

Effect of Borrower Qualities on Business Performance of Rural Based SMEs in Kagera Region, Tanzania

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Abstract

The objective of the study was to assess the impact of Borrower's qualities on business performance of rural based SMEs in Kagera region Tanzania. The Study was guided by the theory of Group Based Micro-financing (GBM) model. It was done in four districts of Kagera region. The study used structured questionnaires composed of a five-point Likert Scale. The quantitative and regression research approach was adopted for the study. A sample size of 279 group borrowers of two commercial banks and two MFIs was used to collect primary data from June to August, 2020. The regression analysis was done between three independent variables of Borrower's qualities against three dependent variables of Business performance. It was found that 98.5 percent, 96.4 percent and 96.0 percent of respondents agreed to have increased knowledge, family income and household assets, respectively. On the other hand, the hypothesis testing confirmed that Borrower's qualities impacted positively on business performance of rural based SMEs in Kagera region. These results imply that Borrower's qualities under GBM model have a big positive contribution to the business performance of rural based SMEs. It is therefore recommended that they should be adopted and promoted as a tool for fighting poverty as a result of increasing borrowers' abilities to engage in prosperous income generating businesses.

Keywords: Borrower's qualities, Business performance, Prosperous business, SMEs

1.0 INTRODUCTION

The establishment of microfinance institutions (MFIs) all over the world was regarded as a tool for fighting against poverty among the poor, both in rural and urban areas (Cull R. & Morduch, J., 2017; Rahman, M. U., & Khan, J. A., 2019). Micro-financing the poor intends to enable the impoverished families to sustain livelihoods by meeting basic family needs such as better shelters (houses), clothes, food, education for children, etc. According to Rahman, M. U., & Khan, J. A. (2019), in rural areas microfinance is a movement whose goal is "a world in which as many poor and near-poor households as possible have

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permanent access to an appropriate range of high-quality financial services, including not just credit but also savings, training, insurance and fund transfers.”

In regard to group based micro-financing (GBM) model sex, level of education and entrepreneurial experience are among many borrower’s qualities cited by various researchers and scholars to have positive intervening effects on business performance of group-based SMEs. The objective of the study was to assess the impact of Borrower’s qualities on business performance of rural based SMEs in Kagera region Tanzania.

2.0 LITERATURE REVIEW

In various countries women are major targets and dominants of the group based micro-financing (GBM) model. Among the many reasons behind women’s dominance of the Model is that in the eyes of most FIs women are trustful members of community and also regarded as good performers when compared with men (Kumar, A., & Rakhin, J., 2016). Another reason behind women dominance is hinged on the fact that they are serious with the use of loans and that they tend to be more reliable in terms of loan repayment. Rahman et al (2017) argued that most of the micro-credit programs intentionally target women as have limited access to credit, have limited access to employment opportunities, have fewer authorities in household decision making and have good records of loan repayment compared to men. Additionally, it was argued that women are with low credit risks and are more likely to share the benefits of the credit with their family members, especially their children. In that regard, active women engagement in economic activities is essential for economic growth and nation-building.

Formal education was cited as one of GBM intervening factors which in conjunction with training and microcredit act as an effective tool for poverty alleviation. Additionally, poor people start microenterprises through microcredit and run efficiently by getting training; and that a combination of formal education, micro-credit and micro-training is essential for successful business performance of SMEs (Hameed et al., 2017). That means, without formal education microcredit and micro-training alone cannot sufficiently result in good performance of small businesses. Formal education has a mediating role among microfinance factors (e.g. microcredit, micro-training) and micro-enterprise success (Hameed et al., 2017). In regard to this it is correct to conclude that there is a significant positive relationship between one’s level of education, training and enterprise performance and business performance. On the other hand, entrepreneurial experience is one of the most critical factors in the utilization of entrepreneurship opportunities for self-employment. Entrepreneurial experience in businesses stimulates entrepreneurial activities and reduces business failure as it helps an entrepreneur acquire self-confidence, self-esteem and participate in decision-making at household and community levels (Ekpe et al., 2016; Ekpe et al., 2015).

To-date, there are hot debates going on among scholars and researchers on whether these qualities have any impact on business performance of SMEs, particularly those in rural areas. Following these debates, a room has been created for the current study to work on previous studies so as to come up with more realistic evidence on the impact of Borrower’s qualities on business performance of rural based SMEs under GBM model in Kagera region. With this study the researcher has put it clear on how much Borrower’s qualities correlate with business performance of rural based SMEs in Kagera region, as a case study for Tanzania.

3.0 MATERIALS AND METHODS

In order to understand the impact of Borrower’s qualities on SMEs’ businesses performance a conceptual framework was developed (see Figure 1). The framework was developed basing on initial literatures review undertaken on the impact of Group Based Micro-financing model (GBM). It consisted of two major components, namely: (i) GBM -Independent Variables, and (ii) Dependent Variables.

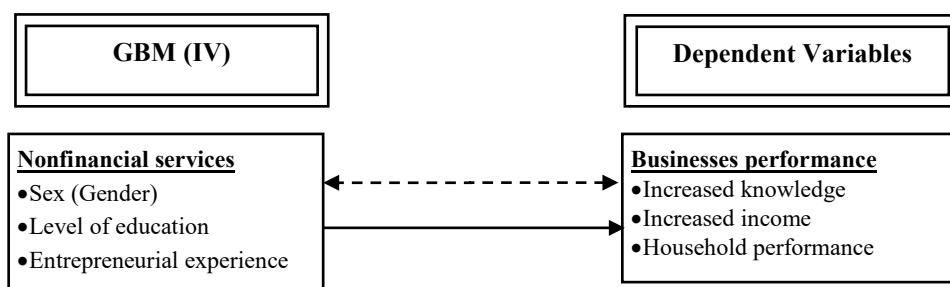


Figure 1: Conceptual Framework

This paper is based on the study conducted in four districts of Kagera region, namely Bukoba rural, Karagwe, Missenyi and Muleba. These are four out of eight Local Government Authorities (LGAs) of Kagera region Tanzania. The sample size was determined using Stevens’ (1996) formula in equation 1, which he proposed to estimate the minimum sample size for multiple linear regression analysis. The multiple linear regression analysis with the largest number of independent variables was used to estimate the sample size. In this case, equation 1 used the largest number of variables within the independent variable. In this case three variables were used to estimate the sample size for the study using this equation:

$$N \geq 50 + 8m \dots\dots\dots (1)$$

Where N = Sample size; m = No. of independent variables. In this study the minimum sample size was $N = 50 + 8(3) = 74$ respondents. However, despite the formula the sample size for this study was 279.

For this study only, primary data were collected from borrowers using questionnaires as the only data collection tools. Self-administered questionnaires were distributed to 279 respondents (borrowers). The questionnaires composed of a five-point Likert Scale with which respondents were asked to rate items on a level of agreement from Strongly Disagree to Strongly Agree.

Data processing had four main parts, namely Preparation of data collection tool, SPSS data entry Code book creation/ formatting, Orientation workshop and pretesting of questionnaire, and finally Actual data collection and data entry. Data were analyzed using

descriptive analysis procedures. The descriptive analysis procedures included frequencies, percentages, summated ratings and mean after which quantitative data processing was carried out. The study used regression analysis using the following equations:

$$BP = f(IV) \dots\dots\dots (2)$$

Where BF = Business Performance, IV = Independent Variable
BP was an index that was calculated by summing up the three variables of Borrower increased knowledge (BIK), Borrower increased income (BII) and Borrower increased household performance (BHP).

Because GBM was made up of Borrower’s qualities (BQ) therefore equation (2) was transformed as shown in equation (3):

$$BP = f(BQ) \dots\dots\dots (3)$$

Equation (3) was therefore presented as shown in structural equation (4):

$$BP = a + b1*BQ + + \alpha \dots\dots\dots (4)$$

Whereby bi = Coefficients; a = Constant; α = Margin of error
Since BQ was composite [i.e. made up of Sex (Sex), Level of education (Leveduc) and Entrepreneurial experience (Entepr)] the analytical multivariate linear regression analysis was as presented in equation (5):

$$BP = a + b1 * Sex + b2 * Leveduc + b3 * Entepr + \alpha \dots\dots\dots (5)$$

RESULTS AND DISCUSSION

Descriptive statistics on Borrower’s qualities of rural SMEs in Kagera region is shown in Table 1a-c. It indicates that Sex was the highest (Mean=23.41), followed by Entrepreneurial experience (Mean=16.01) and lastly by Level of education (Mean=14.24) which indicates that all were moderate. This implies

that the mean score of the overall Borrower’s qualities was 53.66 which is also interpreted as moderate.

Table 1: Descriptive statistics for responses on GBM Borrower’s qualities

Table 1A: Sex												
	Items	Strongly Disagree		Disagree		Not sure		Agree		Strongly Agree		Means
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	
F1	Women were dominants in our group	14	5	25	7.5	6	2.2	116	41.6	122	43.7	4.11
F2	Land ownership was a problem to most women engaged in agriculture	13	4.7	19	6.8	19	6.8	136	48.7	92	33.0	3.99
F3	As a married person I needed my spouse’s consent in order to engage in business	27	9.7	44	15.8	9	3.2	118	42.3	81	29.0	3.65
F4	As a married person I needed my spouse’s consent to use family properties as collateral	17	6.1	31	11.1	9	3.2	127	45.5	95	34.1	3.9
F5	My spouse had a say on how I could use my business income	37	13.3	78	27.9	14	5	99	35.5	51	18.3	3.18
F6	My family feeling and support about my engagement in business was positive	2	0.7	5	1.8	1	0.4	92	32.9	179	64.2	4.58
Sub-Total												23.41
Table 1B: Level of education												
	Items	Strongly Disagree		Disagree		Not sure		Agree		Strongly Agree		Means
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	
F7	Formal education helped me to successfully run my business	2	0.7	9	3.2	2	0.7	133	47.7	133	47.7	4.38
F8	I depended much on learned group members to run my business	35	12.5	59	21.2	13	4.7	112	40.1	60	21.5	3.37
F9	In comparison with others my	6	2.2	10	3.6	9	3.2	164	58.8	89	31.9	4.3

	business was performing better											
F10	Despite working hard my business was poorly performing	76	27.2	143	51.3	7	2.5	36	12.9	17	6.1	2.19
Sub-Total												14.24

Table 1c: Entrepreneurial experience

	Items	Strongly Disagree		Disagree		Not sure		Agree		Strongly Agree		Means
		Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	
F11	I depended much on group members with long experience to run my business	38	13.6	66	23.7	8	2.9	113	40.5	54	19.3	3.28
F12	Businesses undertook by long experienced entrepreneurs are performing better	1	0.4	17	6.1	17	6.1	147	52.7	97	34.7	4.15
F13	Entrepreneurial experience impacted positively on my business	3	1.1	3	1.1	4	1.4	153	54.8	115	41.2	4.49
F14	In comparison with others my business was performing better	4	1.4	17	6.1	20	7.2	146	52.3	92	33	4.09
Sub-Total												16.01
Total mean												53.66

Source: Research findings (2020)

Correlation analysis between variables (see Table 2) shows that Borrower's qualities had a positive correlation with Business performance of about 0.422. This indicates that when the Borrower's qualities improved the Business performance becomes good and vice versa.

Table 2: Correlation between BQ and BP

Variables		Business performance
Borrower's qualities	Pearson Correlation	0.422
	Sig. (2-tailed)	0.000

Source: Research findings (2020)

Table 3 shows the matrix of correlation between Borrower’s qualities and Business performance. That, Borrower’s qualities were positively correlated with Business performance of rural based SMEs which accounted for Borrower’s qualities with 18% ($r^2 = 0.422^2 = 0.178$)

Table 3: Matrix of correlation

		Business performance	Borrower’s qualities
Pearson Correlation	Business performance	1.000	0.422
	Borrower’s qualities	0.422	1.000

Source: Research findings (2020)

A useful starting point in any multiple regression analysis is to compute the matrix of correlations among all variables including the dependent variables. Table 4 shows the coefficients of Borrower’s qualities and Business Performance as follows:

- a) Borrower’s qualities had positive coefficients with business performance, which indicates that when these qualities increased the Business performance also increased and vice versa.
- b) Using the t-statistics to test the hypothesis for Borrower’s qualities, Table 4 showed the same results in the linear regression analysis using equation: $BP = a + b_1 * Sex + b_2 * Leveduc + b_3 * Entrepr + \alpha$
- c) Since the values of coefficients were not equal to zero then the changes in the dependent variables were affected by any change(s) in the Borrower’s qualities.
- d) Using the t-statistic to test the null hypothesis by using one-tailed or two-tailed for alternative hypothesis, $\alpha = 0.05$ gave a critical t-value of $t(0.05, 1) = 2.920$. For a one-tailed, if $|t| < 2.920$, the conclusion is that the data provide convincing evidence to reject the null hypothesis otherwise the null hypothesis cannot be rejected. Since Table 4 showed that the value of $t = 9.441 > 2.920$ then the conclusion is that the data did not provide convincing evidence to reject the null hypothesis. Therefore, Borrower’s qualities had a positive impact on business performance of rural based SMEs in Kagera region.

4.0 DISCUSSION

As result of accessing microfinance services under Group based micro-financing (GBM) model the rural borrowers, particularly women in Kagera region engaged in productive income earning businesses which enabled them increase family incomes hence meet most of their family needs. Because of the positive changes in the lives of poor people microfinance services are believed to impact

positively on business performance of rural borrowers in Kagera rural. Further to that the current study has shown that 98.5 percent, 96.4 percent and 96.0 percent of surveyed borrowers reported to have increased knowledge, family income and household assets, respectively after accessing and investing loans from banks and other financial institutions. In regard to these remarkable positive gains (increased knowledge, family income and household assets) it is agreed that the intervening effects of borrower's qualities played a commendable role. Further to that, the regression analysis of the study showed a positive correlation between Borrower's qualities and Business performance of about 0.422.

The above study findings concur with those reported by other researchers in their findings or literature as follows:

- a) In regard to sex and according to Kumar, A., & Rakhin, J. (2016) in various countries women are major targets and dominants of the group based micro-financing (GBM) model. They argued that the reason behind women's dominance of GBM model is that in the eyes of most financial institution's women are trustful members of community and also are regarded as good performers when compared with men. With loan usage and loan repayment women are serious and more reliable than men. On the other hand, Rahman et al (2017) argued that most of the micro-credit programs intentionally target women because they have good records of loan repayment as compared to men. Nonetheless, they argued that women are with low credit risk and are more likely to share the benefits of the credit with their family members, especially their children.
- b) In regard to formal education Imai et al (2010) argued that without formal education and training, microcredit alone cannot be an effective tool for poverty alleviation. Additionally, Bernard et al (2016) and Hameed et al (2017) argued that a combination of formal education, micro-credit and micro-training is essential for successful business performance of SMEs. That means, without formal education for entrepreneurs, micro-credit alone cannot sufficiently result in good performance of small businesses. On the other hand, Atmadja et al (2016) put it clear that there was a high need of certain formal educational level for microcredit and nonfinancial services to show positive results. Hameed et al (2017) argued that formal education has a mediating role among microfinance factors (e.g. micro-credit, micro-training) and micro-enterprise success. In regard to this it is correct to conclude that there is a significant positive relationship between one's level of education, training and enterprise performance.
- c) In regard to entrepreneurial experience Ekpe et al (2016) argued that some studies had shown that entrepreneurial experience is one of the most critical factors in the utilization of entrepreneurship opportunities for self-

employment. Pheeraphuttharangkoon et al (2014, January) argued that entrepreneurial experience stimulates entrepreneurial activities and reduces business failure as it helps an entrepreneur acquire self-confidence, self-esteem and participate in decision-making at household and community levels.

5.0 CONCLUSIONS AND RECOMMENDATIONS

Conclusively, the study confirmed that Borrower's qualities (BQ) such as sex, level of education and entrepreneurial experience are moderately and positively correlated with business Performance (BP). These results imply that BQ impacted positively on the Business Performances of rural based SMEs in Kagera region. The implication we get from these results is that, in addition to financial and nonfinancial services borrower's qualities were vital for SMEs' businesses performance, growth and improvement of the standard of living of owners. Additionally, it is worth noting that credit alone cannot influence good business performance; and that, borrower's qualities significantly contribute towards the good performance of enterprises.

As a result of these study findings, it is recommended that the Government of Tanzania and development partners in their plans to fight against poverty among the rural poor should target more women at the same time fight against all barriers hindering women from accessing microfinance services from banks and other financial institutions. On the other hand, borrowers themselves should endeavor: (i) increase their levels of education, even though adult education, (ii) adopt horizontal learning and/ or experience sharing among group members.

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