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The influence of credit access on growth of microenterprises in Tanzania: Case of clients of vision fund microfinance bank

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Abstract
The study sought to determine the extent to which access to microcredit was a significant predictor of growth of microenterprises in Tanzania. A descriptive survey was conducted to apply to gather data from clients and employees of Vision Fund Microfinance. Data was collected from a sample of 80 participants who comprised of microenterprise owners, credit officers and credit committee members selected through stratified random sampling. A semi-structured questionnaire was utilized as a means of data collection. Before its administration the instrument had been checked for face and content validity, and its internal consistency determined through Cronbach alpha. Logistic regression was conducted to assess if credit access was a significant predictor of the likelihood of microenterprises growth. The study revealed that credit access accounted for 23.3% variance in growth of microenterprises (Nagelkerke R^2=.23). The results indicated that credit access was a significant significant predictor of growth of microenterprises (ß =3.096, Wald's $\chi 2$= 7.96, df=1, p=<.05. This implies that odds of predicting the likelihood of growth of microenterpises improves by.05 units for each unit increase in access of credit facilities. In conclusion, microcredit access is a key ingredient to growth of microenterprises. In order to improve upon access to credit access, MFIs (microfinance institutions) should look on possibilities of reducing costs of microcredit to make it accessible to entreprenuers. This would include but not limited to diversification of credit services and reviewing collateral requirements.

Keywords: credit access, growth, microenterprises, microfinance

Introduction
Microenterprises play crucial role in employment creation and income generation in many developing economies (Kessy & Urio, 2006) [7]. There are about 70 to 90 million formal microenterprises globally, including those in high-income Organisation for Economic Co-operation and Development (OECD) countries (IFC; International Finance Corporation, 2013) [6]. Approximately, 78 to 85 percent of formal microenterprises (60–70 million) are in developing economies. Empirical evidence suggests the contribution of microenterprises in generating employment and income has become increasingly recognized around the world (Liendholm, 2001). The significance of microenterprises in Tanzania is evident from the estimated 1.7 million enterprises operating throughout the country which employ approximately 3 million people (Makorere, 2014) [11].
Abor and Quartey, (2010) observed that microenterprises are described as efficient prolific job creator, the seed of big businesses and the fuel of the national economic engine. According to Kuzilwa (2003) [8] the major constraints of microenterprises in most of developing countries are lack of supportive business environment, lack of managerial and technical skills and lack of capital for growth. Magembe (2017) [10] found that finance, through credit has been observed to be one of the more important determinants of small business success. However, lack of funding remains one of the most important barriers to microenterprises development. IFC (International Finance Corporation) (2013) [6] show that there are about 52 to 64 percent of microenterprises (31.2 to 44.8 million) in developing economies are unserved or underserved and between 29 and 35 percent of formal microenterprises (17.4 to 24.5 million) in developing economies are unserved.
Tanzania has adopted a more open foreign investment policy, allowing foreign ownership and according full protection of property rights (Makorere, 2014) [11]. As a result of these policies the private sector has grown rapidly with micro, small and medium enterprises playing a crucial role. This role is particularly critical in the national efforts to socioeconomic development (Mutambala, 2011) [14]. Inadequate business training, insufficient capital and ant entrepreneurial culture are critical constraints hampering the potential growth of microenterprises in Tanzania (Mashenene & Rumanyika, 2014) [13]. A few studies have been conducted to show the impact of credit access on growth of microenterprises (Magembe, 2017) [10] but none has shown whether or not it is a significant predictor of growth or quantified the amount of variation it explains, the kind of gaps the study was set out to address.

Methods and Procedures
The research was conducted involving Vision Fund Tanzania-Arusha branch employees and clients. Vision Fund Tanzania was established by World Vision Tanzania (WVT), a Christian relief and development NGO, to promote micro-finance services to the procedure poor communities. It is located in Arusha Municipal adjacent to the post office and has been providing short-term micro-loans to productive poor

on urban and peri-urban areas. VFT has grown from 1611 active clients in 1996 with a gross loan portfolio outstanding at approximately Tshs 166,000,000/= to more than 34,000 active clients and an outstanding gross portfolio of approximately Tshs 23.4 billion by January 2018. The number of staff has grown from 14 in 1997 to 366 by June 2018 and has thirty two business centers across Tanzania.

A descriptive survey was adopted to gather data that would help address the study hypotheses. According to Burns and Grove (2003) [1] descriptive research is designed to provide a picture of a situation as it naturally happens. It may be used to justify current practice and make judgment and also to develop theories. Data was collected from a sample of 80 participants who comprised of microenterprise owners, credit officers and credit committee members selected through stratified random sampling. A semi-structured questionnaire was utilized as a means of data collection. Before it's administration the instrument had been checked for face and content validity by a group of peers and experts in the area of finance. A pilot study was then undertaken with a view of testing the reliability of the instrument and its internal consistency determined through Cronbach alpha (Cronbach, 2004) [2]. The decision to survey the respondents at their places of work enabled the researchers to achieve a 100% response rate. Overall the instrument has a reliability coefficient of .79 which was way above the minimum acceptable alpha of.70 (Nunnally, 1978) [15].

Logistic regression was conducted to assess if access to microcredit was a significant predictor of the likelihood of growth of microenterprises. Logistic regression is the most popular regression technique that is used for modeling categorical dependent variables (Kleinbaum, Kupper, Nizam & Muller, 2008). The independent variable was access to microcredit and measured using a 5 point Likert–type scale (1= Not accessible, 2= Alittle accessible, 3= somewhat accessible 4= accessible, 5= very much accessible) and the dependent variable was growth of microenterprises (0= No growth, 1= growth). The overall model significance for the binary logistic regression was examined using the χ^2 omnibus test of model coefficients (Stevens, 2009). The Nagelkerke R^2 was examined to assess the percent of variance accounted for by the independent variables (Nagelkerke, 1991). Predicted probabilities of an event occurring was determined by Exp (β). The Wald statistic will be used to assess the contribution of individual predictors or the significance of individual coefficients in a given model (Bewick, Cheek, & Ball, 2005).

Results and Discussion

The majority of the participants (45%) were aged between 26 and 35 years. This shows that majority of the micro-enterprises are owned by youth. Research showed that youth correlates strongly to robust growth (USAID, 2005) [18]. However, some studies have also indicated that older people are more likely to be successful in their firms than younger managers (Harada, 2003; Littunen & Virtanen, 2006) [5, 9]. Many of the participants (56.25%) were were male and a significant percentage (72%) had secondary education and above. Previous studies show that entrepreneur's level of formal education is a significant determinant of the growth of microenterprises (Unger, Rauch, Frese, & Rosenbusch, 2009) [17]. Gupta, Guha, & Krishnaswami (2013) [4] found that entrepreneurs with higher academic background are more innovative and will use modern techniques and models to do business.

Access to Microcredit

Figure 1 illustrates the distribution of study participants based on their perception about accessibility of microcredit at VFT. The results show that microcredit was fairly accessible as stated by 52% of the participants. This shows that the anticipated level of accessibility has not been achieved yet (Makorere, 2014) [11]. The findings confirms the position taken by IFC (2013) [6] that the main reason for microenterprises discontinuing their activities is lack of funding. Lack of funding may be caused by an inadequate amount of equity capital and by lack of opportunities to attract subsequent financing. Mainly because of their small size, MEs have a slim chance to issue bonds or to be listed on a stock exchange at the beginning of their activities. Due to the in accessibility of microcredit, some microenterprises have chosen to look for funds from other sources. Martinez (2006) [12] observed that about 20% of microenterprises finance their businesses with funds from relatives and friends.

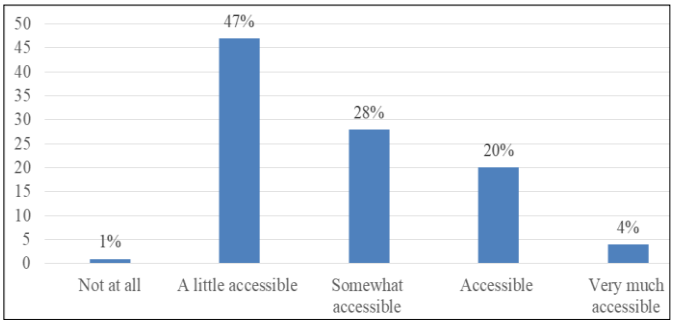

Fig 1: Accessibility of Microcredit in VFT (N = 80)

Growth of Microenterprises

The growth of microenterprises was assessed through a dichotomous scale (0 = no growth, 1= growth of microenterprises). The results in Figure 2 indicates that majority of the participants (56%) felt that their enterprises had grown over years. The growth was characterized by increase in sales volume, employee size, stock and profit. Some participants (44%) reported that their enterprises were likely to close down due to lack of growth resulting from use of money from sales in meeting their daily needs.

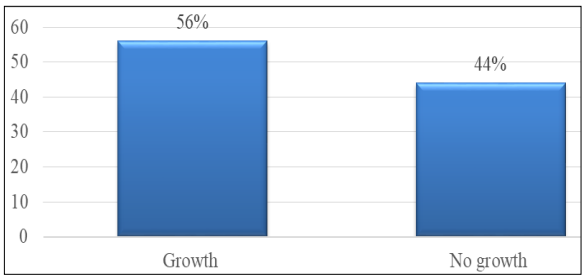

Fig 2: Growth of Microenterprises (N =73)

Logistic regression was conducted to assess whether the

access to microcredit significantly predicted the likelihood of Growth of microenterprises. As presented in Table 4, the model significantly explained 23.3% (Nagelkerke *R* square) of the variance in microenterprise business growth. This implies that 76.7% is explained by factors other than what was studied. Access to microcredit significantly predicted growth of microenterprises among clients of VFT in Tanzania, $\chi 2 = 7.96$, $df = 1$, $p < .05$.

Table 1: Overall Logistic Regression Model Evaluation and Goodness-of-Fit Statistics of Predicting Likelihood of Growth of Microenterprises[a] (N=73)

Test	R^2	$\chi 2$	df	p
Overall model		7.96	1	<.05
Cox & Snell	.17			
Nagelkerke	.23			

Note: [a] = Scale of 0 = no growth, 1= growth

Table 2 presents the statistical significance of the regression coefficients (βs) tested using the Wald Chi-square statistic. According to the results, credit access is a significant predictor of growth of microenterprise business (*ß* =-3.10*, Wald's* $\chi 2 =$ 7.96, $df=1$, $p=<.05$. The results indicated that the odds ratio of credit access was.05 (95%, 01–.39). This implies that the odds of predicting the likelihood of growth of microenterprises improves by.05 units for each unit increase in access of credit facilities.

Table 2: Coefficients of the Model Predicting Growth of Microenterprises[a] Accessing Credit Facilities (N= 73)

Predictor	ß	SE (ß)	Wald's $\chi 2$	df	p	$e^{ß}$ (OR)	95% CI for OR	
							Lower	Upper
Credit access[b]	-3.10	1.10	7.96	1	.01	.05	.01	.39
Constant	1.02	.28	12.91	1	.00	2.77		

Note: [a] = Scale of 0 = no growth, 1= growth, [b] =1= Not accessible, 2= A little accessible, 3= somewhat accessible 4= accessible, 5= very much accessible

The results also show that credit access was significant (*p* <.05) and was negatively correlated with microenterprise business growth at -3.10. This implies that there was a weak negative correlation between microenterprise growth and credit access. This was due to diversion of credit to household consumption as opposed to business investment as a result of poverty. The findings are in line with those of Nanor, (2008) who found that the longer a client stayed in a credit scheme, the worse their business profit became.

Conclusions and Recommendations

There has been growth in sales volume, labour size, stock volume and profit among microenterprises whose operations are supported by credit from VFT in Tanzania. However, a few are at the verge of collapsing due to the diversion of sales and credit to cater for owners daily needs. The study revealed a negative correlation between access to microcredit and growth of microenterprises due to the a forementioned reasons and also servicing a credit for a long period would hurt the growth of business as argued by Nanor (2008). Some of the VFT clients committed part of the credit secured for microenterprise expansion to other uses such as paying school fees for their children, building houses to improve their household income, in spite of being providing business loans. The main challenges that faced the studied microenterprises were inability to pay financial and non-financial costs before and after loan disbursement, diversion of profits and poor management of finances.

There is need for clients to be educated on the implications of divesting credit and business resources to other uses. Innovativeness is needed in microfinance institutions to diversify its credit services by providing not only working capital loan, but also soft loans that would go to investments such as education, health, and housing and also cater for the financial needs in wider range of household needs. This will however help to reduce credit diversion on household issues and a significant reduction in the defaulting rate of customers. The study also recommended that VFT should to reduce costs of micro-credit, by reducing the interest rate from 2.5%-3% to at least 2% per month to improve access to credit. Microfinance institutions should equip their credit officers with the requisite skills to enable them monitor effectively microcredit given out as well as educate their clients on the proper management information system.

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