

**THE INFLUENCE OF MICROFINANCE LOANS TOWARDS
ACCELERATING GROWTH OF MICRO & SMALL ENTERPRISES IN
MISUNGWI: A CASE OF FINCA TANZANIA, MWANZA BRANCH**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER IN ECONOMICS OF
THE OPEN UNIVERSITY OF TANZANIA**

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CERTIFICATION

The undersigned certify that he has read and hereby recommends for acceptance by the Open University of Tanzania a dissertation entitled: **“The Influence of Microfinance Loans Towards Accelerating Growth of Micro & Small Enterprises in Misungwi: A Case of Finca Tanzania, Mwanza Branch”** in partial fulfillment of the requirements for the Degree of Master of Economics of the Open University of Tanzania.

.....

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.....

Date

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DECLARATION

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.....
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.....
Date

DEDICATION

This dissertation is dedicated to my lovely wife Aquilina Mazula and our lovely sons and our daughters who missed my parental care during the hard time of my studies. I also extended dedication to Mr. Charles Malimi, Mr. Bura Baramay, Mr. Samwel Bageni and all my lecturers during my studies who induced me the knowledge of performing a research and made this study possible through cooperation.

May, the Almighty God bless them all.

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ABSTRACT

This study was done to examine the influence of microfinance loans towards accelerating growth of micro & small enterprises in Misungwi District based on the experience of SMES who are beneficiaries of FINCA Tanzania (Mwanza Branch). The study population consisted of FINCA loan beneficiaries and FINCA workers. Data were collected by using a questionnaire. A total of 119 respondents were sampled for interview. 100 micro-entrepreneurs were randomly sampled from among loan beneficiaries and 19 FINCA workers were conveniently sampled based on their availability on the day of visit. Statistical Package for Social Scientists (SPSS) program version 16 was used in data analysis using descriptive statistics. The results indicated that almost all SMES were highly challenged by high interest rates in running their businesses. The results further indicated that about 68% of the loan beneficiaries did not realize any changes in their business and over half of the SMES did not realize any contribution of FINCA in poverty reduction. On the other hand 57.9% were negative about the contribution of SMEs in business growth and improvement of their incomes. The results also indicated that 83.4% of the respondents were to a large and to a very large extent associating the interest rates with the failure of their SMES. It can thus be concluded that MFIs aim at maximizing their profit with little impact to the wellbeing of their customers, that is, SMEs. The problems bewildering the customers to getting loans being lack of reliable collateral, such as, house, unfavorable conditions, high interest rate as well as lack of a grace period for the takeoff of the business. Furthermore Lack of training to enhance the entrepreneurial skills of the loan beneficiaries prior getting loans is another contributing factor.

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LIST OF ABBREVIATIONS

FINCA	Foundation for International Community Assistance
GDP	Gross Domestic Product
MEs	Microenterprises
MFI	Microfinance Institution
MSEs	Micro and Small Enterprises
NGOs	Non- Governmental Organizations
SIDO	Small Industries Development Organization
SMEDP	Small and Medium Enterprises Development Policy
SMEs	Small and Medium Entrepreneurs
SPSS	Statistic Package for Social Science
SSE	Small Scale Enterprises
URT	United Republic of Tanzania

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 Introduction

The economic development of a country primarily depends upon the establishment of industries, which require sufficient amount of capital which may be facilitated by microfinance institutions. Microfinance is a form of financial services for entrepreneurs and small business lacking access to banking and related services. The two main mechanisms for the delivery of financial services to such clients are relationship-based banking for individual entrepreneurs and small businesses and group-based models, where several entrepreneurs come together to apply for loans and other services as a group population. Microfinance covers a wide array of microfinance institutions ranging from indigenous rotating savings and credit association and self-help groups to financial cooperatives rural banks and community banks as well as non-banking financial institutions including credit NGOs. This means that, microfinance is the supply of basic financial services to poor and low income households and their microenterprises.

These services can help to build financial and business management capacity of rural households, improve their technical skills, provide local support services for enterprises with emphasis on marketing, and establish linkages between local communities and microfinance services providing financial services for small-scale enterprises is a powerful tool for poverty reduction, enabling poorer households to build assets, increase incomes and reduce their vulnerability to economic stress and external shocks.(Economics Teacher National Conference, 2017).

Micro and Small Enterprises (MSEs) all over in the world are known to play a major role in social economy development. This is apparently the case of Tanzania, where small scale enterprises contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas. Likewise, they cover non-farm economic activities mainly manufacturing, mining, commerce and services.

Being one of developing economies, Tanzania has experienced a rapid establishment of a number of programmes with the aim of supporting the provision of financial services to MSEs (Mwaniki, 2006 and Kimei, 2001). Many of these programmes have been focusing on providing micro credits to MSE. The programs used amounts ranging from USD 50 to USD 2,000 and very few go up to USD 5,000 (Some, 2001; World Bank, 2003). This leaves small enterprises seeking to grow and those starting up with difficulties in accessing finance because the financial facilities which may access from MFI do not meet their needs.

Commercial banks which were traditionally looked upon as powerful catalyst of economic development through resource mobilization and provision of credit to profitable ventures did not finance small business (Kuzilwa and Mushi 1997). Their stringent lending policies, collateral requirements, cumbersome procedures and their own perceptions of small business and rural poor as risky business; often lead to their exclusion. Most formal financial institutions regard low income household as too poor to save, and are not personally known to them, they do not keep written accounts or business plans, they usually borrow small and uneconomical sum, (Rutashobya and Olomi 1999).

Kashuliza (1986) noted that the rates charged remained low in nominal terms and become negative in real terms. Additional problems that the financial institutions including banks as the source of finance for small scale and micro enterprises were their lack of geographic coverage in branch operations and lack of micro finance and small scale business lending experiences.

Most of commercial banks are not interested in financing the micro due to the real or perceived high risks and associated transaction costs. As almost all commercial banks provide credit on traditional collateral basis, which the majority of MSEs lack. In addition, the formal banks are faced with lack of reliable information on small borrowers. Inadequate legal frameworks and inefficient court systems in the event of contract enforcement and generally the appropriate instruments for managing risk make matters even worse. This problem is further compounded by supervisory and capital adequacy requirements that penalize banks for lending to enterprises that lack traditional collateral (Mwaniki, 2006 and Chijoriga, 2000).

However, Microfinance Institutions have contributed to increased welfare of the poor in terms of reducing their vulnerability, improving their live hoods, paying for basic health care and financing education for their children. Many MFI's have demonstrated the ability to provide financial services to the poor on sustainable and profitable basis.(Mkwizu,2004). Micro and Small Enterprises (MSEs) account for a large share of the enterprises active in Tanzania (National Microfinance Policy of Tanzania 2004). In fact MSEs are the emerging private sector and do form the base for private sector-led growth. MSEs as they are to the economy, have been facing a number of problems challenges despite the on-going reform programmes,(MSEDP, 2003) this is

due to the number of factors, one of which is a persistent culture that do not recognized the value of entrepreneurial initiative in improving the lives of the people (Wangwe, 1993).

The government of Tanzania has advocated the importance and recognition of micro enterprises in the economy of Tanzania and the establishment of public and private Micro Financial Institutions (MFIs) that follow the new Micro Finance Policies. A number of public and private MFIs including some of banks have been reported to provide micro finance services; for example in the late 1990s the government formed National Micro Finance Bank (NMB) as a split of giant NBC. The government has also developed National Microfinance Policy, which aim at addressing the issue of micro finance widely. Chijoriga and Cassimon (1999) argued that the actual number of MFIs is unknown. The majorities offer credit to women and youth entrepreneurs who are operating micro enterprises in cities with few operating in rural areas. Some MFIs, which are presently issuing credit to micro enterprises, include FINCA, BAYPORT, SEDA, PRIDE, BLUE FINANCIALS etc.

However, little documentation is available on how the MSEs financed by MFIs are performing. It is also noted that there is very little reliable information available on which to access the potential demand and supply of MSEs credit. Therefore this study will investigate the challenges facing Microfinance Institutions in Serving Micro and Small Enterprises in Tanzania.

1.2 Statement of the Problem

Although MSEs are vital in alleviating the problem of unemployment and poverty to the majority of Tanzanians; their growth, expansion and general performance is not

satisfactory. In many developing countries, small and medium enterprises (MSEs) make up a large share of registered businesses, but a much smaller share of GDP.

Data from several countries suggest that few MSEs grow to become larger businesses. (Gharad Bryan, Pam Jakiela, Dean Karlan and Daniel Keniston, 2013). The global financial crisis, which has negatively affected credit to firms, has reignited the debate about the impact of banks' funding constraints on the overall performance of MSEs. (Bank of Amsterdam, 2013).

This is due to the fact that people who are unable to accumulate a reasonable amount of capital own SSEs. The evidence from various studies such as, Fieldwork for Innovations for Poverty Action (IPA), 2013 and 16th Annual Research Conference De Nederlandsche Bank-Amsterdam, 2013, shows that rural and urban households in the world start their MSEs with their own generated funds (Buckey, 1997). This implies that without financial assistance, the performance of MSEs cannot bring about the desired performance.

With current active micro finance institutions/credit schemes; there is no sufficient documentation of the effect of micro financing on the performance of MSEs and MEs in Tanzania. Minga (1998), had documented on the general performance of enterprises with little consideration of the role of financing on the performance of MSEs. Despite the fact that credit schemes seek to increase income and generate employment opportunities (Mac Lead 1991), no increased effort has been directed to examine and evaluate the performance of MEs/SMEs as a result of using credit from MFIs in

Tanzania. Therefore, the current study seeks to examine the Contribution of Microfinance Institutions in poverty eradication of the poor who own the MSEs in Tanzania especially the entrepreneurs of Misungwi district by looking on functions of financial institutions in Tanzania.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to find the influence of loans from microfinance institutions on accelerating the growth of micro and small enterprises.

1.3.2 Specific Objectives

Specifically the study focused on the following objectives:

- (i) To access the influence of microfinance institutions on accelerating the growth of micro and small enterprises.
- (ii) To determine how microfinance institutions affect the growth of MSEs
- (iii) To access the role of microfinance institutions in improving the wellbeing of the poor beneficiaries of MFIs.

1.4 Research Questions

The study is aided by the following research questions

- (i) What is the influence of microfinance institution on accelerating the growth of micro and small enterprises?
- (ii) How do microfinance institutions affect the growth of MSEs?
- (iii) What is the role of micro finance institutions in improving the wellbeing of the poor who are beneficiaries of MFIs?

1.5 Significance of the Study

The findings from this study will provide an insight on the challenges and organizational features that are conducive to improving the wellbeing of loan beneficiaries from MFIs. The findings will also generate useful information of policies on entrepreneurs to realize their enterprises performance and potential contribution to the national economy.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the relevant literature on challenges facing MSEs. In order to back up the study both theoretical and empirical basing on the study which was reviewed with the objective of explaining various studies developed by other scholars and researchers in supporting this study.

2.2 Definition of Key Concepts

2.2.1 Micro financing

According to URT National Micro Finance Policy (2004), “Micro finance is the provision of financial services to the low income household, small holder farmers, and micro Enterprises”.

2.2.2 Microfinance Institutions

The National Micro Finance Policy defines the Microfinance Institution (MFI) as the institution that addresses the financial needs of major sectors of the Tanzanian population (URT 2000). MFIs are primarily facilitators rather than creators of the underlying economic opportunities that lead to widespread economic prosperity. Mayoux, (1999) defined MFIs as those institutions, which fall under sector of formal, semi-formal and informal financial institution providing financial services to the micro economic units. World Bank, (1998) on the other hand defines MFIs as agents and organization that engage relatively small financial transaction using specialized, character-based methodology to serve low income household, s small farmers and

others who lack access to the banking system. They may be informal or semi-formal that is legally registered but not under Central Bank Regulations.

2.2.3 Micro and Small Enterprises

According to Tanzania Micro and Small Enterprises (MSEs) Development Policy of 2003, the SMEs nomenclature stands for Medium and Small Enterprises. The available definitions are subjective and largely dependent on the country's level of development (Nhimbi, 2002). On the other hand the MSE's can be generalized with definition as those enterprises engaging in business activities with the goal of generating income over and above subsistence level. They involve fifty persons or less who include owners, family members and paid workers.

The activities involved in these business include food processing, wood works, and furniture's making printing, metal fabrication, and welding, electrical and electronic repairs, stationeries, food vendors, clothes vendors, retail trade of all types of consumable goods and agricultural. These words get the solid support by (Chijoriga, 2000; World Bank, 2006). "MSEs are considered the total number of the enterprise employees, total investment and total sales turnover".

2.3 Theoretical Review

Several theories were applied in order to ensure its power in relation to the effective in serving the Micro and Small Enterprises as the results to bring economic development to its clients. Through these theories it could be understood differently in perceptions of distinguished scholars, the researcher gave out its strength and weakness and its application to the contemporary situation.

2.3.1 The Trade – off Model

Different explanations provide the theoretical basis for the decision taken by firms in the respective areas on the justification for the choice of financing sources and the appropriate mix. The trade-off model postulates that the firm will aim at the optimal gearing levels that will balance the tax benefits of additional debt with the expected costs of financial distress as the level of indebtedness rises (Brierley, 2001; Bunn, Cunningham, and Drehmann, 2005). Considering non-tax benefits of debt such as information asymmetries between lenders and borrowers, managers may raise equity only when company's shares seem overvalued. Investors will consequently discount any new and existing shares when a new equity issue is announced.

Cassar and Holmes, (2001) find firms' trade-off several aspects, including the exposure of the firm to bankruptcy and agency costs against the tax benefits associated with debt use. Firms are faced with higher cost of capital because of the increased risk of liquidation and thus they tend to avoid debt. However, firms use debt in order to enjoy tax benefits as a trade-off with the costs associated with bankruptcy and agency, and this implies that there is an optimal debt-equity ratio for the firm, which changes as benefits and costs alter over time (Modigliani and Miller, 1963). This model provides elaborate explanation for the objectives previously outlined in 1.3 where there is a need to understand the justifications for a particular mix of sources of capital due to various benefits and risks embedded in each of these.

It is clearly evident that managers will opt for the mix of sources that minimizes the cost of capital but at the same time not exposing the entity to the factors that may adversely affect the going concern of the firm. The strength of the theory is that it

makes the organization to depend on tax paid back by customers. So it is very supporting the study as being one of the challenges on how to accumulate a lot of money to satisfy its customers. The weakness of the theory is that it is not supporting the study since that it does not contribute much instead it takes more income from the loan takers as the result to cause low economic development.

2.3.2 The Pecking order Model

This model attempts to avoid the resulting risk that profitable investment projects will be foregone by seeking to finance them internally. If retained earnings are insufficient, they will opt for debt rather than equity finance, because debt providers, with a prior claim on the firm's assets and earnings, are less exposed than equity investors to errors in valuing the firm. Managers will only opt for equity finance as a last resort in this model. In these circumstances, corporate gearing will reflect a company's need for external funds and — unlike the trade-off approach — there will not necessarily be any target or optimal level of gearing. This model was initially proposed by Myers (1984) and suggests that firms tend to finance their needs in a hierarchical fashion, first using internally available funds, followed by debt, and finally external equity.

Central concern appears to be a concentration by small firms on “sources of finance that minimize intrusion into business” (Lopez-Gracia and Aybar-Arias, 2000). Consequently firms do not have an optimal debt-equity ratio but rather it varies, justified by the firm's need of external finance. The pecking-order model to a great extent tells the way certain characteristics of a firm may influence gearing decisions. As Myers suggested, some entities follow a certain hierarchy to determine which the next alternative source of finance is, and that fear of intrusion and dilution of power in

an entity may cause a certain sources to be selected. Myers (1984) suggests that issuing debt secured by collateral may reduce the asymmetric information related costs in financing. The difference in information sets between the parties involved may lead to the moral hazard problem (hidden action) and/or adverse selection (hidden information). Hence, debt secured by collateral may mitigate asymmetric information related cost in financing.

As the model predicts that firms will seek to maintain an optimal capital structure by balancing the benefits and the costs of debt this seems to be the big challenge according to this study for FINCA to serve the MSEs simply because they can be fearing to lose their capital by serving especially when balancing will base on collateral which the MSEs will not afford. Likewise this theory seems not supportive to the study as it does not help the loan taker as well.

2.3.3 The Agency Cost Model

The agency costs arising from the separation of ownership and control which may exacerbate information asymmetries by inducing conflicts of interest between company's managers, shareholders and creditors, based on differing incentives. In the agency cost models of gearing initiated by Jensen and Meckling (1976), managers have other objectives, which may involve wasteful usage of the company's free cash flow. One of the advantages of debt is that it limits free cash flow available to managers, although investors may seek to limit agency costs by monitoring managers or putting them on compensation packages that align their interests more closely with those of investors.

While debt contracts might appear optimal after inside finance sources are exhausted, there are moral hazard conditions that lead some firms to directly move to third party external equity (Berger and Udell, 1998). There are also suggestions that a contributing factor to these problems is “the poor quality of financial information produced by smaller companies” (Lopez-Gracia and Aybar-Arias, 2000) that increases monitoring costs in agency circumstances. The debt-equity mix for a firm is therefore a function of real and perceived agency cost relationships.

Jensen and Meckling (1976) argue that the use of secured debt might reduce the agency cost of debt. However, if a firm’s level of tangible assets is low, the management for monitoring cost reasons may choose a high level of debt to mitigate equity agency costs Um (2001). Therefore, a negative relationship between debt and tangibility is consistent with an equity agency cost explanation. Um (2001) also argues that firm size may proxy for the debt agency costs (monitoring cost) arising from conflicts between managers and investors. He continues to emphasize that the monitoring cost is lower for large firms than for small firms. Therefore, larger firms will be induced to use more debt than smaller ones.

2.3.4 The Life Cycle Approach

This approach suggests that access to finance is dependent on the stage of development of the firm. New firms rely on owners’ initial resources but as they grow they gain access to short-term debt that remains a continued source of funds because of limited access to long-term debt and/or equity. Rapid growth firms are faced with poor liquidity position due to short-term debt reliance until when they accept the equity finance. This explains an apparent preponderance of short-term debt finance in

many small firms and also suggests a changing target (or optimal) debt-equity ratio in a firm (Fluck, 1999).

2.3.5 The Classic Microfinance Theory of Change

According to Chris Danford(2012) a poor person goes to Microfinance provider and takes a loan(or saves the same amount) to start or expand a microenterprise which is enough net revenue to repay the loan with major interest and still have sufficient profit to increase personal or household income to raise the person's standard of living. This is what is called the classic microfinance theory of change.

2.4 Synthesis of the Theories

Several theories have been discussed in this study to support the study since that are very important as the guidance for the serving the SMEs. Generally, all these theories can work as the supportive juncture of this research. However, since they differ in terms of philosophical back up of the authors, environment of where the theory was developed and the approach used to develop it is not possible to be guided by all these theories, since it depends on the nature of the management and the organization the researcher deals with. However, due to the nature of this study the research will be backed by one theory. The classic microfinance theory of change because it carries all aspects for the organization of facing challenges on serving the MSEs as on one side tends to consider on the collateral as one of the spring ball to support the customers.

2.5 Empirical Literature Review

Countless professionals and academicians have conducted a good number of studies on Microfinance Institution in serving Micro and Small Enterprises as are going to be

discussed below. Microfinance Institutions view SMEs firms as costly, high-risk borrowers and hence avoid lending to them. These MFIs instead concentrate, on safer options such as financing larger local firms. Promoting research on needs of SMEs; Because of lack of enough fund and specialized personnel, most of MFIs create a disadvantage in promoting research on new products and methods of lending to SMEs. (<http://www.microfinancegateway.org/section/faq,2012>).

Illiteracy problem; Most of the MSEs operators are normal people with either secondary education or primary education, the group lack knowledge on record keeping and decision making (SMEDP 2002); Diversion of funds; most of the borrowers from MSEs are diverting funds to another issues apart from that which the aimed before. (Journal of International Farm Management Vol.3 January 2006).

Inability of borrowers to prepare and present application that meets Microfinance Institutions requirements; High cost of screening and administering small loans spread over big areas; Lack of guarantee scheme; Lack of experience staff with knowledge with Microfinance, Poor infrastructure to meet the rural area whereby most of the MSEs operates; Inability of the MSEs to fulfill collateral requirements (SMEDP 2002).

It is estimated that about 35% to 40% of the GDP originates from the MSE sector
Potential role of MSEs: According to Bayona (2007) MSEs is an arena where the poor get most of their goods and services at prices they can afford. Over 90% of operators get credit, training, information, and water and sanitation services from the sector, in Dar esSalaam the commercial city for example, over 90% of poor communities get

water and sanitation services from MSEs sector. Micro enterprises operating in the informal sector alone consist of more than 1.7 million businesses engaging about 3 million persons that was, about 20% of the Tanzanian labor force (Bayona 2007). Though data on the MSE sector are rather sketchy and unreliable, sector plays a crucial role in the economy (Toroka and Wenga, 1997).

Since MSEs tend to be labor-intensive, they create employment at relatively low levels of investment per job created. At present, unemployment is a significant problem that Tanzania has to deal with. Estimates show that there are about 700,000 new entrants into the labor force every year. About 500,000 of these are school leavers with few marketable skills. The public sector employs only about 40,000 of the new entrants into the labor market, leaving about 660,000 to join the unemployed or the underemployed reserve. Most of these persons end up in the MSEsSector, and especially in the informal sector. Given that situation and the fact that Tanzania is characterized by low rate of capital formation, MSEs are the best option to address this problem (URT, 2002).

MSEs tend to be more effective in the utilization of local resources using simple and affordable technology. MSEs play a fundamental role in utilizing and adding value to local resources. In addition, development of MSEs facilitates distribution of economic activities within the economy and thus fosters equitable income distribution.

Furthermore, MSEsTechnologies are easier to acquire, transfer and adopt. Also, MSEs are better positioned to satisfy limited demands brought about by small and localized markets due to their lower overheads and fixed costs. Moreover, MSEsOwners tend to

show greater resilience in the face of recessions by holding on to their businesses, as they are prepared to temporarily accept lower compensation (URT, 2002). Through business linkages, partnerships and subcontracting relationships, MSEs have great potential to complement large industries requirements. A strong and productive industrial structure can only be achieved where MSEs and large enterprises not only coexist but also function in a symbiotic relationship.

However, the linkages between MSEs and large enterprises are very weak in Tanzania. MSE development Policy, therefore, creates the potential for enhancing linkages within the economy. In addition, MSEs serve as a training ground for entrepreneurship and managerial development and enable motivated individuals to find new avenues for investment and expanding their operations (URT, 2002).

There are also opportunities indicating a bright future for MSE sector development in Tanzania. This includes the various on-going reforms that are oriented towards private sector development and, thus, lay the ground for MSEs development. In addition, the recognition of MSE sector that it has higher potential for employment generation per capital invested attracts key actors to support MSE development programs.

Since MSEs development does contribute significantly to poverty alleviation, resources earmarked for poverty alleviation will also be availed to the MSE sector (Massawe, 2000). The MSE sector in Tanzania has limited access to finance due to the following factors: the sector is perceived as a high risk one; inability of the MSE operators to fulfill the collateral requirements; most banks do not operate an MSEs financing window; some of the banks operate in limited geographical areas;

inexperience of Bank Staff in issues related to Micro-finance; lack of a guarantee scheme to back up banks financing MSEs; high cost of screening and administering small loans spread over big areas and inability of borrowers to prepare and present applications that meet bank's requirements (Kimei, 2001).

The current reforms have resulted in liberalization of the financial sector to a great extent. This has led to establishment of a number of banks including the National Micro-Finance Bank, liberalization of financial rates and establishment of a stock exchange market. In spite of all these, the MSE sector is facing a major constraint in accessing finance. This limits their capacity to survive, increase capacity, upgrade its technologies and even in many cases, expand their markets and improve management or raise productivity and eventually increase incomes (Kimei, 2001).

Available literature shows different arguments towards financial institutions in providing credit to the poor people. Kimei (2001), observes that, there is a bureaucratic procedure in accessing credits from these institutions especially to the poor. He observed in the case of Tanzania that most credit schemes are limited to the elite people rather than people who are poor. Most of the poor people who borrow funds, come from the informal sector but claimed to be constrained by lack of understanding modes of funds delivery.

However, he adds that, formal sector may adopt features of the informal sector. Sometimes, this may create or strengthen linkages the local knowledge of the informal agents and greater financial resources of the formal sector to the mutual benefit of both. Perry (1975), explains about the principle used when a bank is approached for a

loan in which a borrower is asked four questions namely; how much money is required? What is the purpose of the loan? For how long are funds required? What is the source of repayment? When these questions have been answered satisfactorily, it is time to think about security. The credit officer's decision will be influenced by many factors of which most important are the character of the borrower, the risk involved, profitability of the transaction to the bank and lending policy of the bank.

Results strongly support the market power hypothesis, namely, that increased market power results in increased financing constraints for SMEs (Robert M Ryan, Conor M Otoole, Fergal McCann, 2014) observe that the relationship exhibits heterogeneity across firm size and opacity in a manner that suggests that the true relationship between bank and financing constraints might not be fully explained by the existing theory and that the effect of bank market power on financing constraints increases in financial systems that are more bank dependent.

Bank market power reduces access to finance for a repeated cross-section of firms across 53 primarily developing countries. This effect depends on the wider economic and financial environment in which the firms operate and that higher levels of financial development and greater availability of credit information reduce this adverse effect, while higher levels of government ownership of bank assets are associated with a strong negative impact of bank market power.

Love and Peria, 2012, when using regional bank lender indices to measure market power, greater bank market power is associated with greater credit constraints for a sample of Spanish SMEs, supporting the market power hypothesis (Corbo et al,

2009). Empirical literature is based on previous studies that have been conducted by researchers. This dissertation in this section reviews empirical literature related to major variables of this study. The included three major variables are Interest rate, The loan payment time and The weather condition.

2.6 Conceptual Framework

A conceptual framework is the flow chart representing the researcher's synthesis on literature on how to explain a phenomenon (McGaphie et.al, 2001). It helps a researcher to understand how the particular variables in the study connect with each other.

Variables which affect Microfinance Loans in this study are interest rate, Weather conditions and Repayment period.

Interest rate affect Microfinance Loans as high interest rate reduce the number of borrowers and low interest rate attract borrowers as they will expect to get more profit.

Weather condition affects Microfinance Loans borrowers as bad weather condition or drought affect farmers not to borrow money from financial institution for crop cultivation as failure to get harvest will results to defaulters.

Repayment period affect Microfinance loans borrowers as short period enforce a client to start repaying the loan before getting profit while long period gives chance preparation and enjoying profit before starting repaying the loan.

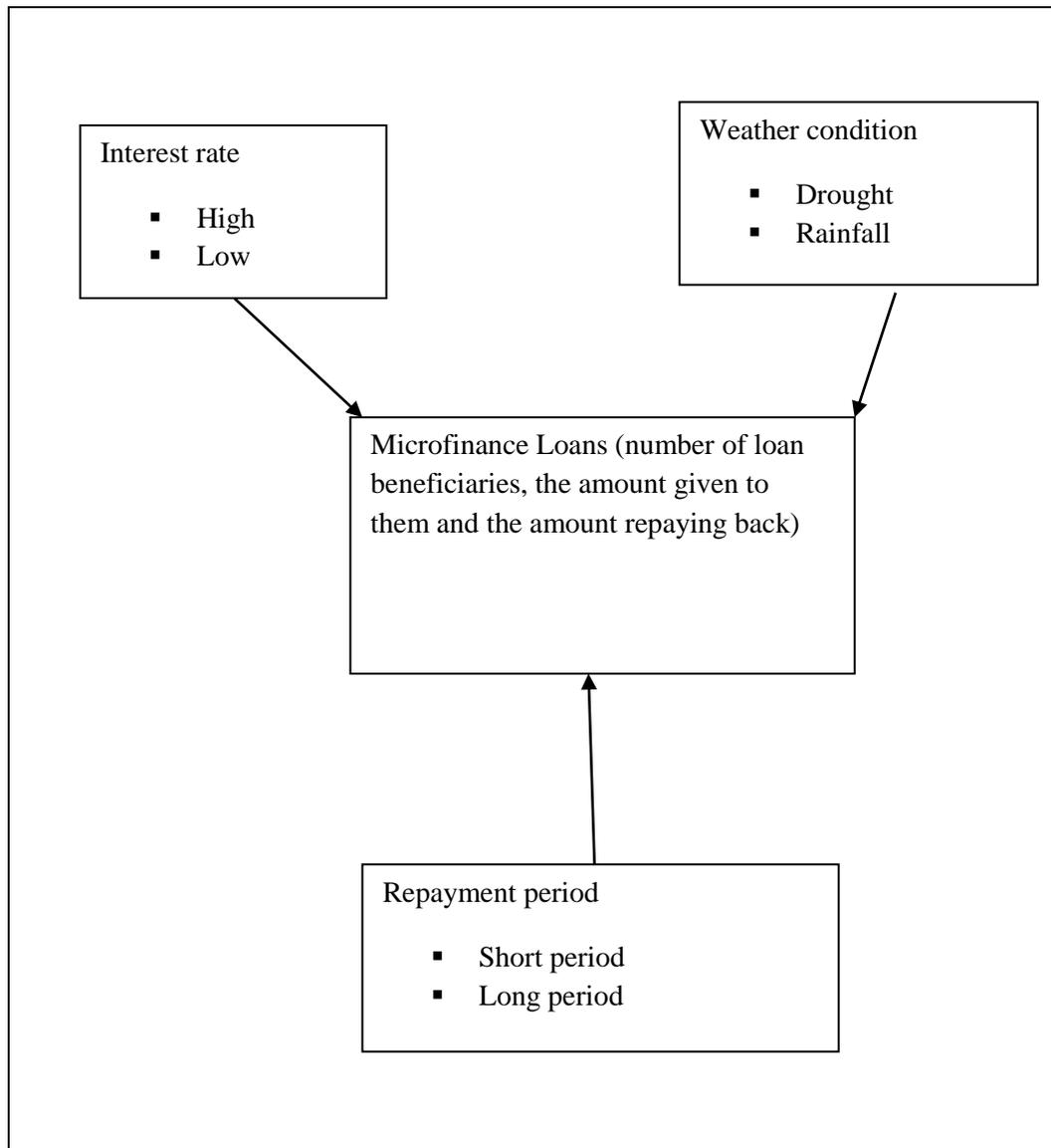


Figure 2.1: A Conceptual Framework on Microfinance Loans towards Accelerating Growth of Micro & Small Enterprises in Misungwi: A Case of FINCA Tanzania (Mwanza Branch)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The major focus of this chapter is to present the research methodology which will be adopted in the study.

3.2 Research Design

Research design is a framework or blue print for conducting the research project. It details the procedures necessary for obtaining the information needed to structure and /or solve research problems (Kothari C.R, 2004).The study is the case study whereby both descriptive and analytical approaches were applied. The descriptive part of the study dealt with explaining the general aspects related to micro entrepreneur under the study and the institution offering micro financing services.

The analytical aspect dealt with the analysis of the effect of participation on micro financing on the performance of micro enterprises on their level of sales revenue, number of employees, the ability to meet personal and other household's needs and accumulations of assets.Cross sectional, graphical tabulation giving percentages and frequencies were used to provide a clear picture of the findings. The idea was to gather as much data as possible.

3.3 Geographical location

The present case study was conducted in Misungwi District which is one of the seven districts of Mwanza Region located below the Equator between 4degrees and 6degrees latitude, and longitude 34degree East and 36degree East of Greenwich. The

neighboring districts are Kwimba in the South and East, Nyamagana in the North and Sengerema in the West. The study area was regarded best for studying sources of the researcher since the researcher was living and working there.

3.4 Description of the Study Population

Population is defined as a group of individuals or items that share one or more characteristics from which data can be gathered and analyzed (investorwords.com) the population of this study consisted of FINCA loan beneficiaries and FINCA workers. The sample size of both FINCA customers (loan beneficiaries) and FINCA workers was 119 from which the population of 150 respondents was obtained through calculations. FINCA customers and FINCA workers were 126MSEs and 24 respectively.

3.5 Population of the Study

The population of the study was determined by using Godden (2004) formula as shown below:

$$SS = \frac{Z^2 \times (p) \times (1 - p)}{C^2} \quad \text{For infinity population}$$

$$\text{New SS} = \frac{SS}{\left(1 + \left(\frac{SS-1}{\text{Pop}}\right)\right)} \quad \text{For finite population}$$

Where Z=Z- value or confidence level

SS=Sample size

P=Percentage picking a choice

C=Confidence interval

Pop=Population

A total of 119 respondents was interviewed i.e. 100 micro-entrepreneurs and 19 institutional respondents from FINCA branch was interviewed.

3.6 Sampling Procedure

The general framework for sampling employed both non-probability and probability sampling in particular convenient and simple random sampling respectively. Thus 100 micro-entrepreneurs were randomly sampled from among FINCA loan beneficiaries and 19 FINCA workers were conveniently sampled based on their availability on the day of visit. That is, loan beneficiaries from Misungwi and the employees at FINCA Mwanza branch as shown in the Table 3.1.

Table 3.1: Distribution of FINCA Respondents by Gender

Respondents	Target population	Sample size
FINCA staff	24	19
Loan beneficiaries	126	100
Total	150	119

Source: Field Data, 2016

3.7 Data Sources and Data Collection Tools

Only primary data was used in this research. Primary data was collected by means of structured questionnaire and unstructured questionnaires. The structured questionnaires had the following benefits; they provided feedback from a large number of respondents. They allowed exploration of patterns and trends, which helped to describe opinions, attitudes, feelings and perceptions about issues of particular concern to the researcher. Unstructured questionnaires allowed richer feedback that could provide insight into explanations for what was happening to participants'

opinions, attitudes, feeling, and perceptions. They also allowed issues to emerge that could not necessarily be foreseen by the researcher. Secondary data was obtained from various sources including books, journal, internet and other relevant documents from the interviewed firms.

3.8 Validity and Reliability of Data

Pretest was conducted for validity and reliability of data. To be reliable, questionnaires were answered by respondents the same way each time. According to Weisberg et al (1989), researchers could assess reliability by comparing the answers respondents were given in one pretest with answers in another pretest.

Questionnaires validity was determined by how well it measured the concept(s) which was intended to measure. Among 119 respondents derived from the sample size, 100 micro entrepreneurs and 19 institutional respondents were used on pretesting of the validity and reliability of the questionnaire used in this study.

The study gathered the information from the borrowers from FINCA. The loan process was as follows; the loan takers were grouped into groups of 30 each. These groups chose the chairperson, secretary and the cashier. The groups were again subdivided into small groups of five members each in order to simplify the loan repayment to the institution. When the loan was given out, each member (the loan taker) was given Tsh.50000 at the beginning, after fulfilling the condition of contributing Tsh.15000 as a loan bond. Having this loan, the loan taker was required to pay Tsh.1000 each week to expand his/her bond and Tsh.1000 each week as loan interest for a period of 12 months. Following this procedure, the loan taker was

required to pay Tsh.98000 for a loan of Tsh.50000 at FINCA for a period of 12 months.

If it happen that one of a loan taker in any of a group of five members fail to pay the loan, the other members of the group were required to pay the loan.FINCA does not deal with individual in collecting loan repayment, except it deals with the formed groups. Most of FINCAs respondents end with nothing by repaying loans of loan takers who manage to escape after receiving their loans. FINCA is reluctant to make contract with individuals fearing to get loss if one or more loan takers decide to disappear. If a loan taker fails to complete the payment of his/her loan at the end of the contract, his/her bond was deducted to repay the loan and the remaining amount was given to loan taker.

The Institution could increase the amount of the loan to the loan taker depending on a good performance of the loan taker. The Institution could also give the loan up to Tsh.2000000 for a loan taker who was performing well.Due to interferences, which were caused by some of borrowers who were not trustful, the loan takers were not able to state the profit they were earning by being loan takers in this institution.

3.9 Data Analysis

Statistical Package for Social Scientists (SPSS) program version 16 was used in data analysis using descriptive statistics. The research findings were presented in tabular form and pie charts.

CHAPTER FOUR

ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter mainly deals with the analysis of data basing on the data discussed and interpretation by means of methodology applied. The discussions and interpretations are grounded on the problem as has been identified in chapter one. This chapter contains the following findings: general information of the respondents, findings which are based on research objectives/questions and lastly, the summary of the findings.

4.2 General Characteristics of Respondents

The study took into account the respondents personal characteristics and the general information whereby the relationships between variables were analyzed through sex, age, level of education, designation of respondents and working experience.

4.2.1 FINCA's Respondents by Gender

Table 4.1: Distribution of FINCA Respondents by Gender at FINCA MWANZA

		Frequency	Percent
Valid	Male	14	73.7
	Female	5	26.3
	Total	19	100.0

Source: Field Data, 2016

Table 4.1 displays the population of respondents at FINCA Mwanza whereby the study findings noted that the dominant were male at 73.7% while the female were the minority at 26.3%. This implies that male outnumbered the female and indicated that the issue of empowering women and building their economic emancipation is very low at FINCA as do not put into consideration the issue of gender.

4.2.2 FINCA's Respondents by their Age

Table 4.2: Distribution of FINCA Respondents by their Age

		Frequency	Percent
Valid	between 21 - 35 years	14	73.7
	between 36 -45 years	5	26.3
	Total	19	100.0

Source: Field Data, 2016

Table 4.2 shows the distribution of respondents by age at FINCA MWANZA. The findings indicated that the dominant group at this organization was those of between 21-35 years of age compared to those who were at between 36 and 45 of age. This implied that at this organization the issue of age is considered a lot because due to the nature of the works which needs more people who still have good capacity of thinking as well as good memory of dealing and keeping money in the proper way.

4.2.3 FINCA's Respondents by the Level of Education

Table 4.3: Distribution of FINCA Respondents by Level of Education at FINCA Mwanza

		Frequency	Percent
Valid	Primary education	1	5.3
	Secondary and high school	5	26.3
	Diploma level	6	31.6
	University level	7	36.8
	Total	19	100.0

Source: Field Data, 2016

The Table 4.3 showed the distribution of respondents by level of education whereby the data showed that the graduates at FINCA were many at 36.8%, this was followed by those who had diplomas at 31.6%, secondary and high school were at 26.3% while those who were the minority at 5.3%. This indicated that at FINCA education matters at recruitment were considered mostly. This might be due to the nature of money

handling requires sensitive and well informed personnel. But when the variable was tested to find out the education level of clients the findings showed that the majority were of primary school at 78%, followed by the secondary leavers at 12% while clients with college level were at 10%. This implied that the issue of education of clients was not the big thing to be considered at FINCA.

4.2.4 FINCA's Respondents by Designation of Respondents

Table 4.4: Distribution of FINCA Respondents by Designation of Employees at FINCA MWANZA

	Designation of Respodents	Frequency	Percent
Valid	management cadre	4	21.1
	operatives cadre	15	78.9
	Total	19	100.0

Source: Field data, 2016

Table 4.4 show the population were outnumbered by those who were at the operational cadre level at 78.9% while the management level were only at 21.1%. This implies that the operational activities are huge as that they could manage how to make follow up of money especially from the customers who had taken loans from the organization. While the management remain in the office to run the daily activities as they occur to the office.

4.2.5 FINCA's Respondents by Professional Qualification

Table 4.5 displays the findings on the professional qualification of respondent at FINCA MWANZA. The data showed that the organization was comprised with different employees who have different professionalism such as accountancy, finance, business administration, law, teacher and procurement.

Table 4.5: Distribution of FINCA Respondents by Professional Qualification

	Professional Qualifications	Frequency	Percent
Valid	Accountancy	1	5.3
	Finance	2	10.5
	business administration	5	26.3
	Law	1	5.3
	Teacher	2	10.5
	Procurement	3	15.8
	None	5	26.3
	Total	19	100.0

Source: Field Data, 2016

However, the organization also had the workers who had no any profession who seem to have the big number at 26.3%. This group was the same to those who were of business administration, procurement were at 15.8%, Teachers were at 10.5%, finance at 10.5%, Law at 5.3% and Accountancy were at 5.3%. This implies that though there was the variety of people with different professional but the organization did not consider to employ people whom are needed according to the need of the organization as it is known that FINCA needs people mostly those of finance and accountancy but this is centrally to real situation as most of workers here were those who possess different professionals like Accountancy was one worker, Finance were 2 workers, Business Administration were 5 workers, Law was 1 worker, Teachers were 2 workers, Procurement were 3 workers and Non Professional workers were 5 workers.

4.2.6 FINCA's Respondents by the Kind of Services Offered by FINCA Mwanza

The results show that all respondents agree with the variables that the kind of services offered at this organization was of profit organization.

4.2.7 FINCA's Respondents by Challenges that they Encountered in Serving the MSEs

The results show that among all respondents agreed with the variable that they had faced some challenges in the whole process of serving SMEs. This was supported with the customers when they were asked if they faced any challenges particularly in getting loans at FINCA's office like Higher Interest rate, Unfavorable Security Conditions and Bureaucracy as the data indicated in Table 4.7.

4.2.8 Customers' Respondents by Designation

Table 4.6: Distribution of Respondents by Designation

Type of employment	Frequency	Percent
Self employed	17	17
Employed	10	10
Others	73	73
Total	100	100

Source: Field Data, 2016

Table 4.6 indicates the distribution of respondents by designation. The findings show that 0% are unemployed, 17% are self employed, 10% are employed and 73% other businesses like gardening, fishing, selling crops and shop business.

4.3 Challenges In-serving MSEs of Misungwi District at FINCA Office Mwanza Branch

4.3.1 Customer's Respondents by the Challenges Occurred to MSEs

Table 4.7: Distribution of Customers' Respondents by the Challenges Occurred to SMEs

Challenges encountered	Frequency	Percent
High interest rate	54	54
Unfavorable security conditions	12	12
Bureaucracy	2	2
High interests and Unfavorable conditions	32	32
Total	100	100

Source: Field Data, 2016

Table 4.7 shows the distribution of respondents by challenges that FINCA customers did face in the whole process of getting the loans from this organization. The findings showed that the leading factor was high interest rate charged by the FINCA at 54%, likewise those who viewed both the high interest charged and the unfavorable security condition were at 32%. Bureaucracy was at 2%. This implied that at FINCA the customer on their side did face some challenges at the great extent. But when the variable was tested the FINCA official on how they know their clients, the findings showed that 78% among all their customers had no good education as the data indicated to be those of primary education. But those who had secondary education level were at 12% while those who had college level were at 10%. Due to this reality this might be the big challenge to the FINCA in serving their customers as most of them lack good background in their education level as the table 4.8 below shows.

4.3.2 Respondents by Level of Education of FINCA's Loan Beneficiaries

Table 4.8: Distribution of Respondents by Level of Education of FINCA's Customers

Education Level	Frequency	Percent
Primary	78	78
Secondary	12	12
College	10	10
Total	100	100

Source: Field Data, 2016

4.3.3 Customer's Respondents on Determining whether they Face Challenges in Getting Services at FINCA

The results show that there were some challenges in getting services at FINCA as the findings had showed in the study.

4.3.4 FINCA's Respondents by Whether the Organization Put Priorities to Poverty Reduction Goals to MSEs

Table 4.9: Distribution of FINCA Respondents by Whether the Organization Put Priorities to Poverty Reduction Goals to MSEs

	Extent of prioritization	Frequency	Percent
Valid	To some extent	5	26.3
	To the large extent	4	21.1
	To the very large extent	3	15.8
	Not at all	3	15.8
	Total	19	100.0

Source: Field Data, 2016

Table 4.9 indicates the distribution of respondents by whether FINCA as an organization which deals with loans does consider and put the priorities to poverty reduction goals to SMEs. The findings showed that the leading factor was of those who said not at all at 36.8% to FINCA to have that motive. This was followed by those who responded to the variable to some extent by 26.3%. However, 21.1% agreed with the variable at large extent and 15.8% were at very large extent. This implied that the respondents concerning this variable at FINCA had different views however; it indicated that the organization's priority was not for poverty reduction as it had been known to many.

Table 4.10 shows the distribution of respondents by whether FINCA has the intention to help the MSEs and the poor. The findings showed that at 52.6% viewed the variable negatively to that the organization had no any intention to help the MSEs and the poor. 21.1% of all respondents said that just to some extent FINCA had the intention

to help the MSEs and the poor, while 15.8% were at large extent and only 10.5% were at very large extent. This implied that FINCA at the great extent had no direct intention to help the MSEs and the poor to come out of poverty.

4.3.5 FINCA's Respondents by whether FINCA has the Intention of Helping MSEs

Table 4.10: Distribution of FINCA Respondents by Whether FINCA has the Intention of Helping MSEs

The extent of FINCA's intetion to helping its customers		Frequency	Percent
Valid	To some extent	4	21.1
	To the large extent	3	15.8
	To the very large extent	2	10.5
	Not at all	10	52.6
Total		19	100.0

Source: Field Data, 2016

4.3.6 Customers's Respondents by whether there was any Change of Business Growth before and after getting the Loan from FINCA

Table 4.11: Distribution of Customers' Respondents by Whether there was any Change of Business Growth before and after Getting Loan from FINCA

Extent of changes in business growth		Frequency	Percent
Valid	tremendous positive changes	10	10
	slightly changes	20	20
	No any changes	38	38
	Tremendous negative changes	32	32

Total	100	100.0
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Source: Field Data, 2016

But when the customers were asked if there were any changes of business growth before and after getting loan from FINCA, the findings as had been shown from the above Table 4.12 show that, there was no any changes of life before and after getting loan from FINCA at 38%, while those who said that after getting loan they fell into tremendous negative changes were at 32%. Likewise, 20% responded that there were very slight changes after getting loan while only 10% agreed with the variable that after getting the loan from FINCA they had the very tremendous changes. This indicated that at the very large extent the expectation of many FINCA customers were not met as they anticipated before.

4.3.7 Customer's Respondents by whether FINCA had Contributed Anything in Poverty Reduction

Table 4.12: Distribution of Customers' Respondents by Whether FINCA had Contributed Anything to Poverty Reduction

Extent of contribution to poverty		Frequency	Percent
Valid	To some extent	32	32
	To large extent	12	12
	Nothing more	56	56
Total		100	100

Source: Field Data, 2016

Table 4.12 shows the findings on whether FINCA had contributed anything in poverty reduction of customers' families compared to the previous situation. The findings showed that at 56% among all respondents said that the organization had done nothing in contributing to poverty reduction of customers' families compared to the previous situation. While 32% were those who said to some extent and only 12% were of those at the large extent. This implied that FINCA had nothing to develop its customers as the results they are more concerned with with profit maximization.

4.3.8 FINCA's Respondents by the Kind of Security Considered for the Loan Taker to have, in order to be Considered for a Loan

Table 4.13: Distribution of FINCA's Respondents by the Kind of Security Considered for the Loan Taker to have in order to get a Loan

	Desired security	Frequency	Percent
Valid	Land Tilte Deeds	1	5.3
	Houses	4	21.1
	Others(Animal keeping eg Cattel)	5	26.3
	1st and 2nd considered	9	47.4
	Total	19	100.0

Source: Field data, 2016

Table 4.13 shows the distribution of respondents by the kind of security that was considered for the loan taker to qualify to take a loan. The findings showed that at 47.4% were at land and houses as were most used as collateral for the clients to get loan. 21.1% agreed with the variable on houses used as the security condition for a

loan taker, 26.3% were at other collaterals while 5.3% responded only on having land title deed as the condition to loan taker. This implied that at FINCA a client which had no any of the mentioned collateral above would not secure the loan.

4.3.9 FINCA's Respondents by whether the MSEs had the Ability to Meet the Conditions

Table 4.14: Distribution of FINCA's Respondents by whether the MSEs had the Ability to Meet the Conditions Posed

Ability to meet loan conditions		Frequency	Percent
Valid	Yes	5	26.3
	No	14	73.7
	Total	19	100.0

Source: Field Data, 2016

Table 4.14 shows the distribution of FINCA respondents by whether the MSEs had the ability to meet the conditions posed by FINCA. The findings showed that at 73.7% of all respondents rejected the variable while only 26.3% agreed with it that MSEs could meet the conditions posed by the FINCA. This is because FINCA customers always complain about high interests and unfavorable conditions posed by FINCA.

4.3.10 FINCA's Respondents by the Interest Charged by FINCA to the Loan Taker

Table 4.15: Distribution of FINCA Respondents by the Interest Charged by FINCA to the Loan Taker

Interest Charged		Frequency	Percent
Valid	Less than 20%	4	21.05

Between 20% and 25%	9	47.37
Between 25% and 50%	6	31.58
Total	19	100.0

Source: Field Data, 2016

The Table 4.15 indicates the distribution of respondents by the level of interests that were charged by FINCA to the loan taker. The findings showed that, at 47.4% said the interests charged were of between 20% and 25%, 31.6% said the interests were at 25% and 50% while 21.1% said the interest were at less than 20%.

4.3.11 Customer's Respondents by whether the Interests were Favorable to the MSEs

Table 4.16: Distribution of Respondents by whether the Interests were Favorable to the MSEs

Appropriateness of interest		Frequency	Percent
Valid	Yes	16	16
	No	74	74
	Don't know	10	10
	Total	100	100.0

Source: Field Data, 2016

4.3.12 FINCA's Respondents by whether the MSEs use the Loans for Business Activities

Table 4.17: Distribution of FINCA's Respondents by whether the MSEs use the Loans for Business Activities

Use of loan for business	Frequency	Percent
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Valid	Yes	4	21.1
	No	2	10.5
	not sure	13	68.4
	Total	19	100.0

Source: Field Data, 2016

Table 4.16 shows the distribution of respondents by whether the interests charged to the SMEs were favorable. The findings showed that at the great extent the interest were not favorable to the MSEs at 74% as rejected the variable completely. 16% agree with the variable and 10% said that they don't know. This implied that at FINCA the interest that was charged were not favorable at all. Table 4.17 shows the distribution of respondents by whether the MSEs use the loans for business activities. The findings showed that at 68.4% among all respondents that were interviewed were not sure whether the clients use the loan for business activities. 21.1% agreed with the variable while 10.5% rejected the variable to function. This implied that even the FINCA officials were not sure for how the loans taken were used. Hence to prove out as the great challenge to the FINCA official to make follow up of the loans taken out.

4.3.13 FINCA's Respondents by whether the MSEs Improve their General Performance Intermsof Business Growth and Creation of General Income

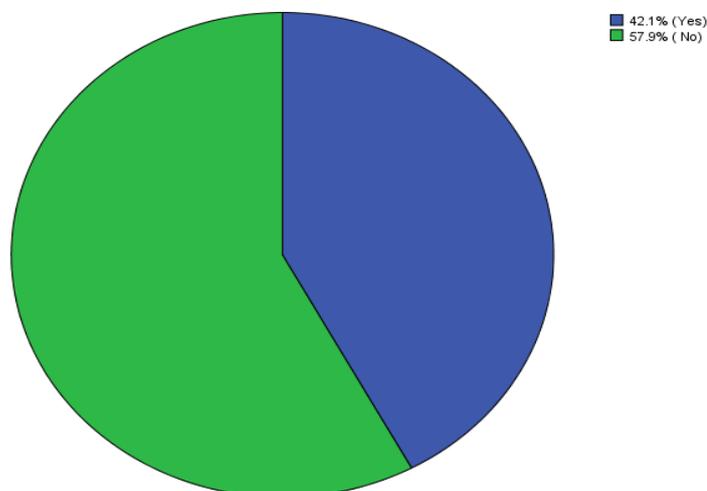


Figure 4.1: Distribution of FINCA's Respondents by whether the MSEs Improve their General Performance in Terms of Business Growth and Creation General Income

Source: Field Data, 2016

4.3.14 Customer's Respondents by whether the Interest was the Causative to Failure of the MSEs

Figure 4.2 shows the distribution of respondents by whether the interest was the causative for the failure of the MSEs to improve their general performance in terms of business growth and creation general income.

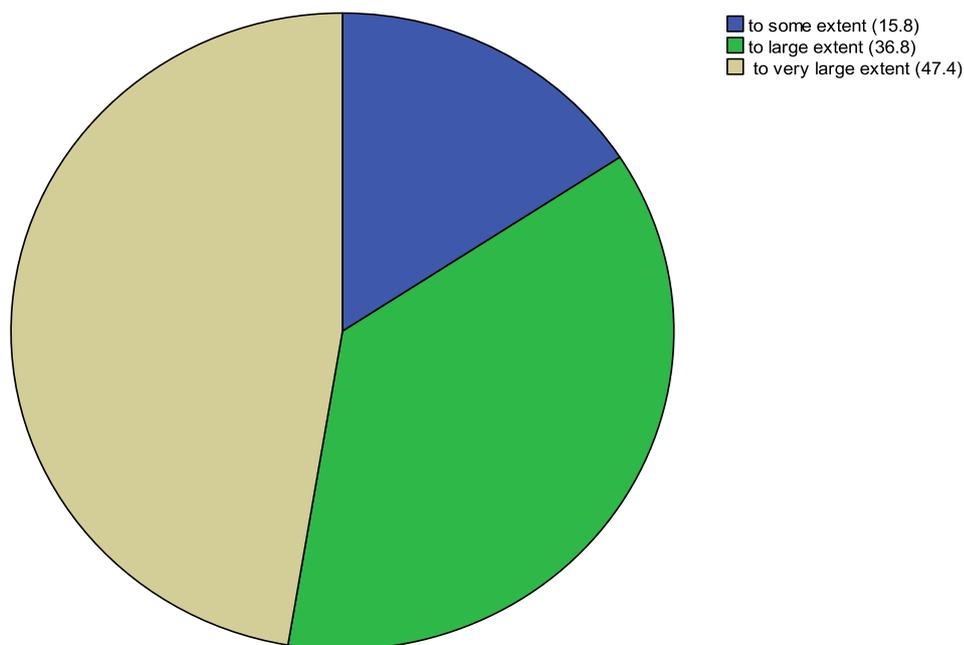


Figure 4.2: Interest Rate can be the Causative

Source: Field Data, 2016

Figure 4.2 distributes the data findings on whether the interests that were charged were the causative to the failure for the MSEs to improve general performance and creation of general income. The findings showed that 47% viewed at the very large extent with the functional of the variable. 39% were at large extent while 16% were to

some extent. This implied that the variable were the strong causative to the failures of the clients. This indicates that the interests offered by FINCA to its customers are too high.

4.3.15 Customer's Respondents by whether the Interests was too High

Table 4.18: Distribution of Customer's Respondents by whether the Interest was to High

Higher interest		Frequency	Percent
Valid	Neutral	10	10
	Agree	44	44
	Strongly agree	46	46
	Total	100	100.0

Source: Field data, 2016

When the customers were asked about the interest that were charged by FINCA the findings showed that at the great extent their response complied with that from the FINCA officials that was too high. The data showed that at 46% were at strongly agree, 44% agreed with the variable while 10% were neutral. This implied that the interests that were charged were too high.

4.3.16 Customer's Respondents on whether lack of Transitional Period for the Business Take off is the Causative of Failure

Table 4.19 shows the distribution of respondents by whether, lack of transitional period for the business to stabilize was the causative for the failure of the MSEs to improve their general performance in terms of business growth and creation of general income.

Table 4.19 shows the distribution of respondents by whether, lack of transitional period for the business to stabilize was the causative for the failure of the MSEs to improve their general performance in terms of business growth and creation of general income. The findings showed that 47% responded at very large extent. While 37% were at large extent and 16% were at some extent. This implied that lack of transitional period to let the business to stabilize was the major causative to the client's poor performance.

Table 4.19: Distribution of Customer's Respondents on whether Lack of Transitional Perion for the Business Take off is the Causative of Failure

Lack of transition period causes business failure		Frequency	Percent
Valid	To some extent	16	16
	To large extent	37	37
	To very large extent	47	47
	Total	100	100.0

Source: Field data, 2016

4.3.17 Customer's Respondents by whether Time for Loan Repayment was Very Short

Table 4.20: Distribution of Customer's Respondents by whether the Time for Loan Repayment was Very Short

Time for loan payment is too short		Frequency	Percent
Valid	Neutral	2	2
	Agree	49	49
	strongly agree	49	49
	Total	100	100.0

Source: Field Data, 2016

Likewise, when the clients were asked on the same variable in order to have the experience from both sides the data showed to have support at the great extent by 98% which shows to have the strong relationship with the variable. Hence to prove that the time which FINCA had arranged for its customers to start paying back loans was very short.

4.3.18 Customer's Respondents by Stiff Conditions for Having the Loans

Table 4.21: Distribution of Customer's Respondents by whether the Conditions were very Stiff for the Clients to Manage

	Loan conditions are stiff	Frequency	Percent
Valid	Neutral	5	5
	Agree	39	39
	strongly agree	56	56
	Total	100	100.0

Source Field Data, 2016

Table 4.21 shows the distribution of respondents by whether the conditions posed by the FINCA were stiff to the clients to manage. The data findings indicated that at 56% of all respondents agreed strongly with the variable, 39% also agreed at the normal while 5% remained neutral. This implied that to the great extent the variable showed to be supported by the respondents at 95% which is the strong relationship.

4.3.19 Customer's Respondents by Lack of Entrepreneurial Skills to MSEs

Table 4.22: Distribution of Customer's Respondents by Lack of Entrepreneurial Skills to MSEs

MSEs lack entrepreneur skills	Frequency	Percent
Agree Strongly	52	52
Agree	46	46
Neutral	2	2
Total	100	100

Source: Field Data, 2016

Table 4.22 shows the distribution of respondent by lack of entrepreneurial skills to FINCA clients. The findings showed that at 52% agreed strongly, 46% agreed at the normal position while 2% were at neutral. The findings showed that at the great extent the clients lack the Entrepreneurial skills which could enable them to be successful with their business activities. This means that, entrepreneurial skills and level of education can help customers to predict the outcomes of their loans they take before getting into troubles.

4.4 Solutions for the Problems Experienced by Misungwi Loan Beneficiaries

4.4.1 FINCA to Establish Entrepreneurial Skills before the Client take the Loan

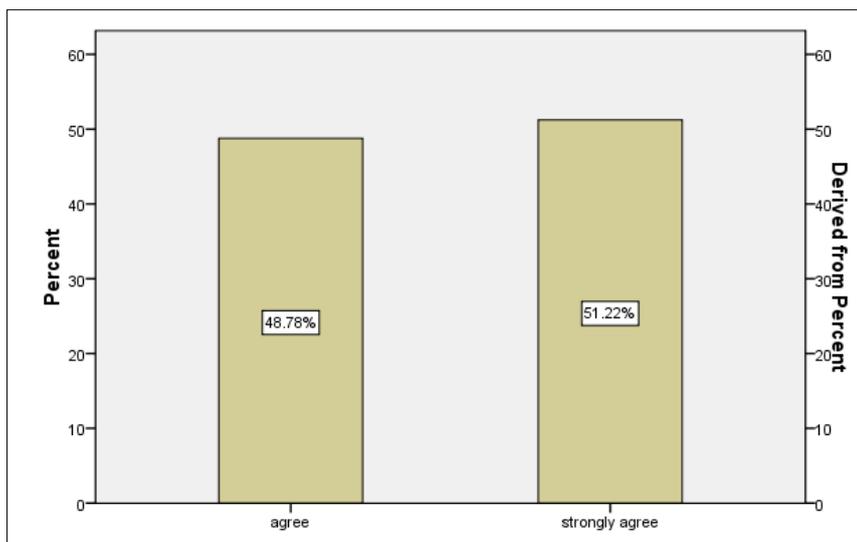


Figure 4.3: Distribution of Respondents by FINCA to Establish Entrepreneurial Skills before the Client Take the Loan

Source: Field data, 2016

Figure 4.3 shows the distribution of respondents by whether FINCA would establish the entrepreneurial skills to the clients before releasing loans. The data showed that at the great extent the respondents agreed with the variable. This implied how the entrepreneurial education is very important to both the loan taker as well as to the safety of the organization's money.

4.4.2 FINCA to Reduce the Interest Rate Charged to the Clients

Table 4.23: Distribution of by FINCA to Reduce the Interest Rate Charged to the Clients

Interest charges be reduced		Frequency	Percent
Valid	Agree	56	56
	strongly agree	44	44
Total		100	100.0

Source: Field data, 2016

Table 4.23 indicates the distribution of respondents by FINCA to reduce the interest rate that were charged to its clients. The findings showed that at the great extent the respondents agreed with this variable as the data displayed above. From the table above interest rate charged had been seen as the big challenge to the organization if real they had the intention to help the poor and the low income earners customers as well as to its clients.

4.4.3 FINCA should Introduce Probation Period before Start to Pay Back the Loan

Figure 4.4 display the findings on distribution of respondents by FINCA to introduce the probation period before start to pay back the loan. The findings showed that at the great extent the respondents agreed with the variable in order to improve the situation at FINCA. The data showed that 54% agreed while 44% responded strongly agreed while 2% remained neutral to the variable.

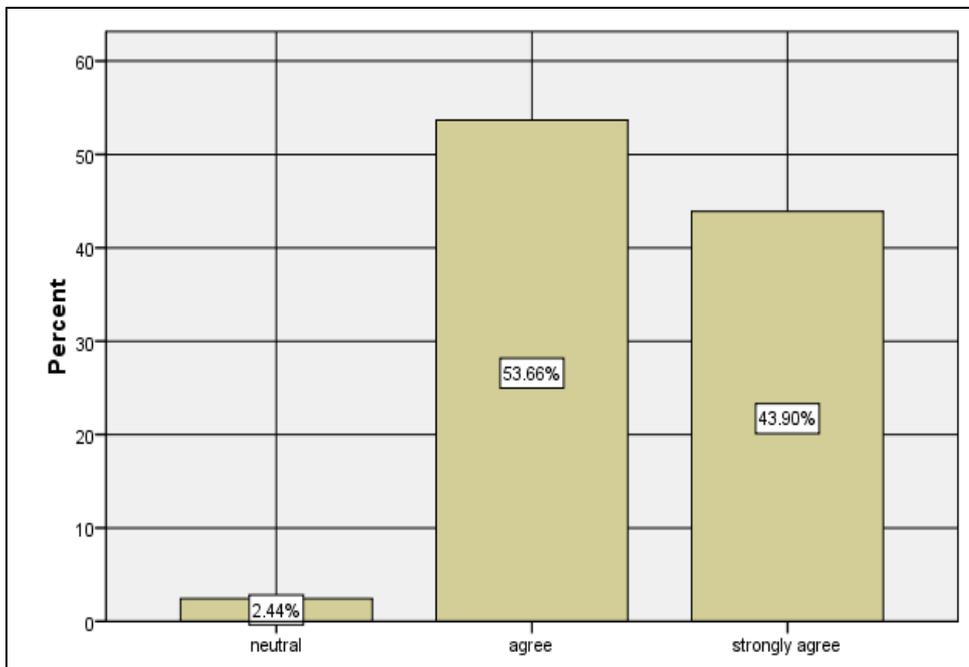


Figure 4.4: Distribution of Respondents by FINCA to Introduce the Probation Period before Start to Pay Back the Loan

Source: Field data, 2016

Figure 4.4 display the findings on distribution of respondents by FINCA to introduce the probation period before start to pay back the loan. The findings showed that at the great extent the respondents agreed with the variable in order to improve the situation

at FINCA. The data showed that 54% agreed while 44% responded strongly agreed while 2% remained neutral to the variable.

4.4.4 FINCA should Regulate the Security Conditions

Table 4.24: Distribution of Respondents by Regulating the Security Conditions

Security conditions should be regulated		Frequency	Percent
Valid	Agree	46	46.3
	strongly agree	54	53.7
	Total	100	100.0

Source: Field data, 2016

Table 4.24 shows the distribution of respondents by if FINCA would regulate the security conditions that were imposed to the clients as the spring ball to the loan takers. The findings showed that all respondents agreed by 100% with the variable that there were necessity of regulating the security condition to its clients.

4.4.5 FINCA should give Environmental Education since Weather Condition affects the Payment of the Loan

Table 4.25: Distribution of Customer's Respondents by whether Condition can affect the Payment of the Loan

Valid	Frequency	Percent
Yes	73	73
No	3	3
Not sure	24	24
Total	100	100

Source: FieldData, 2016

Table 4.25 shows the distribution of respondents by whether weather condition affects the payment of the loan. The findings shows that most of respondents agreed by 73% with the variable that weather condition affect the payment of the loan. This is because most of loan takers depend on agricultural activities in raising their funds such as gardening, fishing as well as selling crops and shop business. To overcome this situation, FINCA should give environmental education to the loan takers.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is posed on conclusions and recommendations on the findings that have been analyzed and discussed in chapter four as per not only the problem identified in chapter one but also the research objectives and research questions identified in the first chapter of the study. This chapter presents the conclusions of findings, the recommendations drawn from the conclusions made in this chapter and lastly it poses a need for a further study.

5.2 Conclusions

5.2.1 Conclusion on the General Respondent's Characteristics

Through the study findings it is identified that the issue of gender balance at FINCA is not put into consideration as per findings in this study whereas the reality showed that the male outnumbered the female by the great difference. This is not good since the

nature of work applied at FINCA does not need muscular so gender could be better to be considered by the management. On the age of respondents it was noted that the majority were of young age, which might be due to the nature of work as it needs people who have good memory and those who can make follow up to the customers who had taken loans.

Level of education is very important to the development of any organization. This was proved by FINCA as its employees mostly had good education though the organization still had the minority of standard seven education leavers. But this was quiet different on the side of its customers as most of FINCA's customers were those of low education such as secondary and primary level whereas the organization had the great challenge to ensure that its clients are being educated even of business education which will help them to run their businesses.

On the professionalism of employees at FINCA it was noted that the organization did not consider those who had accountancy and finance professional as they appeared to have the very small number. Instead those who had different professional irrelevant to money keeping were many. This implied that the organization can put itself in danger since its employees lack qualifications which are equal to the activities of the organization.

5.2.2 Conclusion on the Challenges In-serving MSEs in Misungwi District using FINCA Office in Mwanza City

The study determined several factors that might be the challenges in serving MSEs whereas the people of Misungwi are one of them. On the aspect of services that were

offered by FINCA at 100.0% of all respondents said to be profit services. This was the big challenge to the organization as tend to serve the customers by promoting their life without losing their goal of making profit.

Likewise the study noted that in their daily service to its customers the FINCA officials agreed to large extent to face some challenges. But when they were asked what kind of challenges they faced the findings showed that interest rate was the leading challenge which was followed by unfavorable conditions that were posed by the organization and also bureaucracy.

On the aspect of how FINCA official know their customers, the findings indicated that at the very large extent the FINCA customers had bad education background which ranged between primary education and secondary while for those who were at college level were very few.

Not only that the study put into account if FINCA put priorities to poverty reduction goals to SMEs. The findings showed that at 63.2% of all respondents rejected the variable. This was similar to the response of when they were asked whether FINCA had the intention to help the poor and the MSEs to promote their businesses as the findings showed that at the great extent the organization had no any intention to help theMSEs such that Misungwi clients are part of it. This agreed with the respondents' views when they were asked about the type of service the organization offer as they said to be profit service as well as the security that was considered for the loan taker to be considered as they said that land title deed and houses were the most collateral that were considered most in order to have a loan.

But when the customers were asked whether they had ability to meet the conditions the findings showed that at the great extent at 73.7% rejected the variable while those who agreed to were minority at only 26.3%. This was supported by the respondents as to when they were responding to the question asked the interest that was charged if were favorable to the clients, the findings showed that at the great extent the interest were not quit against the expectation of the clients.

Likewise, the study considered about the conditions and procedures whether favored the MSEs. It was noted that at the great extent the condition and procedures did not favor the MSEs. This is because of the goal of the organization that it was set for profit maximization and not for nonprofit services. Through this study it was noted that at the great extent there was no any changes of life of FINCA's customers at 38%, tremendous negative changes at 32%, slightly changes at 20% and tremendous positive changes at 10%. This implied that though people do get loans from this organization still there was no any changes as per their expectation when they were asked about the kind expectation they had after joining the organization as most of them said to expect change of life.

This was supported by the findings from the customers when they were asked if FINCA had contributed anything to poverty reduction. The findings indicated that at 56% rejected the variable to that the organization had not done anything big to poverty reduction to its clients. This could be true due to the interest rate that was charged not to favor the customers and they were too high.

On the aspect of the failure of the MSEs to improve their general performance in terms of business growth and creation of general income at the great extent the respondents agreed with the variable. But when they were asked to whether the interests charged were the causative to their failure the findings showed that at the large extent the interest rate seemed to be the causative. This goes centrally to the priority set by the organization that had the intention to help the MSEs.

On the other hand lack of entrepreneurial skills knowledge was another causative to the failure of the customers to improve their business performance. But also when they were asked about the time to pay back the loan the findings showed that at 98% agreed with the variable compared to the minority of only 2% whom were neutral to the variable. Not only conditions that were posed by the organization to secure loan but also lack of entrepreneurial skills to the clients were indicated to be the causative of the clients' failures to improve their business performance.

The majority of FINCA's respondents at 51%, indicated that establishment of entrepreneurial skills could help to solve the problem identified at FINCA since the respondents said that lack of entrepreneurial skills was the major challenge factor to failure in their business performance.

On the other hand, aspect of reducing the interest rate posed by the organization at very large extent among all respondents at 100.0% agreed very strongly the management to work on that in order to enable the clients to make more profit and retain the amount of money rather than working for the benefits of the organization only.

Likewise, the respondents agreed at the large extent at 98% compared to the very minority number of 2% that the management should introduce the probation period before clients starts to pay back loans. This will ensure for the business to grow and stabilize before they start paying the loan.

On the other hand regulating the security conditions at FINCA was also considered and the findings showed that at the great extent all respondents agreed very strongly to be done. This could bring all conditions to fit into the position whereby it could be favorable to the customers and particularly the loan takers at FINCA.

5.3 Recommendations

5.3.1 Recommendation on the General Respondent's Characteristics

The study recommends to FINCA management to offer more employment opportunities to females so as to look for gender balance. This can be facilitated when carrying out new staff recruitments, a note should be put on the advertisement that "Woman are encouraged to apply"

Employing women can help to go through all challenges that have been noted in the organization operations since female are very careful and are more considerate and are more committed with work compared to men. The study revealed that most of employees at FINCA had good education background, which is a good thing to be considered.

However, on the issue of professionalism it was noted that most of workers at FINCA had different professionals to the nature of their work, which deals with money. It is

recommended that the organization should follow all the procedures required at the time of recruitment which will enable the organization to have qualified people relevant the work they are applying. This will enable the organization to beat the challenges that do occur at FINCA probably which might be caused by unqualified personnel.

5.3.2 Recommendation on the Challenges in Serving MSEs at FINCA's Office

The study identified that the services that are being offered by FINCA were profit service. This is the big challenge where comes the idea of service and helping the MSEs whom most of them are low income earners. It is recommended that the management has to introduce another service which will be more concerned with these MSEs and that the service should not operate under profit bases.

Likewise, it was noted that the most challenge which perplex FINCA officials as well as their customers were the interest rates and unfavorable conditions as they had been set by the management. The study recommends that the interest rate, the conditions for someone to be considered to secure the loan should be reviewed so as they can be manageable by the customers as the result to make them make profit and improve their businesses and their life.

It was noted in this study the most preferred collateral considered were the house and land title deeds whereby most of FINCA's customers could not have. Therefore it is recommended that FINCA has to seek another way of demanding security from its customers if they have to continue with their intention of serving and helping the MSEs and all the low income earners. The study recommends that any Tanzanian who

have the voters ID and has been verified by his or her sell leaders or Ward leaders should be considered to have the loan. This will enable many people to run their business and as the result their life will be improved.

On top of that as it was noted in this study that due to stiff conditions posed by the management, the customers could not manage to meet the requirements of the conditions posed, the study continue to recommend that FINCA has to regulate its policy on these condition to be relevant to the ability of its customers. It is also recommended that better to earn a little coming daily rather than expecting huge which its flow is very slow.

On how the FINCA officials know their customers as it was noted in the study that the FINCA's customers had very low level of education and particularly the entrepreneurial skills. The study recommends that before offering any loan to the customers FINCA management should ensure the provision of entrepreneurial skills education which will ensure the safety of the loan and the sustainability of the business on the other side.

It is strongly recommended that the cultural and primitive tendency of saying that entrepreneurs are born should not have room in this contemporary and competitive business world. Customers should be taught and also they should have the close follow up to monitor the development of the business.

Though it was noted for FINCA official that the organization's priority is reduction and that it had the solid intention to help the MSEs and the poor in general, the study identified that the organization had no such kind of priorities and even to help the

MSEs. This was due to the interest rates and unfavorable conditions set by the organization which was too unbearable to the customers.

Therefore it is recommended that FINCA has to review its policy particularly its goals and objectives so as to mainstream the spirit that their customers had at the beginning. Not only that the unfavorable conditions that have been making the FINCA's customers to complain all the time on it should be re-addressed to comply with the ability of the people and their strength of their business.

The study also revealed that there was no any change of life to its customers and also it was identified that despite all the effort that FINCA is doing to offer loans to MSEs still they do not see any contribution that the organization is making to them. This might be the great challenge to FINCA as one of its goals is to help the MSEs and reduce the poverty among the Tanzanian. FINCA has to redress its missions on how to go through the way of their business that they are doing. Instead they have to work hard to ensure that their customers to benefit with the loans they are taking from FINCA and also to see the change of their lives.

The study identified that the causative to the failures of the customers to improve their business and change their life was due to high interest rate that was charged by the organization, another causal was lack of entrepreneurial knowledge skills and stiff conditions that were posed by the organization. Therefore, it is recommended that FINCA has to ensure that they lower their interests to point where the customers will be able to make profit in their business.

But also the management should make sure that they introduce the system of educating its customers before they take loans which will enable them to have knowledge on how to run the business and also how to manage their money that they collect. Likewise, FINCA should review the conditions for loan takers to be favorable to all such as not to depend on houses and land title deeds which most of its customers do not have.

5.3.3 Recommendation on the Challenges in Serving the MSEs in General

Since the study findings showed a number of challenges in serving MSEs, it is recommended that the management of FINCA should introduce the entrepreneurial knowledge department that will be dealing with teaching its members business skills that could help them to run their businesses successfully. This should be done before the customer taking loan. Not only that but this department also is advised to make sure that they have a close follow up to their customers so as to know their progress.

It is also recommended that the FINCA management should redress its policy on interest rates to fit to the capacity of its customers. This will encourage many other customers to join the organization as the result FINCA will find it, having so many customers that will enable the organization to meet its goals of helping the MSEs and the poor in Tanzania.

On the other side, it is recommended that the FINCA management should think about introducing the probation period before the customers start to pay back the loan. This will enable them to assess the trend of their business. It is recommended that the probation period could be at most one year which is enough for the loan taker to make his or her business stabilize.

Likewise, the study recommended that the management should review its policy on security that is considered for someone to have a loan. It is recommended that even other movable things e.g. livestock, voter's identity card to be considered as collateral for loan takers. Also the management is advised to make contact with the ministry which is concerned with business to take responsibility of guaranteeing the Tanzanian especially the MSEs. This will not only benefit FINCA but also they will turn to be tax payers and make the government to increase its revenue.

5.4 Need For Further Studies

This study was done purposely to determine the challenges facing MFIs in financing MSEs by focusing on FINCA Tanzania as a case study of Mwanza whereby the MSEs of Misungwi have been involved. Since a single study cannot cover each and every variable regarding the posed problem. There are other variables, which were not fully covered that need some other scholars and researchers to conduct further studies. Therefore, this study regards the findings obtained as a spring ball and challenge whose gaps will need to be filled and add new input to the body of existing knowledge.

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APPENDICES

Appendix I: English Version Questionnaire

Dear respondent,

This questionnaire aims at collecting information concerning the study: ‘The influence of Microfinance Loans towards accelerating the growth of micro and Small Enterprises in Misungwi: A Case of FINCA Tanzania (Mwanza Branch). The study is conducted as a partial fulfillment for the award of the masters’ degree as according to the Open University of Tanzania prospectus.

The purpose of this questionnaire is to request you to have chance to tell the researcher if there is any influence on economic development and changes to the lives of the loan takers of micro and small enterprises from FINCA. Through these, the researcher shall be able to analyze and understand if there is any influence on micro and small enterprises of Misungwi district. Note that all these information will be treated only for academic purposes and not otherwise, so you're requested to feel free when you fill this questionnaire.

Instructions

1. Choose the correct answer from among the given alternatives by underlining the letter of the correct solution.
2. Other instructions are indicated as per requirement of the specific questions.
3. If you feel, you have something more to tell the Researcher about the problem, you may write in the plain paper attached at the end of this questionnaire.

A: QUESTIONNAIRE FOR FINCA OFFICIALS

1. What is your gender?
 - a) Male
 - b) Female
2. What is your age?
3. What is your education level?
4. What is your designation?
 - a) Employed or self employed
 - b) Unemployed

c) Others

5. What professional qualification do you have?

6. What kind of services is offered by your organization?

7. Does your organization put priorities to poverty reduction goals to MSEs?

a) To some extent

b) To large extent

c) To very large extent

d) Not at all

8. Do you think that FINCA has the intention of helping MSEs?

a) To some extent

b) To large extent

c) To very large extent

d) Not at all

9. What kind of security do you consider for the loan taker?

a) Land title deeds

b) Houses

c) Others (e.g. Animal keeping i.e. cattle, goats and hen)

d) a and b considered

10. Do you think that SMEs have ability to meet the conditions?

a) Yes

b) No

11. What are the interest do you charge the loan taker? Give short brief.
12. Do the MSEs use the loans for business activities?
- Yes
 - No
 - Not sure
13. Do MEs improve their general performance in terms of business growth, creation and general income?
- No
 - Yes
14. Do you think weather condition can affect the payment of the loan?
- Yes
 - No
 - Not sure

(Thank for your cooperation)

Appendix II: Maswalikwa Wanachama WaFinca

- Jinsia:
 - Mwanaume
 - Mwanamke ()
- Umriwako : _____
- Kiwango chaelimuyako
 - Elimuyamsingi
 - Elimuyasekondari
 - Elimuyachuo
 - Nyinginezo (eleza) _____ ()

4. Kaziako:
- a) Sijaajiriwa
 - b) Biashara
 - c) Nimeajiriwa(kampunibinafsi/ serikalinink.
 - d) Nimejajirimwenyewe (kampuniyakomwenyewe)
 - e) Nyinginezo(eleza)_____
5. Ni changamotozipiunakutananzokutoka FINCA?
- a) Ribakubwa
 - b) Masharitimagumuyamikopo
 - c) Urasimu
 - d) Ribakubwanamasharitimagumuyamikopo
6. Je kunamabadilikoyoyoteyakimaishaukilinganishakablanabaadayakupatamkopo FINCA?
- a) Imebadilikakidogo
 - b) Imebadilikasana
 - c) Haijabadilika
 - d) Kuna mabadilikoyakunirudishanyumakimaendeleo
7. Je kunamchangowowotekimaishakutoka FINCA wakusaidiakupunguzaumaskiniukilinganishanahaliyahapoawalikablayakujiunga na FINCA? Elezakwaufupi.
8. Je unafikiriribainayotozwana FINCA inaridhisha?

- a) Ndiyo
 - b) Hapana
 - c) Sinahakika
9. Je ribainawezakuwachanzo cha kushindwakuendeleakwawajasiliamaliwadogo?
- a) Kwakiasifulani
 - b) Kwakiasikikubwa
 - c) Kwakiasikikubwasana
10. Je unadhaniribainayotozwa FINCA nikubwasana?
- a) Ni kweli
 - b) Si kweli
 - c) Sinahakika
11. Je mudaunaotolewakurudishadeninimfupisana?
- a) Ndiyo
 - b) Hapana
 - c) Sinahakika
12. Unafikirikanunizilizowekwana FINCA ningumukwawanaokopakuzimudu?
- a) Kweli
 - b) Si kweli
 - c) Sinahakika
13. Unadhanikunaumuhimukwa FINCA kurekebishakanunizake?

- a) Kweli
- b) Si kweli
- c) Sinahakika

14. Unadhanihaliyahewainawezakuathiriulipajiwakowamkopo?

- a) Ndiyo
- b) Hapana
- c) Sinahakika

Asante sanakwaushirikianowako.