THE INFLUENCE OF MICROFINANCE INSTITUTION FINANCIAL SERVICES ON PROFITABILITY OF AGRICULTURE SMALL AND MEDIUM ENTERPRISES (SMEs) IN MBEYA CITY

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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION (MBA) IN FINANCE

DEPARTMENT OF ACCOUNTING AND FINANCE

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2024

CERTIFICATION

The undersigned certifies that, has read and hereby recommends to the Open University of Tanzania the research dissertation titled "**The Influence of MFI Finance Services on Profitability of Agriculture SMEs in Mbeya City**" in partial fulfillment of the requirements for the award of Masters of Business Administration in Finance degree of the Open University of Tanzania

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Prof. Joseph Magali

(Supervisor)

……..…….

Date

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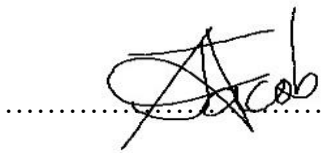
DECLARATION

I, **Ajile Mwang'anda,** do declare to the Open University of Tanzania that the research proposal entitled "the influence of MFI financial services on Profitability of Agriculture SMEs in Mbeya City" is original. It has never been presented to any other University or Institution. Where other people's works have been used, references have been provided. It is in this regard that I declare this work as originally mine. It is hereby presented in partial fulfillment of the requirement the Degree of Masters of business Administration in Finance.



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Signature

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Date

DEDICATION

I proudly dedicate this work to my mother, Grace Kallomo, and my father, the late Deogratius Jacob Mwang'anda, for their love, care, and support that enabled me to take many bold steps in my academic career up to this achievement.

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ABSTRACT

This study focused on assessing the influence of MFIs' financial services on the profitability of SMEs dealing with Agribusiness and agriculture in Mbeya City and their financial and non-financial services on the profitability of Agriculture SMEs in Mbeya City. The study examined whether MFIs' financial services, such as microcredit, insurance, saving, and training, influence the profitability of SMEs in the Agriculture sector. The research sample was selected through simple random sampling, and cross-sectional data was collected through survey questionnaires distributed to 184 respondents; however, 151 questionnaires were correctly filled. Study analysis was done through descriptive and inferential statistics using a multiple linear regression model. The study discovered that microcredit, insurance, saving, and training services positively and significantly influenced the performance of Agriculture SMEs in Mbeya City. This study significantly contributes to the literature on the relationship between microfinance institution (MFI) products and the growth of agriculture SMEs. Government policies enabling agribusinesses to access funds under favorable conditions and rates are crucial for fostering business growth. Moreover, this study solidifies the theory of financial intermediation by highlighting the pivotal role of MFIs in providing services that contribute to the performance, profitability, and growth of agriculture SMEs. Consequently, this aids in expanding the agricultural sector, benefiting the national economy.

Keywords: *MFIs financial services, Profitability, Agriculture SMEs, Mbeya City*

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LIST OF ABBREVIATIONS AND ACRONYMS

Agri-SME	Agriculture Small and Medium Enterprises
FFI(s)	Formal Financial Institution(s)
MFI(s)	Microfinance Institution(s)
SACCOS	Saving and Credit cooperative societies
SIDO	Small Industries Development Organization
SME(s)	Small and Medium Enterprise (s)
VICOBA	Village Cooperative Bank(s)
MFB	Microfinance Bank Credit

CHAPTER ONE

INTRODUCTION

1.1 Overview

This chapter describes the study's background, problem statement, research general and specific objectives, research questions, significance, and scope.

1.2 Background of the study

Agriculture Small and Medium Enterprises (Agri-SMEs) are very important for the economic development of different developing countries. They address food security challenges, malnutrition, unemployment, and poverty (WBG, 2019; Ilie et al., 2022; Mang'ana et al., 2023). About 90% of all businesses worldwide are SMEs (WB, 2019; Aceli, 2020), and about 50% of SMEs in Africa are Agri-SMEs (Aceli, 2020; Mang'ana et al., 2023). This shows how vital Agri-SMEs are in improving economic growth. Thus, the effective performance of agricultural SMEs in developing countries would enhance economic growth.

Research studies have been conducted on the relationship between MFI services and SMEs' growth and performance. According to Moussa (2020), Audu et al. (2021), Omwono and Paul (2019), and Gyimah and Boachie (2018), the MFIs had significant positive impacts on the growth of SMEs. The financial services discussed include Microcredit, Insurance, savings, and non-financial services such as training. Most of these studies revealed that greater contributions to SMEs were made through microcredits. However, their studies did not focus specifically on Agri-SMEs. Onyeiwu et al. (2021) and Salahuddin et al. (2021) found a negative relationship between MFIs and SMEs; the respondents barely used the facilities due to high

interest rates and collateral requirements. Nevertheless, other variables such as Insurance, training, and savings were not discussed.

The results from research done by Mahmud et al. (2017), Achoja et al. (2020), and Mrindoko (2022) showed a positive relationship between MFI services and the performance of Agri-SME. However, they mainly focused on microcredits. Onyeiwu et al. (2021) found that training borrowers had a positive impact on the economic wellness of agribusiness households. Some studies revealed no significant role, and others discovered a negative relationship between MFIs such as microcredit and the performance of Agri-SMEs Chetama et al. (2016) and Salahuddin et al. (2021) respectively.

In Tanzania, according to the Tanzanian National Agricultural Policy (2013), financial institutions such as MFIs were identified to be very important for developing the agricultural sector as they provide financial services to farmers and other key agribusiness actors. The survey documented by Agribusiness Indicators Tanzania (2012) found that 41 percent received credit informally through their friends and family, 7 percent through MFIs, 4 percent of businesses took loans from banks, and the rest were not supported financially.

Studies done by Mrindoko and Pastory (2022) and Mazula (2018) revealed the negative impact of MFIs on MSMEs, although the study done by Mazula involved only one MFI (FINCA), and other variables such as insurance, savings, and training were not discussed. Mrindoko (2022), Mutalemwa (2021), and Magali (2021) found

a positive relationship between MFIs and MSMEs; however, Mrindoko (2022) and Magali (2021) focused on Village Community Bank (VICOBA) microcredits on smallholder farmers and small-scale industries respectively, Agriculture SMEs and other variables were not discussed. Stephen et al. (2022) discussed the contribution of banks to SMEs, and the findings revealed a positive relationship; this study did not as well involve MFIs.

Different studies done to reveal the existing relationship between MFIs' financial services and SME performance showed inconsistent and mixed results; this solidified the reason for conducting this study to reveal the existing relationship between MFIs services and Agri-SMEs in the study area. Moreover, this study tested the theory of financial intermediation, whereby different studies related it to business and economic growth. Additionally, according to Nkwabi & Mboya (2019), URT (2021), Thi et al. (2023), and Mang'ana et al. (2023), MFI services are among the ways to reduce challenges hindering SMEs' growth, such as poor business administration, lack of access to finance, digital transformation challenges, tight regulations, higher transaction costs, and lack of effective financial management as Tanzania implements Agenda 10/30 a transformative vision aiming to elevate Tanzania's agricultural sector growth by 10 percent annually whereby the government expect agribusinesses to assist the reduction of poverty (Mang'ana et al., 2023). Therefore, MFIs are among the ways to reduce challenges facing SMEs and agribusiness, promoting agricultural sector growth, making this an important study topic. In addition, none of the studies was conducted around Mbeya City. Therefore, a

geographical, empirical, contextual, and conceptual gap exists to fill through this study.

1.3 Problem Statement

Agriculture Small and Medium Enterprises play a vital role in economic development. They address food security challenges, malnutrition, unemployment, and poverty (WBG, 2019; Mang'ana et al., 2023). About 90% of all businesses worldwide are SMEs (WB, 2019), and about 50% of African SMEs are Agri-SMEs (Mang'ana et al., 2023). In Tanzania more than 66.3% are employed in Agriculture (URT, 2021). This shows how vital Agri-SMEs are in improving economic growth. Thus, increasing the growth and performance of Agri-SMEs in developing countries would boost economic growth (Mang'ana et al., 2023). Tanzania is implementing Agenda 10/30, a strategy expected to enhance food security, reduce poverty, and increase agricultural contribution to the national economy. It aims to raise Tanzania's agricultural sector growth by 10 percent annually from the current 2 percent growth in agricultural activities. In implementing this strategy, the government expects Agri-SMEs to help increase the agriculture sector's performance (Mang'ana et al., 2023). Different challenges hindering Agri-SME's performance were revealed despite the support they receive, such as training and technological changes from the government and SIDO (Mang'ana et al., 2023). These include, but are not limited to, business administration, poor technology, tight regulations, higher transaction costs, no access to finance, and lack of effective financial management (Nkwabi & Mboya, 2019; URT, 2021; Thi et al., 2023; Mang'ana et al., 2023). Research studies argue that MFI services are one of the very important ways to improve SME performance

(Audu et al., 2021; David & Njogu, 2023; Mang'ana et al., 2023). They are proven to influence business performance. Despite the services given by MFIs, Agri-SMEs still have unsatisfactory performance, leading to stagnant Agriculture Sector growth in Tanzania (Kimaro, 2023; Mang'ana et al., 2023; URT, 2021). Therefore, this study assessed the influence of MFIs financial services on profitability of Agri-SMEs.

1.4 Research Objectives

1.4.1 Main objective

The main objective of the study was to analyze the influence of MFIs financial services on profitability of Agriculture SMEs in Mbeya City.

1.4.2 Specific objectives

The specific objectives of the study were:

i. To identify the MFIs serving Agriculture SMEs in Mbeya city.
ii. To assess the influence of MFIs Micro credit services on profitability of Agriculture SMEs in Mbeya city.
iii. To assess the influence of MFIs saving services on profitability of Agriculture SMEs in Mbeya city.
iv. To assess the influence of MFIs Insurance services on profitability of Agriculture SMEs in Mbeya city.
v. To assess the influence of MFIs non-financial services on profitability of Agriculture SMEs in Mbeya city.

1.5 Research questions

1.5.1 General research question

How does the MFIs financial services influence the profitability of Agriculture SMEs in Mbeya City.

1.5.2 Specific research question

i. What are the MFIs serving the Agriculture SMEs in Mbeya city?
ii. How does the MFIs Microcredit services influence the profitability of Agriculture SMEs in Mbeya city?
iii. How does the MFIs Saving services influence the profitability of Agriculture SMEs in Mbeya city?
iv. How does the MFIs Insurance credit influence the profitability of Agriculture SMEs in Mbeya city?
v. How does the MFIs non-financial services influence the profitability of SME in Agriculture in Mbeya city?

1.6 Relevance of the Research

This study is important to policymakers, researchers, MFIs, and SMEs in the following ways; for policymakers, this study helps formulation of MFIs and SME policies, which influence the agriculture sector profitability. The study's documentation serves as a reference to prove and challenge the existing theories regarding financial intermediation and business profitability that are influenced by MFI services and also assist further research studies. The MFIs benefit by identifying potential prospective customers and designing products to meet their needs so as to

increase sales and profit. In addition, SMEs benefited by gaining knowledge on how MFI financial and non-financial services can help them increase the profit of their business.

1.7 Scope of the Study

The study's scope is limited to assessing the influence of MFIs' financial services on the profitability of Agriculture SMEs located in Mbeya City at Soweto and Uyole markets for easy data collection. Moreover, Mbeya City was chosen because 76.7 percent of its residents depend on agriculture and the informal sector, selling agricultural crops, petty trade, and small-scale production. In addition, agriculture contributed 74.7 percent to the GDP in Mbeya. This signifies that the regional economy depends much on agricultural activities (Mbeya GDP Report, 2015).

1.8 Organization of the study

This report has five chapters. Chapter one, present the background of the study, the statement of the problem, objectives of the study, research questions and relevance of the study. Chapter two discusses the literature review both theoretical and empirical as well as the theoretical and empirical conceptual framework of the study. Chapter three is the research methodology; this entails research design, study population, sample size, sampling, methods of data collection, data processing and analysis. Chapter four presents' findings and discussion of results it entails, presentation and discussion of results, and Chapter five, is the final chapter of the research, summary of the findings, conclusion, recommendations, policy implication and direction for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

This chapter describes the conceptual definitions, theoretical literature review, empirical literature review, research gap, theoretical and conceptual framework, and the study hypotheses.

Conceptual definitions

SMEs are small and medium enterprises, sometimes known as micro, small and medium enterprises (MSMEs). They are economic activities mainly in commerce, manufacturing, services, and mining. In Tanzania, the main government organ supporting SMEs is SIDO (SME policy, 2003). Below is the classification of SMEs in Tanzania.

Table 2.1: Categories of SMEs in Tanzania

Categories	Employees	Capital investment in machinery (Tsh)
Micro enterprise	1 – 4	Up to 5 million
Small enterprise	5 – 49	Above 5 million to 200 million
Medium enterprise	50 – 99	Above 200 million to 800 million
Large enterprise	100 +	Above 800 million

Source: SME policy (2003)

However, this study used the term SME for Micro and Small enterprises. According to the above description, SMEs are enterprises with 1 to 49 employees and capital up to 200 million.

Agriculture SMEs (agri-SME) engage in the agricultural value chain by processing and trading agricultural products through small and medium-scale businesses that work at various steps in the agricultural value chain (Mang'ana et al., 2023). According to the National Baseline Survey on MSME 2012, Agriculture SMEs are business activities that process the output of farming, fishing, forestry, livestock keeping, hunting, and gathering.

Microfinance institutions (MFIs) are financial intermediaries collecting surplus funds from investors through saving and channeling them to borrowers (users with deficits). They facilitate economic growth through different products and services such as saving, insurance, microcredit, and training (Horne & Wachowicz, 2008).
VICOBA is an informal savings and credit association locally established by several organizers (Pamuk et al., 2020).

2.2 Theoretical literature review

Financial intermediation is the process of savers depositing funds in financial intermediaries and allowing them to lend to the final users of funds on their behalf (Horne & Wachowicz, 2008). The theory originated in the 1960s in the work of Gurley and Shawn (1960), in which it was postulated that this theory is built on information asymmetry and agency theories. In the 1970s, Akerl and Spence claimed that financial intermediaries were built on the economics of imperfect information (Omwono & Paul, 2019). Financial intermediaries screen and monitor investors on behalf of savers to address the information asymmetry problem and reduce transaction costs between borrowers and lenders (Wensveen, 2003). The information

asymmetry, which is mostly due to market imperfections, leads to transaction costs such as evaluation, monitoring, and transfer costs, and transformation of asset characteristics such as liquidity and due date costs Benston and Smith Jr. (1976) (Andries, 2009).

Different studies have associated SME performance and economic growth with financial intermediation. According to Babatunde and Oyedokun (2022), the growth of intermediation brings about the growth of the financial system, which leads to economic expansion. Mnunka (2018) states that SMEs increase productivity through MFIs' financial services. In the study by Githinji et al. (2019), the policies affecting MFIs also affect SMEs because SMEs' performance depends on MFIs' services. Githinji et al. (2019) also stipulated that SMEs engaging in Agribusiness would grow and lead to national economic growth in a healthy financial intermediation. However, the theory could only address access to financial services when lending requirements such as sufficient collateral are met.

In a modern economy, according to Wensveen (2003), information asymmetries and transaction costs are not the driving force behind intermediation activity; risk management is what drives value creation. The absorption of risk is the central function of financial institutions. Financial institutions supply saved funds to borrowers because savers are risk-averse. Financial Intermediaries, therefore, carry maturity risk, counterparty risk, life expectancy, income expectancy, market risk, and so forth. Financial intermediaries absorb these risks through investment in a

diversified portfolio, which secures depositors' funds. The MFIs do not just do lending on behalf of borrowers. They offer other products that cannot be provided by individual investors, such as insurance and training (Wensveen, 2003).

The theory of financial intermediation was appropriate to this study, too, as it described the functions of MFIs as one among financial intermediaries and its contribution to economic growth. The services provided by MFIs include microcredit, saving, insurance, and training. The MFIs absorb risk and transform it into products that would help increase business performance and profitability. However, the relationship between MFIs and their customers is based on their products. Therefore, other SMEs receiving informal credit, saving informally or financed by commercial banks may not be addressed in this theory. Moreover, when the firms receive MFIs financial and non-financial services, it is not a guarantee for their profitability because other business internal factors, such as financial management, could influence business performance (Mang'ana et al., 2023).

2.3 Empirical literature review

2.3.1 Evidence of MFIs serving the SME in Agriculture.

The studies done by Mahmud et al. (2017), Achoja et al. (2020), and Mrindoko (2022) revealed a positive relationship between Agri-SME and MFI services. However, they focused mostly on microcredits. According to the Tanzanian National Agricultural Policy (2013), financial institutions such as MFIs are very important for developing the agricultural sector as they provide financial services to farmers and

other key agribusiness actors. The survey documented by Agribusiness Indicators Tanzania, 2012 found that 41 percent received credit informally through their friends and family, 7 percent through MFIs, 4 percent of businesses took loans from banks, and the rest were not supported financially. The study by Mrindoko (2022) focused on Village Community Bank (VICOBA) microcredits on smallholder farmers. Mazula (2018) revealed the negative impact of MFI on MSMEs. Although the study done by Mazula involved only one MFI (FINCA), and other variables such as insurance, savings, and training were not discussed. Mrindoko (2022) and Mutalemwa (2021) found a positive relationship between MFIs and MSMEs. However, Mrindoko (2022) and Magali (2021) focused on Village Community Bank (VICOBA) microcredits for smallholder farmers and small-scale industries, respectively.

2.3.2 Micro credit services influence on profitability of Agriculture SMEs.

Different researchers have studied the influence of MFI services on the profitability of SMEs globally. Audu et al. (2021) examined the role of microfinance institutions (MFIs) services on small and medium-scale enterprises (SMEs) performance in Gombe state, Nigeria. A cross-sectional survey design with a structured questionnaire was used to collect primary data from 360 SMEs in Gombe State. The analysis was done using a regression model. The results revealed that microfinance services, such as savings, microloans, and training, significantly affected SMEs' performance, measured in terms of profitability, market share, and sales growth. The results also revealed that training and micro-loans had the highest impact on SMEs' performance. However, the Agri SMEs were not discussed in this study.

According to the study by Engwa et al. (2021) on the role of Banking Institutional services on the Sustainable growth of SMEs in Cameroon, a sample of 275 respondents was involved, and analysis was done through a binary logit model and descriptive statistics. MFI's loans positively affected the growth of SMEs. Agri SMEs were not discussed in this study, and the theory of financial intermediation was not tested.

David and Njogu (2023) studied the effect of credit financing on the financial performance of SMEs in Thika Town, Kiambu County. A descriptive survey design was used, and data was collected on 468 registered SMEs through a structured questionnaire. Qualitative and quantitative data were collected and analyzed through content analysis and inferential and descriptive statistics. The results revealed that trade credit, bank credit, credit from informal associations, and MFI credit had a positive significant effect on the financial performance of SMEs. The Agri SMEs were not discussed in this study, and the theory of financial intermediation was not tested.

Fida (2020) studied the relationship between micro credits from MFIs and the SMEs'

financial performance in Lebanon. Secondary data was collected from 17 SMEs and 4 MFIs, regression analysis was done, and the findings revealed a significant positive relationship between the amount of loan (independent variable) and SMEs dependent variables (own resources, total assets, liquidity, liabilities, turnover, stock, and net

profit). The Agri SMEs were not discussed in this study, the theory of financial intermediation was not tested, and secondary data were used. However, our study will use primary data.

In the study done by Omwono and Paul (2019) in Rwanda on the effects of microfinance credit on the financial performance of SMEs and to establish the reason for the low popularity of microfinance credit in the Muhanga district, an ex post facto research design was used. Data was collected from 50 respondents and analyzed through inferential and descriptive statistics. The results revealed that high interest rates and credit ceilings are challenges in accessing MFI micro-credit. However, MFI services had a positive significant effect on the financial performance of MSME in Muhanga District, Rwanda. However, this study did not involve Agri SMEs and financial intermediation theory.

The study was done by Chinwe (2021) on the effects of financial intermediation on the development of small and medium-scale enterprises in Anambra State, Nigeria. The study focused on determining the effect of bank lending rates, collateral security, bank credit, bank loans, and advances on developing small and medium-scale enterprises in Anambra state, Nigeria. A descriptive survey research design was adopted. Primary data was collected from 384 respondents using Cochran to determine the sample size for an unknown population. Data was collected through a questionnaire and analyzed using multiple linear regression. The study found that Bank loans and advances significantly affect the development of small and medium-scale enterprises. Therefore, financial intermediation significantly affected the

development of small and medium-scale enterprises in Anambra state. The Agri SMEs were not discussed in this study, and the theory of financial intermediation was not tested.

Gyimah and Boachie (2018) determine the effect of microfinance products such as microloans, insurance, saving, and education on small business growth in Ghana using descriptive, inferential statistics and multiple linear regression to analyze the responses from 248 small business owners. The results revealed that microfinance products positively affected small businesses' performance, and the greatest influence was microloans.

The study done by Asenge and Diaka (2019) examines the effect of microfinance banks on the performance of women-owned enterprises in Benue State, Nigeria. The respondents were women entrepreneurs who were customers of the selected Microfinance banks. Independent variables were loans, savings, and training services, whereas the dependent variable was business performance. A sample of 68 business owners was used, and data was collected through survey design and questionnaires. The inferential statistics and regression analysis revealed that Microfinance bank loans, training, and saving services had a significant positive effect on the business performance of the population under study. There is a geographical gap in the study since it was done in Ghana; meanwhile, this research was done in Mbeya City, Tanzania. Moreover, this study done by Asenge and Diaka (2019) involved women-owned enterprises. However, this research study involved businesses done by both genders, specifically Agribusinesses.

Odhiambo and Muturi (2022) study Micro credits' effects on SMEs' financial performance in Migori County. A descriptive research approach and cluster random sampling technique were used to get 331 SMEs from eight sub-countries in Migori County. Structured questionnaires were used to collect data, which was analyzed through descriptive statistics. The study revealed that accessibility to MFIs micro-credit depends on SMEs' savings; more savings translates to the increased ability of the SMEs to borrow, hence the accessibility of more funds to finance businesses and increase the financial performance of SMEs. However, results revealed that saving had no significant effect on the financial performance of SMEs, which was attributed to the unwillingness of the SMEs to initially save amounts that could allow access to higher loan amounts from MFIs. The inability to save, therefore, translates to less financial performance and, hence, the non-significant contribution of savings to SME financial performance. The Agri SMEs were not discussed in this study, and the theory of financial intermediation was not tested.

Kimaro (2023) assessed microfinance institutions' contribution to SMEs' growth in Moshi, which focused on credit and entrepreneurial training and MFIs' technological innovations. Cross-sectional data was collected from 231 respondents and analyzed through Multiple Regression Analysis (MRA) and descriptive statistics. Results revealed that MFIs are very important in facilitating SMEs' growth. However, the results further revealed that SMEs struggled with low growth rates due to less training, low technology, a lack of knowledge of technological advancement, and

unfavorable credit terms. The Agri SMEs were not discussed in this study, and the theory of financial intermediation was not tested.

Other studies revealed a negative relationship between MFI services and SME performance. According to Mrindoko and Pastory (2022), in a study regarding the contribution of MFIs to poverty alleviation among micro and small entrepreneurs of Iringa municipality, Tanzania. Structured questionnaires were used to collect cross-sectional data from 333 SMEs who accessed MFI services. Analysis was done through correlation analysis, and results revealed that SMEs were dealing with agriculture, commerce, manufacturing, and providing different services. The study revealed that MFI services did not improve micro and small entrepreneurs' incomes. Although, most MFIs services had contributed to decreased poverty levels amongst micro and small entrepreneurs. This study focused on poverty alleviation rather than Agri SMEs profitability.

In the study done by Onyeiwu et al. (2021) that examined the impact of microfinance bank credit and its debt servicing on the profitability of SMEs in Alimosho Local Government Area, Lagos State, Nigeria, data was collected from 387 SMEs through a structured questionnaire. Analysis was done through simple linear regression and results revealed that MFBs loans and debt services led to decrease in profitability, therefore MFBs credit services had negative significant effect on profitability of SMEs. Agri SMEs were not discussed in this study, and the theory of financial intermediation was not tested.

2.3.3 MFIs non-financial services influence on profitability and performance of Agriculture SME

Financial literacy equips firm managers with essential skills to manage their businesses. Through this knowledge, SMEs can reduce costs and maximize returns to increase their profit. The study by Kimatu (2017) found that MFIs do not play any significant role in offering training on business skills. According to Muyongo (2017), MFIs conducted pre-lending training for their clients, but they focused on how to handle the repayment for credits received and familiarizing them with loan terms and conditions, policies, and rules for the loans borrowed to avoid default risks rather than business skills and other important skills. According to the studies done by Mnuka (2018), Gyimah and Boachie (2018), Onyeiwu et al. (2021), Audu et al. (2021), and Asenge and Diaka (2019) findings revealed that training had a positive and significant influence on the performance of SMEs.

2.4 Research gap

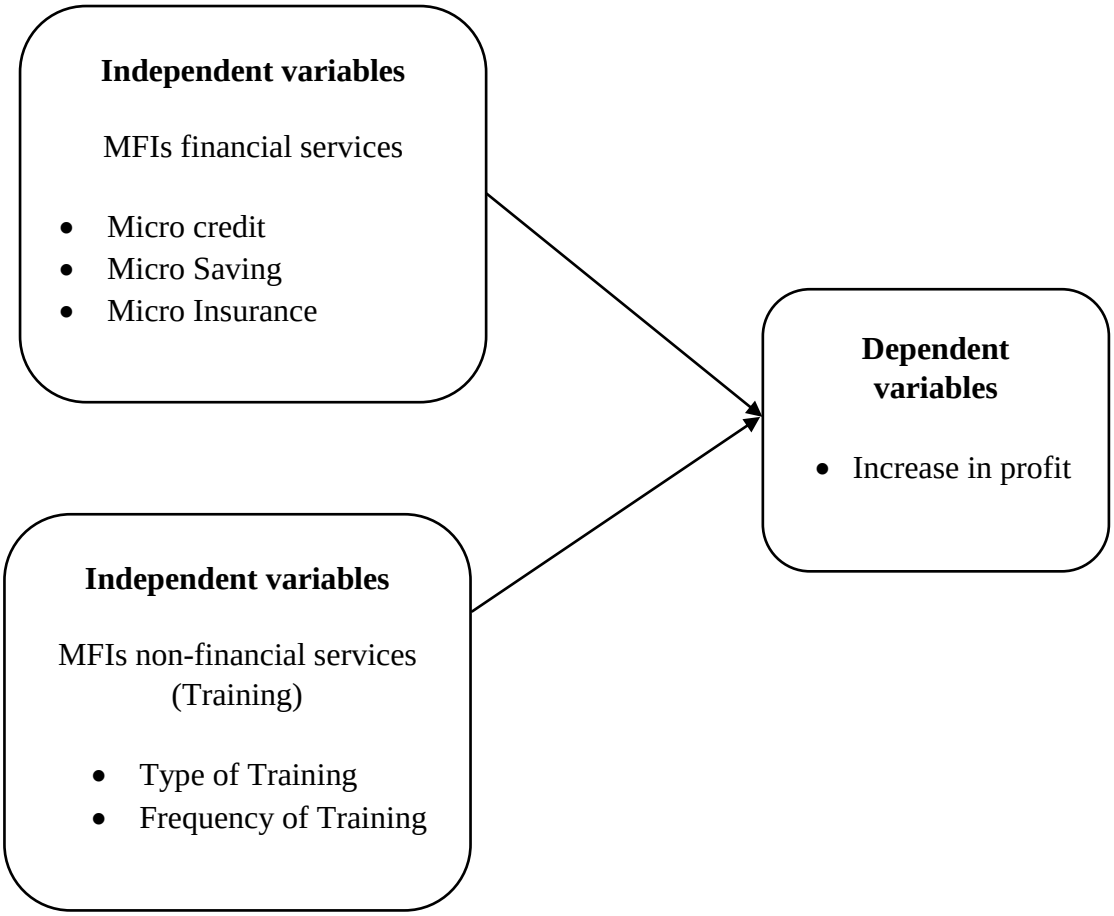
The reviewed research studies demonstrate a relationship between MFIs financial services and the performance of SMEs; however, they involved general businesses. However, this study focused on different contexts, specifically agri-SMEs. Further, the inconsistent and mixed results from the reviewed literature solidify the reasons for conducting this study to reveal the current status of the existing relationship between MFI services and Agri-SMEs; in addition, the study tested the theory of financial intermediation, where different studies associated it with business and economic growth. Moreover, none of the studies was conducted around Mbeya City.

Therefore, a geographical, empirical, contextual, and conceptual gap exists to fill through this study.

2.5 Conceptual and theoretical framework

The conceptual framework shows the relationship between the independent and dependent variables under the study. This defines the boundaries of the investigation for the researcher. According to Eltis (2000), economic growth depends on reinvesting surplus funds in productive activities. Financial intermediaries such as MFIs collect surplus funds and channel them to users/borrowers, who were, in this case, agriculture SMEs. In addition, it is expected that their businesses will grow after capital injection, leading to growth in the Agriculture sector and the national economy at large. The independent variables in the study are MFIs' financial services, specifically saving, microcredits, and insurance, and MFIs' non-financial services, such as training, which influence the profitability of Agriculture SMEs. The dependent variable is the increase in profit of Agriculture small and medium enterprises. The Figure 2.1 depicts the conceptual framework of the study.

Figure 2:1 Conceptual framework



Source: Compiled from Empirical Literature Review

2.6 Statement of Hypothesis

Hypothesis A: Relates to microcredits

H0: Microcredits do not have positive influence on profitability of Agriculture SMEs

H1: Microcredits have positive influence on the profitability of Agriculture SMEs

Hypothesis B: Relates to micro insurance

H0: Insurance does not have positive influence on profitability of Agriculture SMEs

H1: Insurance has positive influence on the profitability of Agriculture SMEs

Hypothesis C: relates to micro saving

H0: Trainings do not have positive influence on profitability of Agriculture SMEs

H1: Training have positive influence on the profitability of Agriculture SMEs

Hypothesis D: relates to trainings

H0: Trainings do not have positive influence on profitability of Agriculture SMEs

H1: Training have positive influence on the profitability of Agriculture SMEs

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview

Chapter three of the study is the research methodology. This chapter includes the research philosophy, study area, research design, research approach, target population of the study, sampling procedure and sample size and data collection methods. It also comprises variables and measurements, data processing and analysis methods, data validity and reliability, and consideration of research ethical issues.

3.2 Research Philosophy

This study used the positivist philosophy because it required quantitative data and followed systematic scientific research procedures to test the hypothesis. It also required a highly structured questionnaire and a large sample size in data collection. The researcher was independent of what was researched and its reality based on testing of the hypotheses (Saunders et al., 2019).

3.2.1 Research Design

This study used explanatory research design to collect and analyze data. This is because the study focused on explaining the relationship between independent variables (MFIs micro-credit, saving, insurance, and training services) and dependent variable (profitability of Agri-SMEs) in order to examine the role of microcredit on performance of agribusiness sector (Saunders et al., 2019).

3.2.2 Research Approach

This research study used the deductive research approach since it tested the existing theories through the collected data. This approach is used to generate and analyze quantitative data and test hypotheses (Saunders et al., 2019). Cross-sectional data was collected in the study due to the descriptive research nature of the study due to the time and financial resource limitation (Abdissa & Fitwi, 2019).

3.2.3 Research Population

Population is a full set of elements from which a sample is drawn to represent the given characteristics (Saunders et al., 2019). It involves all elements that meet the given characteristics to be included in the study (Msuya, 2020). The target population was the owners of agri-SMEs trading different agricultural products in Mbeya City. According to the SIDO database, the registered agri-SMEs trading Agricultural products were 340.

3.2.4 Study Area

The research location was Mbeya City. Mbeya City is located in the Mbeya region. It lies between $8^{0}\ 50'$ - $8^{0}\ 57'$ latitude South equator and longitude $33^{0}\ 30'$ - $35^{0}\ 35'$ East of Greenwich. In the 2012 census, it had a population of 385,279. Where 33.3 percent of residents depended on agriculture, 21 percent were employed in the public sector, 43.4 percent in selling crops, petty trade, and small-scale production, and the remaining 2.3 percent were involved in other activities.

Moreover, more than 70 percent of all residents in the Mbeya Region depended on agriculture and the informal sector. Besides, agriculture contributed 74.7 percent to the region's GDP, signifying that the regional economy depends heavily on agricultural activities (Mbeya Region GDP report, 2015). Furthermore, the region contributed 5.61 percent to the national GDP and ranked 4 among all the regions contributing significantly to the National GDP in 2018 (NBS, 2020).

3.3 Sampling Design and Procedures

The study used simple random sampling to obtain biased data. The sample was drawn from 340 agricultural products in Mbeya. The Yamen formula and calculation shown below were used to obtain the sample size.

Formula; $n = \frac{N}{(1 + Ne^2)}$

Where; n = sample size; N = population; e = level of significance which is 0.05

$N = \frac{340}{(1+ (340 \times 0.05^2)}$

N = 184

Sample size was 184 respondents. However, 151 questionnaires were correctly filled and used for analysis.

Table 3.1: Respondents Profile

Age of Respondents	**Frequency**	**Percent**
18 - 30yrs	31	20.5
31 - 40yrs	92	60.9
41 - 50yrs	21	13.9
51yrs and above	7	4.6
Total	**151**	**100**
Gender		
Male	47	31.1
Female	104	68.9
Total	**151**	**100**
Type of business		
Cash crops	72	47.7
Cooking oil	15	9.9
Horticultural products and Processed spices and chilies	24	15.9
Flour (maize flour& porridge flour)	35	23.2
Butchery & diary processing	5	3.3
Total	**151**	**100**
Business Experience		
Number of years		
1 to 3yrs	98	64.9
4 to 6yrs	42	27.8
7 to above	11	7.3
Total	**151**	**100**

3.4 Data Collection Methods

This study used primary data collection, which is data collected for the first time from a given sample. The study used a survey and structured questionnaire to collect data for the first time from the given sample (Saunders et al., 2019).

This study used a structured questionnaire with closed-ended questions and a five-point Likert scale to measure independent and dependent variables. The indicators were strongly agree (5 points score), agree (4 point score), neither agree nor disagree

(3 point score), disagree (2 point score) and strongly disagree (1 point score) (Gyimah & Boachie, 2018). Questions in the questionnaire were presented clearly to give the intended meaning to respondents so that they could give appropriate answers. This method was selected due to the nature of the study, as it focused on discovering the relationship between the independent and dependent variables (Saunders et al., 2019).

3.5 Data Processing and Analysis

3.5.1 Data Processing

In this study, raw data were cleaned, edited, codded, and classified for easy analysis. Data clean-up helped detect errors that occurred during questionnaire filling and ensured only relevant data were involved in the data analysis. A total of 151 questionnaires out of 184 were properly filled and used for analysis. They were classified, coded, analyzed, and presented in tabulation and inferential statistics.

3.5.2 Data Analysis

The collected data was coded and analyzed through multiple linear regression and descriptive statistics. The Statistical Data Package for Social Scientist software (SPSS version 22) tool assisted the analysis process of measuring the relationship between independent variables (MFI's financial and non-financial services) and the dependent variable (profitability of Agriculture SMEs). Furthermore, the analysis was done using the calculation of statistical values obtained from the Likert rating five-itemized scale. The respondents ticked the appropriate answer and numbered the

responses that met their agreement levels with the given statements on the scale. A linear regression model was applied to establish the relationship between the independent and dependent variables. The multiple linear regression model is was written as:

$$\mathbf{Y=\beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon}$$

Whereby; Y = Profitability of SMEs, XI = Microcredit, X2 = saving, X3 = Insurance X4 = Training and **ε** = Error term

3.6 Variable and Measurements

Table 3.2: Description of variables and their measurement scales

Variables	Code	Sub variables	Source	Type of Scale
Profitability	PSA	PSA1: Profitability	(Mutalemwa, 2021)	Ratio
Microcredit	MC	MC1: Loan Size	(Omwono & Paul, 2019)	Five itemized scale
		MC2: Loan Duration	(Omwono & Paul, 2019)	Five itemized scale
		MC3: Loan Condition	(Omwono & Paul, 2019)	Five itemized scale
Insurance	INS	BI: Insurance	(Tiletwa & Magali, 2022)	Five itemized scale
Saving	SD	S1: Saving Amount	(Mnuka, 2018)	Five itemized scale
Training	T	FT1: Frequency of Training	(Salahuddin et al., 2021)	Five itemized scale

3.7 Data Validity and Reliability

3.7.1 Validity

According to Saunders et al. (2019), data validity entails measurement validity, content validity, construct validity, and predictive validity. Ensuring the validity of data in this study, questions were designed to measure what was intended. The

questions were clear and understandable to obtain appropriate responses and accurate data, and they covered all the research questions in the study. Moreover, the group of experts reviewed the tool and their comments on the appropriateness of the questions to ensure content validity was adhered to (Omwono & Paul, 2019). In addition, variables from previous studies were used, and pretesting of the questionnaire before data collection was done to ensure the validity of the research tool.

3.7.2 Reliability

Data reliability tests show how data collection methods can produce similar findings even when other researchers collect data. In this study, data reliability was measured using test-retest and Cronbach alpha (α), which measures the internal consistency of the reliability of the instrument. The pilot involved 10 respondents, and the data obtained was applied to clean the questionnaire (Mnunka, 2018). The reliability testing yielded the Cronbach alpha coefficient of 0.7 and above proving that a research investment was (Koima, 2023).

Table 3.3: Reliability Test

Variables	Cronbach alpha
Profit	0.724
Saving amount	0.715
Frequency of training	0.794
Insurance premium	0.852
Loan size	0.709

3.7.3 Ethical Consideration

This research has observed all ethical issues related to the study. Research clearance was given to the authorities before data collection, and the researcher sought the respondents' consent before filling in the questions. Moreover, the information provided by respondents was strictly confidential, and there was no leakage of their private information. In addition, the researcher neither plagiarized the contents of previous studies and avoided fabrication and falsification of the research data.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Overview

This chapter covers the research findings, results, and discussion generated from the collected data.

4.2 General Characteristics of Respondents

This section shows the gender, age, education, marital status, and types of businesses of the respondents.

4.2.1 Gender

The finding from Table 4.1 indicates that most of the respondents were females. The data shows that females participated in agribusiness than males. This is contrary to the study done by Semegn and Bishnoi (2021), where male respondents were many compared to women.

Table 4.1: Gender of the respondents

Gender	Frequency	Percent
Male	47	31.1
Female	104	68.9
Total	**151**	**100**

4.2.2 Age

The finding from Table 4.2 indicates that the majority of the respondents aged 31 to 40 years represented 60.9%. This is similar to the results found by Omwono and Paul (2019), where all age groups of entrepreneurs were involved in the study.

Table 4.2: Age of the Respondents

Age of Respondents	Frequency	Percent
18-30yrs	31	20.5
31-40yrs	92	60.9
41-50yrs	21	13.9
51yrs and above	7	4.6
Total	**151**	**100**

4.2.3 Level of Education

Findings from Table 4.3 show that, many respondents had formal education; meanwhile, only 17.2% had informal education. The study analyzed the respondents' education to judge their awareness and understanding of the topic at hand. This result signifies that most respondents had primary knowledge and understood the topic at hand. The results align with the study done by Kalita et al. (2022), where a large number of respondents had primary education.

Table 4.3: Level of Education of the Respondents

level of Education	Frequency	Percent
none informal education)	26	17.2
primary school	79	52.3
form 4	30	19.9
certificate	8	5.3
diploma	1	0.7
bachelor degree and above	7	4.6
Total	**151**	**100**

4.2.4 Marital Status

The findings from Table 4.4 show that many respondents, representing 59.6%, were married, signifying that many Agriculture SMEs were run by married people. This is similar to the study done by Omwono and Paul (2019), where many entrepreneurs were married.

Table 4.4: Marital Status of the Respondents

Marital status	Frequency	Percent
Married	90	59.6
Single	56	37.1
Widow	3	2
Divorced or separated	2	1.3
Total	**151**	**100**

4.2.5 Types of Businesses

Findings from Table 4.5 shows that, most of the respondents who dealt with cash crops business were represented by 47.7%. These results differ from those of many researchers, as most previous studies did not focus on SMEs trading agricultural products.

Table 4.5: Types of Respondents Business

Type of business	Frequency	Percent
Cash crops	72	47.7
Cooking oil	15	9.9
Horticultural products and Processed spices and chilies	24	15.9
Flour (maize flour& porridge flour)	35	23.2
Butchery & diary processing	5	3.3
Total	**151**	**100**

4.2.6 Business Experience

This part describes the respondents' business experience, determined by the number of years they have been in that business. From the results in Table 4.6, 64.9% of respondents had 1 to 3 years in their business. These results show that most businesses were in their initial stages. These findings are similar to those found by Mutalemwa (2021).

Table 4.6: Business Experience

No of years	Frequency	Percent
1 to 3yrs	98	64.9
4 to 6yrs	42	27.8
7 to above	11	7.3
Total	**151**	**100**

4.3 MFIs Serving the Agriculture SMEs in Mbeya City

According to Table 4.7 below, most businesses that received services from VICOBA represented 62.9% of the respondents. This signifies that many Agriculture SMEs accessed services, mostly credit, from VICOBA. This is because their businesses were small, and they lacked of collateral as security gives them access to informal microcredits. Moreover, VICOBA had fewer requirements for loan disbursement since group membership substituted the collateral (Magali, 2021).

Table 4.7: Financial Institution Providing Services to the Agriculture SMEs

Financial Institutions	Frequency	Percent
Private Money Lenders	12	7.9
FINCA	6	4
BANKS	35	23.2
BRAC	3	2
SACCOS	56	37.1
VICOBA	95	62.9
Total	**151**	**100**

4.4 Influence of MFIs Financial Services on Profitability of SME in Agriculture

This part presents the respondents' responses on microcredit's contribution to business profit and credit characteristics such as Loan terms and conditions, loan duration, and loan size contributions to business profit.

4.4.1 Influence of Microcredit on Profitability of Agribusiness SMEs

Table 4.8 presents the findings on loan size contribution to business profit where 65.7% agreed, while 32.5% disagreed. This result shows that many respondents agreed that the size of the loan contributed to an increase in business profit. This signifies that the size of the loan met their business requirements and, therefore, increased their working capital enough to generate profit. These results correspond to the study done by Kibichii and Wafula (2020).

Table 4.8: Respondents Opinions on Loan Size Contribution to Business Profit

Influence of Loan size contribution on Profitability	**Frequency**	**Percent**
strongly disagree	3	2%
neutral	46	30.5%
agree	89	58.9%
strongly agree	13	8.6%
Total	**151**	**100%**

4.4.2 Loan Condition led to Increase in Capital

The findings from Table 4.9 demonstrates that 84.7% of respondents disagreed, while 15.2% agreed that loan terms and conditions contributed to an increase in business profit. This result shows that many respondents were not satisfied with the loan terms and conditions due to high interest rates. This aligns with the study done by Onyeiwu et al. (2021).

Table 4.9: Respondents Opinion on Loan Terms and Conditions Contribution to the Business Profit

Impact of loan terms and condition on business profit	Frequency	Percent
strongly disagree	3	2
disagree	73	48.3
neutral	52	34.4
agree	18	11.9
strongly agree	5	3.3
Total	**151**	**100**

4.4.3 Loan Duration has Favor Growth of SME in Agriculture

This part presents the respondents' responses on loan durations, favoring the growth of SMEs in Agriculture. From the table 4.10, the findings indicate that 84.8% of the clients disagreed, while 15.2% agreed. This result shows that majority of respondents disagreed that loan duration contributed to the increase in business profit. The fi aligns with the study done by Mutalemwa (2021) who revealed that the duration to repay loan was short, and businesses were subjected to different seasons, such as planting and harvesting seasons, which affected the product market due to the fluctuation. Moreover, Yerima et al. (2022) found that loan duration had a negative impact on SMEs growth.

Table 4.10: Respondents Opinion on Loan Duration Favor Growth of Agriculture SMEs

Influence on loan duration on SME growth	Frequency	Percent
strongly disagree	2	1.3
disagree	3	2
neutral	123	81.5
agree	15	9.9
strongly agree	8	5.3
Total	**151**	**100**

4.4.4 Influence of Insurance on Profitability

This part presents the respondent's responses on the influence of insurance on business profitability. From Table 4.11, the findings indicate that 97.3% agreed, while 2.7% disagreed. This result shows that many respondents agreed that insurance helps avoid risks of using funds due to uncertainty, therefore reducing costs and helping increase business profit. This is similar to results found by Kibichii and Wafula (2020), where a large number of respondents agreed that insurance products such as fire, accidental death/injury, or burglary were worth for SME owners since they protected and safeguarded the business against risky events.

Table 4.11: Responses on Influence of Insurance on Profitability

Influence of Insurance on profitability	Frequency	Percent
strongly disagree	1	0.7
Neutral	3	2
Agree	136	90.1
strongly agree	11	7.3
Total	**151**	**100**

4.4.5 Influence of Saving on Profitability

This part presents the respondents opinions on savings contribution to the capital invested. From Table 4.12, many respondents agreed that saving helped increase capital invested, representing 80.8% of all respondents. The capital helped to increase business sales and revenue. The results are similar to the findings done by Gyimah and Boachie (2018) and Asenge and Diaka (2019), where they found that saving helped businesses accumulate funds for boosting their businesses and other investments.

Table 4.12: Responses on Contribution of Saving to the Capital Invested

Contribution of saving to capital invested	Frequency	Percent
strongly disagree	3	2
neutral	2	1.3
agree	119	78.8
strongly agree	27	17.9
Total	**151**	**100**

4.5 Influence of Non-Financial Services on Profitability

This section discusses the results of the influence of training on the profitability of agricultural SMEs in Mbeya.

The results in Table 4.13 show that more respondents agreed that training contributed to business profitability. This was evidenced by 70.9 % of the respondents agreeing on the positive effect of training on business profitability. Training equipped them with skills and knowledge that helped their business operations. This result agrees with findings from Gyimah and Boachie (2018), where training had a significant and

positive relationship with business profitability. SME owners were trained in credit management, business management, entrepreneurship, and production of products as shown in Table 4.14. However, 53.6% of the respondents did not receive any training; despite they believed that the training would contribute to the profitability of their businesses.

Table 4.13: Respondents Opinions on Influence of Training on Profitability

Influence of training on profitability	Frequency	Percent
neutral	44	29.1
agree	93	61.6
strongly agree	14	9.3
Total	**151**	**100**

Table 4.14: Types of Training Received

Type of training	Frequency	Percent
business management	12	7.9
entrepreneurship	28	18.5
credit management	20	13.2
Production of specific product	10	6.6
Not trained	81	53.6
Total	**151**	**100**

4.6 Results from Multiple Regression Model

The multiple linear regression assessed the relationship between MFIs' financial services and the profitability of agricultural SMEs. Results in Table 4.15 all four predictors (microfinance services) produced $R^2 = 0.480$, $F = 33.479$, $p < 0.005$, and an adjusted R squared of 0.466. The F-value of 33.479 indicates a significant strong relationship between the independent variables (microcredit, saving, insurance, and training) and the dependent variable (profit). The p-value (significance) of 0.000 also

confirms the relationship between the independent and the dependent variables. The independent variables were microcredit, insurance, saving, and training, and the dependent variable was profit. The correlation value (R) of 0.693 shows that there was a good linear relationship between SMEs performance and microfinance services. The model shows microfinance services (microcredit, saving, and training) explained 46.6 percent of the variations in SMEs performance, while 53.7 percent was explained by other factors not in the model.

Table 4.15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.693	0.480	0.466	0.17461

The ANOVA statistics, as shown in Table 4.16, show the differences in the mean of the dependent and independent variables, which also evidenced the existence of a positive relationship between the independent and dependent variables. The P value of 0.000 implies that the SMEs' profitability has a significant relationship with MFIs' financial and non-financial services, which is significant at a 5 percent level. The significance of the regression weights was tested at a 95% confidence level. These results align with results in the study done in Nigeria by Audu et al. (2021).

Table 4.16: Analysis of Variance (ANOVA)

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	4.062	4	1.015	33.479	.000b
	Residual	4.398	145	0.30		
	Total	8.460	149			

a. Dependent Variable: SMEs Profitability
b. Predictors: (Constant), Microcredit, Insurance, Saving, Training

The values in Table 4.17 presents estimated coefficients at 5% level of significant

$Y=\beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$

Whereby; Y = Profitability of SMEs, XI = Microcredit, X2 = saving, X3 = Insurance X4 = Training and **ε** = Error term. Using data from Table 4.17 the above regression equation is presented as: Profitability of Agriculture SMEs = 1.371 + 0.465 (Microcredit) + 0.085(Insurance) + 0.511 (Saving Services) + 0.448 (Training). This linear regression showed that keeping microcredit services, insurance, saving and training services at a constant zero, profitability of Agriculture SMEs would be 1.371.

The results also present that a unit increase in microcredit increases the performance of Agri SMEs by 94.8%, a unit increase in training services would affect the performance of SMEs by 94.2%, and a unit increase in saving services would affect business performance by 38.6% and insurance by 15.5%. The study also revealed that the p-values for MFIs microcredit, insurance, saving, and training services (.000, .018, .000, .000), respectively, were less than 0.05, which is an indication that each variable had a significant positive impact on the profitability of Agriculture SMEs in Mbeya City. The results further show that microcredit had a greater influence on the profitability of SMEs, with a Beta value of 0.948. Gyimah and Boachie (2018) found microcredit had a higher positive impact on the profitability of Agriculture SMEs compared to the other variables.

Table 4.17: Coefficient Table

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	1.371	0.127		10.771	0.000
Microcredit	0.465	0.044	0.948	10.474	0.000
Insurance	0.085	0.035	0.155	2.395	0.010
Saving	0.511	0.088	0.386	5.793	0.000
Training	0.448	0.044	0.942	10.293	0.000

4.6.1 Hypothesis Test

4.6.1.1 Hypothesis for Microcredits

Microcredit has a p-value of 0.000 at the 5% confidence level, so it had a positive, significant relationship with the profitability of Agriculture SMEs. It also influenced the profitability of businesses. This is consistent with Gyimah and Boachie (2018) and Lilondo (2023) findings. Therefore, the researcher rejected the null hypothesis (Ho) and accepted the alternative hypothesis (H1) that microcredits influence the profitability of Agriculture SMEs.

4.6.1.2 Hypothesis for Insurance

Insurance had a p-value of 0.018, which is also less than 0.00, therefore showing that there existed a positive relationship between insurance and the profitability of agricultural SMEs. The coefficient of insurance (X2) = 0.085 shows that one unit change in insurance results in a 0.085 unit increase in profit attained by reducing the cost incurred in uncertain health treatments. This aligns with the results obtained by Kibichii and Wafula (2020). Therefore, we rejected the null hypothesis (Ho) and

accepted the alternative hypothesis H1: Insurance influences the profitability of Agriculture SMEs. Moreover, insurance had a lower weight contribution to overall business profit. This signifies that most businesses know the importance of insurance in reducing risk exposure. However, fewer receive insurance services. This could probably be due to their low standard of living.

4.6.1.3 Hypothesis for Saving

Saving had a p-value of 0.000 and a coefficient of 0.85. This implies that saving had a positive, significant relationship with the profitability of agri-SMEs in Agriculture. Increased savings led to increased capital invested, sales, and revenue. The findings are similar to Gyimah and Boachie (2018) and Semegn and Bishnoi (2021). The researcher therefore, rejected the null hypothesis (Ho) and accepted the alternative hypothesis.

4.6.1.4 Hypothesis for Trainings

The p-value for training is 0.000, and the coefficient is 0.448, meaning training had a positive and significant influence on the profitability of the businesses. Therefore, the researcher rejected the null hypothesis (Ho) and accepted the alternative hypothesis, H1: Training influences the profitability of Agriculture SMEs. The result agrees with the findings obtained by Semegn and Bishnoi (2021) and Audu et al. (2021).

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Overview

This chapter covers a summary of the findings, the research conclusion and recommendations, the study's limitations, and the direction for further research studies.

5.2 Summary of Findings

The study's specific objectives were to identify the MFIs serving Agriculture SMEs and assess the influence of MFIs' micro-credit, saving, insurance, and training services on the profitability of Agriculture SMEs in Mbeya City. Below is a summary of the discussions of each objective.

5.2.1 MFI Serving Agriculture SMEs

The study's findings identified Private moneylenders, FINCA, Banks, BRAC, SACCOS, and VICOBA as microfinance institutions serving Agriculture SMEs in Mbeya City. VICOBA, on the other hand, represented 62.9% of all the respondents. The findings signify that many agricultural SMEs accessed MFI services, mostly through credit from VICOBA. This was because their businesses were small and lacked collateral to access formal microcredits. Moreover, VICOBA had fewer requirements for loan disbursement since VICOBA loan terms and conditions were designed by group members (Magali, 2021). Moreover, access to microcredit was

easier because it mostly depended on the shares and savings each member deposited in the VICOBA.

5.2.2 The Influence of MFI Financial Services on Profitability of SMES in Agriculture

The findings also presented that the majority of respondents, 67.5%, agreed that microcredit led to an increase in profit, and regression results showed p- a value < 0.05, showing that the relationship between microcredit and profitability was statistically significant. Therefore, an increase in microcredit led to increase in business profitability. Moreover, microcredit had the highest weight of regression coefficient, showing a greater positive influence on the profitability of agricultural SMEs than the rest of the indicators. Microcredits increase working capital for businesses, that purchase more raw materials, increase advertisements and product promotion, business expansion and customer reach, and technological advancement, stimulated an increase in sales and business growth.

5.2.3 The Influence of MFI Financial Services on Profitability of Agriculture SMES

Most of the respondents agreed that saving led to capital increase, as responded by 96.7% of SME owners. In addition, saving had a p-value < 0.05, portraying a significant positive relationship with SMEs profitability. Saving helped SMEs accumulate funds for financing their businesses, hence increased sales and profitability.

5.2.4 Insurance and Agriculture SMEs

The findings indicated that 97.4% of respondents agreed that insurance helped increase profit by reducing unnecessary costs that would involve the use of unplanned cash for treatments and other uncertain events. However, the results showed less contribution of insurance to the profitability of SMEs, with the lowest P value of .018 compared to other variables. This result signifies that a small number of businesses were using the insurance product, and therefore, more awareness campaigns were needed to promote the use of insurance services.

5.2.5 The Influence of MFIs Non-Financial Services on Profitability of Agriculture SMEs

The majority of the respondents, 70.9%, agreed that training led to an increase in profit. SME owners reported to be trained in business management, credit management, entrepreneurship, and value addition of different products. Results from regression analysis depicted a significant positive relationship between training and profitability of agricultural SMEs. However, 53.6% of the respondents did not receive any training; therefore, more trainings should be conducted to help businesses improve business performance.

5.3 Conclusion

The study's general objective was to assess the influence of MFIs' financial services on the profitability of SMEs in Mbeya City. The results obtained showed that MFIs' financial services, such as microcredit, training, and savings, contributed enormously

to the profitability of agriculture SMEs. However, insurance services had a small positive influence on the profitability of agriculture SMEs.

5.4 Recommendations

The study presents recommendations for review and consideration by the agri-SMEs business community, policymakers, MFIs, and scholars.

5.4.1 Agri-SMEs, Investors and Managers

Agri-SMEs should consider sources of business financing, such as MFIs, as important elements for business profitability. Because access to finance helps businesses increase capital, sales, and profit, saving helps accumulate funds for supporting business growth, and insurance services such as health, business, and property insurance protect the business from uncertainties such as fire, accidents, and treatment costs in case of sickness. In addition, training equips business owners with important skills and knowledge that would help them manage their business and increase growth.

5.4.2 MFIs

The MFIs should schedule training sessions for SMEs to get prospective customers and equip their customers with financial management skills, credit management skills, and business management skills. In addition, since insurance has the lowest weight in influencing business profitability, more sensitization sessions and training should be conducted to increase sales of insurance products while serving customers'

needs. Moreover, specific products should be designed to meet the needs of agricultural SMEs, and MFI should provide easier, more sophisticated digital means to save money and transact in order to remain competitive in the financial system.

5.4.3 Policy Implication

Policymakers should make policies that enable Agribusinesses to borrow funds at favorable conditions and rates, which would help them grow their businesses.

5.4.4 Contribution of the Study to the Theory

This study contributes to the theory as it addresses services provided by financial intermediaries. The financial intermediation theory explains the information asymmetry and transaction cost addressed by MFIs' financial and non-financial services. The results from the study cement the importance of MFIs' financial and non-financial services since they have a positive effect on the profitability of Agriculture SMEs. Therefore, this proves the existence of financial intermediation and its importance to the agriculture sector's growth.

5.5 Limitation of the Study

i. This study encountered the financial resources constraints for the coverage of the study.
ii. This study covered Agri SMEs only; therefore, other SMEs are not involved.
iii. Moreover, when the firms receive MFIs financial and non- financial services it is not a guarantee for their profitability because other business internal

factors Financial Management Practices, Advertisements and employee motivation could influence business performance.

iv. The study's location was Mbeya and a sample drawn to represent the whole population to reduce time and cost for the research. However, the stagnation of Agriculture sector and national economy is at Macro level, more researches should be done in other regions, and other factors affecting business profit.

5.6 Direction for Further Studies

This study focused on Agricultural SMEs dealing with Agricultural products. However, other key agricultural players in different value chains were not involved. Thus, further studies should focus on Agri-dealers such as processors, Agri-input wholesalers, retailers, and produce sellers (farmers selling at farm gate prices). The researcher recommends future studies to be conducted in other regions.

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APPENDICES

APPENDIX I: RESPONDENTS QUESTIONNAIRE

My name is Ajile Jacob. I am a student at the Open University of Tanzania Faculty of Business Management Pursuing a Master's in Business Administration (MBA). I have prepared this questionnaire to collect data for my research study titled: "the Influence of MFIs financial services on profitability of Agriculture SMEs". Your contribution to making the study successful will be highly valued and be assured that all your personal information shared will be strictly confidential.

Date ……..……..……

Place ……

Consent: Do you agree to provide the information needed for the study?

i. Yes ( )

ii. No ( )

SECTION A: RESPONDENT CHARACTERISTICS

1. Gender

   i. Male ( )

   ii. Female ( )

2. Respondent Age

   i. 18- 30 yrs. ( )

   ii. 31- 40 yrs. ( )

   iii. 41- 50 yrs. ( )

   iv. 51 and Above ( )

4. Level of education (Highest qualification)

i. None (informal education) ( )

ii. Primary school ( )

iii. Ordinary Level ( )

iv. High schools ( )

v. Certificates ( )

vi. Diploma ( )

vii. Bachelor degree and above ( )

5. Marital status

i. Married ( )

ii. Single ( )

iii. Widow ( )

iv. Divorced or Separated ( )

6. Type of the agribusiness you are involved with……

(List the common ones at least five (Please specify).

i. Cooking oil

ii. Cash crops

iii. Horticultural products and spices

iv. Maize flour and porridge flour

v. Other (please specify)

6. Experience/time spend in your business

i. 1 to 3yrs ( )

ii. 4 to 6yrs ( )

iii. 7 to 9yrs ( )

iv. More than 10yrs ( )

7. What was your initial business capital?

   i. less than TZS 50,000 ( )

   ii. TZS 51,000-200,000 ( )

   iii. TZS 201,000-500,000 ( )

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

   v. Greater than TZS 1,000,000 ( )

8. What are your monthly sale estimates?

   i. less than TZS 50,000 ( )

   ii. TZS 51,000-200,000 ( )

   iii. TZS 201,000-500,000 ( )

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

   v. Greater than TZS 1,000,000 ( )

9. Do you earn profit?

   i. Yes ( )

   ii. No ( )

10. If yes what is an approximate monthly profit? ……

   i. less than TZS 50,000 ( )

   ii. TZS 51,000-200,000 ( )

   iii. TZS 201,000-500,000 ( )

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

   v. Greater than TZS 1,000,000 ( )

11. Have you ever received financial and non-financial services from any financial institution?

   i. Yes ( )

ii. No ( )

If yes, mention the name of the institution which gave you loan……

i. Private money lenders ( )

ii. FINCA ( )

iii. BANK (please mention) ( ) ……

iv. BRAC ( )

v. Other financial institution (please mention) …….

SECTION B: THE WAY MICROCREDIT INFLUENCE THE PROFITABILITY OF Agriculture SMEs

12. Have you ever received loan/microcredit from any financial institution?

iii. Yes ( )

iv. No ( )

If yes, mention the name of the institution which gave you loan……

vi. Private money lenders ( )

vii. FINCA ( )

viii. BANK (please mention) ( ) ……

ix. BRAC ( )

x. Other financial institution (please mention) …….

13. What is the size of the loan?

i. less than TZS 50,000 ( )

ii. TZS 51,000-200,000 ( )

iii. TZS 201,000-500,000 ( )

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

v. Greater than TZS 1,000,000 ( )

State the level of agreement on the following statements (please write the number of your answer on box provided after the question)

1 = Strongly disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strong Agree

14. Loan size is enough to increase the profit of SME ☐

15. Loan condition has led to an increase in capital requirements ☐

16. Loan duration has favored the growth of SME in Agriculture ☐

SECTION C: THE WAY INSURANCE, AFFECT THE PERFORMANCE OF Agriculture SMEs

17. Do MFIs provide you with insurance services?

i. Yes ( )

ii. No ( )

18. If yes, mention the financial institution …….

i. Private money lenders ( )

ii. FINCA ( )

iii. BANK (please mention) ( ) ……

iv. BRAC ( )

v. Other financial institution (please mention) …….

19. What is the total insurance premium you pay annually?

i. less than TZS 50,000 ( )

ii. TZS 51,000-200,000 ( )

iii. TZS 201,000-500,000 ( )

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

v. Greater than TZS 1,000,000 ( )

State the level of agreement on the following statements (please write the number of your answer on box provided after the question)

1 = Strongly disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strong Agree

20. Insurance help to avoid loses due to uncertain event and health expenses that can affect the business financials

SECTION D: THE WAY SAVING INFLUENCE THE PROFITABILITY OF Agriculture SMEs

21. Do you save money in the financial institution?

i. Yes ( )

ii. No ( )

22. If yes, mention the financial institution …….

vi. Private money lenders ( )

vii. FINCA ( )

viii. BANK (please mention) ( ) ……

ix. BRAC ( )

x. Other financial institution (please mention) …….

23. What amount do you save annually? ……

i. less than TZS 50,000 ( )

ii. TZS 51,000-200,000 ( )

iii. TZS 201,000-500,000 ( )

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

v. Greater than TZS 1,000,000 ( )

24. State the level of agreement on the following statements

Saving increased the Capital invested in the business

1 = Strongly disagree

2 = Disagree

3 = Neutral ☐

4 = Agree

5 = Strong Agree

SECTION E: THE WAY TRAINING, INFLUENCE THE PROFITABILITY OF AGRICULTURE SMEs

25. Have you ever received training from MFIs?

i. Yes ( )

ii. No ( )

26. If yes, mention the financial institution …….

xi. Private money lenders ( )

xii. FINCA ( )

xiii. BANK (please mention) ( ) ……

xiv. BRAC ( )

xv. Other financial institution (please mention) …….

27. What is the type of the training you have received?

i. Business management ( )

ii. Entrepreneurship ( )

iii. Loans management ( )

iv. Leadership ( )

v. Others, please specify…….

28. How many times have you received the training?

i. Once ( )

ii. Twice ( )

iii. More than two times ( )

29. State the level of agreement on the following statements

Training has increased the profitability of my business

1 = Strongly disagree

2 = Disagree;

3 = Neutral; ☐

4 = Agree;

5 = Strong Agree;

THANK YOU VERY MUCH FOR YOUR COOPERATION

APPENDIX 2: CLEARANCE LETTERS

THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

THE OPEN UNIVERSITY OF TANZANIA

Ref. No OUT/PG201900698 **2nd October, 2023**

City Director,
Mbeya City Council,
P.O.Box 149,
MBEYA.

Dear Director,

RE: RESEARCH CLEARANCE FOR MS. AJILE JACOB MWANG'ANDA, REG NO: PG201900698

2. The Open University of Tanzania was established by an Act of Parliament No. 17 of 1992, which became operational on the 1st March 1993 by public notice No.55 in the official Gazette. The Act was however replaced by the Open University of Tanzania Charter of 2005, which became operational on 1st January 2007.In line with the Charter, the Open University of Tanzania mission is to generate and apply knowledge through research.

3. To facilitate and to simplify research process therefore, the act empowers the Vice Chancellor of the Open University of Tanzania to issue research clearance, on behalf of the Government of Tanzania and Tanzania Commission for Science and Technology, to both its staff and students who are doing research in Tanzania. With this brief background, the purpose of this letter is to introduce to you **Ms. Ajile Jacob**

Mwang'anda, Reg. No: PG201900698), pursuing **Masters of Business Administration (MBA).** We here by grant this clearance to conduct a research titled **"The Influence of MFIS Financial Services on Profitability of SMES in Agriculture in Mbeya City"**. She will collect her data at your area from 3rd October to 30th November 2023.

4. In case you need any further information, kindly do not hesitate to contact the Deputy Vice Chancellor (Academic) of the Open University of Tanzania, P.O.Box 23409, Dar es Salaam. Tel: 022-2-2668820.We lastly thank you in advance for your assumed cooperation and facilitation of this research academic activity.

Yours sincerely,

THE OPEN UNIVERSITY OF TANZANIA

Prof. Magreth S.Bushesha

For: VICE CHANCELLOR

JAMHURI YA MUUNGANO WA TANZANIA
OFISI YA RAIS
TAWALA ZA MIKOA NA SERIKALI ZA MITAA
HALMASHAURI YA JIJI MBEYA

Unapojibu tafadhari taja

Kumb.Na.MCC/R.50/1/VOL.XXIX/.....

Kwenda: -

Tarehe 09/10/2022

WATENDAJI KATA - ILOMBA,
IYOLE, RUANDA
.....

YAH: OMBI LA KUFANYA UTAFITI

Tafadhali husika na mada tajwa hapo juu.

2. Nakujulisha kuwa Mwanafunzi... AJILE JACOB MWANGANDA Anayetokea CHUO KIKUU HURIA TANZANIA (OUT) anahitaji kufanya utafiti mdogo katika Halmashauri ya Jiji la Mbeya katika mada isemayo... THE INFLUENCE OF MFIs FINANCIAL SERVICES ON PROFITABILITY OF SMEs IN AGRICULTURE A case of ..... MBEYA CITY .....

3. Ruhusa hii ni kuanzia tarehe... 09/10/2023 ... hadi tarehe 10/11/2023 ... Hivyo ombi lako limekubaliwa.

4. Nakutakia ushirikiano mwema.

George Magembe
Kny: MKURUGENZI WA JIJI
HALMASHAURI YA JIJI LA MBEYA

N Y. MKURUGENZI WA JIJI
HALMASHAURI YA JIJI
MBEYA

Nakala: Mkuu wa Chuo/Naibu Mkuu wa Chuo
Chuo cha.....
S.L.P .....
.....