**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

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**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTANCY**

**THE ROLE OF MICROFINANCE INSTITUTIONS ON THE GROWTH AND DEVELOPMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES (A CASE OF GLEN VIEW AREA 8 COMPLEX, HARARE)**

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**THIS DISSERTATION IS SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE BACHELOR OF ACCOUNTANCY HONOURS DEGREE OF BINDURA UNIVERSITY SCIENCE EDUCATION.**

**JUNE 2023**

# RELEASE FORM

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We, the undersigned, attest that Tafadzwa N Makoni’s dissertation entitled, **The role of Microfinance Institutions on the growth and development of Small and Medium-sized Enterprises: The Case of Glen View Area 8 Home Industry Complex**, is acceptable in terms of the scope and requirements of the dissertation’s guidelines and we thus urge the University to accept this dissertation.

……………………………….

Supervisor

………………………………..

Dean of faculty

# DEDICATION

I dedicate this dissertation to my dear family who have supported me throughout my academic career and have served as a source of my motivation.

# ACKNOWLEDGMENTS

I give God praise for His mercy in guiding me throughout my academic career. I would like to express my profound gratitude to my supervisor, Mr. Chiriseri, without whose intellectual direction, inspiration and devotion this work would not have been finished. I would also like to express my appreciation to my family for their help during the entire time I pursued my career and to my friends and classmates.

# ABBREVIATIONS AND ACRONYMS

AfDB - African Development Bank

BGS - Barriers that impede the growth of SMEs

CFS - Constraints faced by Small and Medium-sized Enterprises

CMS - Contributions of Microfinance Institutions in supporting SMEs

CSC - Challenges faced by SMEs in accessing finance

EMG - Effects of Microfinance Institutions on SME growth

GDP - Gross domestic product

MFIs - Microfinance Institutions

SFS - Sources of finance for business

SMEs - Small and medium-sized enterprises

SPSS - Statistical Package for Social Sciences

# ABSTRACT

Small and medium-sized enterprises have been identified as one of the essential elements for promoting growth and development in Zimbabwe. In order to pinpoint the major barriers preventing small and medium-sized enterprises (SMEs) from accessing microfinance services, this study evaluated the impact of microfinance on SMEs growth. The study was carried out in Glen View Area 8 Home Industry Complex, Harare, with the goal of determining the obstacles faced by SMEs in obtaining microfinance services, then examining the effects of microfinance on the output of SMEs and finally examining the impact of MFIs on the expansion of SMEs in Glen View.

The study used a quantitative research approach using questionnaires as the research instrument to gather primary data. The data was then analyzed using the Statistical Package for Social Sciences (SPSS) and data was displayed in form of tables and figures. The descriptive variable sampling technique and the Solvin’s formula were utilized to choose a sample of 60 SMEs from Glen View 8 Complex that have benefited from microfinance services between 2019 and 2022. According to the study’s findings, a number of obstacles prevent SMEs from growing. The primary barrier to credit accessibility for SMEs in the onerous process, which has high interest rates and collateral security as main drawbacks. According to the research findings, microfinance institutions (MFIs) have got a favorable impact on entrepreneurial performance as assessed by production. Apart from that, the study also revealed that MFIs considerably contributed to the growth of the SMEs sampled in Glen View.

To be able to realize the full benefits of microfinance’s contribution to SMEs development, SMEs need assistance in using the variables that have been discovered to encourage growth. As a result, in order to improve SMEs’ access to financing, MFIs must examine their policies regarding the terms of credit extension and other financial developments. Additionally, the growth of SMEs’ capacity requires government backing through regulations and business extension services.

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# CHAPTER ONE

# INTRODUCTION

## 1.0 Background of the study

Small and medium-sized enterprises are generally regarded as the key to achieving economic growth, job creation and the eradication of poverty in emerging nations. They act as a means of accelerating expansion and attaining rapid industrialization. In both developing and developed nations, small and medium-sized are seen as major forces for socioeconomic and political progress. (Dauti and other, 2020).

Small and medium-sized enterprises are known for playing a significant role in fostering inclusive economic growth and sustainable development around the world. Due to increased purposeful government policies and regulations aimed at fostering SMEs as catalysts for economic growth and job creation, SMEs have gained prominence in economic matrixes across the globe in recent years. According to Abubakar and Baba (2021), SMEs represent about 90% of all enterprises with employment that exceeds 50% worldwide. They serve as a means of boosting industrial output and exports.

According to Ndubisi and others (2020), SMEs were crucial to the expansion and advancement of all major Asian economies. The SMEs are prospering in Asian nations including India, Indonesia, China, Malaysia, Japan and South Korea and they contribute between 70 and 90% of employment and about 40% of their respective Gross Domestic Product (GDP). According to Divakara and others (2019), over 90% of Japanese enterprises are SMEs which helps the economy’s manufacturing, trade and service sectors as well as the overall economy. According to the study of Mpofu and Sibindi (2022), the SME sector in Africa’s economic powerhouses like Nigeria, South Africa, Kenya, Nigeria and Egypt accounts for over 70% of employment and 40% of total GDP.

There is no denying that the majority of African nations rely on their SMEs to grow their economies even though the majority of these SMEs receive little or no support from their governments. Nevertheless, a few successful competitive SMEs are growing and aiding in the reduction of poverty locally by generating new jobs, economic growth and local development. For instance, the World Bank Enterprise Survey (2013), which polled 130,000 enterprises across 135 countries, discovered that lack of access to capital was the biggest obstacle to the expansion and of SMEs. Evidence can be seen from the severe difficulties in obtaining finance in Sub-Saharan Africa countries which restricted the expansion and development of SMEs (Matekenya and others 2021).

 It is crucial to remember that the Zimbabwean SMEs succeeded to employ over 5.9 million individuals in 2016 and contributed $8.58 billion to the country’s Gross Domestic Product (GDP) in that particular year (Bhoroma, 2018). As a result of this accomplishment, all banking firms in Zimbabwe do have a desk specifically for SMEs that is responsible for providing credit to SMEs. Therefore, it is important to note that the MFIs in Zimbabwe, notably the microfinances, have made a significant effort to alleviate the financial difficulties encountered by Zimbabwean businesses. The provision of financial resources by microfinances to assist entrepreneurial operations is thus without a doubt (Sussan and Obamuyi, 2018).

Due to their inability to give reliable financial track records, small and medium-sized enterprises are perceived by financial institutions as a high-risk category, which results in these financial limitations (AfDB, 2018). African Development Bank (AfDB, 2018) makes the additional claim that 56% of SMEs are in need of access to credit due to their involuntary exclusion from financial resources. According to AfricaScope and FinMark (2015), one of the obstacles to a developing firm that was mentioned by the SMEs is access to credit. They also stated that 49% of SMEs experienced difficulty finding funding to launch their businesses.

There are numerous microfinance organizations in Zimbabwe that provide community members with loans and deposit options. These organizations include Zimbabwe Women’s Microfinance Bank Limited, African Century Limited, Empower Bank Limited, Getbucks Microfinance Bank, Success Micro-finance Bank and other small self-help groups that organize themselves for the goal of saving money and lending it to members. This study aims to find solution for the problems below: Has the condition of SMEs improved as a result of all the borrowing and lending in the study area? The study specifically focused on Glen View Home Industry, where microfinances have been present for a while. How, if so? If not why? What are the takeaways for the microfinance organizations? What suggestions can be provided to the Zimbabwean administration and communities for the SMEs all-around the nation?

## 1.1 Problem statement

Studies have been done on the role of MFIs pertaining to the growth and development of SMEs in Zimbabwe. MFIs’ lending has frequently been a major source of credit for SMEs. The credit relationship between microfinance institutions and SMEs has, however, been linked to a lot of risk due to the current state of the economy. As a result, microfinance institutions are now using strict financing guidelines and collateral to finance the development and expansion of SMEs.

In their study on the difficulties faced by SMEs in Delta State, Nigeria, Oshiogwemo and Mgbemena, 2022 noted that the dependence on collateral security had a detrimental impact on the growth and expansion of SMEs and interest rates became prohibitive. Apart from that, there were lengthy procedural concerns, such as a ton of paperwork, collateral security and expensive processing and payback costs, which had an impact on the expansion of SMEs. Yet, due to stringent financing restrictions and procedures, the majority of SMEs depend on mostly short-term borrowing from microfinance institutions, that tend to be more expensive and thus increase the risk of failure.

Microfinance institutions’ equity funding may be more suited for SMEs’ growth and expansion. Thus, it is more suitable to research how microfinance institutions in Zimbabwe have influenced the growth and development of SMEs.

## 1.2 Study objectives

### 1.2.1 Primary objective

* To determine the roles of MFIs in the growth and development of SMEs.

### 1.2.2 Secondary objectives

* To evaluate the challenges that SMEs face when accessing microfinance services in Glen View Home Industry;
* To determine the challenges that MFIs face when providing their services to SMEs; and
* To evaluate the contribution of MFIs loans and services on the growth and development of SMEs in Glen View Home Industry.

These precise goals are crucial because they emphasize how important it is to understand SMEs’ needs. They draw attention to the existence of tools intended to offer SMEs financial support for expanding their enterprises. The specific goals also include examining the literature already in existence on SMEs’ support and development, which aimed to highlight the difficulties small businesses experience in obtaining financing and the role that microfinance plays in their expansion and development.

## 1.3 Research questions

### 1.3.1 Primary question

* What are roles of microfinance institutions in the growth and development of SMEs?

### 1.3.2 Secondary questions

* What are the challenges faced by SMEs in accessing MFI services?
* What are the challenges facing microfinance institutions in providing services to SMEs?
* Does MFIs’ services contribute to the sustainable growth of SMEs in Glen View Home Industry?

## 1.4 Importance of study

It is significant to highlight that the majority of academics concur that the area of study is important for the development of socioeconomic operations in developing nations like Zimbabwe.

The foundation of any nation’s economy is its SMEs. They are essential for contributing to economic expansion and job creation. The government has recognized the significance of SMEs and has taken numerous measures to support it by offering information, advice and business planning in order to assist entrepreneurs in finding sources of funding (Derera and others 2019). It has also offered ways to improve by giving employees and managers ongoing training in a variety of skills in order to promote innovation and make it simpler for SMEs to sell to the government and foreign markets.

Researching such a subject is very interesting for several reasons, some of which are as follows:

1. It offers and updates the necessary information on the challenges of starting small businesses to the government, organizations and people. In order to circumvent the observed barriers in creating small business enterprises in Zimbabwe, it is therefore possible to suggest potential actions.
2. It helps the managers and SME owners who lack expertise by educating them about the services and goods offered by MFIs
3. The study will help MFIs establish the policies and procedures required to guarantee the targeted expansion of the SME market. In order to regulate the embezzlement committed by SMEs, it also offers a methodology for managing their activities.
4. The research findings will help microfinance institutions in Zimbabwe better understand how they contribute to the expansion of SMEs. These results will also serve as input for microfinances, which offers SMEs financial solutions.
5. Other researchers will be able to use the study’s findings as a point of reference, and the results will help the field of study continue to advance.

## 1.5 Assumptions

The findings of this research will highlight the functions and benefits that MFIs have for SMEs and also their efficiency. They will aid in the government’s decision making in regards to the growth of SMEs, that will facilitate in raising the country’s GDP, particularly in terms of fundamental necessities and this will lessen the importation of essential goods, leading to low costs. Hence, the availability of goods and services at reasonable rates will boost the social welfare of Glen View Home Industry neighborhood as well as the country as a whole.

## 1.6 Scope of the study

This study’s objective is to better comprehend how microfinance institutions contribute to the expansion of SMEs in Zimbabwe. A sample of 60 SMEs owners in Glen View Home Industry received questionnaires. The project will spend four years evaluating the material (2019 to 2023). The actual data collecting, however, will take place over a 3-month period from April 2023 to June 2023.

##  1.7 Delimitation

The study focused on the roles of MFIs to the development and growth of SMEs strictly with reference to Glen View Home Industry.

## 1.8 Limitation

The researcher ran into a difficulty with some participants who were handed questionnaires to complete out not responding. This was partially brought on by worries that some of the needed data was delicate. The respondents were given the assurance that any data they provided in the survey would be handled with the utmost discretion in this regard. The study was limited by the opposition from some business owners to taking part in a study involving a university student since they saw no advantages. The study was limited by the researcher’s decision to forego interviewing any employees who were discovered on the company grounds because their opinions would have given cause for a conflict of interest between them and their employers.

## 1.9 Outline of the study

There are five chapters and chapter number one contains the background information and the rationale for the investigation. The study’s theoretical and empirical literature are presented in chapter 2. The research techniques are explained in detail in chapter 3 and the information gathered is analyzed and explained in chapter 4. The study’s results and recommendations are presented in chapter 5.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

An overview of various studies completed by other academics in an effort to address the issue of the MFIs’ support to the expansion of SMEs in Glen View is discussed in this chapter. The investigation of the role of MFIs in the growth of SMEs are discussed in this chapter together with the theoretical, conceptual and empirical reviews.

## 2.1 Conceptual Framework

### 2.1.1 SMEs

The SMEs are recognized as significant economic growth drivers. SMEs are typically classified according to factors including their size in proportion to sales volume, fixed investments and employee count according to the Small Industries Development’s classification of SMEs. SMEs are those businesses that employ 10 individuals or fewer (Sulistyo and Ayuni, 2020).

The definition of SMEs is related to how easy they can obtain financing including financial resources which can be accessible to them. Obviously, access to capital is essential for the expansion of SMEs and the inability to acquire those financial resources impedes the growth of entrepreneurs given the difficulties SMEs have in obtaining financing from the formal financial institutions because they view small and medium-sized businesses as having a high risk. Furthermore, SMEs have poor enough money to cover the required collateral. Consequently, and in order to combat finances, SMEs turn to informal channels for financial support to avoid exclusion like revolving (Mpofu and Sibindi, 2022).

### 2.1.2 Microfinance

It is the provision of financial products tailored to necessities of low-income individuals, particularly the granting of modest loans and the acceptance of small savings deposits. According to Yahaya (2021), the idea of microfinance was understood to be the offering of monetary services to the active individuals living in poverty who are not covered by the regular financial institutions. They also provide a group of financial services that impoverished industrialists and small business owners can access. The services provided include credit, advances, money and insurance coverage for individuals who do not have collateral security.

According to Chen and others 2021, micro businesses, which consist of the majority (65%) of the people who are not able to access conventional banks’ financial services can receive financial services from the microfinance. The central bank launched microfinance policies, regulations and supervisory framework guidelines. It managed to implement this policy by encouraging the emergence of numerous microfinance institutions throughout the country as well as promoting new microfinance operators.

### 2.1.3 Evolution of MFIs

According to BNP Paribas (2017), the microfinance in 1880, evolved whereby the first savings and loan cooperation was launched in German’s Rhineland. This organization helped the majority of the public gain access to credit. The cooperative movement quickly spread to other European nations also to North America and underdeveloped nations. The first sophisticated microfinance first appeared in Bangladesh in the 1970s as it was realized that European-developed microfinance’s tools could not adequately address issues of poverty (Mersland and Storm,2012). This microlending system aimed at giving underprivileged communities the resources they need to start their own. It began with assistance given to women who wanted to invest in a bamboo stool business that led to the creation of jobs as a result reducing poverty (Yunus,2016).

The first microcredit summit was held in Washington, D.C, in 1997, which served as evidence of the significance of this idea. Midway through the 1990s, language changed to emphasize the spread of microfinance instead of microcredit, extending the reach of assistance beyond finance to incorporate resources like financial transfers, savings and insurance (Cull and Morduch 2017). The UN saw an increase international microcredit facility and 2005 was declared the International Year of Microcredit in the early twenty-first century. Up to now, the idea of microfinance has been updated and its scope has expanded to include the provision of different financial equipment, which has largely presented more advantages to the segment of society that is financially excluded.

## 2.2 Roles of MFIs on SMEs

### 2.2.1 Credit extension to SMEs

The provision of credit is undoubtedly one of the most significant functions of MFIs, as the loans offered serve as the primary source of funding for both the expansion of existing enterprises and the establishment of new ones. The MFIs’ credit distribution systems target the poor and it classifies borrowers into manageable groups and provides loans to help the poor satisfy a variety of development objectives without placing a strong premium on tangible collaterals (Hannoon and others 2019).

### 2.2.2 Savings

One of the prerequisites for microloan clients is a secure place to store their savings such that they can accumulate sizable sums of money to cover a variety of their needs. The MFIs’ savings mobilization initiatives satisfy these needs (Pius, 2022). Most SMEs find it challenging to travel outside their stores and offices to do banking activities. The benefit of this position is that MFI staff members visit customers at their homes, businesses and other locations to collect daily deposits and loan repayments. The SMEs are then charged an interest on the amount saved. This has assisted in fostering a positive banking environment among the previously underrepresented populations.

### 2.2.3 Promotion of SMEs

The goal of microfinance is to connect those with finances and those who need them such that they exchange the money (Abubakar and Baba, 2021). The MFIs also support economic growth by offering additional training to SME owners in arears like record keeping and business management. Other duties performed by MFIs include reorienting the society toward sound financial habits and dealing with problems like collaborating with other MFIs to offer customers insurance service, healthcare, child education and awarding scholarships to client’s children.

## 2.3 Theoretical framework

### 2.3.1 The development of economies

The entrepreneur’s responsibility is to create new commodities through the combination of productive components. It aids in sustaining the entrepreneur’s market advantage in terms of competition. When describing economic progress, Schumpeter emphasized the significance of the actions of business people in coming up with fresh concepts and combining products by developing an innovative product and a new production technique (Langroodi, 2021).

Additionally, in order for an entrepreneur to be successful, they need two things that is the availability of technical expertise that will enable the entrepreneur to create new products given the accessibility of underused technological innovations at the hands of the entrepreneur, Schumpeter (1961) does not present any difficulties. The second aspect is connected to how the first aspect is carried out, which calls for the entrepreneur to possess the ability to make purchases using capital or credit that might be obtained from institution of finance (Langroodi, 2021).

## 2.4 Theories of MFIs

MFIs are essential to the growth of SMEs because without access to financing, new ideas from micro companies are useless. Only with access to microfinance services can entrepreneurs especially the disadvantaged see their ideas come to life. There are four different types of microfinance which are the Banco Sol model, which has Bolivian roots, the interest-based Islamic microfinance model and the Grameen model, which was developed in Bangladesh and the Agency model.

### 2.4.1 The Grameen Model

It was created in 1976 by Professor Muhammad Yunus in Bangladesh. It focused on the low-income earners. The Grameen model’s guiding principles are shown below:

#### **2.4.1.1 Community Banking Practices:**

The model which hinges on social collateral, assumes that credit should be given to groups of individuals because it thinks that group accountability will lower default rates by giving credit to organizations instead of to individual borrowers. The model improves the potential for high loan recovery rates as the group members will hold each other responsible for their debts and this ensures prompt repayment. The team members were restricted from borrowing again until their previous debt was completely repaid. The group was motivated to rigorously supervise the loan payment of its members because if one participant failed to pay the loan back, the group as a whole would be disqualified (Kayongo and Mathiassen, 2020).

Therefore, the community creates various groups consisting of about five individuals each with the ability to acquire a loan and only two out of five would be given credit with the intention of rotating with other members over time. As a result, the group would be under scrutiny for a month to make sure that everyone is abiding by the bank’s guidelines. The remaining members of the group would get loans if the first borrowers repaid their loans together with interest in full over the course of 52 weeks. Due to the conditions of borrowing, everyone in the group must encourage the borrowers to follow regulations and norms that govern the operations.

#### **2.4.1.2 The direct credit:**

The concept offers an option for private borrowing. An individual borrower is given access to this direct credit facility without being required to be a group member. Consequently, it guards the borrower against peer pressure to guarantee loan repayment. However, since the pressure that the group applies encourages high repayment rates, it is always crucial that the lender is informed of the difficulties associated with failure to repay the loan that are likely to emerge. Therefore, banks must make sure, before loans are issued, sufficient investigations are carried out and that before granting loans, it has sufficient knowledge of its customers (Kayongo and Mathiassen, 2020).

#### **2.4.1.3 The village banking**

The community gathers groups of twenty-five to fifty, low-income people to create a community-based credit and savings organization so as to assist these neighborhood residents in raising their standard of life. There are immediate financial advantages from the site including the generation of jobs. It is feasible to assume that the first funding would come from a loan, and that later on, members would add their own funds to the system, effectively controlling the savings and credit system. The facility’s management entails a member’s ability to create their own bylaws, elect members and distribute loans individuals might use the officers to get their own savings and reimbursement. (Lweendo, 2022).

The middleman who stands between the lenders and the borrowers is essential in promoting credit awareness and educating the borrowers. Therefore, the goal of this approach is to make borrowers’ credit worthiness better, which will encourage them to take out additional loan. The potential for the borrowers to form an organization that will allow the introduction of various microfinance operations is also available. The association’s attention should be directed toward women and youth respectively. The association could be a political, religious, professional, cultural or savings organization. The group’s characteristics are crucial because if there are commonalities in some areas, the group can function effectively and happily. As credit is supposed to be taken alternately and other group members act as guarantors while waiting for their turn to take credit, this encourages trustworthiness among the participants (Lweendo, 2022).

#### **2.4.1.4 The Bank Guarantees:**

The lending institution cannot make the loan without a bank guarantee. The bank guarantee may come from a variety of sources including philanthropists, government organizations or savings group members. Therefore, in this respect, the promise acts as a credit security (Bhatt and Vin, 2021).

#### **2.4.1.5 The Credit Union**

People from various backgrounds who band together to save money are represented by the credit union with the objective of providing loans to members at a reasonable interest rate. Members of the credit union who frequently share a common past such as sharing a workplace, belonging to the same union or residing in the same neighborhood (Bhatt and Vin, 2021).

### 2.4.2 The Agency Model

In 1972, Stephen Ross and Barry Mitnick developed the agency theory model independently and roughly at the same time. They stated that, the connection between the management and business owners becomes problematic when they are not the same people. The agency hypothesis states that the owners’ agents are the managers and these managers have got an obligation to attend to the owners’ wishes. When the interest of the managers conflicts with those of the owners, it results in the occurrence of agency issues. According to the tip agency idea, executives of a company act as agents on behalf of the shareholders. Managers are rewarded by the owners for raising their investment worthiness. Encyclopedia Britannica stated that, the 1970s saw the development of agency theory. (Sherman 2020).

It can be profitable for both principals and agents when they act in their own interests. For instance, the company’s generous perks or compensation packages encourage top management to potentially boost profitability and therefore they maximize the returns to shareholders in order to keep these things. In addition, the finance management websites notes that an agency issue between managers and shareholders may occur when managers have understandings and perspectives than the owners. Managers may decide that for the company’s survival, keeping earnings rather than handing out substantial dividends is vital. The owners may think the management has failed and ask for an explanation because they may not be aware of the state of the company. Risk is one of the causes of agency issues since agents and principals often have different perspectives on risk (Sherman 2020).

### 2.4.3 Banco Sol Model

#### **2.4.3.1 Progressive Lending Model**

Given Bolivia’s extreme poverty and high unemployment rate, the model was developed to offer loans to low-income business owners, and in 1992, it was officialized as a licensed financial institution (Brahmachary, 2022). Poor business owners’ ability to access various credit options led to their growth. Banco Sol mostly concentrated with group financing but it later changed its focus to individual loans services in 1999. Additional formats of guarantors were utilized due to the switch to personal loans, which include personal guarantors and collateral property. In the 2000s, Banco Sol witnessed a dramatic shift in the way it provided services, switching from microcredit to microfinance.

### 2.4.4 The Islamic Microfinance Model

According to the model, more microfinance institutions issuing microloans at high interest rates of about 30%, which is above the rates of commercial banks, worries microbusiness owners more and more. It puts a significant amount of pressure on the borrowers that can potentially have a negative effect on their enterprises’ success (Mohamed and Fauziyyah, 2020). This contributes to the rising doubts about the overall impact that microfinance is intended to have on the impoverished.

The foundation of this approach is the notion that risk associated with entrepreneurship should be shared and that the impoverished should engage in SME activities. Although, the model views microlending as a social enterprise opportunity for profit albeit not at significant rates. This makes financial transactions easier, encompassing all individuals. The perception of the interest-free microcredit financing according to Raghuram (2008) strengthening the weaker classes is a successful strategy.

## 2.5 Barriers to SMEs growth

### 2.5.1 Access to finance

Poor accessibility of financing is seen as the main barrier to the expansion of entrepreneurship. Most of the time, SMEs are wary of approaching financial institutions out of fear of having their eligibility for borrowing rejected (Kangoye and others 2020). Additionally, SMEs frequently lack the required resources which can qualify as collateral (Mwaipopo, 2020). The vast majority of small and medium-sized businesses need relatively little money and microfinance institutions typically accuse them of doing so since it results in high administration costs. Therefore, they are viewed as being too expensive.

### 2.5.2 Heavy compliance costs

According to Tariq et al. (2015), small business owners encounter issues such that they will not be able to pay the appropriate amount during the loan payback phase. This is exacerbated by the little period of time of the repayment of loan, which forces the small business owners to be under pressure as the venture continues to grow into sustainability and resiliency. The issue of high compliance costs with financial institution requirements, which is in fact caused by the business size limits the development or prospective growth of these businesses. Moreover, it is necessary to provide personal guarantees and securities in order to borrow money from commercial financial organizations. However, SMEs are usually unable to supply such securities and it makes it difficult for them to qualify for loans.

### 2.5.3 Education

Entrepreneurs typically have low levels of education and expertise, which provide obstacles in their access to the various financial services available to them. Tambunan (2014) claims that SMEs are likewise concerned about a shortage of capacity to create bankable proposals for funding that are typically seen as being too obscure or unviable commercially to merit financial backing. According to Riding and others (2019), SMEs encounter significant difficulties in addition to those already mentioned. They also face limitations such as lack consumers or demand, inability to obtain financing or a loan with exorbitant lending rates, collateral security and lack of entrepreneurial and technical skills, which have significantly impeded the growth of SMEs. Entrepreneurial education is important because it aids in the business’s performance considering the fact that the leadership of the organization is the key to the prosperity of the company, therefore management skills play vital role in building a successful business (Damiani and Ricci, 2013).

## 2.6 General challenges of SMEs

They face a number of difficulties which are either inherent in the small to medium enterprises themselves or come from macro- environment. The most common of these difficulties is that they face challenges in accessing credit services from MFIs (Ngwa, 2019). The SME sector as a whole still has a skills shortage despite all the efforts being made to educate and offer advising services. Ghobakhloo and others (2022), discusses how others do not perceive the need to enhance their abilities as a result of the high expense of training and advising services complacency whereas rural SMEs frequently struggle to acquire access to technology to the relevant technologies and knowledge of the approaches that are available.

Additionally, regulatory restrictions continue to hang like an albatross around the development efforts of SMEs. According to Aliyev (2019), the costs of settling these legal claims and prolonged courtroom delays are detrimental to SME operations in Ghana’s situation, the lengthy processes for registering and starting a business is a key issue often cited. The World Micro-Finance Institutions (2006), showed that the time it took to register a firm in Ghana was about 64 days after completing sixteen (16) steps. In 2009, it took roughly 33 days to register a business and there were eight (8) procedures carried out.

Long term improvement in human capabilities is necessary for good bottom-up development policies, according to Snow and Buss (2001). Businesses need infrastructure, a regulatory environment that won’t prevent them from taking risks, and a financial sector that can meet their needs. Education is a requirement for both the smallest and largest players in the market as it is necessary for expansion. In the end, national-scale development must be sustainable. Programs carried out under a bottom-up development approach have to take note of the rural SMEs as they are crucial. It is also necessary to note that the conditions for local growth are determined by national policies. This implies that, if SMEs are not properly positioned within the development agenda, this could be problematic.

Therefore, it is not enough to rely solely on the institutions that are in place for the growth of SMEs in the economy, but also on their efficacy in assisting SMEs in realizing their goals. The most significant of these issues is the need for startup capital which according to Robinson (2002), around 90% of individuals do not have access to, whether savings or loans which leads to poverty. According to estimates, finance availability and outreach issues are twice as common as other problems. This leads to SMEs experiencing issues with survival, development and expansion. Ghanaian Ayeetey (1992) contends that commercial micro-finance institutions offer little to no access to loans.

## 2.7 The challenges that MFIs face

### 2.7.1 Limited support from the government

The sustainability of the institutions is impacted by the fact that MFIs receive little support which according to Moderno (2010), in order for microfinance institutions to be sustainable and reduce their costs, they must commercialize their services and they should depend on financing from donors and the government. Government must make sure that there are favorable regulatory conditions, which is a setting that would allow microfinance institutions to operate efficiently.

### 2.7.2 Unavailability of right technical skills

There is a rising issue with how poorly most microfinance institutions are able to run their businesses. In support of this assertion, Gallardo (2001) emphasizes that developing countries like Zimbabwe are the ones which are most likely to face this obstacle. The high worker turnover rate is the other problem faced by the MFIs due to the intensive competition in the industry.

### 2.7.3 High interest rates

The stringent loans interest rates needed are a problem for SMEs in obtaining financial help. Due to the SMEs’ increased difficulty in repaying their loans at such high interest rates, this also has an impact on microfinance institutions as it greatly increases the amount that must be paid back by the SMEs. The SME default subsequently causes the majority of microfinance institutions to fail (Woldie et al., 2012).

## 2.8 Empirical framework

Most of the following researches were carried out to assess the roles of MFIs and the challenges faced by SMEs in developing countries.

Shipefi (2022) conducted an investigation on the impact of MFIs’ products on the growth of SMEs in Katutura, Namibia. The research aimed to ascertain if a significant relationship between the expansion of SMEs and MFIs’ credit exists as well as if a significant relationship between MFIs savings and SMEs expansion exists or not. The investigation used a survey research methodology and used 87 SMEs as its sample. The investigation employed a questionnaire as its tool for research so as to gather SMEs’ primary data for those located at Wanaheda Industrial Stalls, Soweto Taxi Rank and Soweto Market. Data was analyzed using descriptive, inferential methods, including Chi-square and simple percentages. A strong correlation between MFI loans and the expansion of SMEs was discovered and the relationship between MFI savings and SMEs’ expansion was significantly correlated. 100% of those surveyed said that the organizational characteristic is one of the other elements that contribute to the expansion of SMEs. In contrast, the study found that neither microfinance insurance or enough training for SMEs is provided by MFIs. The study advised MFIs to start broadening the range of the products they offer and to do so while developing products specifically for SMEs. Before lending to SMEs, they should also provide broad support for managerial skills and more education to SMEs on financial management.

Constantino and Mbamba (2022), investigated the contribution of MFIs in the development of SMEs: A case study of Ilala City, Tanzania. The investigation was carried out so as to ascertain how MFIs’ financial and non-financial services affected SME capital growth, income growth and employment creation. 158 SME owners were selected using the random sampling method and they completed questionnaires to provide data on the indicated variables, which were then analyzed using multivariate analysis of variance (MANOVA). The investigation showed a positive effect on the capital and revenue expansion of SMEs, but not significantly on their capacity to generate new jobs. Therefore, the study suggested that managers and analysts in the public sector should create policies that have an effect on the expansion of SMEs.

Kori (2022), carried out an investigation on diversity and financial inclusion: the role of MFIs on the growth of SMEs in Kenya. Financial inclusion and diversity were found to be significantly influenced by MFIs. The goal of the study was to evaluate how MFIs affected the efficiency of SMEs. The researcher used secondary data which included over eighty journal papers, printed materials from the government and e-books between the years of 2012 and 2021. According to the study, MFIs are important elements of financial inclusion and diversity. Most research showed that MFIs significant contributors to SMEs development as well as to the demands of each household. However, the advantages for MFIs weren’t universal because some stakeholders experienced prejudice, as a result, the study’s outcomes showed contradictory outcomes. According to the report, in order to protect customers at all levels, the regulatory structure should be more vigilant when registering microfinance institutions.

Yerima, Gambo and Umar (2022) conducted an empirical study on the impact of MFIs on SMEs’ growth in Taraba. In their study, they examined the effects of microloans, interest rates and loan terms for a period of 5 years (2016 to 2020). A survey of 174 random SMEs was chosen and the survey research design was used. The multiple regression analysis was employed too. Information gathered was analyzed using the correlational analysis, multicollinearity and normality tests. According to the investigation, a significantly positive relationship existed between the microloans from MFIs and SME growth. The study also discovered compelling evidence that SMEs in Taraba State may expand faster when they have access to microfinance services. The investigation revealed that what led a small but detrimental impact on business expansion was the loan length and experience attained. The study advised SMEs owners to take advantage of MFIs’ services to grow their businesses and thereby improving the economy’s performance in the future.

Luka (2022), carried out an investigation on the effect of microfinance banks’ services on the performance of SMEs in Jalingo Metropolis. The investigation adopted a method of survey research in which copies of the questionnaires were handed out to the SMEs respondents in Jalingo Metropolis who had used the microfinance bank services. The population of this consisted of 79 SMEs who had used the microfinance bank services. Random sampling was employed to determine the size of the sample. The SPSS (Statistical Package software for Social Sciences) analyzed the gathered information. It was discovered that MFIs’ credit had a major or positive contribution to SMEs in Jalingo, Taraba State. The reason being that it enhanced asset acquisition, mitigated risk that SMEs are exposed to and it improved the business performance. Apart from that, the results also showed that, non-financial microfinance services like insurance, training and advisory services had little bearing on how well SMEs functioned.

The impact of microfinance institutions on the development of SMEs in Lusaka District: A case study of financial inclusion in Chainda Township was conducted by Kasumpa (2022). The study’s objective was to assess and comprehend how MFIs impact SMEs in the Chainda neighborhood in Lusaka. The study utilized the non-probability sampling method and it selected 96 SMEs as its sample size. Physical questionnaires supplemented by Google forms, consisting of 26 paper questionnaires and 70 electronic questionnaires were used to administer the survey. The investigation consisted of a comprehensive analysis of how MFIs help SMEs grow and improve as well as how SMEs view MFIs. The study employed the descriptive method to carry out the study. The information gathered was analyzed using the SPSS. The study’s conclusions showed that many entrepreneurs UpToDate are unable to obtain outside financing from MFIs because they did not have collateral security to present to MFIs and they couldn’t they could not afford the high interest rates charged. To MFIs, other stakeholders and the government, suggestions were made regarding how to enhance financial inclusion in order to support enterprises.

Semegn and Bishnoi (2021), conducted a research on the analysis of the effect of MFIs on the performance of SMEs in Amhara National Regional State, Ethiopia. A survey method was utilized and 340 SMEs in total were chosen using purposive and systematic random sampling method. Performances of SMEs were evaluated using average sales volume. The majority of SMEs in Ethiopia were active in the manufacturing and urban agriculture sectors according the results findings. The t-test analysis was employed and it displayed a significant distinction between the operating efficiency of SMEs in regards to savings and employment after receiving a loan. It was concluded that entrepreneurship training, sales and loan size, all improved SME performance. It was recommended that MFIs strengthen their current strategies and policies to boost lending to SMEs thereby improving the modes of entrepreneurship. To accomplish the planned goals of lowering unemployment and encouraging the expansion of SMEs in Ethiopia, training and savings mobilization are needed.

The role of microfinance on entrepreneurship development: A case of Urban Maseru, Lesotho was investigated by Motsoeli (2020). The investigation was conducted so as to scrutinize the difficulties SMEs in Urban Maseru face in gaining access to microfinance services, the effects of MFIs on the output of SMEs and the effects of MFIs on the expansion of selected small businesses in Urban Maseru. The investigation used a quantitative research approach, questionnaires to gather data, the (SPSS) was employed for data analysis. A sample of 400 SMEs that benefited from microfinance services was chosen using a descriptive variable sampling technique. The study’s outcome was that there are numerous obstacles to entrepreneurship development. The main obstacle for SMEs was the onerous process involved in obtaining financing, which had high interest rates and which required collateral security. According to the research, MFIs have got a positive contribution to SMEs expansion. The investigation concluded that MFIs had considerably benefited SMEs in economic expansion.

Khan (2020) carried out an investigation on microfinance banks and their impact on SMEs in Nigeria: A case study of Damaturu, Nigeria. The study focused on determining the impact of MFIs’ strict requirements for borrowing on SMEs expansion. The random sampling approach was utilized and 50 questionnaires were distributed. 41 out of 50 copies were properly filled and sent back to the investigator. The data analysis used the Chi-square to assess the proposed hypothesis. The findings showed that MFIs are capable of supporting the expansion of SMEs in Damaturu. The research also showed that one of the major deterrents to entrepreneurs using the bank’s services is the stringent borrowing requirements put in place by the bank. According to the study, the bank should become involved in current affairs, offer those banks assistance and support them through tax breaks.

The contribution of MFIs to the growth of SMEs: A case study of Kinondoni District, Dar Es Salaam was investigated by Mwaipopo (2020). A sectional study design was employed in the study. In order to sample business owners, convenience sampling was utilized. Quantitative information was gathered using a structured questionnaire. 323 company owners from Kinondoni Municipal Council participated in the survey. The researcher analyzed quantitative data by computing frequencies and percentages. Additionally, inferential statistics were utilized to establish the link and relationship between variables using chi-square and Spearman’s correlation. Results showed that MFIs contributed 58% to SMEs growth. A significant correlation between loan adequacy and SME growth was also found. The study also showed how SMEs growth is influenced by access costs, credit availability and loan utilization patterns.

Influence of MFIs strategies on the growth of SMEs in Kenya: A case study of Homa Bay County, Kenya was conducted by Bulla, Maronga and Ngacho (2019). The study specifically examined how the growth of SMEs in Homa Bay County was impacted by interest rates, loan repayment time, credit distribution efficiency and managerial education initiatives. The research used a descriptive survey methodology and the sample size was 100 SMEs. Data was collected using questionnaires from either proprietors or managers of the enterprises. The SMEs were chosen using stratified random sampling to a target population of 1000 SMEs. Inferential and descriptive statistics were employed to analyze the information gathered. The investigation showed that although interest rate strategy had a negative impact on borrowing costs, managerial training, credit allocation and loan repayment techniques had beneficial effects on the growth of SMEs.

Empirical research on the effects of microfinance banks on the Egyptian economy was conducted by Malhotra (2018). Pooled regression and ordinary least squares econometrics were used in the study and it covered the years 2003-2018 on an annual time series data. The empirical data demonstrated that the current sectoral integration loans and advances from the government had a favorable impact on output. On the other hand, an OLS-based sector study found that advances and loans from microfinance banks had a negative impact on the production, manufacturing, building and the quarrying industry. They came to the conclusion that microfinance banking is extremely important to the health of the economy as it does not only aid small and medium-sized businesses with finances but also to the real sector of the economy, accelerating Egypt’s economic development.

**2.9 Research gap**

Many studies have been carried out and they focus on the impact that MFIs have got on SME expansion, but a very few focuses on the roles of MFIs. The timing of this investigation is ideal for evaluating the role of MFIs’ services that is microloans on SME development. Previous researches mentioned above have demonstrated the efforts done to ensure SME expansion.

## 2.10 Summary

The theoretical part of MFIs and SMEs were focused on in this chapter. The conceptual framework was also discussed in the chapter. The work of previous researchers was also discussed in detail in this chapter. Research gaps were also identified and the researcher intends to fill these gaps by carrying out this study.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.0 Introduction

This chapter aims to describe the methodology used in carrying out the fieldwork component of this investigation. The approach below was created to gather quantitative data. Therefore, the design and techniques that were employed in the examination of SMEs are presented in this chapter.

## 3.1 Research design

An explanation of the survey type employed into the study may be found in this section. It is expected to define the population, the sample size and the sampling methods used to choose the sample size. Data presentation and analysis are a component of the research design. This study is aimed at examining how microfinance institutions affect small businesses that receive services from them. The objective is to evaluate the function of such services that support the growth of SMEs. Glen View Home Industry makes up the majority of topic’s field research.

The three types of study designs that are considered are explanatory, exploratory and descriptive (Robson, 2002). Saunders and others (2007) explain exploratory research design as a more suitable style in situations where the phenomenon is not well understood enough and the goal of the design is not to definitively address the study topics, but to merely to investigate the research subject. An explanatory technique was used in this research so as to explore and account for the descriptive information gathered.

Since the goal of this investigation is to evaluate MFIs’ roles on the expansion of SMEs, the descriptive research approach was used. One approach to define descriptive research design is as a reporting of occurrences exactly as they occur, with no input from the researcher subject. It also gives the researcher the ability to categorize, analyze, compare and evaluate data. Therefore, the researcher should describe the situation as it is according to the findings of the reports and develop critical knowledge principles and remedies for large scale issues (Kothari, 2004). According to Grove, Burns and Grove, descriptive analysis may be used to generate theory, highlight the flaws within the present practice, as well as defend present practice and make judgments or ascertain what other people in the same circumstances are working on. Furthermore, a descriptive survey according to (Gray, 2013), is a method used to collect information through interviews or the distributions of questionnaires to a sample of people. Information on the attitudes, beliefs, routines or any other characteristics of persons relevant to this topic were gathered using the questionnaires.

The researcher employed the descriptive design because this kind of research is non-experimental in nature, therefore the variables cannot be altered. The design was used because it serves as the foundation for other studies since it establishes the characteristics of the variables at play, thereby giving a clue as to whether they correlate with or change other variables. The design was also used because it enabled the investigator to collect primary information in less time. It was also used because the investigation results can be used to extrapolate the traits of the whole population (Mbuva 2023).

##  3.2 Target population

The small and medium-sized enterprises within Glen View Home Industry were the study’s target population. The investigation included small and medium-sized business owners who have profited from microfinance services are able to compare the business’s performance between before and after utilizing microfinance services to assess the effect of MFIs on entrepreneurial effectiveness. The target population consisted of SMEs which amounted to 150 firms, but the researcher selected a sample of 60 firms to focus on.

## 3.3 Sampling design

Non-probability sampling was used as the sample strategy in this research. The non-probability sampling or the convenience sampling approach, allows the investigator to select a group of participants from a population that is easily accessible and qualifies for inclusion (Polit and Beck, 2006). The convenience of non-probability was chosen as the preferable approach due to its capacity to offer a speedy turnaround time required to administer the questionnaires, taking into account the short data collection period. Also, this sample technique is stated as being very effective for gathering information and it is easy for the respondents to engage in the investigation, (Sekeran and Boudie, 2013).

The sampling design was chosen as the most appropriate method because there are no set odds that members of the public, in this case study the SMEs owners in Glen View Home Industry, will be chosen as participants. Hence, the non-probability sampling makes use of subjective techniques to choose a sample unlikeprobability sampling, which relies on random selection of respondents. Hence, this technique is a suitable strategy for the investigator to access primary data.

The difficulty with this sample strategy is that there is little scope for generalizing the results of the study to a larger population. So, it is difficult to confidently extrapolate the sample’s results to the total SME community of Harare. Given that quantitative testing depends on having a lot of participants, the study used a sample of 60 SMEs to reduce sampling bias. The respondents were chosen at random from the whole research population, which was deemed sufficient to produce reasonable precision of outcomes.

## 3.4 Inclusion and exclusion criteria

The following were the inclusion requirements for the study: the responder had to be either a man or a woman who owned a small or medium-sized business and who had used or profited from microfinance institutions for a minimum of two years, during which time a shift in the company’s performance in terms of profitability can be acknowledged (Akalp, 2015). As it typically takes two to three years to evaluate whether a business is profitable, the business should have been operating for at least four years (Akalp, 2015). Taking into account the businesses that participated, there is no age classification for the study participants.

## 3.5 Sampling SMEs

The convenience sampling method was used in the selection of the 60 SMEs that they believed had the necessary experience for this study, had enough time and were ready to partake in the study (Morse, 1998). Using convenience sampling, entails gathering responses from participants who are willing from sample who will be available for the investigation. It allows the participants to participate voluntarily here rather than being chosen despite their wishes. The researcher encountered low response from participants because they held the belief that, in one way or another, information about their company might be revealed to rivals and it could even subject them to tax authorities.

The Solvin’s method was considered appropriate for obtaining an adequate sample size by Rono 2018 in his study. Rono 2018, assert that no survey will ever be declared to be free of error or yield 100% certainty and that acceptable error limitations are those of below than 10% and level of assurance of more than 90%.

$$n=\frac{N}{1+Ne^{2}}$$

(Source: Stephaine (2013))

n = Sample size.

N = Total population.

e = Error tolerance

n = $\frac{150}{1+150(0.1)^{2}}$ = 60

Therefore, the sample size according to the Solvin’s formula is 60 SMEs.

## 3.6 Data collection methods

According to Canals (2017), data collecting tools are techniques used to gather data and they include questionnaires, checklists, tests and structured interview schedules. The major data of this investigation was gathered from primary and secondary data. Kombo and Trompt (2006) provide the following explanation for the primary data: data gathered by the investigators themselves or via their research assistants. The information gathered centered on the impediments and problems entrepreneurs encounter while acquiring funding, difficulties faced by microfinance institutions and contributions sources of funding for businesses and the MFIs’ roles in SMEs’ expansion.

The cost and time effectiveness of this strategy led this investigation to adopt questionnaires. Also, it made it possible for the researcher to compile data a quantitative way and to frame responses for viewpoints. The researcher was able to more thoroughly and scientifically analyze data gathered via questionnaire more impartially than other study methods previously employed (Salum, 2014). The researcher went to the targeted population and to distribute questionnaires. The respondents filled in them and they returned them back to the researcher.

The term secondary data refers to information that has been gathered from a wide range of sources including journals, archives, books and websites. This includes information compiled by microfinance institutions that shows trends in the use of financial services and credit as well as applications for those services’ respondents. The secondary data is useful in supplying corroborating data regarding the one compiled via a questionnaire. Secondary information enhances the understanding of the roles these microfinance programs made in many sectors contributing to the SMEs, while attempting to assess the severity of the issue as described by different researchers.

The data collection method used by the researcher was appropriate because the researcher was certain that the collection procedures would produce accurate and comprehensive information to address the study questions. The technique was also compatible with the subjects’ sociocultural values and educational levels. It was also appropriate because the procedures for data collection were quick and efficient. Apart from that, the resources available for the study, the aim, time range and character of the phenomena were appropriate for this procedure (Patidar 2019).

### 3.6.1 Questionnaire

A questionnaire was created and used as an instrument to learn more about the MFIs’ roles on SMEs’ expansion in Glen View, Harare, in order to simplify the gathering of primary data. The information was gathered using a survey from the SMEs business owners. The polling tools have been consistently regarded as the most practical tool for collecting information because they may easily be modified to suit various circumstances and also because they are cost and time effective (Bell, 1999). The choice to utilize a structured questionnaire additionally allows the participants to help the researcher and to lessen the variety in the meanings of the inquiries to ensure that responses may be compared (Ruane, 2005). The technique has also has been chosen since it is affordable and in order to collect the essential data at a reasonable cost. As a result, the questionnaire helps the researcher to secure outcomes that would be standardized and then analyzed and evaluated (Cleave 2023).

Taiwo (2012) further distributed surveys by Luyirika (2010) to gauge the impact and efficiency of microfinance institutions in various areas. In order for the researcher to evaluate MFIs’ roles on SMEs’ expansion, the Likert scale was used to gauge the attitudes and opinions of SMEs toward the services offered by MFIs. Howell’s Likert scale was additionally utilized due of its flexibility and ease of construction compared to most additional measures of attitude (Joshi, et al, 2015). These claims in the Likert scale lessen respondents’ propensity to answer with a specific conceptual attitude in mind (Amin, 2005). The Likert scale uses a continuum of five response categories including strongly agree to strongly disagree (Joshi, et al, 2015). The scale used will enable each respondent to choose the option that most accurately reflects their feeling in this regard.

## 3.7 Data analysis

It is the evaluation of the primary information collected in order to provide interpretations. According to Kambo and Tromp (2006), it entails reviewing data acquired from the study sample to make inferences. Making use of the quantitative data, questionnaires were used to gather information and the information gathered was categorized into modified and calculated categories that are pertinent. The research employed descriptive statistics to analyze numerical data as well as display the findings in charts, tables and graphs. The data was also assessed with the software system namely Statistical Package for Social Sciences (SPSS). The findings of the SPSS analysis, were generated for each participant using their scores for predicted and perceived views graphed or charted for presentation. Additionally, the information was examined using demographics and other qualities, such as gender, experience, number of employees, age, marital status and amount of education attained.

The researcher employed the t test analysis used the Pearson’s correlation to measure the connection of the variables. According to the defined variables, the secondary data was shown in graphs and tables. In depth information was gathered via questionnaires. Hence data was analyzed using a linear regression model.

## 3.8 Validity and reliability

The researcher also used the Cronbach’s Alpha in the assessing of data dependability and the reliability of the Likert scale since it was used in the accumulation of the data. Sugathadasa used the same tool (2018). Moreover, it was employed to gauge the consistency degree of the 15 business owners made up the sample size for the Cronbach’s Alpha test. Gliem and Gliem’s assertion (2003), states that, the coefficients’ reliability vary between 0 to 1.0 and a value of 0 indicates that reliability doesn’t exist. 1.0 denotes the highest levels of reliability. Due to the test error, the reliability coefficient can never reach 1.0. In essence, a standardized test is said to have strong reliability if its reliability score is over 0.7 and poor reliability if its below 0.7.

The motivation behind the quantitative research method’s validity and reliability was used by the researcher in this investigation. Smith (2008), supports the idea by identifying that this quantitative research approach is unbiased, deliberate, systematic, dependable and valid. Additionally, according to Weinriech (2006), quantitative research uses techniques from the physical sciences in an effort to retain objectivity, dependability and generalizability. The researcher discovered as a result that the use of this strategy will produce accurate results, especially considering how research participants are chosen. Among these methods are the random selection of study participants and the use of standardized questionnaires that produce quantifiable and reliable data. They are frequently applied to a wider group. By asking for opinions or validity, the study tools’ validity was also examined via a pilot investigation.

## 3.9 The Pilot study

It is a small study performed out to assess the viability, time and adverse occurrences before carrying out a full-scale research project (Hully, 2007). 15 volunteers were sampled for the pilot study, and they received explanations and instructions. The participants were chosen by the investigator by simple random sampling, as a gauge for a test pilot. Cooper and Schindler (2003) claim that random selection frequently reduces the population’s sampling error, which raises the accuracy of any estimating techniques employed. Pilot test were conducted to make sure that the questions, as well as the terminology utilized were understandable and obvious to the participants.

The SMEs that have received assistance from the MFIs for the previous two years and have been in operation for the previous four years were chosen. After the analysis of the primary research was consequently based on the questionnaire’s suitability and intelligibility. The 15 participants were given the questionnaire in order to conduct content validity. This helped to assess the questionnaire’s sufficiency and clarity before it was administered to a larger sample of responders in order to lessen bias. It made sure the respondents understood the questions and that they were clear. Prior to the actual investigation, Motsoeli (2020) also carried out a pilot study to evaluate the questionnaire’s appropriateness and intelligibility.

## 3.10 Informed consent

The supervisor and the researcher collaborated to create the informed consent form, which was then distributed. Each participant was informed about the study’s purpose and was encouraged to participate by completing the questionnaires. Participants in the investigation would receive knowledge as well as suggestions which would strengthen their connections with the microfinance institutions which could ease SMEs access to finance. Additionally, the research’s findings could inform SMEs about the MFIs that may provide certain services that could aid in the growth and development of SMEs.

## 3.11 Summary

This section discussed the descriptive research design used to help the investigator select a sample from a large population. The questionnaire was employed as an instrument for data gathering and both primary and secondary data were utilized as data gathering methods. Moral issues with concerns were raised that might have an effect on how smoothly the study was conducted.

# CHAPTER 4

# DATA PRESENTATION AND DISCUSSION

## 4.0 Introduction

This chapter explains the information that was gathered, followed by an analysis and an attempt to comprehend it thoroughly. Data was collected from surveys that were distributed in the form of questionnaires. The received questionnaires are the analyzed using the SPSS in this chapter.

## 4.1 Data presentation

The information gathered via questionnaires is explained in this chapter, analyze it and derive meaningful conclusions from them. The goal of the interpretation will be to support the questions of the research. Additionally, it attempts to explain the part that the microfinance institutions play in the growth of SMEs.

### 4.1.1 Response rate

The investigation included 60 SME participants who completed questionnaires. Only 54 individuals were able to finish the surveys and only 50 of those were correctly filled out the remaining 4 were invalid. Since just 10% of the respondents did not respond, the 90% response rate from the sample size indicates a good response (Fincham, 2008).

## 4.2 Descriptive statistics

The study took into consideration the background information and demographics of respondents based on their gender, age, marital status, number of employees, experience and degree of education attained.

### 4.2.1 Gender of the respondents

Figure 4.1: Response by gender

As demonstrated in the table above, male participants were the majority and they scored 76% and women were the minority and they scored 24% respectively. This finding demonstrated the common practice where men take up the role of the breadwinner and women refrain from engaging in entrepreneurial endeavors due to their domestic responsibilities, (Kamweru, 2011).

### 4.2.2 Age of the participants

Figure 4.2: Response by age



The various age groupings that were surveyed for the study are displayed above. They show that respondents among the ages of 35 and 44 constitute 52% of the SMEs in Glen View and they are the most engaged in this field. The population between the ages of 35 and 44 has reached its peak level of productivity and is responsible for supporting their loved ones (Simba (2013). Those between 25 and 34 years consisted of 22%, 45 years of age and older consisted of 20% and lastly 18 to 24 years consisted of 6%.

### 4.2.3 Number of employees

Figure 4.3: Number of employees



The employees’ number from the study who are mostly active in Glen View Home Industry is shown in the response rate above. This category was developed in accordance with Aladejebi’s (2019) research. The findings indicate that 44% of the sample size of the study have hired 3 to 5 individuals per firm followed by 26% of employees between 6 to 10 individuals, then 16% of 1 to 2 employees and lastly 14% of 11 and above employees.

### 4.2.4 Marital status

Figure 4.4: Marital status response



The table above demonstrate that those who are married are the ones who mostly engage in entrepreneurial activities and they consist of 84% of the survey in Glen View. Those who are divorced are represented by 12% of the SMEs. Last but not least, widowed and single people make up less of a percentage at 2% each respectively. In a related study, Simba (2013) found out that 14% of the respondents were single while 56% were married, demonstrating that women who had to take care of the home were viewed as potential borrowers.

### 4.2.5 Educational level

Figure 4.5: Educational level response



The investigation found that the majority 54% finished high school, while 28% had diplomas. Those who attained the primary school education had 16% and the graduates consisted of 2% respectively. This finding suggest that the high unemployment rate is caused by the government structures’ limited capacity for absorption and because of this people with lower levels of education tends to participate in enterprising things.

## 4.3 Reliability analysis

The quantitative analytic methodologies were used to analyze the data collected. The Cronbach Alpha was used to test the reliability of the data. The findings of the roles of MFIs in the growth of SMEs are examined in great depth below.

### 4.3.1 Cronbach alpha reliability statistics

|  |
| --- |
| Table 4.1 Cronbach alpha reliability statistics |
| Cronbach's Alpha | N of Items |
| .882 | 20 |

The data collected was used to derive the Cronbach’s Alpha coefficient which was used to test the reliability. According to the table above, the reliability score was calculated using the questionnaire’s chosen variables and came to be 0.882. According to Gliem and Gliem (2003), the minimum acceptable level of reliability is 0.70 and since the study’s reliability is 0.882, it is higher than the minimum level hence the consistency of the factors is generally good.

## 4.4 Research questions analysis

The three research questions were analyzed using quantitative analysis techniques. The findings are discussed in relation to the identified demographics variables as well as other variables such as obstacles that hinder the growth of SMEs (BGS), constraints faced by SMEs (CFS), challenges that SMEs face when accessing capital (CSC), contributions of MFIs in aiding SMEs (CMS), other financing sources for SMEs (SFS) and the effects of MFIs on SMEs’ growth (EMG). The results are shown below

### 4.4.1 What are the obstacles that hinders the growth and development of SMEs?

Table 4.2 Obstacles that hinders the growth of SMEs



***Source: primary data***

Lack of capital was highlighted by 88% of the respondents as the most barrier that prevents SMEs’ expansion in Glen View. They also stated that even if they had managed to acquire start-up capital, they were unable to stabilize their operations due to insufficient funds. Another major barrier that hinders SMEs’ expansion was identified as the lack of collateral security. Without collateral security it is impossible to qualify for a loan let alone acquire a loan from MFIs. 84% of the respondents identified lack of collateral security as one of the barriers that hinders SMEs growth in Glen View. This discovery then made it clear why most SMEs fail in the short run.

Unmanageable loan procedures were also indicated as a barrier to SME growth with 78%. The respondents pointed out that they couldn’t obtain loans because they procedures carried out in applying for loans were complicated. Lack of knowledge had the least score of 56% as the barrier that hinders the growth and development of SMEs. The respondents stated that lack of knowledge was one of the barriers that prevented SMEs expansion because most of the SME owners only had high school level of education hence, they did not know how to run their enterprises.

### 4.4.2 What are the constraints faced by SMEs?

Table 4.3 Constraints faced by SMEs.



***Source: primary data***

SMEs face various constraints in their daily operations and one of those constraints is the lack of managerial expertise. 76% of the respondents strongly agreed to lack of managerial expertise being one of the major constraints they face in their operations. The reason being that most of the respondents have got the secondary level of education which means that they did not acquire enough skills to manage a business from school. Apart from that, the respondents also highlighted that even if capital was available, it was highly unlikely for SMEs to grow and develop rapidly because with poor management of resources, the enterprises were most likely to shut down their operation within a period of 5 years.

Lack of MFIs support was also indicated as one of the constraints that SMEs face which hinders their growth and development and it consisted of 72% of the total respondents. MFIs support can be in form of credit services, as well as trainings for managerial skills and financial literacy. Their reasons were that MFIs could do better job than the one it is doing of only assisting those with collateral securities with loans but that MFIs could they could also offer services like business monitoring services, consultation and savings enhancement according to Nendakulola (2015). High interest rates are the other challenge that SMEs face in their daily operations and 86% of the respondents were in agreement.

### 4.4.3 What are the challenges faced by SMEs in accessing capital?

Table 4.4 Challenges faced by SMEs.



***Source: primary data***

High loan interest rates consisting of 86% were highlighted by the respondents as the most challenge they face when accessing finance. They argued that MFIs charged high loan interest rates such that if SMEs were to borrow loans, they would face difficulties with the loan repayment. However, on the other hand, what SMEs were failing to understand is that MFIs charge high rates because they use the proceeds to cover their operating costs in order for them to be sustainable and ensure that they continue to operate and reach more borrowers therefore without these stringent interest rates, MFIs will cease to exist (Lebos, 2022).

Lack of government support to MFIs was also viewed as one of the challenges SMEs face and it consisted of 74%. The respondents argued that the government could assist MFIs by giving them tax reliefs, government grants. Ineffective management in MFIs was pointed out by 72% of the respondents as the other challenge they face when accessing finance. Due to the poor management of MFIs, SMEs are not attended to whenever they require the services of MFIs. Insufficient technical experience in MFIs was also identified as a challenge faced by SMEs when accessing finance and it consisted of 50%.

### 4.4.4 The independent T test performed on gender

Table 4.5 Group statistics for gender



***Source: primary data***

The three variables namely BGS, CFS and CSC, their mean and standard deviation values are generally very similar. The BGS’s mean value of 4.42 is the highest which signifies that it is more significant than the other two. As of CFS, it was identified as the second most important variable with a mean of 3.79 while CSC received the lowest mean score and was therefore deemed the least relevant variable. Based on the three variables, this result shows that male respondents scored higher when describing their experience and point of view on the difficulties that SMEs face. This shows that most men are more involved in entrepreneurship since they are the family’s bread winner and women may have tight worksheets that makes it impossible to actively engage in business operations. The findings were in agreement with the results of (Nendakulola 2015).

|  |
| --- |
| Table 4.6 Independent Samples Test on gender |
|  | Levene's Test for Equality of Variances | t-test for Equality of Means |
| F | Sig. | t | df | Sig. (2-tailed) | Mean Difference | Std. Error Difference | 95% Confidence Interval of the Difference |
| Lower | Upper |
| BGS | Equal variances assumed | .212 | .647 | .914 | 48 | .365 | .417 | .456 | -.500 | 1.333 |
| Equal variances not assumed |  |  | .945 | 19.525 | .356 | .417 | .441 | -.505 | 1.338 |
| CFS | Equal variances assumed | 2.898 | .095 | -.450 | 48 | .655 | -.193 | .429 | -1.056 | .670 |
| Equal variances not assumed |  |  | -.399 | 15.680 | .695 | -.193 | .483 | -1.219 | .833 |
| CSC | Equal variances assumed | 6.752 | .012 | 1.060 | 48 | .294 | .461 | .434 | -.413 | 1.334 |
| Equal variances not assumed |  |  | 1.282 | 26.891 | .211 | .461 | .359 | -.277 | 1.198 |

The independent T-test was employed by the researcher to find out whether gender has an impact on the difficulties SMEs face in obtaining microfinance services. The findings revealed that the difference between males and females was statistically different. The mean scores of the two groups differ statistically significantly as shown in the table above. Where variable BGS t (48) = .914, CFS t (48) = -450, CSC t (48) = 1.060 (p>0.05) (two-tailed). According to the findings, there is not a statistical significance in the opinions of men and women regarding the difficulties SMEs encounter in obtaining microfinance services. This finding indicates that when it comes to accessing MFI services, all the difficulties that men and women face are comparable. According to Ngugi and Kerongo (2014), using gender as a microcredit impact metric has a detrimental effect.

### 4.4.5 What are the contributions of MFIs in supporting SMEs?

Table 4.7 Contributions of MFIs to SMEs



***Source: primary data***

Microfinance institutions contribute quite a lot in the growth and development of SMEs in Glen View. Provision of financial support is one of their major contributions that was pointed out by the majority of the respondents and it consisted of 82%. They claimed that the financial assistance they got from the MFIs enabled them to start their SMEs as well as maintain them. 72% of the respondents highlighted that MFIs supported them in financial literacy. They stated that the knowledge they got from the MFIs enabled them to thrive in the industry with full of competition.

Development of management skills of SMEs is the other contribution of MFIs. It consisted of 68% of the respondents and they were grateful of these skills they had acquired from MFIs training programs because most of the SME owners did not have the privilege of attending business school because of several reasons. However, the remainder of the respondents were not in agreement because, according to them those management development skills trainings were not offered free of charge, in order for SMEs to access them they had to pay a certain fee and considering the state of the SMEs, they could not afford to pay them. The other contribution is the increase of output consisting of 66%. The majority of the respondents highlighted that their output levels increased significantly ever since they started using MFIs services.

### 4.4.6 What are the sources of financing for small to medium-sized enterprises?

Table 4.8 Sources of funding for SMEs.



***Source: primary data***

Most of the SMEs in Glen View established their enterprises from personal loans they got from their family and friends and they consisted of 88% of the respondents. The reason being that these loans had bearable loan terms and interest rates as compared to the loans offered by MFIs. They also pointed this as their major because they avoid taking MFIs loans such that if they fail to repay the loan on time, they will not lose their assets they will have registered with the MFIs as collateral security. 60% of the respondents highlighted that they got their start up capital from their salaries and termination of employment benefits from the companies they used to work at before venturing into entrepreneurship. However, they did not have a stable source of income for their continued operations.

Microfinance institutions were pointed out by 74% of the respondents as their source of funding. They indicated that they managed to start their enterprises from the loans they acquired from the MFIs and they were still acquiring loans for the continuation of their operations. They also stated that the loans came as a package with other services like managerial skills and financial literacy trainings that’s why they opted for MFIs as their source of funding. 62% of the respondents claimed that they got their funding from government grant. They stated that they had managed to start up their enterprises from the funds they received from the government.

### 4.4.7 What are the roles of MFIs on SMEs’ growth and development?

Table 4.9 Roles of MFIs on the growth of SMEs.



***Source: primary data***

As shown above, 82% of the participants highlighted employment creation as the major role of MFIs in the expansion of SMEs in Glen View. According to World Bank 2023 most of the jobs in developing economies are from the SME sector. Hence MFIs are aiding in the creation of jobs for they provide services which allow SMEs to start-up and expand their operations. Better access to credit is one of the roles of MFIs in supporting SMEs as shown in the table above with 78%. The respondents highlighted that MFIs improved their access to credit for they can borrow loans anytime they want as long as they meet the requirement prescribed by the MFIs.

The other role of MFIs concerning SME expansion is the provision of new opportunities and it consist of 64%. The respondents highlighted that MFIs enabled them to diversify and enter into new markets that haven’t been exploited yet. With the resources both cash and training services, SMEs are able to enter new markets. Stability of operations consisted of 54% of the respondents who indicated that MFIs have managed to stabilize their operations and the danger of failing and exiting the industry had been reduced to a minimum.

## 4.5 Correlation

The variables’ relationship was derived using Pearson correlations (r). According to the findings, there is a statistically significant relationship between MFIs and SME expansion. SMEs growth is represented by the variables BGS, CFS and SFS, whereas MFIs are represented by the variables CSC and CMS. All five variables – BGS (p<0.01; r=0.642), CFS (p<0.01, r=0.524), CSC (p<0.01, r=0.519), CMS (p<0.01, r=0.681), and SFS (p<0.01, r=0.478) were found to be statistically significant.

Table 4.10 Correlation

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | BGS | CFS | CSC | CMS | SFS | EMG |
| BGS | Pearson Correlation | 1 | .567\*\* | .571\*\* | .745\*\* | .536\*\* | .642\*\* |
| Sig. (2-tailed) |  | .000 | .000 | .000 | .000 | .000 |
| N | 50 | 50 | 50 | 50 | 50 | 50 |
| CFS | Pearson Correlation | .567\*\* | 1 | .410\*\* | .604\*\* | .314\* | .524\*\* |
| Sig. (2-tailed) | .000 |  | .003 | .000 | .026 | .000 |
| N | 50 | 50 | 50 | 50 | 50 | 50 |
| CSC | Pearson Correlation | .571\*\* | .410\*\* | 1 | .478\*\* | .501\*\* | .519\*\* |
| Sig. (2-tailed) | .000 | .003 |  | .000 | .000 | .000 |
| N | 50 | 50 | 50 | 50 | 50 | 50 |
| CMS | Pearson Correlation | .745\*\* | .604\*\* | .478\*\* | 1 | .538\*\* | .681\*\* |
| Sig. (2-tailed) | .000 | .000 | .000 |  | .000 | .000 |
| N | 50 | 50 | 50 | 50 | 50 | 50 |
| SFS | Pearson Correlation | .536\*\* | .314\* | .501\*\* | .538\*\* | 1 | .478\*\* |
| Sig. (2-tailed) | .000 | .026 | .000 | .000 |  | .000 |
| N | 50 | 50 | 50 | 50 | 50 | 50 |
| EMG | Pearson Correlation | .642\*\* | .524\*\* | .519\*\* | .681\*\* | .478\*\* | 1 |
| Sig. (2-tailed) | .000 | .000 | .000 | .000 | .000 |  |
| N | 50 | 50 | 50 | 50 | 50 | 50 |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). |
| \*. Correlation is significant at the 0.05 level (2-tailed). |

***Source: primary data***

### 4.5.1 The correlation of the barriers that hinder entrepreneurial growth (BGS) and the SMEs growth.

The findings above showed a statistically significant relationship (r=0.642. \*\*, p<0.01) between the growth of SMEs and the barriers to entrepreneurial development. The findings show that the greater the risks for improvement on SMEs growth the more barriers to entrepreneurship are encountered. This suggest that there will be a negative influence on entrepreneur’s growth if they face additional obstacles such as lack of funding, complicated loan procedures and a lack of collateral security. According to Nendakulola (2015), some SME respondents perceive the credit application process to be difficult and are unable to offer the collateral securities when required.

### 4.5.2 The correlation of constraints faced by SMEs (CFS) and SME growth.

As shown in the table above, there is a positive relationship between SME growth and the constraints that SME face (r=0.524, p<0.01). The results indicate that the more they face constraints in accessing finance, the more difficulty it will be for SME to achieve the desirable growth. The conclusion implies that if the constraints faced by SMEs which consist of lack of knowledge and stringent borrowing costs could be overcome, SMEs development would be realized. SMEs which enroll in enterprising courses can gain the knowledge needed to boost the company’s earnings.

### 4.5.3 The correlation of the challenges SMEs face in obtaining finance (CSC) and SME growth.

There is a positive and significant association between the challenges SMEs have in accessing finance and their growth as shown in the table above (r=0.519, p<0.01). The results demonstrate that the greater the challenges SMEs have in accessing finance, the more limited their options are for starting or growing their businesses. Therefore, when SMEs face challenges like high interest rates, ineffective management in MFIs and a lack of government assistance to MFIs, SMEs will find it challenging to achieve the needed growth in the absence of MFIs. According to Christanto and Prasetyo (2019), while the government may offer support, it frequently is insufficient to help businesses to expand significantly.

### 4.5.4 The correlation of the contributions made by MFIs to SMEs (CMS) and SME growth.

According to the findings in the table above, there is positively significant relationship between SME expansion and the contributions of MFIs (r=0.681, p<0.01). This suggest that the potential for SMEs to expand is larger the more the help they get from MFIs. It suggests that offering financial support, aiding in financial literacy and helping SMEs build their managerial skills may all help SMEs flourish. According to Nendakulola (2015), highlighted that MFIs made a substantial contribution to the growth of the SME sector in his study.

### 4.5.5 The correlation of SMEs’ funding sources (SFS) and SME growth.

As shown in the table above, there is a positively significant relationship between funding sources and SMEs growth (r=0.478, p<0.01), indicating that the likelihood of SMEs growth is higher the more diverse the financing sources will be. The findings show that SMEs have a greater chance of expanding when a variety of financial resources are available which is essential for expanding the enterprises. These resources can either be from family and friends, salary or savings group. Aladejebi (2019) emphasizes the fact that small business owners obtain their capital from a wide range of sources including colleagues, donations from family and friends, personal savings, partners and cooperative organizations.

## 4.6 Discussion of findings with reference to chapter 2

### 4.6.1 The difficulties SMEs face in obtaining finance

The study took into account the difficulties SMEs encounter when accessing MFIs products. The literature review emphasizes the difficulties that MFIs confront, including those posed by the legal and regulatory environment (Copper, 2013) which include high interest rates, an unfavorable environment for microfinance institutions, little government assistance and lack of managerial and technical skills. According to the respondents, SMEs encounter obstacles while trying to access microfinance services and one of them is high interest rates. This finding was consistent with the finding of Khan (2020) who discovered that there was a negative relationship between the expansion of SMEs and the stringent borrowing terms of MFIs. The tight borrowing requirements are a disadvantage for SMEs and they deter them from obtaining financing from MFIs. Although the government has created certain programs to improve SMEs’ business management skills through various institutions like the Higher Education Institutions, entrepreneurs still struggle with a lack of business skills that prevents them from taking their companies from the start up to the growing phase (Bomani and others 2019).

High loan interest rates were cited by the vast majority of the respondents, 86%, as the main barrier preventing SMEs from obtaining financing. This finding is consistent with previous research of Mwaipopo (2020), who identified that the failure of SMEs in the study area was mostly caused by the high interest rates charged by MFIs. In addition, 74% of the respondents said that one of the difficulties preventing SMEs from accessing funding is insufficient support from the government to MFIs. The participants also cited poor management in MFIs as a barrier to SMEs’ ability to obtain finance. The research-reviewed literature also indicates that SME owners are so concerned about high lending rates being charged by MFIs (Dhumale and Sapcanin, 2008). This puts the borrower under a lot of stress that can potentially have an adverse effect on the success of their business. The lack of adequate skills in the MFIs was not believed to be significant enough to limit the expansion of their enterprises.

### 4.6.2 The impact of MFIs on the output of SMEs

The studies that were reviewed in the literature for this one show that there is an extension of credit and demand have a linear relationship, so as output demand rises, so does the need for capital. This finding was consistent with the previous research of Costantino and Mbamba (2022) who found out that through financial assistance and counsel of MFIs existed, they were able to increase their output, increase their turnover and withstand financial shocks they previously experienced.

The study’s findings showed that those who are thriving in the industry claimed that financial support was the biggest factor in the success of the SMEs. Support for financial literacy received an additional score of 72% while development of SMEs management skills received 68% according to the respondents.

 A positive correlation between SMEs’ output and credit availability, with output rising as credit became available was also noted. The outcomes emphasized once more that SME owners who received financial education and counselling witnessed a rise in output compared to those who did not. This finding was consistent with findings of Shipefi (2022), who discovered that, SMEs which couldn’t receive enough training were not able to sustain and expand their operational activities. The study went on to say that the availability and contribution of credit boosted the output level of businesses, highlighting the positive connection between SME output and MFIs products.

### 4.6.3 The impact of MFIs towards SME expansion

It is feasible to understand how microfinance institutions’ effects on SMEs through its principal activity of capital provision may have an impact on the SMEs’ ability to acquire credit more easily. This finding agrees with the previous research of Yerima, Gambo and Umar (2022) who got statistical sufficient evidence that micro credit can affect the growth of SMEs significantly and positively. By increasing job creation both within the company and throughout the SME sector, it further promotes SME expansion while also enhancing business stability. This finding was consistent with the previous research of Shipefi (2022), who discovered that a significant relationship between SME expansion and the loans provided by MFIs existed.

In turn, this will increase the SMEs’ competitive advantage and open up new business opportunities. 54% of those surveyed stated that the operations of their business had been proceeding as planned, while 64% said they believed MFIs had created new prospects for their businesses. The respondents were in agreement that MFIs had a positive impact on employment creation. This finding was consistent with findings Kori and Muathe (2022) who discovered that SME enterprises produced jobs, improved food security, empowered women and funded education thanks to MFIs. This finding was consistent with the previous research of Mwaipopo (2020), who concluded that the majority of the study’s respondents had access to MFIs loans which they used as their start-up capital or for expansion of existing businesses which led to the growth of SMEs.

According to the study’s reviewed literature, the inability to obtain financing continues to be a major barrier to business growth. Therefore, there was a positive connection between MFIs and SMEs growth which might be improved by concentrating on removing obstacles as well as restrictions to improve SMEs access to loans. The results also showed that MFIs’ assistance had a favorable impact on their enterprises, particularly with regard to the provision of financial help that positively impacted their overall expansion. The finding is consistent with the previous research of Luka (2022), who found that microfinance institutions credit and loans had a positive impact on SMEs’ performance. The study also found that MFIs’ saving schemes have a positive impact on SMEs performance because they help SMEs acquire assets and reduce risk exposure.

However, the study demonstrated that SMEs still encounter certain difficulties when trying to acquire loans, despite the help provided by MFIs for their operations. Many SMEs respondents claimed that the application process for loans is cumbersome. The difficulties include: failure to deliver the required collateral security when requested. This finding was consistent with previous research of Mwaipopo (2020), whose respondents claimed that when applying for loans, MFIs ask them for collateral security which is too valuable, therefore the researcher discovered that there was no relationship between the loan amount requested and collateral security. Another problem with getting credit was cited as having high interest rates. The high interest rates primarily cause an increase in customer payment defaults.

## 4.7 Conclusion

Out of 60 questionnaires distributed to SMEs in Glen View Home Industry, the research findings from 50 participants were reported. To report these findings, the questionnaire’s format was adhered to. The order in which the questions were asked served as the basis for the data analysis.

# CHAPTER 5

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.0 Summary

This investigation looked into how microfinance institutions affected the growth of new enterprises. It also evaluated the difficulties SMEs had in getting financing and the effect of MFIs on SME output. The results’ critical evaluation reveals that, apart from having improved accessibility to credit, SMEs continue to face difficulties in obtaining the funding they require business star-up or expansion due to factors like loan interest rates, the lack of a broad base of MFI sources, lack of business registration and institutional support and training for SMEs.

## 5.1 Conclusion

MFIs are regarded as a crucial tool for SMEs’ expansion, but the study has underlined that the success of SMEs does not depend only on the accessibility to loans but on the construction of a supportive workplace as well. Additionally, it is imperative that policies like a suitable legal framework which would support the enhancement of MFIs products be provided in order to promote SME growth. The study also found that most of the time, MFIs evaluate their success rate by taking into account factors like financial sustainability and high repayment which in the scenario of SMEs might not necessarily indicate success if their actions do not promote SME expansion.

 Additionally, the SME sector would be impossible for MFIs to reach because of the difficulties faced by SMEs such as high interest rates that result in loan defaults and requirements for collateral that hinder SMEs from accessing loans. The provision of business of business training had a favorable impact on the expansion of SMEs. Since, loans are a crucial resource for business growth, MFIs have a huge duty to ensure that they are provided in a proper manner.

## 5.2 Recommendations

The recommendations below are given in light of the study’s results and conclusions in order to improve and maintain growth in the SME sector.

* Diversification is essential in addressing the default rate and the government should be ready to support SMEs by offering diverse training programs to help them pursue new product lines. Apart from that, MFIs must make sure that their funding strategies and resources are concentrated on the key subsectors with the aim of improving SMEs ability to access the most crucial resources and removing the obstacles they confront. In order to prevent loan defaults, MFIs ought to implement the microfinance group model and SMEs should be encouraged to use group financing.
* The government should create the framework of institutions and policies to increase assistance to SMEs in those areas that would be helpful to achieve SME growth. Also, MFIs ought to examine their credit limits and offer soft loans that SMEs can afford.
* Credit should put the demands of the customer before the attributes of the product in order to achieve the above. For SMEs that receive loans, appropriate monitoring facilities should be established.
* In an effort to enable and promote SMEs to engage in enterprising operations and to allow the SMEs which are already operating to expand their enterprise operations in order to create jobs, it is crucial that MFIs assess their regulations on the largest possible amount of the loan that is adequate to offer to SMEs.
* The provision of microloans cannot be sufficient on its own to lessen the difficulties that SMEs encounter and enhance their output and earnings. Therefore, it becomes essential to undertake additional microfinance support measures, such as providing SMEs with workspace in the form of market cubicles and promoting the growth of the markets and availability of the goods they deal in.
* The government should take steps to lower the risks and processing costs of lending, which will encourage MFIs to offer loans to SMEs. This might help to increase competition in the financial industry and build up the capacity to better serve SMEs. For SMEs that the MFIs are hesitant to lend to due to potential dangers they detect, the government could offer guarantees.

## 5.3 Areas for further study

Researches carried out in the future must focus on the nation as a whole rather than just one area. In order to help SMEs, comprehend, participate in, and fully benefit from MFIs activities, further researches can explore the way to deal with the problem of inadequate funding experienced by SMEs, SME achievement and managerial skills within the SMEs. Additionally, there is a need for in-depth research on the MFIs’ interactions with SMEs that may have an impact on their potential growth.

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# Appendices

## 1.1 QUESTIONNAIRE

I’m an accounting student at Bindura University carrying out an investigation on the role of MFIs on the growth of SMEs. The intention of this questionnaire is to achieve the study objectives. The collected information is only for academic purposes and it will be kept safe in a safe confidential purpose. I greatly appreciate your corporation.

**SECTION A: GENERAL INFORMATION (TICK IN THE APPROPRIATE BOX**)

1. **Sex**

Male

Female

1. **Age group**

18-24 years

25-34 years

35-44

45 and above

1. **Educational level attained**

Primary school

Secondary school

Diploma

1. **Marital status**

Married

Divorced

Widowed

1. **Size of the business (Number of employees)**

1-2 employees

3-5 employees

6-10 employees

11+ employees

**SECTION B: THE ROLE OF MICROFINANCE TO SMEs DEVOLOPMENT**

1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly agree

**Tick in the appropriate box.**

**What are the barriers that hinder the growth of SMEs?**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| A | Lack of collateral security | 1 | 2 | 3 | 4 | 5 |
| B | Cumbersome loan procedures | 1 | 2 | 3 | 4 | 5 |
| C | Lack of knowledge  | 1 | 2 | 3 | 4 | 5 |

**What are the constraints that are being faced by SMEs?**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| A | Lack of microfinance support | 1 | 2 | 3 | 4 | 5 |
| B | High interest rates | 1 | 2 | 3 | 4 | 5 |
| C | Lack of management expertise | 1 | 2 | 3 | 4 | 5 |

**What are the challenges being faced by SMEs in accessing finance?**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| A | Poor management in microfinance institutions | 1 | 2 | 3 | 4 | 5 |
| B | High loan interest rates | 1 | 2 | 3 | 4 | 5 |
| C | Lack of government support to MFIs | 1 | 2 | 3 | 4 | 5 |

**What are the contributions of MFIs in aiding SMEs?**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| A | Financial support provision | 1 | 2 | 3 | 4 | 5 |
| B | Financial literacy support | 1 | 2 | 3 | 4 | 5 |
| C | Develops management skills in SMEs | 1 | 2 | 3 | 4 | 5 |
| D | Helps to increase SMEs output | 1 | 2 | 3 | 4 | 5 |

**What are the sources of funding for SMEs?**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| A | Family or friends | 1 | 2 | 3 | 4 | 5 |
| B | Salary | 1 | 2 | 3 | 4 | 5 |
| C | Savings group | 1 | 2 | 3 | 4 | 5 |
| D | Government grant | 1 | 2 | 3 | 4 | 5 |

**What are the roles of MFIs on the growth of SMEs?**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| A | Employment creation in the SMEs | 1 | 2 | 3 | 4 | 5 |
| B | Better access to credit | 1 | 2 | 3 | 4 | 5 |
| C | Stability of operations | 1 | 2 | 3 | 4 | 5 |
| D | Provides new opportunities for SMEs | 1 | 2 | 3 | 4 | 5 |