Determinants of Relevancy of Micro Financial Services to SMEs and Clients' Responsiveness in Tanzania: A Stakeholders Approach

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Abstract

The overall objective of the study was to investigate factors for the relevancy of micro financial services to Small and Medium Enterprises (SMEs) in Tanzania. For this purpose five main factors were considered to have influence on the relevancy of Micro financial services to Small and medium enterprises have been studied using correlation coefficient matrix and analysis of Chi square to measure the significance of the relationship. The results of the analysis revealed that there is weak relationship between underlying factors (the selected factors) and relevancy of Micro financial services. Consequently, clients' responsiveness toward relevancy of Micro financial services also seems to be questionable. Therefore, further studies need to be conducted to establish what other factors that may influence relevancy of Micro financial services to SMEs in Tanzania.

Key words: Micro financial Services, Small and Medium Enterprises, Relevancy of Micro financial services, Clients' responsiveness, Stakeholders Approach

1. Introduction

Micro financing plays a big role in supporting the private sector which is the driving engine of the market economy in most of the developing countries.

Microfinance have existed for past three decades in the developing nations. It has been implemented as the complementary to the formal financial infrastructure. The major objective is to provide financial services to the poverty section that have been rejected by the commercial banks (*Kumar P.V*, 2011). Microfinance in Tanzania involved government agency (such as SIDO and SELF), NGO based (such as such as FINCA (T) and PRIDE) and other credit/cooperative unions (such as SACCOS).

There are several factors that may determine the relevancy of micro financial services offered to small and medium enterprises in Tanzania. However, in this paper main five factors have been pointed out *Terms and conditions guiding the lending relationships, Product development and innovation*, *Readiness and capacity to respond to clients' request*, *Dependability in handling the clients' problems*, *providing quality services at promised time*. These factors are considered as the main features that give MFIs flexibility and differentiate the micro financial services from formal financial services.

Providing micro financial services to the Small and Medium Enterprises (SMEs) require special features that will differentiate the micro financial services from traditional formal financial services (such as commercial banking services). Furthermore, clients are expected to have positive response towards these factors as they may have impact on the clients' satisfactions. In Tanzania in spite rapid increase in number of micro financial institutions. The quality of the micro financial services is still at infancy stage. Most of banks have also engaged in the micro financial services by establishing the micro finance departments dealing with Small and Medium enterprises in their branches.

2. Literature Review

Hartungi (2007) studied the various factors that are involved in the success of MFI in Indonesia. The major activities identified are dynamic adoption of MFIs with local conditions, the use of technology (information technology as specific) in the outreach to the people. He added that active involvement of the MFIs employees and increase in transparency helped in better functioning of the MFIs. In line with Hartungi (2007) study there five factors were assumed to have match with Tanzanian environment were MFIs operate. The Microfinance policy of May (2000), stipulates that when the majority of Tanzanians whose income are very low, have access to Micro financial services then they will be able the possibility of managing scarce households and Micro enterprises resources more efficiently, protection against risks, provision for the future and taking advantages of the investment opportunities. The concept of micro-financing has become increasingly popular as a successful mechanism for funding new businesses (Dyck, 2002)

The idea behind establishing MFIs was to support SMEs growth and strengthen their performance, which could

in turn help to alleviate poverty. The MFIs promised to combat poverty and to develop the institutional capacity of financial systems through finding ways to cost effectively lend money to MSEs (CGAP, 2000). MFIs are institutions which provide short term financing that designed primarily to meet the working capital needs of micro enterprises (Wright, 2000).

Micro financial services offered include: *Credit services:* Micro credit means a credit accommodation whose security may include non-traditional collateral, granted to a natural person, individually or in a group, *(Banking and Financial Institutions Act 1991.S.17). Savings services:* Microfinance customers also need savings facilities just like high- income segments.it is important to know that poor saves for the same reasons as non-poor (BOT ,2000). *Payment and other related financial services:* payments and other related services are also valuable to low income people and to the residents and institutions in rural areas. Generally the design of the traditional products provided by the MFIs to the low income segments has largely been conditioned by the donors that provided the funding and not through analysis and understanding of financial service demanded on the part of the clients (Poyo and Young 2001).

Petridou and Glaveli (2008),in their study they found that the implementation of the Microfinance results in the improvements in lives of the society who utilize the scheme, the earning capabilities increase and they further found that literacy or the knowledge affected by the microfinance section increase and that they can understand the economics of the present dynamics world.

Micro financing services provided by the microfinance institutions, especially those committed in full financial intermediation complement effectively the banking sector in extending financial services and successfully draw on the experience of community based development and pre existing informal methods of financial intermediations (IMF working paper 2004). Self-employment activities such as fishing, poultry, agriculture, sewing etc, are considered as essential actors for achieving social and economic development. Participation in the SMEs sector is widely seen by policy makers as well as donors as a means of economically empowering marginalized group. (Hanna-Andersson 1995)

MFIs are defined under the World Bank findings (1998) - as the agents and organizations that engage on relatively in small financial transactions using specialized character based methodologies to serve low-income household, micro enterprises, small farmers and other who lack access to the banking systems. In managing the MFIs, policies should be effectively communicated. (Calvin, 1997). These policies will structure the strategic features of the micro financial services to be offered. Borrowers may not be fully aware of terms of credits, this can cause voluntary default (Huntington, 1998)

Research Questions

Two research questions were formulated and used to guide this study:

i. What are the factors that determines the relevancy of the Micro financial services to Small and Medium enterprises in Tanzania?

ii. What is the clients' (SMEs) response towards factors that determine the relevancy of micro financial services in Tanzania?

Significance of the Study

Commercial banks which have been traditionally considered powerful catalyst of economic development through resources mobilization and the provision of credit to profitable ventures did not offer credit to the rural poor or small business (Kuzilwa and Mushi, 1997) in Tanzania. The private sector is on the growth of over 30 percent between 2000 and 2005 as compared with less than that 10 percent a decade ago (Zacchia,2006).

Therefore it is expected that the results of this study endeavors to provide some contribution to Microfinance Institutions (MFIs) as well as SMEs development:

i. The study will suggest some ways that will help in improving and formulating appropriate strategies of providing relevant micro financial services to SMEs in Tanzania.

ii. The study is expected to enable the government and policy makers take necessary steps for the development of MFIs and SMEs sectors in Tanzania as well as the general objective contained in the vision 2025. Hence enables formulation and improvement/review of MFIs policies.

iii. The results of this study is expected to be beneficial to other researchers (suggesting areas of future research), development agencies (actors) and entrepreneurs who would like to venture into the microfinance business.

The main objectives of most MFIs indicate a concern for promoting economic growth and development through financing of SMEs. Generally, the micro loan given to SMEs is considered essential for their growth and the expansion of business sector. In Tanzania the SMEs sector has been recognized as a significant sector in employment creation, income generation, and poverty alleviation and as a base for industrial development (Ministry of Industry and Trade, 2002).

However, even the extent of relevancy of Micro financial services offered by available Micro financing Institutions (MFIs) in Tanzania is also not known. Therefore it is from this context that this research intended to

find out whether or not Micro financial services offered are relevant to SMEs and identify factors that influence the relevancy in Tanzania.

Conceptual Framework

Therefore due to significance of the role of SMEs in promoting economic growth and development it is important to examine relevancy of micro financial services offered to SMEs. In analyzing the relevancy of MFIs services the following conceptual framework was employed in the assertion that the desired level of Micro financial service relevancy is attained as the result of:

i) MFI's Terms and conditions guiding the lending relationship.
ii) MFI's ability on products development and innovation based on customer need.
iii) MFIs customer's problems handling.
iv) MFI' ability to provide quality service at promised/required time.
v) MFI's readiness and capacity to respond to clients request and help clients.

Equation expressed as:

Rmfs = f (Cs, Pd&i, Cph, QSp&s, RCr)

Where: Rmfs   =   Relevancy Micro financial Services
         f   =   Function
         Cs   =   Terms and conditions guiding the lending relationship.
         Pd&i   =   Product development & innovation
         Cph   =   Customers' problems handling
         QSp&t =   Quality Services at promised time
         RCr   =   Readiness and capacity to respond to customers' request

Figure 1: Conceptual Frame Work
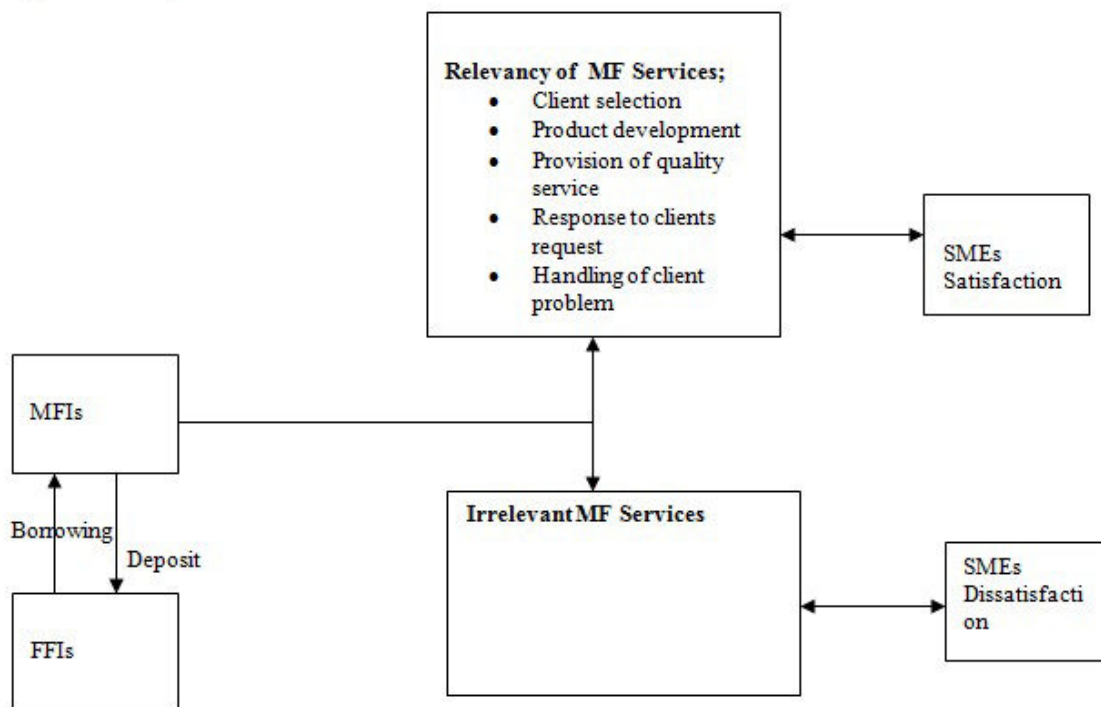
Source:CGAP,(2000)

3. Methodology

Desk research involved searching of academic literatures on concepts and theoretical development and empirical studies relevant for the study. The purpose was to obtain general information about nature, types and various factors that may influence relevancy of the Micro financial services to SMEs in Tanzania. The field research was conducted through survey. The main respondents were interviewed through face to face and through use of questionnaires.

The study population was FINCA's clients with at least one year in FINCA's services. The units of the study was individual clients and officials/FINCA's Staff particularly credit officers these officials have direct contact with clients and they had enough experience in micro financing sector to provide necessary information needed.

The study was conducted in Dar es Salaam region, one of the reasons is that Dar es salaam serves as the headquarter of the FINCA (T). Furthermore, because of the financial limitation it was not possible to include other regions in this study. Simple random samplings were applied in this study to provide equal chance of respondents' selection. The study aimed at obtaining results that will be generalized. Thus random sample was adequate and representative. Also simple random sampling is appropriate for the type of analysis and data that were used in this research.

The sample of 60 respondents from FINCA's clients and 15 Credit officers/Staff from FINCA (T) were established. The sample was fairly enough and suitable for models that were employed in data analysis, that is chi-square of goodness of fit and Correlation coefficient of matrix .In order to use chi-square of goodness of fit overall number of items should be at least 50(Kothari, 1990)

Table 1: Sample Distribution

S/No	Type of respondents	Questionnaires distributed	Questionnaires collected	Response rate
1	FINCA(T)'s CLIENTS	65	60	92.3%
2	CREDIT OFFICERS	15	15	100%
	TOTAL	80	75	93.75%

Source: Field Survey, April, 2010

4. Findings and discussion

Data analysis was carried out by the assistance of Statistical Package of Social Science (SPSS) program where the relationship was mainly in focus. Simple frequencies of respondents and perception degree measures were also used. This enabled the researcher to measure the relationship that exists between the relevancy of MFIs services and Clients' response towards the factors.

Profile and characteristics of the respondents

This section describes the Profile and characteristics of FINCA (T) clients which can give the picture of general trend in Tanzania. The characteristics that were examined included gender, marital status, age.

Gender and Age of Respondents: female accounted for 73.3 percent and remaining 26.7 percent are male. With regards to age of the clients, it was found that a large number of clients fall between 31- 50 years which accounts for 55 percent. Those between 18-30 years of age accounted to 5 percent. Those between 50- 60 years of age accounted to 36.7 percent and those above 60 years of age accounted to 3.3 percent. This means the most economic active group aged between 31- 50 years. This shows the extent to which the MFIs may promote the country's economic growth and development, by financing the most active economic group.

Marital Status of Respondents: Considering the marital status of the respondents, the results show that about 61.7 of the clients (i.e. respondents) were married, 16.7 percent were singles, 16.7 percent were widowed and only 5 percent were divorced or separated.

Job Title of the Finca (T)'s Staff (Respondents): The results reveals that 66.7 percent of the respondents from the FINCA(T) Staff were loan officers and 33.3 percent of the respondents were the Credit supervisors. This means that the greater part of the Staff who filled questionnaires were those who have direct involvement with the clients.

Nature of the Business: The results also revealed that 63.3 percent of respondents are dealing with retail business, 26.7 percent are dealing with general merchandise, 8.3 percent are dealing with wholesale trade and only 1.7 percent is dealing with other which may include services rendering.

Correlation Coefficient Matrix

The correlation coefficient Matrix is presented in the *Appendix 2*. The analysis revealed that the relevancy of Micro financial services offered by FINCA(T) was insignificantly correlated with the customers' satisfactions. The results also revealed that only product development and innovation as well as readiness and capacity to handle clients problems has partial relationships as it was revealed by their positive correlation coefficient of 0.409 and was significant at one percent level of significance.

Analysis of Research Questions and Discussion of the findings

This section deal with the analysis of some of the data were collected with reference to the questions statements stated in first section. The results of the test performed and the conclusions made regarding each question are presented in this section.

Research question1: what are the factors that determines relevancy of the Micro financial services to SMEs in Tanzania?

The analysis of the respondents results for this research question (Appendix 1) are:

a)   Terms and conditions guiding the lending relationships.

Results reveals that 73.3 percent of the clients, consider FINCA(T)'s terms and conditions governing the lending relation as not friendly, due to the facts that clients are not consulted in the setting of terms and conditions. On the other hand 26.3 percent of the clients consider the terms and conditions as friendly. Therefore this showed the negative/weak support to the expected relevancy of micro financial services to SMEs.

b)   Product development and innovation

Results reveals that 58.3 percent of the respondents consider the FINCA(T)'s products innovation (innovation of micro financial services) as do not suit the customers' needs.33.3 percent of the respondents consider the product development and innovation conform with clients' needs and 8.3 percent did not know whether products and innovation suits the clients' needs or not. Therefore this showed the negative/weak support to the expected relevancy of micro financial services to SMEs.

c)   Readiness and capacity to respond to clients request

Results reveals that 81.7 percent of the respondents consider the FINCA (T)'s readiness and capacity to respond to the clients request as inadequate while on the other hand 8.3 percent of the respondents consider the FINCA(T)'s readiness and capacity as satisfactory and 10 percent did not know whether FINCA(T)'s readiness and capacity is satisfactory or non-satisfactory. Therefore this showed the negative/weak support to the expected relevancy of micro financial services to SMEs.

d)   Dependability in handling the clients' problems

Findings show that 70 percents of respondents acknowledge that FINCA(T) as one of the MFIs may be relied upon in solving Micro financial problems of clients and their micro enterprises. On the other hand 28.3 percent of the respondents argued that FINCA(T) cannot be relied upon in solving Micro financial problems/needs of customers and 1.7 percent do not know whether FINCA(T) can meet the clients' Micro financial needs or not.

e)   Providing quality services at promised time

Data shows that 78.3 percent of the respondents acknowledge that FINCA(T) provides quality services at promised time.20 percent of clients responded that FINCA(T) do not provide quality services at promised time and 1.7 percent did not know whether FINCA(T) provide the quality services on time or not.

Research question 2: What is the Clients' responsiveness towards factors that determines relevancy of micro financial services to SMEs in Tanzania?

from the fact that greater extent the data obtained were of qualitative in nature, the research question two was measured using Correlation and Chi- square with support of other techniques such as non-parametric correlation where the correlation coefficient of each variable was determined.

Correlation

From *Appendix 2* the results show that readiness and capacity to help and respond to clients' request as well as products development and innovation had positive correlation coefficient of 0.409 and was significant at one percent level of significance. The results from the correlation matrix also show that dependability in handling clients' problems and provision of services at promised time had very low correlation with clients' responseveness as it was revealed by the positive correlation coefficient of 0.258 which was significant at five percent level of significance. Generally, this means that the four variables were partially positively correlated with clients' satisfactions

To answer this question it was necessary two sets of variables were considered, one group being independent variables (terms and conditions, products development and innovation, provision of services at promised time, response to clients requests, handling of clients problems) and the other one being dependent variables (level of clients' responsiveness from FINCA(T)'s micro financial products). Data relating to those variables were collected and analyzed to find the relationship.

Chi - square tests.

Using the degree of freedom of 8 {Note: the degree of freedom [d=(R-1)(C-1)]} at 5 percent level of significance, the Critical Value for the or Table value was $\chi^2_{0.05;\ 8.} = 15.507$. While the calculated or computed value for the

readiness and capacity to respond to clients' request, dependability in customers' problems handling, providing services at promised time, terms and condition guiding the lending relationship and products development and innovation. Were 63.100, 42.700, 57.700, 13.067 and 22.500 respectively (Table 3). Since the computed values are greater than the critical value it meant that the values fall under the rejection region with exception of value of 13.067*(terms and condition guiding the lending relationship)* which fall under acceptance region.

Therefore it may be concluded that Relevancy of Micro financial Services and Clients responsiveness towards micro financial services are independent. Which means that with the analysis of values falling under rejection region, there is no relationship between Relevancy of Micro financial services and Clients Satisfactions, with the

exception of *terms and conditions guiding the lending relationship* which falls under the acceptance region implying that there is relationship relevancy of micro financial services and clients' satisfaction

Table 2: Test Statistics

	Readiness	dependability	Providingservices promised time	Terms& conditions	Productdeve lopment
ChiSq[a,b]	63.100	42.700	57.700	13.067	22.500
Df	2	2	2	1	2
Asymp Sig	.000	.000	.000	.000	.000

a 0 cells(.0%) have expected frequencies less than 5. the minimum expected cell frequency is 20.0

b 0 cells(.0%) have expected frequencies less than 5. the minimum expected cell frequency is 30.0

Source; Field Data, April 2010

Implication of the study

The study has identified the Terms and Conditions governing the lending process as the one of the factor that may influence the clients' satisfactions. Therefore for the Microfinance institution (MFI) to satisfy its customers/clients among all factors to be observed terms and conditions governing the lending relationship is very important.

According to Cook (2002), the responsibility of delivering high quality service ultimately rest on front line employees (and their managers). However the good services in financial institutions logically begin with understanding customer needs and using these needs to drive good services or new products (Rana, 2004). The study revealed that 86.7 percent of FINCA (T)'s Staff acknowledged that information that they obtain is not enough to enable them understand the clients' needs.

Through the intensive interview with clients the study has revealed some of the reasons as to why SMEs find it hard to access finance particularly from Tanzanian MFIs; these are:

i)   High interest rates – disparities between savings account returns and borrowing rates. The interest charged FINCA (T) is also very high, 4 percent per month (i.e. 48 percent per annum). This makes the amount to be repaid periodically to be relatively high for the business with small turnover.

ii) Collateral requirement
Loan security is one of the important aspects of credit to SMEs. Most lending to Small-scale enterprises is security based, without any regard for potential cash flow. However, organizations lending to micro-enterprises have devised alternative forms of collateral. These include: group credit guarantees, where Organizations lend to individuals using groups as guarantors, and personal guarantors, where individuals are given loans based on a guarantor's pledge. Loan guarantee schemes are increasingly being implemented as a means of encouraging financial institutions to increase their lending to the risky sectors and those without the traditional formal security. For the individuals who do not want to borrow in group, they may be required to have the collateral or security to qualify for the loan.

iii) Multiple transaction costs
Apart from the observation above, the study shows that FINCA (T)'s clients applying for the business loan product pays Tsh 15,000/= irrespective of the amount applied. However the client may also be required to may also be required to pay for other cost associated with loan processing and training if the group is comprise of new members. All these increase cost the clients' side.

iv) Delays in processing
The study has revealed that there is lag of time from the when the client apply to the time of disbursement, this is caused by the long and cumbersome processing and authorization procedures. This make the owners of these small and medium enterprises to opt of borrowing from friends and relatives instead of borrowing from MFIs.

v)   SME's to have good track records
Most of the MSEs do not have good record of their transactions, this make it difficult for these MSEs to have past records showing their financial performance and financial position, which could be used to convince financial institutions their ability to repay the loan.

vi) MFIs demanding group borrowing rather than individual companies
These include: group credit guarantees, where organizations lend to individuals using groups as guarantors, and personal guarantors, where individuals are   given loans based on a guarantor's pledge. Loan guarantee schemes are increasingly being implemented as a means of encouraging financial   institutions to increase their lending to the risky sectors and those   without the traditional formal security

vii)   Lack of transparency

Research has also revealed that conditions and requirements of MFIs associated with loan are not shown in advance, therefore clients may enter into borrowing without knowing some of the conditions in advance, and this may lead problem of default.

viii)   Lack of skills to present convincing project proposals (sellable business plans)

The research has revealed that most of these small and medium business owners do not have a good background of business skills; therefore it is difficult for them to prepare a good sellable business plan that can convince the financial institutions to offer the credits for individuals' borrower.

ix)   Requirements which some small businesses can't meet

There are some requirement which are very difficult to meet, for example convenient office hours; the study revealed that clients have been spending much time in the process of repayment at FINCA's offices due to the existing system where all members of the group are required to attend when the group is required repaying the loan.

x)   Inflexible conditions

The study revealed that, village banking product offered by Tanzanian MFIs favors only those who have the existing business, since the client must have the business which he/she has operated for not less than two years in order to qualify for the loan. This means that most MFIs in Tanzania are not ready to support a client who has no existing business.

5. Conclusion and Recommendation

Through the Chi- Square testing the study confirmed that the relevancy of micro financial services and clients responsiveness are independent.

Through the correlation coefficient matrix the study revealed that relevancy of micro financial services was insignificantly correlated with customers' responsiveness. Based on the results it can be concluded that the principal objective of the study have been met. Collectively the results revealed the following:

a)   Micro financial services showed very weak relevancy to the Micro and Small Enterprises (MSEs) in Tanzania, since only two factors out of five (discussed earlier) showed positive support to the relevancy of MFIs services.

b)   There is no existing significant relationship between the clients' responsiveness and relevancy of micro financial services in Tanzania. This means that clients satisfaction and relevancy of MFIs services are not independent with exception of only one factors (i.e. terms and conditions governing the lending relationship) that may influence the clients' responsiveness.

c)   There are several factors that can affect MSEs in accessing the MFIs services in Tanzania.

d)   The government has the role to provide microfinance requisite facility which will allow and give basic support MSEs to emerge, survive and grow.

The study revealed that, village banking product the model used by Tanzanian MFIs favors only those who have the existing business, since the client must have the business which he/she has operated for not less than two years in order to qualify for the loan. This means that most MFIs in Tanzania are not ready to support a client who has no existing business. The interest charged is also very high, 4 percent per month (i.e. 48 percent per annum). The study shows that FINCA (T)'s clients applying for the business loan product pays Tsh 15,000/= irrespective of the amount applied.

The study also revealed that there is problem of divergence of fund by clients. The divergence of fund is caused by the poor supervision from MFIs (the supply side). However this has no significant effect as far as the loan repayment is concerned since in village banking it is the role of the entire group to ensure full repayment of its members.

Suggestions for further studies

The study discussed only few factors that may determines relevancy of Micro financial services to SMEs. These include firm's terms and conditions, products development and innovation, customers' problems handling services at promised time and readiness and capacity to respond to clients' request. Therefore Studies that may include more variables that determines relevancy of micro financial services and clients response towards such factors are suggested. An in-depth research may also be concluded by focusing on the same factors, the same FINCA(T) but at a larger scale including other regions other than Dar es salaam. This study focused only on the FINCA (T) as the case study, therefore other micro financing institutions may also be considered/included in further studies to see if the same aspects cut across among other MFIs.

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Appendix: 1. Factors influencing relevancy of Micro financial services.

	Readiness& Capacity		dependability-		Services promised time		Terms& conditions		products development	
	Freque	percent	Freque	percent	frequency	percent	Freque	percent	Freque	percent
Yes	5	8.3	42	70	47	78.3	16	26.7	20	33.3
No	49	81.7	17	28.3	12	20	44	73.3	35	58.3
I don't know	6	10	1	1.7	1	1.7	-	-	3	8.3
	60	100%	60	100%	60	100%	60	100%	60	100%

Source: Field-Data April 2010.

Appendix. 2 Correlation Coefficient Table

		*readiness& capacity to help and respond to clients request	*dependability in handling clients' problems	*providing services promised.	*terms& at conditions	*products development& innovation.
*readiness& capacity	Pearson Correlation Sig. (2-tailed) N	1.000 . 60	.053 .686 60	.234 .072 60	-.153 .244 60	.**409 .001 60
*dependability	Pearson Correlation Sig.(2-tailed) N	.053 .686 60	1.000 . 60	.*258 .046 60	.005 .970 60	.*266 .040 60
*providing services	Pearson Correlation Sig. (2-tailed) N	.234 .072 60	*.258 .046 60	1.000 . 60	.142 .280 60	-.030 .818 60
*terms and conditions	Pearson Correlation Sig. (2-tailed)	-.153 .244	.005 .970	.142 .280	1.000 .	-.063 .631
	N	60	60	60	60	60
*products development.	Pearson Correlation Sig. (2-tailed) N	.**409 .001 60	.*266 .040 60	-.030 .818 60	-.063 .631 60	1.000 . 60

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

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