COs.

### **5.4: Loan interest rates on SMEs' performance and growth**

It is clear that, in order to promote growth and development of SMEs, ensure availability of loan services is inevitable, where charged interest on loan given remains to be a matter of fact. In examining this concern, reveals are such that, 68.7 percent of the surveyed population have had replied yes to show that, there is effect to loan interest on the performance and growth of their business. The best way to explain this situation was the report by majority that, there has been a slow growth of business capital and less profit gained. Reason for this was that, because of higher

interest rate, majority were being forced going for small loans in return for small payment of interest instead of taking high loans for higher payment.

Being the case however, a similar interest was drawn to find out what's other likely factors could be in existence and therefore influencing business performing and growth. At most few factors were identified to play a significant role in their business performing and growth (Table 5.4).

**Table 5.4: Factors influences business performance and growth (N=83).**

S/N	Other factors influenced business performance and growth	Respondents	Percent
1	Business seasonality - up and down	21	25.3
2	Economic hardship	20	24.1
3	Price fluctuations	23	27.7
4	High government tariffs and fees charged to goods and services	14	16.9
5	Untruthful character of customers	5	6.0

However, when these factors such as; Price fluctuation, Business seasonality (ups and downs) and economic hardships and government tariffs and fees were examined in the direction of business performing and growth the drawn picture is just an influencing position which triggered a fearful attitude among the surveyed majority in business. The reality is that, for smoothly business performing and growth, a significant amount of capital is required. Therefore, there had been a good opportunity to effective utilization of the available loan services for more loan amount taking for investing in business, the issue which was not well performed by the surveyed population.

### **5.5 Contribution of Loans' Services to Businesses Growth and Development.**

The development of global economy today could not ignore the important role and position of small businesses by SMEs. It is empirically that, SMEs provides good opportunity for employment creation and generation of income among small entrepreneurs. In recognition of this fact, the surveyed population was requested to give out their views on their business performance, and for good analysis, the focus was made on the situation before and after receiving loan services.

In examine this, however, three variables, namely; business capital generation, assets creation and income generation were used. It was finally learned however, that, before loan services, business/trades were characterized by low capital, few assets and low income. The revealed fact is that, loan services had contributed significantly, and the observed views are that; business capital has increased than it was before loan services. This fact is supported by the response of 32.5 percent who reported to contribute to business growth and development, 37.3 percent reported to contribute in generation of new assets and 30.1 percent who reported to facilitate growth of their business income.

### **5.6 Challenging Issues on Businesses Performing.**

Business performing and growth is always subjected to various pertinent issues and consequences. This examination has however, challenged to see whether this is applicable in this particular study. Therefore, in view of Table 4.6; few significant issues were being identified as the most challenging in business operations, and these were the aired out views from the surveyed population; “increased competition in business and trade performance had accounted 39.8 percent; Higher government tariffs and fees to goods and services had accounted 30.1 percent; Price fluctuation and untimely payment of goods and services by their respective clients had accounted 15.7 percent and 14.5 percent respectively.

In business however, ignoring these issues is impossible; Trish (2011) as cited from Smallbone and Wyer (2000) argued that, barriers are also internal including government control, where Scott et al. (1996) point out that owners of the failed businesses often point to the shortage of the working capital as the prime cause of business failures and the documentation by Fielden et al. (2000), observed lack of adequate start up funds has a “knock-on” effect restricting development and growth as it reduces funds for activities such as advertising, publicity, and acquiring suitable premises. Therefore, issues of finance are concerns related to the level of demand for products and services as well as nature of market place competition which is evidenced in the study.

## **5.7 Focus Group Discussion**

Reveals from the FGDs has put a mark on the fact that, loan interest was somehow considered as an influencing hedge to their business undertaking. The pertinent observation however, is when we wanted to know how far interest rates is being perceived and their views are that; charge interest rates are relatively high compared to other loan providers, and it has persisted for so long since 2003 when a rate of 36 percent annually was availed to them despite the need to improve loan services and to foster competitive business environment in micro financing sector of the economy.

It went far in trying to learn the effects that could be claimed not to contribute positively to business performance and growth. The concern was that, the option to most of surveyed majority was to go for small loans in return for small payment of interest instead of taking high loans for higher payment. This however, remains on the observation of fearing to take a decision for more loans taking for business.

It was learnt during FGDs that, there are other factors claimed to influence business performance and growth. Evidence were given out that, regularly changes made on fees and charges has keep on increasing thus, affect business income. For-instance, introduction of new fees for health and sanitation services payment while license fees and amount has changed was reported strongly among participated individuals. Moreover, due to economic hardship to many of consumers, selling on credit on bases of paying on time agreed yet some were not maintained the agreement thus failed to do so and consequences was observed in their business.

Foremost, in the case of benefits obtained through loan services; a number of these benefits were said and these are not limited to business grow where capital has improved/grown, goods and services are in abundance, new business were opened, children were taken to school, and consistently the required social and economic services to families were provided.

Arguably, Credit Officers in their response they shown the same concern that; clients viewed loan interest rates to be relatively higher therefore, being on the view that, charged interests to undergo a review. Supporting argument was revealed that, majority are pushed to continue opting for small loan amount/services. However, an interestingly learning during the discussion was that, clients have been receiving multiple loans thus becoming sometimes difficult for them to manage when required to pay back the loan.

Furthermore, lack of business management skills among those who taking loan services and economic hardship impinge deterioration of purchasing power to many. The described learning has been poverty prevalence.

## **CHAPTER SIX**

### **SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS**

#### **6.1 Summary**

This part present a synopsis of the findings as appeared in chapter four. However, a total of 83 respondents were interviewed where, details of their background is described in chapter four (refer Table 4.2(i). the surveyed population (67.5%) is actively involved in business/trade and mostly identified activities are; cloth shop selling (60.2 percent), retail shops (22.9 percent) and food vending (8.4 percent) to mention few.

Regarding their involvement in loan services, majority accounted 63.9 percent had been in a period of between five to 10 years. This is a very good experience in microfinance where majorities (60.2 percent) have taken loan amount ranging 1 million to 2 million, and again majority (77.1 percent) have remarked interest rate to be relatively high compare to other MFIs offering loan services.

In the case of loan interest rates on SMEs' performance and growth, majority (68.7 percent) had **yes** response and their response is confirmed by 44.6 percent and 39.8 percent respectively. In addition, a slow growth of business capital is explained as the decision of loan seeker opting to take small loan amount from fear of paying more money charged on interest rate. Nevertheless, price fluctuation, business seasonality and economic hardship were emerged the leading factors.

The fact however, are evidently that, before loan services, individual business were characterized by low capital, few assets and low income was generated, whereby; building in significance is the argument that, after loan services contribution were high business capital, more business assets were created including increased income. Moreover, opportunity to open up new business was observed by 47 percent against 53 percent for those not had new business created.

As observed by Ortiz-Molina (2008), the most challenging issues to business performance and growth in view of this study were identifies as; increased

competition in business and trade performance leading by 39.8 percent, followed by higher government tariffs and fees to goods and services (accounted 30.1 percent). Price fluctuation and untimely payment of goods and services by their respective clients has accounted 15.7 percent and 14.5 percent respectively.

During group discussion and interrogation with COs reveals have been that; charged interest rate is relatively high compared to other loan providers and their decision was pushed business continuity. However, experience from the study has shown that a period of 13 years since 2003, the 36 percent annually charged interest has been maintained 'no change effected despite the need to improve loan services and to foster competitive business environment in microfinance sector. Learning from the group on this aspect is that, loans services remains facilitative to business operation as it open up opportunities/doors for self employment.

Consequently, government has regularly been changing tariffs and fees where this act of government of effecting changes has been witnessed in payment of fees on health and sanitation services. However, due to economic hardship of many of consumer of goods and services, the surveyed population reported takes a decision of selling on credit on bases of paying on time but some of them have failed to do so thus, affects in one way business growth.

So far, loan services has been so helpful in business growth as through access to loans, business capital has grown, new business have been established, and foremost, the capacity to social and economic services provision to families has increased.

Credit Officers were on the view that, many of their clients had developed an attitude of receiving multiple loans (loaning among institutions) where it becomes difficult for them to manage when it comes the time to pay back the granted loan with interest at top. Other factors mentioned were lack of business management skills, where economic hardship has influenced people's purchasing power.

## **6.2 Conclusions**

This study has examined effect of loan interest rates to SMEs' performance and growth in Tanga City using customers of the Vision Fund Tanga branch. The question of SMEs financing 'loan service provision' has been a global agenda and in particular a popular topic in the development policy and governance literature in Tanzania for a good number of years. However, looking at its impact on performance and growth of businesses has gained attention in recent years. Many empirical studies in Tanzania have mainly focused on the dimensions of financial support, a concern which is limited or is inadequacy on interest charged on return to performance, growth and development.

The study used the case of Vision Fund clients because they are eligible sample population to study issues of micro financing of small businesses and performance and therefore, draw a representing findings as to others likely performer in the field, where, men and women alike (male 53 percent and 47 percent female) were presented. However, with this gender wide figure, indication is that, women are now becoming an active group in performing economic 'entrepreneurial works' chores.

The main research question on this study was on how loans' interest rates had effects on SMEs' performance, growth and development to Vision Funds' clients in the context of clients managing small business in Tanga City. Specifically the study concentrated on four thematic areas. In chapter 1, background information is elaborated including giving a general setup of small and medium enterprises (SMEs) and its financing options among others impact of loans on SMEs, problem of the study, objectives, significance and scope of the study are presented. Chapter 2 presents literatures reviewing theoretical perspectives where in chapter 3, the research context and methodological design of the study is presented. These final chapters (four, five and six) presents the overall findings, discussions and general conclusions of the study as revealed in the preceding chapters. The chapter is divided in four parts. The second part revisits and discusses the main findings and conclusions by summarizing and reflecting on the answers to the research questions

formulated in Chapter 1. This discussion is done in light of the theoretical perspectives and in view of the existing scientific knowledge. The third part provides a general discussion on the theoretical and methodological concerns emerging from the study. The last part offers some policy recommendations and interventions for further research.

### **6.3 Policy Implications**

The overall conclusion of this study is that loan interest has effect to the business performance and growth, and it is an opportunities and at the same time posses vital challenges for review interest rates from time to time in the micro-financing sector of the economy for basis of sustaining and promoting (refer the cote “since 2003 to date; 2015, the interest of 36% charged annually has not reviewed) people’s active involvement and commitment in performing entrepreneurial activities for economic and social wellbeing.

However, the response of majority (accounted 68.7%) as presented in chapter 4, on positive agreement that, loan services is important; though 44.6% and 39.8% respectively has shown experience in slow growth of business capital and operating on less profit still, could signify the need by the institutions in question to review their existing policy and management style and practices to continue sharpening the management attitude, knowledge and practices of their clients for profitable business performing and growth. This intervention will give impetus in managing sustainably challenging issues when rising (like price fluctuation (reported by 27.7%), business ups and downs (reported by 25.3%)) by being so proactive in setting sound strategies and mechanism for well informed decision taking.

In order to ensure businesses are in recognition and appreciation on areas of capital formation, assets creation and income generation, a joint commitment for sustainable growth in these areas is essential, and has to be part of emphasis and evaluation practice by all key stakeholders (MFIs and their clients) and have to continue be measuring parameters for business performance and growth.

The study also identified challenging issues to business performance in chapter 4 as; increased competition in business and trade (accounted 39.8%), higher government tariffs and fees to goods and services offered to the markets (accounted 30.1%); price fluctuation and untimely payment of goods and services by respective clients (accounted both 15.7% and 14.5% respectively), all calls jointly for awareness rising on number of issues ranging from production processes and packaging and orienting clients on advertisement, and penetration strategies to the markets. The experience in micro-financing sector shows that, MFIs have ignored the need to integrate these aspects for prosperous growing businesses ‘SMEs’ in their permanent agenda of loan services provision.

Government is concern on issues of tariff and fees setting should continue ensure quality services to citizens is provided, so that, adhering to rules, procedures and regulations in business including payment of taxes and fees remains so smoothly implemented.

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## Appendix I: Household Questionnaire

- (i) Name of the Ward.....
- (ii) Name of 'Mtaa' suburb.....
- (iii) Name of Respondent .....
- (iv) Date of interview.....

### Part I: Background Information

#### 1. Household information.

- (v) Role in the household .....
  - 1= Head of household    2 = House wife
  - 3= Son/daughter        4= Sibling        5= Uncle
  - 6= Nephew                7 = Others (specify)
- (vi) Gender/sex .....
  - 1 = Male                2 = Female
- (vii) Highest level of education attained by the respondent/Elimu ya juu aliyonayo
  - 1= Primary level        2= Secondary '0' level    3= Secondary A' level
  - 4= Diploma level        5= Vocational training
  - 5= Degree level        6= Others (specify).....
- (ix) Age of respondent ..... (years)
- (x) Marital status .....
  - 1= Married        2= Single
  - 3= Separated    4= Widowed    5= Divorced
- (xi) Occupation/Kazi .....
  - 1= Wage employment    2= Business/trade
  - 3= Employed and businessmen
  - 4= Farming and livestock keeping
  - 5= Retired officer with pension
  - 6 = Retired officer without pension
- (xii) Please indicate your job status .....
  - 1= Full time        2= Part time
  - 3= Infrequent    4= None of the above (specify) .....
- (xii) Number and sex of family members in the following age groups.

Gender	Age0 – 6	7 – 17	18 – 45	46–59	Above 60	Total
<b>Male</b>						
<b>Female</b>						
<b>Total</b>						

2. What is your tribe/ethnic group? .....
3. For how long have you lived in this village?
  - 1= since birth
  - 2= Less than 10 years
  - 3= More than 10 years
4. What is your major source of your income for your household?
  - 1= Farming
  - 2= Non-farm activities
  - 3= Wage employment
5. If non-farm activities, what type of activities?.
  - 1= Brewing
  - 2= Food vending
  - 3= Kiosks
  - 4= Selling charcoal, fuel wood
  - 5=Artisans (masonry, carpentry, welding, sewing)
  - 6= Casual labour
  - 7= Others (specify) .....

**Part 2: Views on loan interest rates**

6. For how long have you been involved in loan services of Vision Fund Tanga branch?
  - 1= Less than 5 years
  - 2= More than 5 and less than 10 years
  - 3= More than 10 years
7. What loan amount have you been taking?
  - 1= Less than 1mil
  - 2= More than 1 mil and less than 2 mil
  - 3= Above 2mil
8. What interest rates have you been charged?
  - 1= in the first two years .....
  - 2= in the third and fourth years .....
  - 3= in the fifth years .....
  - 4= in the sixth and above year .....
9. What are your views on these interest rates?
 

.....

.....

.....
10. Did you trained on how to do these calculations?
  - 1= Yes
  - 2= No

**Part 3: Loan interest rates on SMEs' performance and growth**

- 11. Is there any observable effect to your business performance regarding the charged interest rates?  
1= Yes                      2= No.
- 12. If yes, what were these observed effects in your business performance and growth?  
.....  
.....  
.....
- 13. If no, what are the significant explanations regarding the charged interest on your business performance and growth?  
.....  
.....
- 14. What other factors do you think has influenced your business performance and growth?  
.....  
.....  
.....

**Part 4: Significant contribution of loan services to SMEs' growth and development.**

- 15. In view of loan services you have been receiving do you think your business has improved?  
1= Yes                      2= No
- 16. If yes, how was it before receiving loan services?  
1= Capital in business (money injected in the business) .....  
2= Assets (physical things of the business).....  
3= Income (cash money at hand and in the bank) .....  
4= Others (specify) .....
- 17. What currently is your business growth and development?  
1= Capital in business (money in business).....  
2= New assets (physical items) generated .....  
3= Income (cash money at hand and in bank) .....  
4= Expanded/New business (expansion) .....  
5=Others (specify) .....
- 18. What is your general view on loan services on your business growth and development?  
.....  
.....

**Part 5: Challenging issues on SMEs performance.**

- 21. In view of your experience in business/trade/activities what other challenges you encounter in your business?  
.....  
.....  
.....

## **Appendix 2: FGD checklist for Clients**

1. What is your views regarding the loan interest rates in business performance and growth?
2. In view of charged loan interest rates, what effects could be claimed not to contribute positive to your business performance and growth?
3. Based on your business performing, are there other factors that could be claimed to influence your business performance and growth?
4. Based on your business performance, what benefits/gains could you claim to be generated from loan services you have been receiving?
5. In view of your experience in business/trade/activities what are the other challenges you encounter in your business?

### Appendix 3: Interview checklist for Credit Officers

#### Part I: Background information

- (i) Name of Credit Officer .....
- (ii) Gender            1 = Male    2 = Female
- (iii) Age .....
- (iv) High Education attained .....
- (v) Marital status .....
- 1= Married      2= Single      3= Separated
- 4= Widowed    5= Divorced    6= Not applicable
- (v) Years of work in VFT?
- 1 = One month to three years    2= four 4 to 6    3 = above six years

#### Part II: Profile of your Clients

- 1. Mention areas where your clients reside?  
.....  
.....
- 2. What is their age range? .....
- 3. Which sector of economy they are most engaged?  
1 = Agriculture 2 = Livestock 3 = Services 4 = Production 5 = Selling of goods  
6 = All above.
- 4. Do they receive any training before issued loans?  
1 = Yes            2 = No
- 5. If yes what type of training?  
.....  
.....

#### Part III: General Observations on the charged loan interest.

- 1. In executing your roles and responsibilities, what could you claim to be your clients' views on the charged interest rates?.....  
.....  
.....
- 2. Based on the experience you have in your clients' business performing, what other factors could you claim to influence their business performance and growth?
- 3. Based on your experience in micro-finance industry, what are the common challenges you have been encountered during serving your clients?  
.....  
.....

4. What do you think could be the main reasons for these particular challenges?  
.....  
.....
5. Are there positive results for your clients in terms of?
- 1= Capital .....
  - 2= New assets gained/generated .....
  - 3= Income generated .....
  - 4= New business .....
  - 5= Expanded business .....
  - 6= Others specify .....
6. If no any observable change what do you think are the causes?  
.....