The Contribution of Microlending Models to the growth of Micro and Small Entrepreneurs

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Microfinance has been providing microcredit services to beneficiaries through group, individual, association loans, community banking, and corporative microlending models. The sector has been fostering the growth of business in the economy by enabling entrepreneurs to participate in a variety of income-generating activities. However, there is limited information on the extent the microlending models contribute to the performance of micro and small enterprises. Therefore, the current research primarily intended to assess the contribution of Microfinance Bank’s microlending models to the growth of micro and small entrepreneurs in Tanzania. This was a mixed approach study which adopted explanatory design and used convenience and purposive sampling techniques to obtain 179 respondents. Questionnaires, document review and interviews were used to collect both primary and secondary data. Statistical Packages for Social Science were used to quantitatively analyse field data using descriptive statistics (SPSS). MAXQDA10 was also used to conduct a content analysis of qualitative data. The findings of the study show that microlending models of microfinance banks contribute to the growth of micro and small entrepreneurs. It is thus recommended that microfinance banks should use appropriate lending model that is compatible with the nature of micro and small firms for growth and sustainable operations as they constitute the larger portion of lending clientele.

Introduction

Worldwide initiatives have taken to improve microfinance institutions’ services by establishing agencies, ministries and other regulatory bodies. These initiatives aim at enabling microfinance institutions reach out to low-income societies (Olashore, 1988; Yunus, Muhammad, 2010). In Tanzania the initiative has results to an increase of microfinance institutions that supporting SMEs (Erasmus, 2013; Kapaya, 2020). The Tanzanian Development Vision (TDV) 2025 “highlighted SMEs sector as an important contributor to the country’s long-term development (World Bank, 2021). It is estimated that the sector consists of over three million enterprises which above 80% of them are MSEs (Gomera & Oreku 2020). Therefore, it calls the attention of academicians, police makers and practitioners.


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The microfinance banks have complemented to support MSEs by providing microloans, business guidance and entrepreneurship acceleration and growth programmes (Chen, Chang, & Bruton, 2017; Taivanet & Nene, 2016; Awad & AlKaraki, 2019, Gomera, Suhonen & Oreku, 2020). Despite of many microfinance institutions providing financial services increased, the outreach to the poor as well as the social impact is still not well (Nkwabi & Mboya, 2019). Various reforms made by Tanzania Government through its Central Bank and Ministry of Finance aiming to improve microfinance institutions and lending services. According to the World Bank Report - Achieving Tanzania’s Development Vision 2021, the Bank of Tanzania (BoT) reduced the discount rate and the minimum reserve requirement to inject liquidity into the financial system (World Bank 2021). Those reforms aim to improve services of Micro lending which have direct impact towards growth of MSEs. SMEs sector in Tanzania has been recognised as among critical sectors for creation of employments, income generation and contribution to the National GDP growth with estimation of over three million SMEs operating in different business in Tanzania (Mashenene & Rumanyika 2014).

Despite the number of measures aimed at promoting business development services and the importance of micro and small businesses to the economy, micro and small businesses continue to face a number of drawbacks. The microfinance banks are woefully inadequate in providing microcredit services, thus frustrating business growth (Taivanet & Nene, 2016; Awad & AlKaraki, 2019). These include inappropriate models of offering financial access (Ducai, 2012) as owed to multiple blocks to access microloans, training and after loan services (Awad & AlKaraki, 2019). Additional drawbacks include inadequate loan information, insufficient training, lack of collateral, exorbitant interest rates and limited sources of reliable information (Kapaya, 2020).

In order to realize the benefits of microcredit services to the expansion of small and micro businesses in any economy, more emphasis must be on the microlending models (Marobhe, 2019). Moreover, Awad and AlKaraki, (2019) indicate that it is vital to examine the influence of the microlending model used. A wide variety of microlending models are used by microfinance banks, NGOs, community banks, and other lending institutions in Tanzania. These microlending models include groups lending, individual lending, borrow at grant, user experience lending, and ensure security lending (Mbena, 2013). According to Matemilola (2015), the impact and contribution of each model vary greatly. For example, group lending appears to lower the risk of loan repayment default by 23 per cent. Moreover, Gomera and Apiola (2015) found that trust and referencing, observation models are also used during microloan appraisal stage. Moreover, the lending model is applied during training that is targeted at imparting business skills in order to boost the likelihood of business success after obtaining loans and, as a result, better loan repayment behaviour (Njeru, 2003). Nazir, Tan and Nazir (2020), investigated the impact of lending model on SMEs' access
to finance in Tanzania. However, the studies have not extensively addressed the contribution of microlending model of microfinance banks on the growth of MSEs in Tanzania, and this motivated the current study. Therefore, this study focused on the contribution of microfinance banks’ lending models to the growth of micro and small entrepreneurs. To the best of our knowledge, the related literature has limited information on the indicators that support the growth of SMEs. This paper filled this gap by using a unique questionnaire with detailed information on access to microfinance banks and MSEs growth. The objectives of the current study are to assess the contribution of microfinance banks’ microlending models to the growth of MSEs and to analyze the extent of satisfaction of micro MSEs with the microfinance banks’ microlending model in Tanzania.

**Literature Review**

**Theoretical and Conceptual Background**

Microlending is the process of granting small loans known as "microloans" to small business owners that do not have access to financial products (Pritchard, 2022). Micro lending as a process involves lending small amounts, usually less than $50,000, to financially challenged individuals or organizations that are unable to obtain conventional loans from the banks or credit unions (Daniels, 2022). Elisabeth further postulates that micro lending involves small interest rates with minimum minor lending regulations. The aim is to improve Micro and small business hence the improvement of living standard to individuals or groups who are unable to obtain loans from banks. Microlending business involves the issuance of small unsecured loans for the purpose of business generation within poor communities. Microlending uses different tools such as savings, insurance, mortgages and retirement plans (Cull, Demarguc – Kunt & Murdoch, 2009).

Microfinance banks are valuable key players in any economy (Iheanacho, 2016) as they provide financial solutions in the form of microloans to Micro and Small Entrepreneurs (MSEs) (Kingu & Gomera, 2022). This has significantly contributed to poverty alleviation and the growth of small businesses (Kapaya, 2020). Microfinance banks also provide loans to underprivileged groups in societal segments, particularly those who do not fit the typical bank lending criteria (Kipesha, 2013).

Microfinance banks have made a significant contribution to poverty alleviation efforts around the world, particularly in the emerging nations, where the poor and small business owners constitute the majority of the population (Kipesha, 2013). Microfinance banks have been and continue to be effective in improving people's lives by providing microcredits, which allow the beneficiaries to participate in a variety of income-generating activities. This has ensured self-sufficiency among micro and small
business owners, allowed them to provide for their families and consequently improved their overall well-being (Kipesha, 2013).

According to Masenya (2018), the bank size has an impact on lending behaviour, particularly in non-government banks. Furthermore, profitability has a significant positive effect on the bank lending to MSEs, whereas liquidity coefficients are statistically favourable in all specifications, with the exception of government banks, which have a considerable negative effect. According to the study by Masenya (Ibid), the capital variables projected influence on the lending banks to MSEs is minimal in both government and nongovernment-owned banks.

Tanzania's microfinance sector is jointly owned by the government and the private sector, resulting in a combination of government banks, non-governmental organizations (NGOs), religion-affiliated banks, union banks, and private firms to support the micro and small enterprises (Gomera & Oreku, 2020).

Moreover, due to the prime role played by micro and small enterprises in the growth of emerging economies, a variety of measures have been launched by various stakeholders to directly or indirectly promote small and medium-sized businesses, and policy development and support programs are among such initiatives (Marobhe, 2019). Tanzanian government, for example, formed the Small Industries Development Organization (SIDO) as a parastatal organization under the Ministry of Investment Industry and Trade in 1973 with the goal of developing the small industry sector. SIDO had a wide range of responsibilities, from policy formulation to industry support. Tanzania Trade Development Authority (TanTrade) was also founded with the goal of improving Tanzania's economic performance by producing and promoting goods and services for both domestic and international markets (Marobhe, 2019).

There are numerous microfinance entities operating in Tanzania, all of which have been granted permission by the government to operate owing to their role in aiding poverty alleviation measures in the country's both rural and urban diverse locales (Gomera et. al., 2017). The entities are extremely beneficial to the economy since they provide microcredit to the poor, who constitute the larger proportion of the country's population. According to Marobhe (2019) microfinance banks are critical in the efforts of poverty reduction in Tanzania since they financially support MSEs.

The Relationship Lending Theory

This theory focuses on the lender's and borrowers' frequent interactions, arguing that relational lending is beneficial to various types of borrowers (Berger & Udell, 1995). Small business entrepreneurs with solid banking relationships, according to Mader and Philip (2011), can readily acquire better bank credit and have fewer issues generating capital than businesses without good banking relationships.
The lender’s acquisition of soft information, which helps minimize informational asymmetries, is facilitated by recurrent personal engagement from loan relationships. The usefulness of relationship lending in smoothing credit volatility and providing liquidity protection to businesses, even during crises, is now well documented (Olashore, 1988; Yunus, Muhammad, 2010).

The existence of a continuing value of the lender-borrower relationship may influence future play by allowing all projects to be refinanced and persuading borrowers to take favourable actions toward the lender (Otu, M.F., et al., 2003). The repetition aligns the incentives to the bank and entrepreneurs with the best possibility of continued value with stronger renegotiation for current and future project refinance. The relationship-focused banks charge lower interest rates than transactional banks, according to Yunus, Muhammad (2007), since borrowers who have established longer ties are more inclined to pay lower interest rates.

This theory is relevant to the current study because it proposes that microfinance banks should establish solid lending relationships with micro and small entrepreneurs in order to assure the continued provision of loans to all existing and future projects in both profitable and unprofitable times. It is also critical for micro and small businesses to have access to microfinance banks in order to grow.

Empirical Review and Hypothesis Development

Bank-Micro and Small Entrepreneurs Relationship

The microfinance banks-MSEs relationship is the procedures and characteristics of the dealings between the two parties (Gomera, 2020). This is based on lender borrower’s relationship where the lender is a bank that offered microcredit services to MSEs in different lending models. Borrowers are MSEs that receive the microcredit services in return of loan repayment, application fees and interest rate payment (Iheanacho, 2016).

Lending Models and their implications on Micro and Small Entrepreneurs Growth

The structures, policies and procedures that govern the relationship between lenders and borrowers is crucial in the banking sector. The differences in microlending models’ practices depend on the aspects to consider and the structure set to deal with customers (Twinoburyo, & Odhiambo, 2018).

The lending model to the bank is of high importance as it helps the banks to screen out borrowers that are likely to default; to add an incentive for the borrowers to repay the loan; to offset the cost to the lender of a loan default; and to reduce the lending risk. Some of the commonly used models in the bank and MSEs relationship are user experience lending model, group lending model, individual lending model and grant...
The User Experience Lending Model

The user experience lending model considers a client's behaviour, emotions, and thoughts that are influenced by the lending process or other contacts between the financial institution and the customer (Fintech, 2015). In banking, a user experience model is a customer-cantered approach for developing a service or product that aims to delight customers at each touch point of the customer journey, resulting in a strong emotional bond between the bank and the customer (Fintech, 2015). The user experience model is significant in this study because it considers the nature of clients, who are mostly micro and small business owners, as well as the best approach to secure their loans when choosing the optimal lending model. This can be done, for example, by encouraging the adoption of the group model, in which borrowers are recruited into groups for the purpose of securing loans and each borrower becomes a guarantor for another group member.

Agent-Based Model

Agent-based model drives the endogenous formation of interbank networks. It focuses on the interactions with customers through agents (Bookstaber, 2017). This model operates in the financial system that starts with the agents by connecting investors, providers of funding, and market makers. The model shows the interactions of the microlending players alter the financial environment.

In offering services, some MFIs use agents loan officers to ensure the microcredit services to borrowers. Through gaining an understanding and insight into the operations of SMEs, agents’ practices are taken as part of MFIs operations and growth drivers of SMEs (Chan-Lau, 2017).

The Group Lending Model

MFIs bear a fraction of all costs, including transaction fees, in the group lending model. Some of these expenses are attributed to asymmetric information (adverse selection and moral hazard) on the side of these institutions, as well as enforcement and auditing systems (Zografia, Subalova & Locke, 2021). To reduce the risks, MFIs employ a screening procedure to determine eligible consumers and then develop the best feasible loan contract. MFIs have chosen their members for the group on their own due to the difficulty in collecting information on their clientele (Seyoum, Aragie & Tadesse, 2016). Because clients have more accurate information on their member partners than MFIs, the danger of default is reduced. Furthermore, knowing that all members are equally accountable to repay in the event of default encourages clients to
choose members who are low-risk. MFIs can also use the screening technique to determine which borrowers are low risk and which are high risk.

Low-risk borrowers prefer low-interest group loans, but high-risk borrowers choose high-interest individual loans. Penalties are imposed if the group intentionally defaults. When full information is available, risky borrowers are not chosen (Nyamsogoro, 2010). Despite that various shared responsibility model regulations help to lower the risk of nonpayment, asymmetric information makes it difficult to identify potential borrowers in the first place.

The contractual provisions are mostly ineffectual since the borrowers are too poor to be exposed to financial fines imposed by MFIs. As a result, shared liability enables better screening to avoid adverse selection, stimulates peer monitoring to reduce moral hazard, gives group members incentives to compel loan payback, and reduces the lender's audit expenses in circumstances when some group members say they are unable to repay. Social collateral is also utilized as a backup alternative for enforcing payments (Gomera, & Oreku, 2020). The cost of selecting potential group members, forming the group, negotiating with the lender, completing appropriate documentation, transportation to and from the loan agency, time spent on project evaluation and meetings, monitoring group activity, and enforcing group regulations is often shared between microfinance and the borrowing groups (Gomera, & Oreku, 2018). MFIs gain from this model since the cost burden is shared among group members.

The Individual Lending Model

The Optimizing Performance and Efficiency Series brings together significant thoughts and ideas on various themes with the goal of giving practical and meaningful guidance to microfinance practitioners. The Optimizing Performance and Efficiency Series, based on Microwave's famous Briefing Notes and India Focus Notes series, provides concise insight on a variety of topics ranging from product innovation to delivery-system optimization (Gomera, & Oreku, 2018). Each booklet focuses on a specific area that can help a microfinance institution improve. The series assists microfinance institutions in improving their double bottom-line performance, which includes both financial and social outcomes.

A Credit Committee of at least three persons, often including the Branch Manager, should approve loans. Many MFIs entrust credit decisions to a single person, usually a supervisor or Branch Manager, creating the possibility for error and bias. Furthermore, the Credit Committee facilitates the transfer of skills and expertise and decreases the risk of fraudulent decisions. Credit Committee members, on the other hand, should be given sufficient time to make loan decisions — without being put under undue disbursement pressure (Kingu & Gomera, 2022). Loan sanctioning power
should be clearly defined and distributed throughout the organization, with higher-level supervisors making decisions on larger loan amounts. Credit Committee guidelines should be provided to committee members to enable this process. Moreover, the committee discussions need to be recorded for reference.

It is critical to ensure that legally valid and full documentation is created during loan disbursement in this model. Some MFIs, for example, obtain post-dated cheques from the guarantor, which gives the lender additional confidence in the borrower. Unlike group lending operations, where loans are frequently dispensed in the field, it is preferable to execute disbursements within branch premises for bigger amounts. It is worth noting that how the loan is disbursed is heavily influenced by legal regulations (Fin Tech, Holland, 2015).

Individual lending can be rewarding, but it usually comes with higher portfolio quality issues. It is critical to monitor clients on a regular basis in order to detect warning signs before a default occurs (Zografija, Subalova, & Locke, 2021). Monitoring schedules should be established ahead of time with the goal of guaranteeing proper loan utilization, constantly monitoring changes in business and home financials (particularly for larger loans), and reminding the borrower (and guarantor) of their responsibilities (Yunus, Muhammad, 1989). Even if the client completes a loan cycle without problem, if the loan usage was not as agreed, this should be considered when evaluating any subsequent loan application. Regular interaction with clients and guarantors also helps in building the relationship, cross-selling other services, and reducing the possibility of deliberate default. Observations and feedback from monitoring visits should be documented and reviewed, and immediate remedial steps should be taken where necessary.

Growth indicators of micro and small business

Growth information can be gleaned from available financial statements, records, and reports (Eniola & Ektebang, 2014). However, to SMEs, the growth considers the size of business, increase of services offered, the number of employees and time of business existence (Nyamsogoro, 2010). For instance, the MSE's performance is mainly measured on increased customer satisfaction, the number of products/services offered, time of operations and the number of employees (Seyoum, Aragie & Tadesse, 2016).

It is crucial to determine the SMEs growth, mainly because it is an essential and reliable means of determining whether or not an organization is achieving its desired goals and objectives. Moreover, for the banks, the growth of SMEs means sustainability of customers’ portfolio in terms of credit volume, interest rate, market share (number of customers), loan repayment ability and customer satisfaction. It is
these indicators that help to easily interpret the SMEs growth (Thaba-Nkadimene, KgomoTlokoa 2016).

Method

The explanatory sequential mixed-methods research design was employed in this study, which indicates that both qualitative and quantitative data were collected and processed, resulting in relevant interpretations and conclusions (Creswell, 2014). Explanatory design was used in this study because, it can best be used in explaining the phenomena, generating information, and building a new understanding of a study's subject matter (Kamuzora & Adam, 2008) as was intended in the current study. Moreover, the quantitative data were collected and analysed, followed with an in-depth data collection with the aim of explaining the issues that emerged from the qualitative data.

The study collected data from Loan Officers and the MSEs located in Dar es Salaam, Tanzania because it is a major commercial city, a popular business destination and a hub for major economic activity. Loan Officers were involved in the study to help researchers identify microlending models used in the Microfinance Bank relationship with MSEs. Moreover, MSEs provided data to establish the extent to which microlending model contribute to the growth of MSEs and satisfaction perception.

The study recruited 179 respondents which include 47 Loan Officers and 132 MSEs. To obtain the respondents, convenience and purposive sampling techniques were used. The choice of sampling techniques depends on the research purpose and the character of the respondents. The purpose was to establish the contribution of microlending models on the growth of SMEs. Therefore, purposive and convenience sampling techniques were found appropriate for the study. Convenience sampling technique is explained by Etikan, Musa and Alkassim (2016) as a technique that involves choosing the nearest, available and willing individuals to serve as respondents and continuing that process until the required sample size has been obtained. In addition to convenience sampling, SMEs were purposively sampled to participate in this study. The sampled SMEs were those who have microloans with MFIs banks. Purposive sampling procedure as explained by Stratton (2021) is useful for specific purpose as the sample is picked on basis of their judgment of their typicality or specific characteristics. similarly, as observed by Lopez and Whitehead (2013), purposive sample is not based on the number of respondents but rather on the potentiality of each person to contribute to the development of insights and understanding of the phenomenon.

Data Collection Method
The study used Interview, Questionnaires and documentary reviews to collect data that enabled the researcher to establish the role of MFIs’ microlending model in the growth of Tanzania's MSEs.

**Interviews**

Semi-structured interviews were conducted to Loan Officers and MSEs owners. The researcher employed semi-structured interviews so as to explore feelings, attitudes and perceptions of the participants (Bryman, 2012) regarding the role of MFIs’ microlending model in the growth of Tanzania's micro and small entrepreneurs. Each interview lasted for 20 to 40 minutes depending on the awareness and understanding of the respondent on the subject under study. Tape recording was used for some respondents who consented to be recorded. Others were not willing to be recorded, therefore notes were taken for each interview.

**Questionnaires**

The survey comprised five-point Likert scale questions aimed at gathering quantitative data. These questionnaires comprised both open-ended and close-ended questions. Open-ended questions allowed the sharing of free responses, own references, expressed feelings and experiences from the respondents. Meanwhile, closed-ended questions helped the participants to answer questions quickly and objectively. According to Mohajan (2020), questionnaires have the advantages that result to large amount of information to be collected about the problem under study.

**Documentary review**

Documentary review for this study included various reports and published sources of information such as books, journals, articles records and files. Documentary review enabled the researcher to obtain insight of the study and get data that answered the research questions.

**Data Analysis**

This study analysed data both qualitatively and quantitatively in two phases. In the first phase, qualitative data were subjected to content analysis involving inductive reasoning process. This approach allows researchers to understand social reality in a subjective but in a scientific manner. The process of content analysis suggested by Forman and Damschroder (2007) and Hsieh and Shannon 2005 was followed, therefore, contents and categories/patterns were constructed from the data through the researcher’s careful examination and constant comparison. Eventually, the emerged patterns were interpreted meaningfully as well. In order to generate meaningful expressions from the qualitative data, MAXQDA 10 software was used. The second phase of quantitative analysis involved data which were collected using questionnaire and coded and analysed using a computerized data analysis package. The SPSS V20 was used to process quantitative data. Data were classified and analysed
through descriptive statistics, then summarized and presented in tables of frequencies and percentages. Finally, both qualitative and quantitative findings were further interpreted and discussed.

**Validity and reliability**

As Roller and Lavrakas (2015) point out, validity is the situation in which outcomes from the data analysed truly represent the subject under study. The validity of the instruments was determined through an empirical assessment, whereby a quantitative analysis involving statistical techniques was used as it measures what is intended to be measured.

Later, a pilot study was conducted to correct the errors in the instruments, thereby increasing the instruments' reliability. Reliability is the extent to which the test measures accurately and consistently (Roller & Lavrakas, 2015). In this study, reliability was established through test and re-test method during the pilot study. A pilot study utilizing a test-retest technique was used to assess the instruments' validity. In addition, Cronbach's alpha (α) was employed to estimate the reliability of the predictor variables. Cronbach’s α analysis is a useful way of determining the internal consistency and homogeneity of groups of test items.

**Ethical Considerations**

In doing research that involves human beings, ethical consideration is about being sensitive to the rights of all those who in one way or another might be affected by the processes involved. As observed by Fisher and Anushko (2008), when one designs a research project, there is a need to consider such issues as “informed consent, respect for privacy, safeguarding the confidentiality of data, harm to subjects and researchers, as well as deceit and lying.”

The researchers therefore requested for a research permit from the College of Business Education (EBE) before going to the field. The permit from the College of Bussiness Education introduced researchers at various levels of authority and respondents.

During data collection, every participant was given a chance to read, understand and give consent to participate in the study. Also, participants were given the freedom of deciding either to participate or withdraw from the study at any time.

Moreover, the researchers assured confidentiality to participants by assigning anonymous names and not to reveal details that would reveal their identities at any point including in the publication of findings.

**Conceptual Framework of the study**

A conceptual framework is a graphical representation of a research study that shows how the investigation's dependent and independent variables interact. This is described as an abstract concept or theory that is used to develop new ones or reinterpret old ones (Kothari, 2020). The dependent and independent variables of this
study are depicted in the conceptual framework in Figure 1. The dependent variables are the growth of small and micro-businesses in terms of their existence, size of business, profit/income, transformation to the formal sector, and an increasing number of employees. The independent variables are micro-lending services offered and lending models used by microfinance banks, and how they contribute to the dependent variables and the growth of small and micro-entrepreneurs in terms of their existence, size of business, profit/income, transformation to the formal sector, and an increasing number of employees. The control variables of the lending relationship, including the continuation of lending, reduction of loan interest rates and lending incentives, and records of small and micro-entrepreneurs’ businesses are very important factors in ensuring the effective contribution of microfinance banks in achieving the growth of small micro-entrepreneurs.

Figure 1: Conceptual Framework of the study
Source: Researcher, 2022

Result and Discussion

This section presents the finding and discussion on the contribution of microfinance banks’ lending models to the growth of micro and small entrepreneurs. This section is divided into two aspects namely, one the contribution of microfinance bank’s services provision models on the growth of MSEs. Two the level of MSEs’ satisfaction with the Microfinance banks’ lending model.

The contribution of microfinance bank’s services provision models on the growth of MSEs
Various items were examined to achieve this objective, including examining the effect of an individual and group lending model on the growth of MSEs. The descriptive statistics presented the output of Likert scale data collected on the extent to which the lending models support the progress of MSEs’ growth indicators. Moreover, the content analysis presented detailed information of the respondents on the lending model against growth indicators of MSEs.

**Lending Models used in Microfinance Bank relationship with MSEs**

The first stage was to establish the lending models used by microfinance banks in the relationship with MSEs. The data show that the microfinance banks using grant model by 1per cent, user experience lending model by 71per cent, individual lending model by 401per cent and group lending model by 521per cent. Figure 2 shows that Microfinance banks are significantly using either group lending model or individual lending model in their relationship with MSEs.

![Lending Models used by Microfinance Banks in Relationship with MSEs](chart)

**Figure 2: The Lending Models used by Microfinance banks in relationship with MSEs**

Source: Researcher, 2022

Through interview with microfinance bank officers, the individual and group lending models were rated appropriate to MSEs. The respondents reported that user experience was not treated as a stand-alone model because its features are included in the group and individual lending model. For the case of grant lending model, the model commented when the bank offer grants through corporate social responsibility.
The contribution of Microfinance Banks’ Lending Models to the Growth of MSEs

Based on the identified lending models used by microfinance banks in their relationship with MSEs, researchers decided to assess the impacts of group and individual lending models on the growth of MSEs. The assessed indicators of growth were an increase of business size, the time of existence, an increase of the services offered and the use of other people (employees) in the daily business operations. The contribution of individual and group lending models were assessed separately against the same indicators of MSEs growth.

The Contribution of Individual Lending Model to the Growth of MSEs

To determine the contribution of individual lending model to the growth of MSEs, the five Likert scale questionnaires were distributed to MSEs. The respondents were required to gauge the extent of agreement with the given statement as shown in Table 1. The findings show that according to the respondents, the individual lending model contribute to the growth of MSEs in different perspectives. The use of individual lending model helps to increase the size of business of MSEs (mean 4.08 std. 0.642), ensure the existence of MSEs (mean 4.30, std 0.736), increase the services offered MSEs (mean 3.33, std 1.323) and motivate the increase of using other people (employees) in daily business operations of MSEs (means 2.92, std 1.099).

Table 1: Summary of Descriptive Statistics on the Contributions of Individual Lending Model of Microfinance Banks on the Growth of MSEs

<table>
<thead>
<tr>
<th>Growth Statement</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The use of the individual lending model helps in rapid increase of the size of MSEs</td>
<td>132</td>
<td>2</td>
<td>5</td>
<td>4.08</td>
<td>0.642</td>
</tr>
<tr>
<td>The use of the individual lending model ensures the existence of MSEs</td>
<td>132</td>
<td>2</td>
<td>5</td>
<td>4.30</td>
<td>0.736</td>
</tr>
<tr>
<td>The face to face and individual dealing with loan officers help go</td>
<td>132</td>
<td>1</td>
<td>5</td>
<td>3.33</td>
<td>1.323</td>
</tr>
</tbody>
</table>
The individual lending model motivate the increase of using other people in performing daily business of MSEs

Valid N (listwise) 132

Source: Researcher, 2022

The contribution of group lending model to the growth of MSEs

For the group lending model, the respondents showed that it helps to increase the size of business of MSEs (mean 3.08 std. 1.542), ensures the existence of MSEs (mean 3.30, std 1.323), increases services offered MSEs (mean 4.33, std 0.736) and motivates the increase of using other people (employees) in daily business operations of MSEs (means 4.42, std 0.899). Table 2 shows the respondents perspectives on the contribution of group lending model towards the growth of MSEs in Tanzania.

Table 2: Summary of Descriptive Statistics on the Contributions of Group lending Model of Microfinance Banks on the Growth of MSEs

<table>
<thead>
<tr>
<th>Growth Statement</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The use of the group lending model helps in rapid increase of the size of business of MSEs.</td>
<td>132</td>
<td>1</td>
<td>5</td>
<td>3.08</td>
<td>1.542</td>
</tr>
<tr>
<td>The use of the group lending model ensures the existence of MSEs</td>
<td>132</td>
<td>1</td>
<td>5</td>
<td>3.30</td>
<td>1.323</td>
</tr>
<tr>
<td>The group discussion with loan officers help go</td>
<td>132</td>
<td>1</td>
<td>5</td>
<td>4.33</td>
<td>0.736</td>
</tr>
</tbody>
</table>
increase services that offered MSEs

The group lending model motivate the increase of using other people in performing daily business of MSEs

<table>
<thead>
<tr>
<th>Growth Statement</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>increase services that offered MSEs</td>
<td>132</td>
<td>2</td>
<td>5</td>
<td>4.42</td>
<td>0.899</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>132</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher, 2022

The contradictory statistical results on the contribution of lending model to the growth of MSEs motivated researchers to find detailed information from the respondents. The interview based on the aspects that lead to the extent of the growth indicators which were derived by individual or group lending model.

The qualitative data revealed that, both group and individual lending model are contributing to MSEs growth. However, the contributions vary basing on the indicators. Individual lending model is said to support growth through helping in a rapid increase of the size of business of MSEs. Also, individual ending model is said to highly support growth through ensuring the existence of MSEs. One respondent said,

“having personal meetings with a Loan Officer helped me to increase my understanding on how I can increase the size of my business and having skills of maintaining daily performance of my business”.

For the for the case of group lending model, the interview revealed that group lending support employment and increase the number of services. The respondents had some views on the contribution of group lending model on the growth of MSEs. One respondent said,

“interaction with other MSEs, gives us a chance to learn from each other and have a networking that helps to increase the number of services delivered”.

Another respondent said,
“by ensuring we get a chance to meet with other group member for training or other microcredit services, I have to train a person who can handle business during my absence”.

**MSEs’ satisfaction with the Microfinance banks’ lending models**

Another objective of the study was to establish the extent to which MSEs in Tanzania are satisfied with the microfinance banks’ lending models. The satisfactory indicators applied in this study included, affordability, attractiveness, simplicity or easy to follow, friendliness, motivating and understand ability. The findings of the study revealed different perceptions on the satisfaction indicators to the group and individual lending models that presented on the table below;

<table>
<thead>
<tr>
<th>MSEs Satisfaction</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group loans offered by microfinance institutions to MSEs are attractive</td>
<td>132</td>
<td>1</td>
<td>5</td>
<td>4.47</td>
<td>0.238</td>
</tr>
<tr>
<td>The interest rates imposed by microfinance institutions on the loans are affordable</td>
<td>132</td>
<td>1</td>
<td>5</td>
<td>1.85</td>
<td>1.074</td>
</tr>
<tr>
<td>The group training programs designed by microfinance banks are attractive</td>
<td>132</td>
<td>1</td>
<td>5</td>
<td>3.41</td>
<td>1.172</td>
</tr>
<tr>
<td>I satisfied the way loan officers help groups to meet loan requirements set by microfinance banks.</td>
<td>132</td>
<td>1</td>
<td>5</td>
<td>4.11</td>
<td>0.742</td>
</tr>
<tr>
<td>The process of obtain loans from microfinance banks are friendly</td>
<td>132</td>
<td>1</td>
<td>5</td>
<td>4.23</td>
<td>0.657</td>
</tr>
<tr>
<td>The individual lending models used by microfinance banks in Tanzania are motivating</td>
<td>132</td>
<td>1</td>
<td>5</td>
<td>2.75</td>
<td>1.339</td>
</tr>
<tr>
<td>The personal relationship with loan officers during loan repayment is friendly</td>
<td>132</td>
<td>1</td>
<td>5</td>
<td>2.55</td>
<td>1.464</td>
</tr>
</tbody>
</table>
From table 3 above shows the findings of the descriptive statistical of different satisfactory indicators. On the attractiveness of group loans offered by microfinance institutions to MSEs the respond showed (mean 4.47, std. 0.238), that the interest rates imposed by microfinance institutions on loans are affordable (mean 1.85 std. 1.074). Moreover, attractiveness of group training programs designed by microfinance banks had a (mean 3.41, std 1.172). The satisfaction rate with the way Loan Officers help groups to meet loan requirements set by microfinance banks (mean 4.11, STD 0.742). Friendliness of the process of obtaining loans from microfinance banks had (mean 4.23, STD 0.657). Motivation of individual lending models used by microfinance banks in Tanzania had the (mean 2.75, std. 1.339). Friendliness of the personal relationship with Loan Officers during microloan repayment had (mean 2.55, std. 1.464). Understanding of the continuous skills provided during personal meetings with Loan Officers (mean 4.455, std. 0.168). Finally, the findings of the study show that the attractiveness of group loans offered by microfinance institutions to MSEs the respond showed (mean 4.47, std. 0.238) has high correlation with microfinance institutions compared with other drivers.

Although the respondents of the interview reported being satisfied with different lending models in different perspectives. “We are satisfied with training offered in individual than in group basis.” Whereas the group lending model seems to attract loans application compared to individual bases. The loan monitoring and interest have revealed not to satisfy the MSEs.

However, from the interview, the respondents showed that satisfaction with the lending model was influenced by lack of transparency, reckless lending, corruption, fraud and dishonesty, management deficiencies, poor credit documentation and low level of friendly technology.

Discussion
The findings revealed that microcredit banks used group and individual microlending models that were found to fit the MSEs characteristics. A similar finding is reported in a study by Gomera and Mikko (2015) who found that micro businesses need relationship lending model that allow close and long-term connection between the lender and borrowers. The findings also show that individual and group lending models designed to ensure MSEs gain the required support not only to repay microloan but also to ensure their growth. These findings concur with the finding in a study by Kapaya (2020) who observed that any model used by microfinance is deemed to enable them to ensure a strong customer relationship. Moreover, Kapaya (2020) also revealed that to be able to realize the resources channelling efficiency of the financial system to have productive investments through the provision of loans, the lender should focus on the qualities, supervision mechanisms.

The contribution of microfinance bank’s services provision models on the growth of MSEs

We find robust evidence that the two microlending models used by microfinance banks are important drivers of MSEs growth. These findings are similar to the findings in a study by Dia (2020) who revealed that a lender-borrowers’ relationship is a crucial determinant of the success of all lending practices. It was further revealed that a lending model has an impact on the way borrowers perceive the bank’s services. Additionally, Diao, Kweka and McMillan (2018), concluded that lending model affects MFIs’ microservices to MSMEs both positively and significantly, while the contribution to the growth of MSEs depends on the indicators that drive the growth. The findings confirmed that both individual and group lending models have a positive impact on the growth of MSEs. Similarly, Ducai (2012) investigated microfinance and SMEs in a transitional economy by analysing borrowers' perception with microfinance in Kazakhstan. The findings demonstrated that microfinance banks have an impact on poverty alleviation, small business growth prospects, and the country’s overall economic progress.

By looking in detail, the findings confirmed that each microlending model supports the MSEs growth in different perspectives compared to another. The findings confirmed that the impact on the growth is of different proportions. On the differences in the impact of lending models on the growth of MSEs, the findings are consistent with the findings in a study by Kapaya (2020) who revealed that the type of the lending relationship depends on the nature and the type of the borrowers.

The group lending model is confirmed to support growth of MSEs especially on the areas such as an increase in services and using other people (employees) in performing daily business. However, the support on areas such as an increase of the size of business and existence were found to be weak compared to the aforementioned indicators. These findings concur with findings in a study by Munishi and Casmir.
who advocated for group organization and training on the capital generation strategies, and business skills to street vendors and micro-entrepreneurs, due to lack of awareness, knowledge and entrepreneurial culture.

Moreover, the individual lending model was confirmed to have higher support on indicators such as an increase of the size of business and existence. Whereas, the growth indicators such as an increase in the services offered and using other people (employees) in performing daily business were confirmed to be supported at low rates.

Therefore, the findings of this study revealed that the relationship lending between microfinance bank and MSEs should be moulded basing on the objective which both parties wish to achieve. Moreover, as for microfinance banks, these have to consider the growth indicators to be strengthened in a particular MSEs before selecting the lending model. The usage of microlending models can be applied in interchangeably between individual and group models to focus on certain growth indicators as shown in Figure 3. The findings confirm the findings in a study by Chen, Chang and Bruton (2017) who revealed that appropriate framework is one of the key issues to help informal sector in obtaining loans from microcredit organizations. The underlined model can help many entrepreneurs’ businesses to grow because they rely solely on well-established model that support their daily operations.

Figure 3: Proposed usage of microlending models to support growth of MSEs

Source: Researcher 2022

Figure 3 indicates that both group and individual microlending models can be used interchangeably to support MSEs growth. The microfinance banks may apply specific model to meet a certain growth indicator.

Micro and Small Entrepreneurs’ Satisfaction with Lending Services Provided by Microfinance Banks

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The findings revealed that the selection and design enable the microlending model in a relationship lending improve access to microcredit services and the performance and growth of MSEs. The MSEs consider microlending model as a mechanism leading to the reduction of microcredit constraints, improve microloan payment and help the growth of their business. This result highlights the ability of the used microlending model to overcome MSEs opaqueness, given their ability to networking, help to use other people to run business, gain coaching of business operation and support them in making proper payment on their microloans.

Both group and individual microlending models are relevant for the microcredit services of MSEs. The findings confirmed that the MSEs perceive the group and individual microlending models to be relevant to their daily operations. The findings confirmed that MSEs, were satisfied with microblading models used by MFIs. Similar findings are reported in a study by Buni (2013) who considered the perception of borrowers based on the satisfaction of services and the approach used to offer the services.

However, some improvements need to considered as per the study findings. One, an appropriate microlending model that should be used should be compatible with the nature of micro and small businesses basing on the objective to be achieved. Two, MFIs should conduct studies to better understand the nature of small and micro-businesses so that they can make informed judgments about the lending model to use. Three, the MFIs should assess their loan practices to ensure that they are not imposing interest rates that are detrimental to the MSEs. Fourth, training in loan management and entrepreneurial business should be provided to MSEs in an individual basis and group form. The findings of the improvement confirm the recommendation of Balele et al. (2018) that less restrictive and repressive policies that stimulate credit and deposits, as well as efficient and effective financial mobilization, allocation, and intermediation procedures, of MSEs should be supported by close and long-term relationship lending.

Conclusions

Generally, the study reveals that the microlending model used by MFIs contribute to the growth of MSEs. They influence long existence, expansion of business size, an increase in the number of services offered, an increase in income/revenue and the number of employees as well as influencing the transformation of micro and small enterprises into the formal sector. However, various models used by microfinance institutions have a moderate contribution to the MSEs. For instance, the use of the individual lending model and group lending model have different impacts on indicators of MSEs growth. With this fact the Government as a key stakeholder advised to insure effective policies towards better performance of microlending.
services. There must be proper and effective controls towards microlending institutions.

Moreover, microlending models are important components of the lending relationship with MSEs hence, MFIs should employ them in an appropriate, friendly, simple, motivating and relevant manner. This results to the growth of MSEs and may make default rate among beneficiaries remain at low level and making MFIs yield the needed profit and sustainability to their customers.

Since the group and individual microlending models were commonly used among MFIs, the study recommends that these models be used in combination in the relationship lending with MSEs due to the dynamics of the business needs, characteristics and the environment. We believe that our results are relevant for microfinance institutions, policymakers and firms. Based on our results, the stakeholders will focus their attention on microlending models hence, strengthening the lending relationship between MFIs and MSEs for the success of both parties.

In reaching to this conclusion, there are some limitations observed in the study. This study focused on examining The Contribution of Micro lending Models to the growth of Micro and Small Entrepreneurs. It was categorically conducted at the selected microfinance institutions and hence the study did not cover all the areas so that it subjected to some limitations which emanates from scope, resources, methodological issues and time for conducting research. This being the case, the population and collected data was only based on microfinance banks as well as micro and small entrepreneurs within Dar es Salaam region without covering other types of banks and other categories of respondents including large businesses. Thus, more studies that involve larger samples are recommended to be conducted.

Moreover, as people’s perception, feelings, attitudes, emotions are not static, future studies are suggested to determine MSEs satisfaction on microlending models used by microfinance banks. People are not static. Hence it poses difficulty in conclusion. Moreover, the result of measured perception today may not necessarily be the same next study, therefore this study encourage using different approach that can help to measure MSEs perceptions on microlending models for a certain period of time.

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