Contribution of Microfinance Institutions in the Growth of Small and Medium Enterprises in Tanzania: Evidence from Trade Enterprises in Moshi Municipality

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Abstract

Small and Medium Enterprises (SMEs) in developing and developed countries play a vital role in economic development. Despite their crucial role in the economy, SMEs continue failing in large numbers due to various problems that Microfinance Institutions (MFIs) claim to offer solutions such as access to finance. This study intended to assess microfinance institutions' contribution to SMEs' growth. Precisely, the study aimed at examining the contribution of credit to SMEs, determining the extent to which entrepreneurial training contributes to the growth of SMEs, and examining the contribution of MFIs technological innovations to the growth of SMEs. The study used a cross-sectional research design with a sample size of 231 respondents to collect the information required. Multiple Regression Analysis (MRA) and descriptive statistics were used in data analysis, whereas graphs and tables were used to present the results. It was found that MFIs play an important role in providing services to SMEs. With access to credit, the adjusted R^2 was 50.3%, indicating a highly positive relationship between access to credit and SMEs' growth. The results of entrepreneurial training also showed an adjusted R^2 of 38.8%, implying a normal positive relationship between entrepreneurial training and SMEs' growth. It can, therefore, be concluded that MFIs play an important role in facilitating the growth of SMEs. However, it was also revealed that the SMEs were still struggling to have a high pace of growth due to unfavorable credit terms, less entrepreneurial training, and low awareness of technological innovations. The study recommended that the MFIs improve the credit terms, and the government should also intervene in the activities of MFIs by creating policies aiming to favor the SMEs to improve the sector.

Keywords: *MFIs, SMEs Growth, Trade Enterprises, Moshi Municipality, Tanzania*

Introduction

SMEs are very important due to their role in eradicating poverty and their contribution to the economic growth of many developed and developing countries (Abara & Banti, 2017). In 2018, the European Union (EU) estimated to have about 25.1 million SMEs, whereby over 94 million people, equivalent to 66% of the total workforce, were employed in this sector with an average of 56% value-added contribution to the European economy (Clark, 2020). A study by Rotar *et al.* (2020) on the contributions of SMEs to employment in the European Union countries found that

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in Malta, SMEs contributed 81% of the national income in the economy. On the other hand, in India, the SME sector contributed about 8% of its Gross Domestic Product (GDP) in 2015, whereas 45% of the total manufactured goods and 40% of the total exports came from SMEs (Mohanty & Patel, 2015). Furthermore, the Organisation for Economic Co-operation and Development (OECD) found that Brazilian SMEs accounted for 55% of the GDP and 62% of the total employment in 2019, with 79% of trade-based employment derived from SMEs (OECD, 2020). This implies that the majority of the SMEs in Brazil are involved in trading activities.

In the African context, SMEs have been contributing a large share of the economy in different countries. For example, a study carried out in 2017 showed that SMEs accounted for more than 90% of business enterprises while contributing about 50% of the national income of the responsible countries (Muriithi, 2017). For example, in Ghana in 2016, the Ghana Bank reported that SMEs have been contributing about 57% of the country's GNP (Kasimu *et al.*, 2017). Additionally, 50% of the GDP in Kenya and Nigeria came from SMEs in 2020 (Salifu, 2020). In South Africa, SMEs account for 57% of the GDP but also create employment opportunities for about 60% of the total population of the working class in 2017 (Tsatsenko, 2020; Kasimu *et al.*, 2017).

In Tanzania, SMEs are regarded as a pivot of economic growth (Ajose, 2010). The majority of citizens in the country are engaged in this business, and it is acknowledged that about 80% of the population have low incomes, compel them to focus mainly on SMEs, which involves businesses such as kiosks and retail shops (Itemba, 2014). Financial Sector Deepening Trust (2017) reported that the SME sector in the country was contributing to over 27% of the national income, and it employed more than 5.2 million people.

Although SMEs are crucial for economic development, they have been struggling with growth, as many tend to collapse within a year after being established (Hyder & Lussier, 2016). According to the OECD (2020), 21.5% of small businesses fail in their first year, and only 50% of them are able to remain in operation after the first five years. In addition, only about a third of them do manage to reach ten years worldwide. For example, about 80% of businesses in the United Kingdom collapse within the first ten years of existence. In South Africa and Kenya, about 70% and 46% of SMEs, respectively, do not last for more than five years, and about 76.4%

of SMEs that managed to survive more than a year operating under a very low or zero growth rate (Clark, 2020).

In search of solutions to the financial constraints faced by SMEs, MFIs become the plausible alternative. The MFIs were established to serve individuals who could not access bank services (Gambacorta & Marquez-Ibanez, 2011). Some of the services MFIs provide include issuing microcredit, saving facilities, and microinsurance (Lieberman *et al.*, 2020). Furthermore, Lieberman *et al.* (2020) suggested that MFIs have been very important in promoting the growth of SMEs, not only in providing financial services but also in providing them with various entrepreneurial training. In order to ensure improvement in the SME sector, the government of Tanzania introduced the National Microfinance Policy in 1996, intending to increase and promote microfinance services (URT, 2017).

Several studies (Fahandunsi, 2012; Claude, 2020; Itemba, 2014) have attempted to undertake similar studies on the growth of SMEs. Fandahunsi (2012) studied the growth of small businesses in the United States and established that the main cause of SMEs' failure was little or poor access to finance. A study by Claude (2020) on the relationship between access to finance and the performance of SMEs in Rwanda found that the SMEs that accessed financial support had higher growth in terms of revenues. The study by Itemba (2014) on MFIs and financing of micro and small enterprises conducted in Hai District-Tanzania established that challenges facing small enterprises apart from financial constraints include technological, marketing, tax-related policies, and government regulations.

Despite their attempts to address the constraints to the growth of SMEs, they generally addressed the relationship between small business performance and financial support, which is a narrow perspective in evaluating factors that influence the growth of SMEs. None of the acknowledged studies attempted to investigate the contribution of MFIs to the growth of SMEs, which the study at hand is all about.

In Tanzania, SMEs play a vital role in solving the problems of job creation, income generation, and growth of the economy (URT, 2017). This is because SMEs require small capital investment compared to large firms, but also, they are labor intensive, hence solving the unemployment

problem in the country (Ajose, 2010). After recognizing the participation of SMEs in the economy, the government of Tanzania shaped its strategies toward facilitating the improvement of SMEs (BOT, 2019). Therefore, the government has embarked on promoting SMEs by strengthening them through service providers such as the MFIs, conducting different entrepreneurial trainings, and amending its policies and regulations to support the SMEs (Mmari, 2012). For example, the National Microfinance Policy 2017 emphasizes promoting fair and affordable microfinance services.

Despite the government and MFIs' incentives and efforts to ensure the growth of SMEs in the country, many SMEs are still registering low returns, failing to expand, and most of them collapsing within the first five years of operation (Nkwabi & Mboya, 2019). Although many studies have tried to address the challenges, still little consideration has been employed in assessing the factors for SMEs' growth. Most of these studies have dealt mainly with assessing the performance of SMEs; for example, Itemba (2014) found that many SMEs needed to perform better due to different constraints such as technological, marketing, tax policies, and government regulations. Claude (2020), on the other hand, found that the SMEs that could obtain finance performed better than those that could not access financial support. The study further established that the growth rates of SMEs were too low, but still, there is inadequate information on the extent to which MFIs contribute to their growth. To fill this knowledge gap, this study aimed to assess the contribution of MFIs to the growth of SMEs in Moshi Municipality.

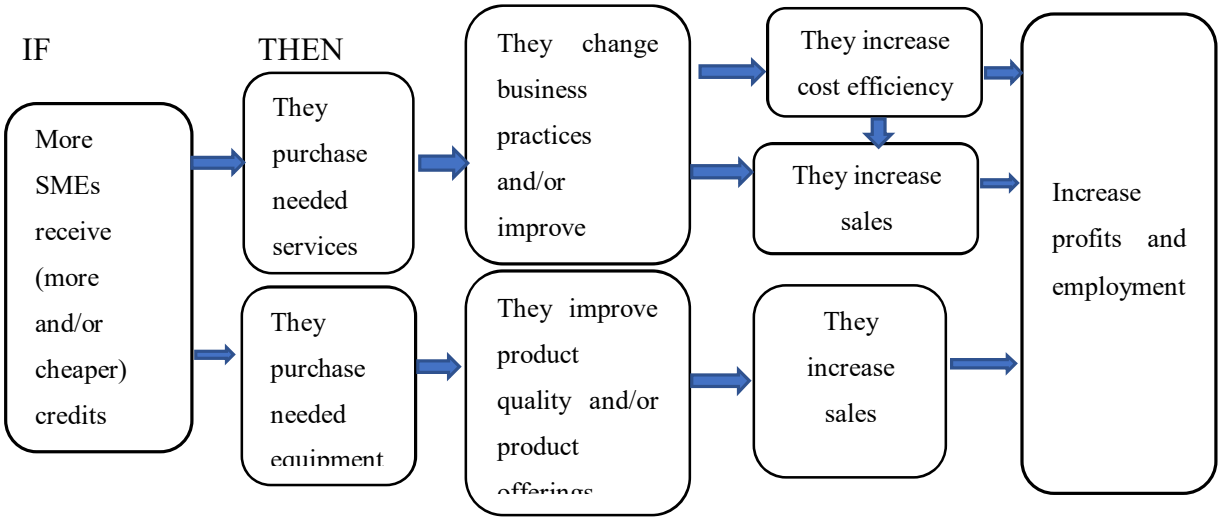
The intended study assessed the contribution of MFIs to the growth of SMEs in Moshi Municipality, Tanzania. Specifically, it determined the contribution of credit from the MFIs in the growth of SMEs, examined the extent to which entrepreneurial training offered by MFIs influences the growth of SMEs, and determined the contribution of MFIs' technological innovations on the growth of SMEs. The study is expected to provide insight into the role of MFIs towards the success of SMEs in Tanzania as follows: It will enable the MFIs to improve the provision of financial services to SMEs. The findings from this study are anticipated to be useful to SMEs as they enable them to be aware of the financial services provided by the MFIs. In addition, the study provides an opportunity for SMEs to address their thoughts on the services rendered by MFIs toward improving SMEs. On top of that, the study is useful to the Ministry of Finance to provide knowledge and skills required to support them in assessing the success of MFIs and SMEs' policies and to improve them if necessary. Thus, the findings were deemed

important in facilitating the growth of small and medium-scale entrepreneurs through financial institutions.

The Theory of Change guided the study (Costley & Fulton, 2018). The Theory of Change was developed in the 1990s by Huey Chen, Michael Quinn Patton, and Carol Weiss. According to Costley and Fulton, the theory tends to fill the gap between the existing state and the desired state by identifying the desired goals and then working backward toward developing the necessary interventions for its achievement. For the sake of this study, one intervention, the Access to Credit Theory of Change, is used to explain the role of MFIs in the growth of SMEs. The Theory of Change has also been applied by Cook and Olafsen (2016), who examined the development of small businesses. Ayyagari *et al*. (2017) also applied the theory of change in explaining the creation of employment through SMEs' development.

Cook and Olafsen (2016) illustrate that access to credit theory of change suggests that if more SMEs receive more and cheaper credits, their profits will eventually increase as well as employment. Through the credits, the SMEs will be able to purchase the needed services and equipment, which will facilitate the improvement in the productivity and sales of the SMEs. Thus, owing to the increase in productivity and sales, the profits will increase, which implies the enterprise's growth that may lead to an increase in employment opportunities. A simple diagrammatic representation of the theory is shown in Figure 1.

Figure 1: Diagrammatic Representation of the Theory of Access to Credit

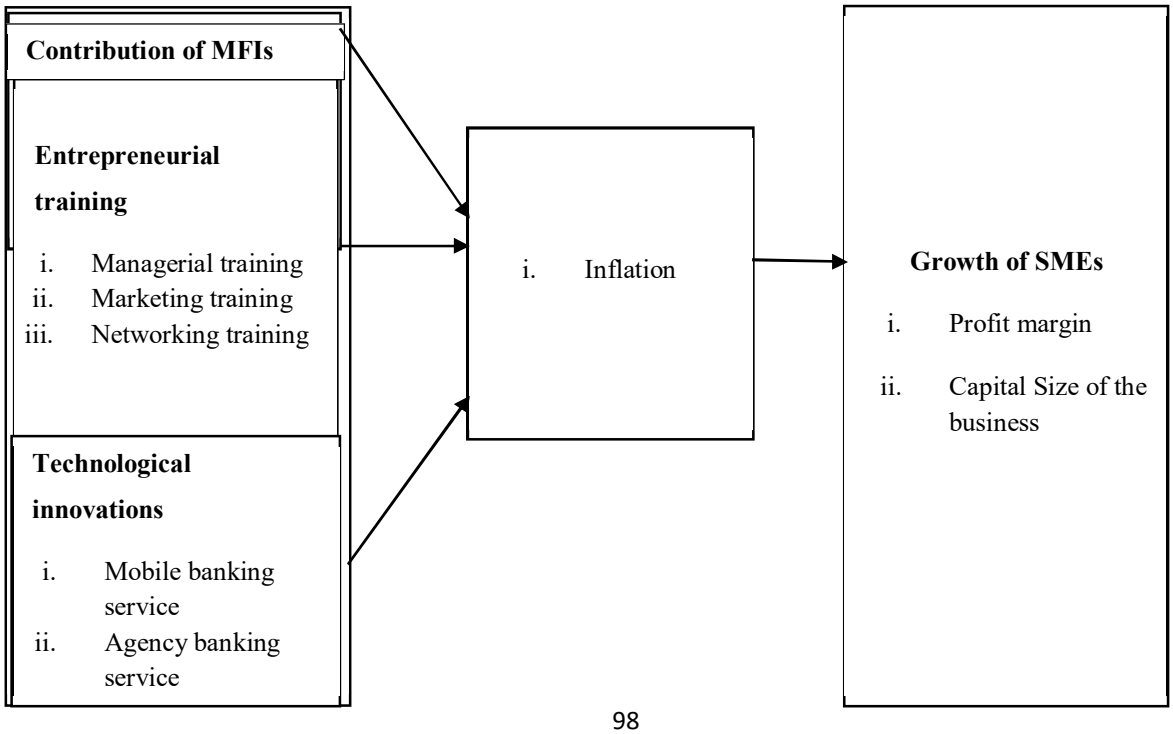


Source: Adopted from USAID (2019)

Under the above intervention, the theory is built under the following assumptions: SMEs need loans or credit to purchase services or equipment, lenders have improved information on SMEs' credit-worthiness, SMEs want to use their movable assets as collateral, regulations allow secured transactions and movable collaterals, SMEs owners use the borrowed funds wisely for investment and existence of credit guarantors to reduce the lender's risk (USAID, 2019). The theory has been criticized on the grounds that not only credits will lead to increasing firms' sales or efficiency and a high risk of loan default due to credit guarantees, but the SMEs' owners may use the borrowed funds to meet other demands apart from investing. SMEs may not have movable collaterals, and lenders do not have improved information on the credit worthiness of the SMEs.

The contribution of MFIs to the growth of SMEs was assessed by considering the independent and dependent variables, respectively. Therefore, the study's independent variable was the contribution of MFIs with its indicators as access to credit, entrepreneurial training, and technological innovations. The dependent variable was the growth of SMEs with its indicators as profit margin capital size of the business, while the intervening variable was inflation (Fig. 2).

Figure 2: Conceptual Framework on the Contribution of MFIs in the Growth of SMEs in Tanzania



Source: *Researcher's Own Framework (2022)*

Research Methodology

In this study, a cross-sectional study design was employed during data collection. The design involved the collection of data from a population at one specific point in time. The study design facilitated the researcher to observe multiple variables without influencing or intervening in other variables. Thus, owing to the nature of this study and the time limitation, a cross-sectional study design stood out as the most appropriate design for the study as it enabled the researcher to obtain adequate data in the required time frame.

This study was conducted in Moshi Municipality, Tanzania. The Municipality lies between the coordinates 3° 20' 5.5788" South and 37° 20' 25.3752" East. Moshi Municipality is among the seven districts of the Kilimanjaro Region, located at the center of the region, bordered by the Moshi and Hai Districts. According to the 2012 census, Moshi Municipality had a population of 184,292 people; in 2017, the population in Moshi Municipality was estimated to be 201,150 people (URT, 2018). The study was based in Moshi Municipality due to its abundance of SMEs, and most of the MFIs in the region are located in the Municipality; thus, it was the best area to obtain the right and sufficient information concerning the study on hand.

The targeted population for the study included trading SMEs in Moshi Municipality, which consisted of 7000 micro-enterprises, 2630 small enterprises, and 1020 medium enterprises, making a total of 10650 enterprises as identified by the Moshi Municipal Council (2021). The sample size in this study consisted of 231 respondents. The number of respondents was obtained using the Yamane (1969) formula for computing the sample size. This formula was applied in the study as it is the best fit in the circumstance whereby the population is known, and it is regarded as an accurate method of obtaining a sample as it does not include estimates, which may disrupt the reliability of the sample obtained. It has been calculated under a confidence interval of 95% and a margin of error of 5%.

Due to the limitation in time for conducting the study and homogeneity in characters of the SMEs as observed from the pilot study, the researcher resided to 231 respondents, which were 60% of the calculated sample, as it was compatible to obtain sufficient and appropriate data. To

obtain the appropriate number of respondents from each category, the population ratio of each category was established and then multiplied by the sample size, as shown in Table 1.

Table 1: Distribution of Respondents (n=231)

Respondents	Population	Population Ratio	Sample (n)	Sample size (n)
Micro enterprises	7000	(7000/10650) = 0.7	231	(0.7*231) = 162
Small enterprises	2630	(2630/10650) = 0.2	231	(0.2*231) = 46
Medium Enterprise	1020	(1020/10650) = 0.1	231	(0.1*231) = 23

The researcher employed a stratified random sampling technique whereby the population was divided into three strata: micro enterprises, small enterprises, and medium enterprises. The respondents were then selected randomly from each stratum. This method enabled the researcher to obtain a more reliable sample and prevented bias in obtaining respondents. Data were collected from both primary and secondary sources. Primary data were obtained directly from the respondents in terms of qualitative and quantitative information, whereby data pertaining to the access to credit by MFIs, entrepreneurial skills, and technological innovation offered by MFIs on the growth of SMEs. Secondary data were obtained from relevant documents, SMEs' performance reports, MFIs' lending policies, and other relevant documents.

Different techniques were used in data collection methods, including surveys, key informant interviews, focus group discussions, and documentary reviews. The survey method consisted of a questionnaire with a number of questions formulated to obtain information from the SMEs' owners (respondents). The questionnaire contained both open and closed-ended questions.

The study also used key informant interviews to obtain information through a guiding checklist that could not be obtained otherwise. In this method, ten key informants have included: five managers from microfinance banks, commercial banks with microfinance windows, and five SACCOs managers. Using these key informants facilitated the researcher in obtaining the necessary information to complement the information from the questionnaire. The researcher selected the informants purposively with regard to their knowledge of SMEs and reachability and know-how.

Further, the study employed focus group discussions in order to obtain information from the SMEs that would support other collected findings of the study. Two FGDs were conducted, which were composed of males and females. The group contained eight subjects, and each subject got a chance to participate fully in the discussion. The study also obtained secondary data from various documents so as to supplement the primary information. These documents included SMEs' policy and strategic plan, MFI's lending policies, and any other relevant documents assessing the contribution of MFIs to SMEs' growth.

The questionnaire was subjected to a reliability test on the internal consistency using Cronbach's Alpha coefficient. The Cronbach's Alpha coefficient is the most widely used measure of reliability in social and organizational sciences (Mallete & Duke, 2020). Based on the rule of thumb of George and Marllery (2003), the reliability is measured as follows: > 0.9 (excellent), > 0.8 (good), > 0.7 (acceptable, > 0.6 (questionable), > 0.5 (poor) and < 0.5 (unacceptable). When the questionnaire was tested, the coefficient revealed that the internal consistency of the measuring instrument was sufficient to provide reliable data with an alpha coefficient of 0.7 and above, which is acceptable (Table 2).

Table 2: Reliability Test

Variables	Cronbach's Alpha	Comment
Access to credit	0.765	Reliable
Entrepreneurial training	0.712	Reliable
Technological Innovations	0.877	Reliable
Average	0.785	Reliable

Further, in measuring the validity, content validity was determined as it refers to the extent to which the test fully represents what it aims to measure (Saunders *et al*., 2019). In order to ensure the validity of the data collected, a pilot study was carried out on 23 questionnaires based on 10% of the sample size rule of thumb for the pilot test, as declared by Cooper *et al.* (2018). The pilot study was carried out to test the data collection instruments, assess time for data collection, test procedures for data processing and analysis, and examine if the findings would be sensible.

Content analysis was used to analyze qualitative data by putting together the themes that resembled, that is, emphasizing pinpointing, examining, and recording patterns within data to describe phenomena and how they relate to a specific research question. The qualitative data included issues such as the sex of respondents, education level, and preference of respondents to a specific SME activity.

Quantitative data were analyzed through the Statistical Package for Social Science (SPSS), whereby data from each questionnaire was cleaned, coded, and entered into the SPSS. Descriptive statistics was used in data analysis; frequencies and percentages were employed throughout the three study objectives. The first and second objectives were also analyzed using Multiple Regression Analysis (MRA), which measures the relationship between independent and dependent variables. In contrast, the third objective was analyzed through content analysis. The MRA equation for the first and second objectives is presented below:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + e \quad (2)$$

Where Y= Growth of SMEs (Dependent variable), B0= Y-intercept (constant term), $\beta 1$, $\beta 2$ and $\beta 3$ = Coefficients of independent variables, X1, X2, and X3 = Independent variables (which are the rate of interest, loan size, and repayment duration for objective one, managerial training, marketing training and networking training for objective two) and e = Random error term.

The MRA assumptions were tested for each objective to evaluate if there exists a linear relationship between the independent and dependent variables. The multicollinearity of independent variables was not too high, and a normal distribution of the residual existed. The multicollinearity of independent variables was tested using the Variance Inflation Factor (VIF) whereby, if the correlation was between 1 and 5, it was considered moderate. It did not require adjustments, but if it was higher than 5, adjustments were made on highly correlated variables to fit in the model. After data analysis, the outcomes were presented using tables and figures.

Findings and Discussions

An Overview

This chapter presents and discusses the findings obtained from the data analysis based on the research methodology and the objectives in assessing the contribution of MFIs to the growth of small and medium enterprises**,** evidence from trade enterprises in Moshi Municipality. The

findings are divided into four subsections, whereas the first section discusses the socio-demographic characteristics of the respondents, followed by a discussion of the research findings in line with the three research objectives.

Socio-demographic Characteristics of Respondents

Studying the general socio-demographic characteristics of individuals who participated in SMEs' activities was vital. This was due to the fact that their special socio-demographic characteristics would have an impact on the growth of their SMEs. Therefore, the socio-demographic characteristics studied by the researcher included the sex of respondents, marital status, occupation, and educational level (Table 3).

Table 3: Socio-Demographic Characteristics of the Respondents (n=219)

Variable	Frequencies (n)	Percentages (%)
Sex		
Male	96	43.8
Female	123	56.2
Total	**219**	**100.00**
Age		
18 – 23 years	11	5.0
24 – 40 years	152	69.4
Above 40 years	56	25.6
Total	**219**	**100.00**
Marital Status		
Single	68	31.1
Married	132	60.3
Divorced	6	2.7
Widowed	13	5.9
Total	**219**	**100.00**
Education:		
Non-formal	5	1.4
Primary	61	27.9
Secondary	100	45.7
Certificate/Diploma	23	10.5
Degree	32	14.6
Total	**219**	**100.00**
Type of business		
Retail Shop	82	37
Second-hand clothes	61	28
Food vendors	37	17
Mobile banking agents	13	6

Wholesale traders	20	9
Mini – supermarkets	6	3
Total	**219**	**100.00**
Duration in business		
1 year	-	-
1 – 2 years	60	27.4
3 – 5 years	114	52.1
Above 5 years	30	13.7
Total	**219**	**100.00**

From the analysis, the majority of the respondents were female (56.2%), while the male was 43.8% of the respondents. This implies that women are more interested in engaging in entrepreneurship activities than men. It is also found that the involvement of women in small financing groups 'VIKOBA' and 'VIBATI' have also increased their ability to engage in entrepreneurship. On the other hand, social-cultural attitudes could be another reason to explain the high participation of women in SMEs. Gupta (2018) revealed that most of the roles in the enterprises are dictated by gender stereotype, which explain why female frequency is high in SMEs. The study was in line with the findings obtained by Mukulu (2017), which indicated that 69% of the respondents in business were female and 31% were male.

The study findings revealed that most respondents (69.4%) ranged between 24 and 40 years, 25.6% represented 40 and above, and the rest were 18 to 23 years old. This implies that most of the participants in the SME sector are youths and early adults; the researcher found that these youths and early adults tend to engage in entrepreneurship to meet their increased responsibilities, as most of them begin families at this age. The findings confirmed the study by Nkwabi and Mboya (2019), who found that most people engaged in SMEs are middle-aged, ranging from 20 to 45.

The study findings revealed that 60.3% of the respondents were married, 31.1% were single, 5.9% were widowed, and only 2.7% were divorced. In the follow-up question, the researcher understood that most married individuals were compelled to engage in entrepreneurship to meet their families' responsibilities, such as school fees and providing basic needs for the family. The findings also revealed that married respondents could access start-up capital easily as the wife and husband both contribute to the start-up of the business. The findings were in line with Ernest (2016) and Mbowe (2020), who revealed that most entrepreneurs were married and entered into entrepreneurship due to family responsibilities.

Academic and professional qualifications are vital aspects in the prosperity of businesses and SMEs worldwide. Surprisingly, the majority of individuals engaged in SMEs are not highly educated, with secondary education being 45.7%, whereas primary education was 27.9%, university education was 14.6%, certificate, and diploma were 10.5%, and non-formal education was 1.4%, respectively. This implies that the majority of entrepreneurs possess just basic education at primary and secondary levels. This, in turn, shows that these groups are mostly motivated to conduct entrepreneurship. However, most of them tend to have low business growth as they do not possess adequate entrepreneurial and business management skills. The number of degree owners engaging in entrepreneurship has also been increasing over the years as many graduates tend to resort to entrepreneurship as a source of employment due to failure to acquire formal employment. These results were also in line with Mbowe (2020), who found that most SME owners possess ordinary secondary-level education.

The research findings included three categories of trade businesses: sales of services, goods, and those who used to sell both. Of all respondents, 51.6% were engaged in sales of goods, 39.7% dealt with services sales, and only 8.7% combined services and goods. Within the three categories, the findings also indicate that 37% dealt with retail shops, 28% were second-hand cloth retailers, 9% were wholesale traders, 3% were mini supermarkets, 17% were food vendors, and 6% were mobile banking agents. Including these groups enabled the researcher to obtain sufficient and appropriate data.

Experience in the occupation was another important factor that the study intended to know from the respondents as it highly influences business growth. The findings indicated that the majority (52.1%) of the respondents are in their third to fifth year in the business, 27.4% had 1-2 years of existence, while those with more than five years account for only 13.7% and those with the youngest duration had 6.8% respectively. This implies that most respondents possess wider experience in business undertakings such as business operation skills and networking. The experience of the SME owners in the industry is vital as it may contribute directly to the growth of the SMEs. The findings were in line with Kige (2013) and Salifu (2020), who found that the majority of the respondents fell under 3 -5 years of operation.

Contribution of Credit from the MFIs to the Growth of SMEs

Growth in SMEs was determined through a variety of factors, among which access to credit is among them. The study intended to find out whether SMEs were able to obtain credits from MFIs and to evaluate if the credit terms offered by MFIs to SMEs were favorable for the growth of their business. In pursuit of this, it was necessary to know if the respondents took credits from MFIs; thus, Table 4 depicts the sources of funds used by the SMEs in running their businesses.

Table 4: SMEs Sources of Finance (n=219)

Source of Fund	Frequency (n)	Percentages (%)	Percentage of cases (%)
Personal savings	205	50.1	93.6
Loans from friends and family	37	9.0	16.9
Credits from MFIs	167	40.8	76.3
Total	**409**	**100.0**	**186.8**

The study findings revealed that 93.6% of the respondent obtained funds to run their businesses through personal savings, whereas 76.3 declared to have taken loans from MFIs, and only 16.9% took loans from friends as one of their sources of business finance; this implies that loans from MFIs play a major role in ensuring the survival of the SMEs. With respect to this objective, the study also wanted to know whether the terms of credit were favorable toward enhancing growth in SMEs. To examine this, the study mainly focused on three factors: loan size, interest rates, and loan repayment period (Fig. 3).

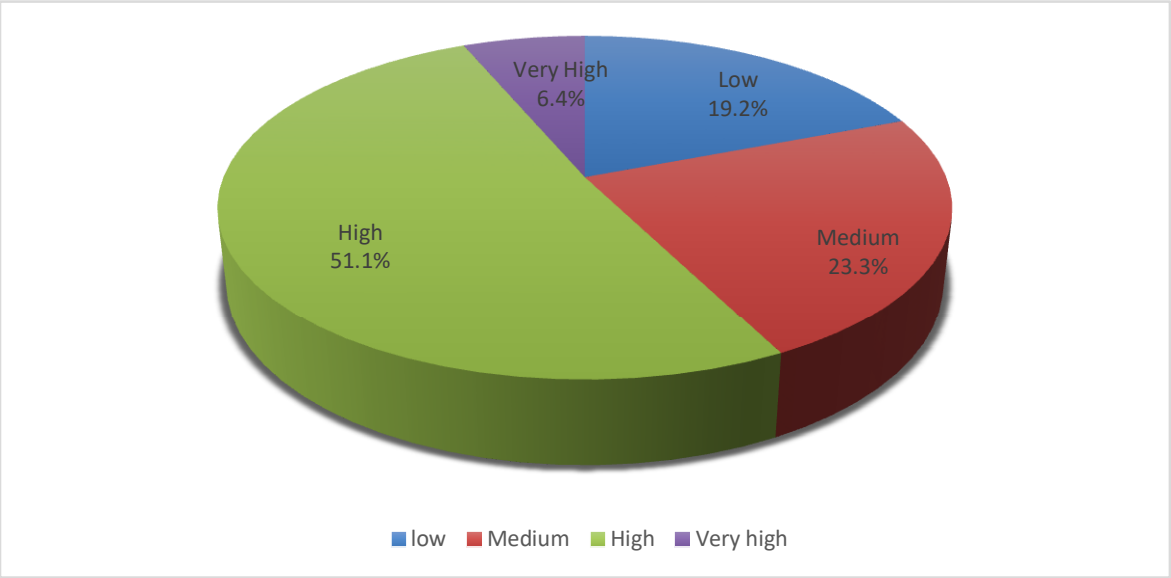


Figure 3: Interest rates offered by MFIs to SMEs

In examining the extent to which credit terms influenced SMEs' access to credit, it was necessary to obtain information on the amount of interest that the MFIs have been charging the SMEs (Fig. 3). The findings revealed that 51.1% of the total respondents claimed that interest rates charged to them by MFIs ranged between 18 – 24%, 23.3% claimed 14 – 18%, 19.2% claimed 8 – 13% and only 6.4% claimed that the rates were above 24%. This shows that the majority (51.1%) of the respondents are being charged high rates when acquiring loans from MFIs, which may have a profit reduction effect and, hence, a low pace of growth.

Loan size is a vital factor influencing SMEs' growth. Other factors include the borrower's credit worthiness, the value of collateral, and the borrower's qualifying ratios. It can be seen in Figure 8 that many enterprises fell in the category of small loans, whereby 64% of them were taking small loans, 26% medium loans, and only 10% took large loans. This indicates that most SMEs, especially small enterprises, experience a low growth pace because they can only access small loans due to failure to meet the requirements for obtaining medium or large loans. The 26% and 10% of the respondents constituted a small part of the SMEs that access medium and large loans. This is due to the ability to meet the requirements, such as having large value collaterals and submission of formal documents, such as a budget showing the business's worthiness and ability to pay (Fig. 4).

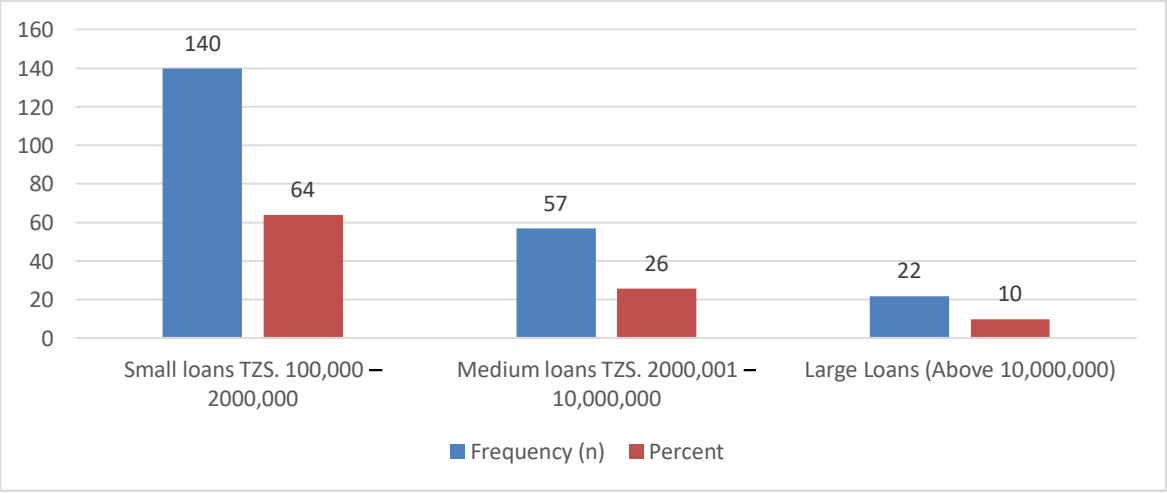


Figure 4: Size of Loans accessed by SMEs from MFIs

Furthermore, the study examined the period to which the MFIs offer to SMEs for repayment of the loans. The findings in Table 4 indicate that most respondents (55.7%) said 7 to 12 months, 26% said 1 – 6 months, 14.6% said 1-3 years, and only 3.7% said more than 3 years.

Table 5: Duration of Repayment of Credits from MFIs (n=219)

Range of Repayment duration	Frequency (n)	Percent (%)
1 month – 6 months	57	26.0
7months – 12months	122	55.7
1 year – 3 years	32	14.6
more than 3 years	8	3.7

This is in line with what one key informant from CRDB Moshi Municipality pointed out:

> *"...we (CRDB) often offer 1-year loan to the SMEs ...In rare occasions, the duration may be increased to more than that period, but in most cases, if the period is added, it normally reaches only two years"* (Key informant, CRDB Moshi Branch, 16 Jul 2021).

In this circumstance, it is difficult for SMEs to generate reasonable profits from the loan they obtain due to a very short period to induce the money into operation and earn returns. For some businesses, the returns tend to accumulate very slowly in such a way that SMEs' repayment period may fall due before they can generate profits from their investments in such a manner forcing them to use some of the loan amounts in repaying the loan, which in turn slows down the growth of the business.

Relationship between Access to Credit and Growth of SMEs

There is a close relationship between access to credit and the growth of SMEs, as depicted in Table 6**.**

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.721[a]	0.52	0.503	0.872	0.52	31.016	3	86	0

a. Predictors: (Constant), Rate of interest, Amount of loan, Loan duration
b. Dependent Variable: Growth of SMEs

From the model, the coefficient of determination R^2 was 0.52, which explains a fairly strong positive relationship between the dependent and independent variables, as it shows that the

variation in the dependent variables strongly influences the dependent variables. Statistically, the R^2 indicates that variation in the dependent variable is contributed 52% by interest rates, loan amount, and the loan repayment period. The remaining 48% may be contributed by other factors not included in the model, such as economic state and business experience.

The ANOVA Test

Table 7: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	70.676	3	23.559	31.016	0.000[b]
	Residual	236.479	86	0.760		
	Total	136.000	89			

a. Dependent Variable: Growth of SMEs
b. Predictors: (Constant), Rate of interest, Amount of loan, Loan duration

The ANOVA results indicated a level of significance of 0.000, which helps to conclude that the model was highly significant with $P \leq 0.05$. The F value was 31.016, indicating that the entire model was significant and hence the obtained results were correct. This implies a significant relationship between the credit terms and the growth of SMEs, which in this study includes capital size and profit increase. The coefficients for the multiple regression were obtained, as presented in Table 8.

Table 8: Coefficient for Multiple Linear Regression Equation (n=219)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig. (2. tailed)	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.459	0.416		3.512	0.001		
Rate of interest	-0.341	0.102	0.283	3.337	0.001	0.753	1.328
Amount of loan	0.485	0.105	0.364	4.633	0.047	0.647	1.546
Repayment duration	0.585	0.141	0.342	4.143	0.039	0.571	1.751

The results from the study showed that there was no multicollinearity problem as the VIF values for the predictor variables were all below 5, implying that there is a low percentage of one variable explaining the other variable, for example, in the above table only about 25% (1-Tolerance) of the rate of interest can be explained with loan amount and loan duration combined.

The results also indicate that the predictor variables were all statistically significant, with values below 0.05. The coefficients of the independent variables were -0.341, 0.485, and 0.585 for the rate of interest, amount of loan, and loan duration, respectively. In order to show the extent to which each predictor variable influenced the dependent variable, coefficients have been entered into the multiple regression equation 3.

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + e$..... (3)

$Y = 1.459 - 0.341X_1 + 0.485X_2 + 0.585X_3$

Where Y is the growth of SMEs, X_1 is the interest rate, X_2 is the loan amount, and X_3 is loan duration. The interest rate has a fairly negative relationship with the growth of SMEs, implying that for a one-unit decrease in rates of interest, there will be a 34.1% increase in the growth of SMEs. This is because lowering the interest rates will enable the SMEs to have higher residual profits after paying the interest; in such a manner, the interest may be used for the expansion of the size of the business. During a focus group discussion at the Moshi bus stand, when the owners of small enterprises were asked to explain how favorable were the rates of interest offered by MFIs, they said:

> *"...the rates of interest are too high.... that it is as if the profits received from the business are mainly being utilized in repaying the loan interest because very little amount remains for expansion of the business..."* (FGD, Moshi bus stand, 15 Jul 2021).

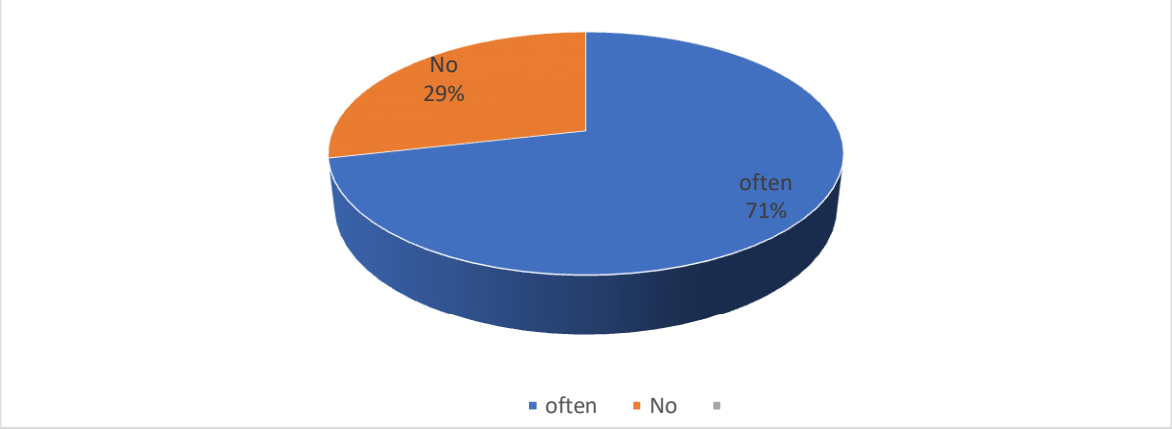
Furthermore, the model shows that a unit increase in the amount of loans will lead to a 48.5% increase in the growth of SMEs (capital size and profits increase). The analysis showed that most respondents (53%) took medium loans, 36% took small loans, and the remaining 11% took large loans. Most SMEs take medium loans (TZS 2,000,001 – 10,000,000) because they do not qualify for large loans; they do not possess the required attributes for such loans, including collaterals and business plans. Some may possess the requirements but do not acquire large loans due to the fear of default or failure to repay the loans, which may lead to the loss of their properties that they tie as collaterals in acquiring the loan. From the model, the relationship between the repayment period and the growth of SMEs is explained by coefficient β=0.585, which means a unit increase in the repayment period, the SMEs will grow by 58.5%.

Contribution of Entrepreneurial Training on the Growth of SMEs

Reachability of Entrepreneurial Training from MFIs to SMEs

In analyzing the extent to which entrepreneurial training issued by MFIs contributes to the growth of SMEs, the study intended to know the percentages of which respondents have ever received entrepreneurial training from MFIs. Among the total respondents, 71% acknowledged receiving training from the MFIs. This shows that the MFIs contribute significantly to disseminating entrepreneurial knowledge to SMEs (Fig. 5).

Figure 5: Frequency of the Entrepreneurial training received from MFIs



Thus, the findings show that MFIs' training had an important role in the growth of SMEs. In pursuit of examining the extent to which MFIs training contributes to SMEs' growth, the researcher used the Multiple Regression Analysis to establish the relationship training has on the growth of SMEs, and the summary results are presented in Table 9.

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.637[a]	0.405	0.388	0.479	0.405	46.245	5	339	0

a. Predictors: (Constant), Managerial training, Marketing training, Networking training
b. Dependent Variable: Growth of SMEs

Regression model results indicate an R of 0.637, which shows a fairly significant relationship between entrepreneurial training and the growth of SMEs. Thus, R^2 was 0.405, which implies that entrepreneurial training offered by MFIs influences the growth in SMEs by 40.5%. This is also complemented by Kyale (2013) and Mashenene and Rumanyika (2014), who got an R^2 of 40% in their study on the impact of MFIs on the growth and development of SMEs in Machakos town. The remaining 59.5% may be contributed by other factors not examined in the model. The model summary also indicates $P< 0.05$, which indicates that the data fit the model and the results are significant, but also the F-statistic of 46.245 shows the overall fitness of the estimates (Table 9).

Coefficients of Multiple Regression

Table 10: Relationship between entrepreneurial training and SME growth (n=219)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig. (2tailed)	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	0.524	0.416		1.241	0.001		
Managerial training	0.184	0.123	0.583	4.779	0.015	0.645	1.55
Marketing training	0.361	0.151	0.586	1.382	0.056	0.765	1.307
Networking training	0.125	0.141	0.51	3.288	0.043	0.718	1.393

The results show VIFs of 1.55, 1.31, and 1.39 for managerial, marketing, and networking training, indicating no multicollinearity problem between the predictor variable. It also indicates that the magnitude of the coefficient for managerial training is significant, with a significant level of 0.015, while having a beta value of 0.184, implying that an increase in one unit of managerial training would lead to an increase of 0.184 to the growth of the SMEs. Furthermore, the study indicates the magnitude of the coefficient for networking training as significant at 0.043. It also shows a coefficient of 0.125, indicating that for a unit increase in networking training, the growth of the SMEs will increase by 0.125.

According to the third predictor variable, the findings show that marketing training contributes to the growth of SMEs. The model indicates that marketing training has a positive relationship with the growth of SMEs, with a beta value of 0.361, indicating that a unit increase in marketing training will lead to a 36.1% increase in the growth of SMEs. However, the result was not statistically significant, with P value of 0.56; hence it cannot be used for any inferences. The magnitude to which each predictor variable contributes to the dependent variable is shown clearly in the multiple regression equation 4.

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + e \quad (4)$$

$$Y = 0.524 + 0.184X_1 + 0.361X_2 + 0.125X_3$$

Whereby Y is the growth of SMEs, X_1 is managerial training, X_2 is marketing training, and X_3 is networking training. The results are in line with the study by Nneji and Akpan (2015): Mashenene (2015), and World Bank (2020), who found that managerial training, especially pre-loan training, increases profits by 6.24% while networking training increases profits by 45%. This shows that apart from financial assistance provided by MFIs, non-financial services also play a vital role in enhancing the growth of SMEs.

Contribution of Technological Innovations toward the Growth of SMEs

Awareness of Technological Innovations

The modern world has been dominated by technological innovation, and technological advancement has affected the operations of different activities in the world, especially business operations. This study intended to evaluate how technological innovations implemented by Microfinance Institutions in providing services to SMEs have contributed to the growth of SMEs. First, the researcher was eager to know whether the respondents were aware of Technological innovations (Fig. 6).

Figure 6: SME awareness toward technological innovations

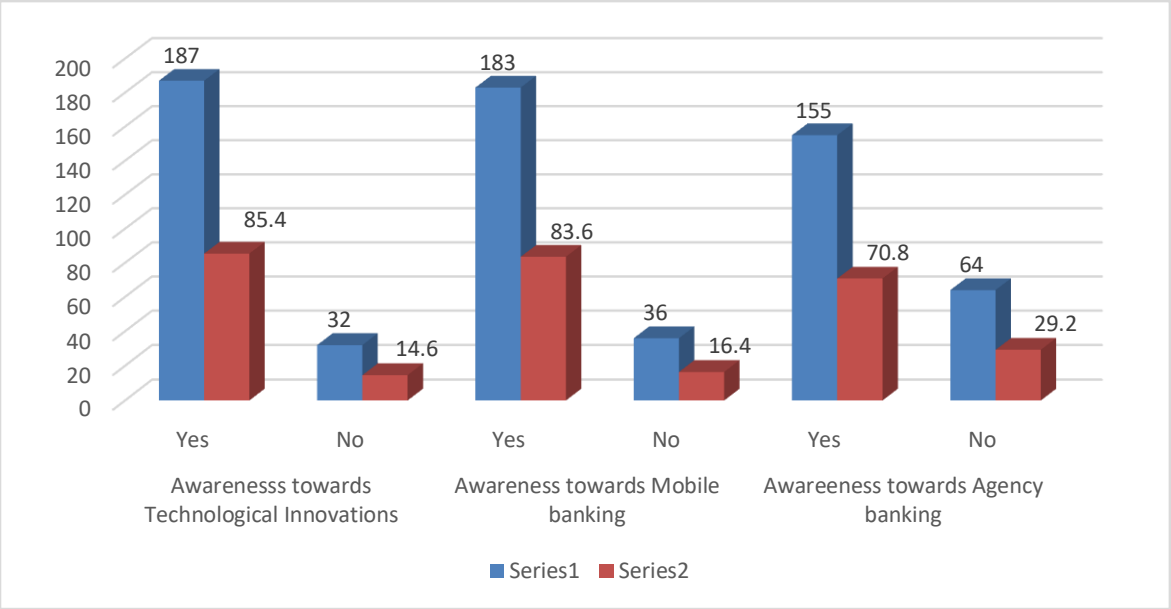


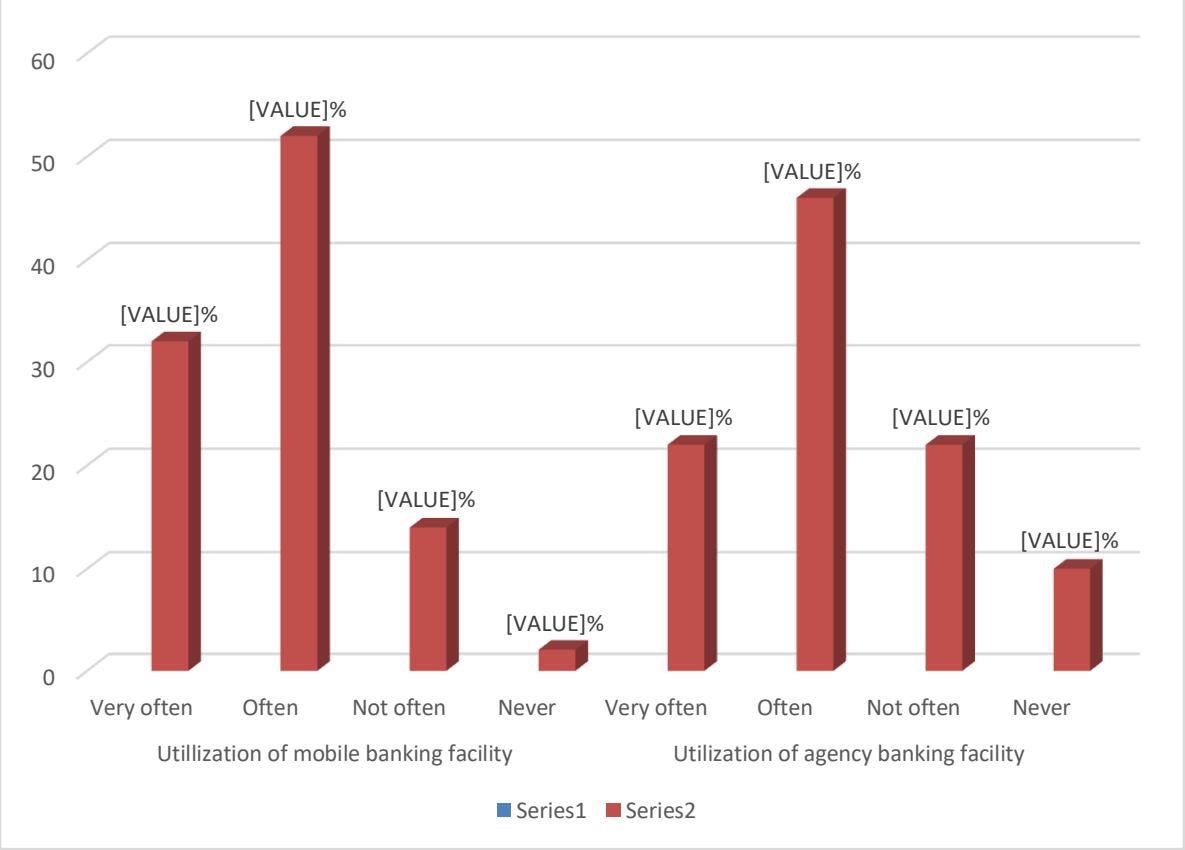
Figure 6 indicates that 85.4% of the respondents were familiar with technological innovations, whereas only 14.6% declared unfamiliarity with terms. This shows that a significant number of respondents could provide insight into the contribution of technological innovations. When asked about their awareness of mobile banking services offered by MFIs, 83.6% of the respondents were unaware, while 16.4% were unfamiliar with the service. Furthermore, the study wanted to know whether respondents were aware of agency banking services provided by MFIs. In this case, 70.8% were aware, while 29.2% were unaware of the service. Hence, it can be concluded that most of the technological innovations utilized by MFIs in providing services to their clients are well-known by SMEs.

Utilization of the Technological Innovations

In pursuit of understanding how these SMEs benefited from the innovations, the researcher sought to establish the frequencies of the respondents that had been utilizing these services in their businesses. When assessing the utilization of mobile banking services, it was found that 52% of the respondents had been using the services often, 32% very often, 14% rarely, and 2% never utilized it at all. This indicates that mobile banking services have been one of the important tools for SMEs in performing their duties. On the other hand, utilization of agency banking had

the following results; 46% were using it often, 22% very often, 22% rarely, and only 10% never used the service at all (Fig. 7).

Figure 7: Frequency of Utilization of Technological Innovations



With these results, it can be seen that the majority of SMEs were utilizing these services in undertaking their daily activities. This was also revealed in the FGD conducted at the bus stand in Moshi Municipality whereby, one discussant said:

> *"…the use of mobile banking facilities and agency banking has enabled the customers to easily pay for activities and services….it has helped us in paying our suppliers and operations have become easy…. at any time we need supply we just transfer money to suppliers, and the goods are delivered hence we do not need to close our businesses so as to go to the bank to access funds…"* (FGD, Moshi Bus Stand, 15 Jul 2021).

Further, when the respondents were inquired about the contribution of technological innovations in the growth of SMEs profits, 56% replied high, 28% said it was moderate, 12% said it was low, and 4% said they had no change. This implied that most respondents utilizing the technological innovations were more likely to increase their profitability than those not using the service (Table 11).

Table 11: Contribution of Technological Innovations towards SME Growth (n=219)

Parameter	Frequency (n)	Percentage (%)
High	123	56
Moderate	61	28
Low	26	12
No change	9	4

Growth of SMEs

In this study, the growth of SMEs was measured by the growth in size of capital and profits. Growth on capital size shows that 46.6% increased their capital ranging from 1,000,000/= to 5,000,000/=; 26.5% increased their capital from 5,000,001 – 10,000,000/=; 13.7% increased their capital from 10,000,001 – 20,000,000/=; 6.8% increased their capital more than 20 million and only 6.4% had increased by a range of 0 – 1,000,000/=. This implies that the majority of SMEs are still experiencing moderate growth in their capital. This was complemented by a statement from a key informant from FINCA who said:

> *"...majority of our clients who are categorized under the SME umbrella, especially the small enterprises, tend to stay in that capital range for a long period, therefore indicating a slow growth in their capital sizes which may be due to lacking the necessary skills to run their businesses..."* (Key informant, FINCA loan manager, 2 Aug 2021).

An increase in profits was another indicator to measure the growth of SMEs. In line with this proposition, it shows that 41.1% of the respondents had increased profits from 1,000,000/= to 5,000,000/=, whereas 33.8% increased from 1,000,001 – 5,000,000 shillings, 12.8% increased from 10,000,001 – 20,000,000 shillings, 5% increased more than 20 million and only 7.3% had increased by a range of 0 – 1,000,000/=. This implies that most SMEs increase profits from 1 million to 5 million annually and 100,000 to 1,000,000/=TZS, respectively.

Conclusions and Recommendations

Conclusions

The study assessed the contribution of MFIs to the growth of SMEs and revealed that MFIs significantly impact the growth of SMEs. It has been noted that access to credit, which has been a significant challenge to SMEs, has been reduced to a large extent through the MFIs' operations and conditions. The findings also indicate that significant improvement in the growth of SMEs is influenced by non-financial services such as managerial training and networking provided by the MFIs. Another important factor that has been observed to contribute to the growth of SMEs has been the mobile and agency banking services which have reduced the fund accessibility of the SMEs.

The study shows that the loans provided by the MFIs are the key to the financing problem of SMEs. However, the credit terms have not been regarded to be unfavorable for the growth of SMEs; for instance, interest rates have been regarded as too high to support growth that requires the intervention of the government by reducing the Bank of Tanzania lending rates to the financial institutions that may lead to a reduction in the interest burden for SMEs which will enable them to grow. The repayment period and loan amount are still unfavorable to the SMEs.

It is also critical to highlight MFIs' challenges in dealing with SMEs. The study shows that most respondents provided with credits by the MFIs are reluctant to repay the loans. This leads to a risk of default repayment of loans, which affects the operations of the MFIs. Thus, it results in the formulation of the conditions that limit access to finance from the MFIs. Also, the misperceptions of some respondents toward utilizing mobile banking and agency banking facilities can be considered a drawback toward microfinance services utilization.

Lastly, the study concluded by enlightening the impact of financial and non-financial services on SMEs. Most MFIs tend to focus more on financial services and ignore the non-financial factors contributing to SME growth. The study shows that non-financial factors such as entrepreneurial skills contribute highly to the operations of businesses; thus, emphasis should be placed on

providing non-financial and financial services to ensure effective development in the small and medium-scale entrepreneurship sector.

Recommendations

Based on the research title, objectives, findings, and conclusions, the following are the recommendations for improvement for both MFIs and SMEs:

i. The study recommends that the MFIs should come up with a better means to improve financial services to SMEs; for example, they may improve the techniques for providing credits without the need for collaterals and also provide knowledge to the public on the procedures of acquiring financial services from the institutions. It is important that some SMEs are not taking credits from the financial institution not because they are well placed financially but because they do not know the procedures for acquiring credits.

ii. The study also recommends that financial institutions review the terms and conditions for financing SMEs. For example, the interest rates given to the SMEs should be favorable in order to encourage the SMEs to take credits from the financial institutions, and the attached conditions should be made simpler, flexible, and user-friendly to enable a larger spectrum of SMEs to acquire credits.

iii. The MFIs should provide knowledge to the public on how to utilize the technological innovations as well as provide them with assurance of safety in utilizing the innovations. For example, CRDB offers a mobile banking app where individuals can access their funds instantly, take loans, receive payments, and make payments instantly. The majority of SMEs are utilizing the service, yet some are not aware of the app and how they can benefit from it, so it is necessary to increase the promotion of such facilities.

iv. Lastly, the government should create conducive policies to ensure MFIs provide services to SMEs in a favorable manner. For example, it should ensure that with the reduction in BOT interest, the act is reflected by other MFIs toward their clients. The government should create policies ensuring that SMEs get a more extended loan repayment period and also hold seminars on entrepreneurial trainings, such as loan management skills, to enlighten the SMEs on managing their businesses.

Areas for Further Studies

Owing to the limitation in time, the study could have been more comprehensive. Thus, there is a need for further research on some key issues. Issues such as how SME growth affects the livelihood of the SME's owners and the alternatives to eradicating the challenges of countering the SME's financial and non-financial problems need to be further addressed.

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