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Constraints in Accessing Credit for SMEs to Acquire Capital from Microfinacial Institution's -Tanzania

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Abstract: The objective of this study was to illustrate, the constraints in accessing credit for SMEs to acquire capital from micro financial institutions as regards business capacity, default risk premium, and liquidity risk premium. The plan, which was engaged in this study, was descriptive assessment. The aim of adopting this method was to gather comprehensive, systematic and in-depth information about the restriction of SMEs to access credit from MFIs. The sample size of the study was 100 SME's known as (clients) and 50 MFI's operated in Tanzania. Data were collected through a questionnaire and interview. SPSS software was used for data analysis. There was a strong negative correlation between default risk premium and liquidity risk premium and positive correlation between business capacity and loan repayment. The study recommended that in order to reduce the burden of interest amount to be paid by their clients, MFIs should be reduced interest rate to cover its costs and obtain normal profits, also should train their clients about business knowledge, the importance of keeping business records and techniques of valuing business capacity to enable their clients to measure their business capacity and know the appropriate amount of loan to be applied for their businesses.

Keywords: Microfinance Institutions, Business Capacity, Default Risk Premium, Liquidity Risk Premium, Loan Repayment and Interest Rate

1. Introduction

[23] Disagrees that it is not easy to characterize the expression of the statement of SMEs for the reason that in the presence there are no universal criteria to the magnitude of the business, and business production. [24], distinguished that even though, the SMEs Worldwide contributes a most significant function in community growth, its characterization differs from one country to another and even from one business to another business within the same country. An enterprise might be undersized in conditions of physical conveniences, service capability, market share, as well as amount of staff employees. According to the United States Organization as cited by [24], suggested that SMEs can be characterized by means of taking into consideration combination of both qualitative and quantitative decisive factors. Furthermore, they suggested including one among the characteristics such as the number of staffs i.e. employees, capital investment, share investment (capital), number of share proprietors, number of stakeholders, total investment (asset) turnover, market dividend, environmental market coverage, managerial complexity, magnitude of management and amount of creation. In Tanzania, the SMEs is categorized due to consideration of employment size along with capital asset investment of the business as well as institutions. A small enterprise comprises 5~49 employees, a medium enterprise involves 50~99 employees and large enterprise comprises more than 100 employees. The Capital asset investments, starts in the range beginning a lesser amount of TZs 5 million to greater than TZs 800 million (1$ ≈ 2,500 TZs). For the purpose of this research, the Tanzania SMEs Development Policy of 2002, classification will be implemented for the reason that it is based on the area in Tanzania, where SMEs are differentiated by family ownership and local area of business, which is not the case in other countries; this is illustrated in Table 1 below. Tanzania's Statistics shows SMEs have a tendency to be more successful in the country. The improvement of SMEs encourages the circulation of economic activities within the country due to lower overheads as well as fixed costs in their usual operation. For that reason the owner of SMEs must be

inclined to demonstrate the greater hardiness in the features of depression through investment of their business [12]. According to [33], the development of micro finance has made it possible to access finance for the majority of ordinary people. Across the globe, micro-finance is a newly emerging, but fast growing branch of financial inter mediation distinguished by its customer focus and unconventional approach to risk management, service distribution, and a friendly relationship with the customer.

As distinguished by [33], the founder, manager of the new Grameen Bank in Bangladesh: "… [Micro finance] is a revolution in banking that has succeeded in turning the field upside down; it opened the doors that deprived of the financial services to the poor by lending them, the major focus to women, offering small, collateral free and illiterate friendly loans".

Table 1. *Category of SMEs in Tanzania.*

Category	Employees	Capital investment in machinery Tshs
Micro enterprise	1-4	Up to 5mil
Small enterprise	5-49	Above 5mil- 200mil
Medium enterprise	50-99	Above 200mil-800mil
Large enterprise	100+	Above 800mil

The Tanzania economy like in any other developing countries, has undergone far-reaching market oriented economic reforms leading to a considerable decline in the role of the state in the economic activities. This phenomenon, which started in early 1990s, resulted in widespread privatization, deregulation, and internal and external financial liberalization [25]. The governments of most developing countries, especially, in Africa, with a view to jump-starting, their economies for growth and wealth maximization, started programmes involving Micro and Small Enterprises (MSEs) as vehicles for delivery of the much-needed economic growth. The MSE's role in the Tanzania economy "The growth in the sector has been *spontaneous*…the sector has already reached a stage where further growth is not possible without strong, effective support from the government, the aid agencies, the business community and the people at large" [25]. Sustenance of growth in the SME sector largely depends on the availability of quality human resource available to a firm. This measure is indicative of entrepreneurial and management skills available for growth and success of a firm. Other measures considered include growth on the level of capitalization and sales. While most measures include the level of employment and sales as the basis of measuring growth as an indicator of economic growth; capital growth is an easy measure developed from accounting principles, and is widely recognized and applicable at the low levels of SMEs; where the entrepreneurs are motivated to keep in businesses, because they are able to recognize growth in the assets in an effort to maximize their wealth [26]. The capital growth, equality while quantity is not indicative of the reason behind growth as would the level of human skill in controlling growth is a good measure for indicating success of the enterprise as well as its contribution to the society as a whole for economic common good. Furthermore, employment is an appropriate criterion for measuring the size of an organization, as it is primarily human that are "organized". Most business growth is indicated by demand, and given the labour-intensive nature of SMEs, stable growth in demand will reflect on growth in employment.

2. Literature Review

[26] and [1] describe that entree to micro finance credit by SMEs has been an issue often raised by various studies as a main restraint in business development. A common justification for the claim of insufficient access to bank loans by SMEs is their incapability to guarantee satisfactory the collateral. On their observation the current system of land possession along with access in official credit. This occurred, as a result of an inadequate amount of authentic possessions that can be placed up as security. They declare that the accessibility of the collateral is acting an important role in the willingness of microfinance to the private sector. Collateral grant is a motivation to pay back and in compensating losses in case of failure to pay (defaults). Therefore, the collateral was obligatory in almost 70 percent of financial business in favour of small enterprises. Not only that, the study signified that 50 percent of the total SMEs in Tanzania had at a variety of times applied for bank loans to support their business.

On the other hand, a large proportion of the SMEs had their request was rejected by micro finance as well as banks. For SMEs that place at loans request around the probability ratio of 2:1 that the request would be discarded, this means that they take delivery of loans for much less than they demand. Apart from their applications being rejected, there was a lack of sufficient the collateral, usually in the form of possessions those are the major reasons. [1] Recommend that banks can suggest an alternative in possessions than collateral such as underwriting, sales agreement and liens resting on equipment financed. [2] Illustrates that SMEs are not capable of assessing loans due to the following banking methodologies such as:

Formal micro finance methodology: In this method the bank screens the borrower with different techniques and focuses more on reasonable few large transactions, and takes into account the feasibility studies, collateral (security) track record as well as a minimum amount of deposits.

Informal micro finance methodology: With this technique they make consideration along with awareness of business relationships.

[19] Established that small enterprises have a propensity to practice more difficulties than medium-sized enterprises as well as large enterprises. From the experience of developing countries, borrowing to small business enterprises and entrepreneurs remains inadequate for the reason that financial intermediaries are not feeling safe to provide credit to small businesses due to their high risk, undersized portfolios, and high administration or operational cost. According [20], operational cost contributes to the incapability of the SMEs

to access funding. This means that the higher the operational cost of lending the lower the net margin expected from the loan operation and unfavorable against safe investment represented by treasury bonds. [1] Argues that if a lender faces information irregularity, the issues frequently turn out to reasonably, s/he grasps in ensuring reimbursement. This means that the higher the operational cost its push, the higher the probability of default that is why the lenders try to keep away from lending or inflict strict collateral requirement to SME's as well as small clients.

In an analysis made by a researcher in Tanzania lending system for SME's is more expensive than comparable to larger enterprises in terms of loan programme, loan scrutinizes and agreement enforcement, micro finance guesstimate that vetting to collect information about the candidate and the project, re-examine the feasibility study, perform the credit investigation and finally construct a decision, on an average of more than 80 applicants in a day. Comparable results acquired for loan monitoring and agreement enforcement proposed that the transaction cost of SME financial lending was higher than compared to that of large enterprises during a study conducted by [18] as they suggested that there was no statistical disparity in the cost of loan managing to SME's and larger enterprises.

When SMEs submits an application for a loan contract with a local office, staffs at the local office usually have little say in the decision, which are often made at the head office by bureaucrats who have little knowledge of the enterprise concerned. These agreements certify that SME borrowers do not have the possibility to interact with the few trained project personnel earlier than applications are made. There is a high possibility that some good projects might be turned down due to distant credit officers being deficient in adequate undocumented information to make up an opinion on the projects and particularly for entrepreneurs. Commercial banks' profit orientation may perhaps discourage them to supply credit to SMEs for the reason that the risk involved due to higher transaction cost, and SMEs loan obligation is too small, therefore the expenditure of dispensing the loan tends to be high compared to the loan amount. The second reason is that, it is not easy for financial institutions to achieve the essential information to measure the risk of newfangled unverified ventures, particularly because the achievement of small firms regularly depends seriously on the capability of the entrepreneur. The third reason is the possibility of breakdown of new small ventures is regarded as high [17]. Conversely, signify that other alternatives to loans secured by authentic and movable possessions have realistic constraints. For instance, it is achievable to acquire safety awareness in liquid assets, to a large extent more rapidly than that for authentic and movable possessions. On the other hand, a lot of debtors particularly traders are not in the custom to accumulate capital in liquid accounts, to a certain extent they revolve to either shift it on unofficial financial system, or reinvest it in their business [20].

Formal monetary associations unsuccessfully offered credits to the poor and for the most part who are recognized in developing countries and to be more specific in the rural areas. The reasons agreed by [22] is that their policies as well as guiding principles are not designed to favors the poor. The poor principally are illiterate and financial institutions do not have those skills to scratch these rural clientele. In these areas, the inhabitant's density is extremely low, causing high operational costs by the monetary association as they are required to move for long distances.

Furthermore, it takes more time to meet the clients [25]. SMEs in developing countries is measured to be extremely unstable by banks, who believe SMEs have high risk and the expenses that the financial institutions assume to supervise the performance of the SMEs is high. [21], [5] and [29] recognized that official financial institutions (banks) are unenthusiastic to lend to SMEs in view of the fact that investing in SME activities is regarded by banks as extremely risky, such as they have poor economic control, assets, and straightforwardly go off bankrupt [29]. The outlay of borrowing from financial institutions is very high and this avoids SMEs to borrow from these institutions, but these overheads to borrow are occasionally subsidized by the government supervision [30]. The application procedure for a loan is extended and difficult for SMEs to congregate with the demands [21]. The guarantee demanded by financial institutions for a loan is founded on permanent assets and which are extremely high in order to hold back these businesses to attain loans.

They cannot meet the expense of these collateral, which comprise land, and other permanent assets acceptable of the loan [30]. The most important hindrance that prevents SMEs to acquire financial support from outside sources is the setback of information asymmetry that is required by the lending financial institution [6]. Banks utilize cash flows plus productivity/profitability to determine or to calculate the praiseworthiness of a business, which is an extremely expensive and, not a good method to come to a decision on the credit strength of rural SMEs. Profitability and allotment in the rural district are prejudiced by social factors that are frequently neglected through enterprises in developing countries on the weather circumstances for its productivity [4].

2.1. SME and Microfinance Growth

Accessing credit be regarded as a significant factor in the growth of SMEs. It is thought that credit augments profit levels, raising employment and in that way alleviates poverty. It is assumed that admittance to credit authorized poor people to conquer their liquidity constraints, and commence various savings (investment) such as the upgrading of farm expertise as well as technology inputs are most important to enlarge in agricultural production [10]. The most important intention of micro credit according to [28] is to develop the well-being of the poor as a result, of superior admittance to small loans that are not accessible by the official financial institutions/banks. [14] argue that inadequate admittance to credit by the poor lower or higher than the poverty line possibly will have negative results for SMEs and on the whole welfare.

Admittance to credit auxiliary increases SME's risk-bearing aptitudes, micro finance is supposed to develop the well-being of the poor community. [15] Deviate in the idea that MFIs that are economically sustainable with high outreach have a better source of revenue and comprise a constructive impact on SME growth for the reason that they ensure sustainable accessing of finance for the deprived community. The focal point in this argument is that development accessing to micro finance plus marketplace of the poor people be not adequate unless the alteration or upgrading is accompanied by modifying methodologies [16] Micro finance is able to aid in the expansion or establishment of the enterprise, potentially creating the differentiation between aggravating poverty and economically vulnerable life. Meanwhile, [3] signified that micro finance has a propensity to stabilize rather than, amplify income and tends to protect moderately jobs. [8], [7] recommended that the rural community bank credit did not have any essential and material asset growth. The women are broken up in a cruel succession of debt as they use the capital from the rural community banks for consumption purposes and were affected to borrow funds from money lenders at high rate of return (interest) to settle up the rural community bank loans so as to become certified for more loans. The key surveillance from this was that credit was not a successful tool to be of assistance to the poor out of deficiency or to improve their economic situation. [32], [12] recommend that micro finance does not bring about any essential impact on household income in the sense there is no achievement on SME improvement. Investing in SME activities will comprise no achievement in increasing domestic income because the infrastructure such as communication, transportation, and market is not developed.

2.2. Micro Finance Institutions Operating in Tanzania

[32] classified MFIs operation in Tanzania, according to the Structure and Organization, and they include:

(i) Government Funded MFIs

These comprise the central or local government schemes that have been formed with a specific objective of delivering financial services mainly credit to specific groups of the population normally to small industrialists and resource disadvantaged groups like women, youth, and disabled. The schemes include the Presidential Trust Fund for self-reliance (PTF), Small Industries Development Organization (SIDO), Women Development Fund (WDF), Ministry of Community Development (MCD), Gender Affairs and Children (CREW), and Dar Es Salaam City Commission (DCC).

(ii) Financial NGOs (MFI-NGOs)

These include the International Branches of NGOs and locally funded based NGOs dealing with the delivery of micro-finance services to the poor. Some of those include Swiss Aid, Tanzania Women Finance Company, Promotion of Rural Initiatives Development Enterprises (PRIDE), Mennonite Economic Development Associates (MEDA), Small Enterprises Development Agency (SEDA) and Poverty Africa.

(iii) Private Firms/ Religious Organizations

These include organizations that deliver financial service with one of their objectives being poverty reduction. An example of these organizations is Caritas.

(iv) Associations and Cooperatives

These are member organizations, mostly workers from the same organization or professionals. These include Savings and Credit Cooperative Society (SACCOS) and Savings and Credit Associations (SACAS).

2.3. Various Models of Micro Finance in Tanzania

According to the [13], various models of Micro finance operated in Tanzania are as follows:

(i) Solidarity Group Model

In this model three to ten clients join a group to receive access to financial services, primarily credit. They may have to save before receiving the loan, training and other support services are provided. Group members collectively guarantee loan repayment, and access to subsequent loan is possible only if the previous loans are repaid fully. Access to loan is staggered in cycles, starting with small sums and gradually increasing with good repayment. Future access to finance is open only if no group member defaults in fulfilling his or her current obligations. Regular group meetings at the predetermined time and venue are mandatory, and lateness or absenteeism may lead to fines and even disqualification from membership. The inter group savings account may be opened; they are established to cover default risk, emergencies, and finance-group level transactions, but can be used according to the member's wishes once a sizable fund is accumulated. The ownership of these funds has been often unclear.

This solidarity system model brings together all of the basic ingredients that enable micro-finance to overcome the traditional barriers to access in banking for ordinary persons. For instance, decentralizing the primary risk assessment to the customers themselves helps to resolve the lack of information problem. Through a process designed to ensure self-screening, the customer themselves avoid joining a group with individuals whom they do not know well and subsequently keep a close watch over them. Because they risk carrying the debt of the member who defaults, the group gains moral authority to bear pressure on any errant member to conform to their joint financial obligation.

(ii) Cooperative Finance Model

The cooperative finance model capitalizes on mutual self-interest. The cooperative members are the owners, contributing to the equity through shares. Members participate in major decision-making, democratically electing officers from among themselves who run their institution. Initially, the sole institution's purpose was delivering services at the most affordable price to members. However, if there were any profits, this is by chance and is re-invested and forms part of the equity or is distributed as dividends to members. Access to services was initially restricted to members only; but is now open to the public under specific conditions.

(iii) Village Bank Model

The village bank model brings together all of the best elements of solidarity groups and the cooperative financial system. Compared to the cooperative model, a village bank tends to have fewer members and is less formalized and complex in structure. The membership joining fee, may contribute to the equity capital of the bank. Members set up their rules and elect a committee to run the affairs of the bank. Any profits are, either plowed back to increase capital, or paid out as dividend according to the member's wishes. A village bank has a highly decentralized institutional structure, which enables it to succeed in inter mediation in more remote areas where the population is widely dispersed.

(iv) Linkage Banking Model

The linkage-banking model builds on correspondent banking relationships between smaller intermediaries operating at the lowest level of contact and the bigger ones. In one version of the model, members of a village bank or self-help group enter into a group contract with a formal financial institution that provides savings and credit services to the group. Sometimes a third party, e.g., an NGO may provide capacity and /or guarantee to the self-help group in order to qualify for services from a bank. Individual members of the village bank do not have any direct link with the bank, unless they have established an excellent record with their own bank.

(v) Individual Banking

In this model the relationship between the financial institution and customer is direct and based on financial contract very much like in traditional banking set up. However, with regard to credit, the model relies on unconventional collateral and institutions may seek customers from their homes and businesses instead of the customers themselves coming into the bank in search of services. Largely specialized field agents, who receive individualized and team performance-based incentives, make decisions on loans. This study assumes a solidarity group model to address its objective.

3. Research Methodology

One of the key decisions to be made in planning and conducting a research programme is the extent to which quantitative methods (which broadly follow the positivist philosophy) or qualitative methods (which broadly follow the phenomenological philosophy) are used to explain what is involved in planning and conducting research projects. These will be done against the descriptions that will be given on the main approaches used by researchers. The plan, which was engaged in this work, was descriptive assessment. Descriptive assessments are techniques to accumulate data through conference in the direction of a test of persons along with engaged quantity, categorization, psychoanalysis, judgment, as well as analysis of information [9]. The aim of adopting this method was to gather comprehensive, systematic and in-depth information about the restriction of SMEs to access credit for MFIs, also to facilitate accurate along with trustworthy information to be achieved because of appropriate information from respondents. [27] argues that "the case study aims to understand the case in-depth, and in its natural setting, recognizing its complexity and its context". The sample size of the study, which involves 100 SME's known as (clients) and 50 MFIs operated in Tanzania. Clients gave useful information about the restriction of accessing the credit for SMEs and micro financial institution provided useful information about their client's loan performance and repayment behavior. According to [11], the knowledge gained from the sample is representative of the total population under study. Also, a large sample increases variation and strength of the revealed information and reliability of test's results. Data were collected from annual and periodic bulletin for the Central Bank of Tanzania's (BOT), Tanzania Bureau of Statistics, and also through questionnaire and interview. SPSS software was used for data analysis. The study was conducted at the Dar-as-Salaam region, Arusha region and Zanzibar Islands for simplification of the work especially, for availability of data.

Model specification

The econometric model used in this study was:-

$$Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon \quad (1)$$

Where:

Y Loan Repayment

β_0 Constant term

β_1, β_2 Regression coefficients

X_1 Default risk premium

X_2 Liquidity risk premium

ε Error term

4. Research Findings and Discussion

In this part the results of the study were analyzed and the interpretation of the findings given from the model as follows.

4.1. Correlation between Default Risk Premium and Loan Repayment

Default refers to delinquent loans, but most often to loans that have been or are about to be written off, this arise when borrowers are unable to repay, and also when borrowers do not value access to future services enough to maintain a relationship with the MFI. During interviewees respondent commented that:

"The main causes for loan default as loan deficiency of loan release, diminutive farm volume, high interest rate, the era of cultivators, underprivileged regulation, non-profitability of farm scheme and excessive government involvement in the operations of credit programs subsidized by the government."

While the others say that:-

"The significant features associated with loan

delinquencies are type of the credit; the period of the loan; interest rate on the loan; privileged credit narration; borrowers' earnings along with the transaction expenditure of the loan"

Table 2. *Correlation between Default Risk Premium and Loan Repayment.*

		Loan Repayment
Default Risk Premium	Pearson Correlation	-.378**
	Sig. (2-tailed)	.006
	N	150

The result indicated a negative, extremely strong and significant correlation between default risk premium and loan performance ($r = -0.378$; $p < 0.01$). This intended that the higher the default risk premium the lower the performance of loans. Meanwhile, default risk premium integrated on interest rate was maybe perceived high and therefore, resulting in borrowers defaulting on reimbursing loans. But also the results further suggested that the higher the interest rate as a result of higher default risk premium, then the higher the non-performance of the loans.

4.2. Correlation between Liquidity Risk Premium and Loan Repayment

Liquidity refers to how quickly an asset can be sold without lowering its price. Normally, markets with many contributors are highly liquid compare to market with fewer members. The liquidity premium theory states that: *"The bond investors prefer, highly liquid, short-dated securities that can be sold quickly over long-dated ones"*[31]. The theory also argues that investors are remunerated for higher default risk and price risk from alteration in interest rates.

Table 3. *Correlation between Liquidity Risk Premium and Loan Repayment.*

		Loan Repayment
Liquidity Risk Premium	Pearson Correlation	-.462**
	Sig. (2-tailed)	.000
	N	150

The result illustrated that the liquidity risk premium had a negative, strong and statistically significant correlation with loan repayment ($r = -0.462$; $p < 0.01$). This means that, the liquidity risk premium had an adverse effect on loan repayment, thus if the assets pledged as collateral for loans advanced cannot be transformed into cash quickly or cannot buy and sell at fair market value, the organization faces liquidity risk. As an outcome, the organization integrated high liquidity premium to cover the risk. High liquidity risk premium affect a rise in interest rate, which is a hindrance to loan repayment.

4.3. Correlation between the Capacity of the Business and Loan Repayment

The analysis illustrated that default cases of loan reimbursement were common (69.20%) in the manufacturing sector, followed by the service industry (62.90%) then by the agriculture (56.83%). The trade sector showed the least (32.9%) cases of loan repayment defaults, which could translate into good business performance and improved the revenue that accounts for low default cases. Among businesses that had been in operation for less than two years, 50.2% had defaulted in loan repayment, 40.10% of those that had been in operation for a period of between two and four years had defaulted. It was distinguished that the highest (80.60%) default cases were expected businesses that had been in operation for a period of between five and ten years. Loan repayment defaults were uncommon (0.0%) in a business that had survived for more than 10 years. In addition, the businesses located within the town areas had high loan repayment default rates (58.7%) as compared to business operation, making a monthly return on profits of below TZs. 500,000 had the highest cases (66.8%) of loan repayment default followed by those that made returned on profits of between TZs.1,000,000 to TZs.1,500,000 (48.3%). Loan repayment default among businesses that made profits of over TZS 2,000,000 was minimal. The correlation between the business characteristics and loan repayment default is examined by using chi-square testing x^2 test at 95% confidence interval.

Table 4. *Correlation between the Capacity of the Business to Repaying the Loan and Loan Performance.*

Variable	**Value (Pearson Chi-square)-X^2**	**DF**	**Significance level**
Type of business	27.558	3	0.000
Age of the business	28.646	3	0.000
Number of employees	11.070	3	0.011
Business location	3.766	1	0.55
Business manager	3.143	1	0.91
Profits	30.031	3	0.000

There was a significant correlation between the type of business ($p=0.000<0.05$), age of the business ($p=0.000<0.05$), number of employees ($p=0.011<0.05$) and business profits ($p=0.000<0.05$) with loan repayment default. Conversely, the strong point of the relationship between the kind of business and loan default is weak (Phi=.299, Cramer's V=.299 & Contingency Coefficient =.287). The strength of the relationship between profits, age of business and loan default was regularly weak. According to an analysis made we concludes that there a variety of factors influencing loan default which could arise from business characteristics such as type of business, age of the business operation, number of employees and business profit. The researcher recommends that the stakeholders in the microfinance sector make sure that the borrowers have access to sufficient appropriate training in the microfinance business operation. This means that, the training will also direct the microfinance entrepreneurs on the correct choice of types of businesses and proper levels of manpower required by the entrepreneur.

4.4. Multiple Regression Analysis

Finally, the equation function ($Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$)

has been regressed and correlated after being done different testing and transformation of the variables as presented in table 5 underneath. The equation of Ordinary Least Square (OLS) was estimated as loan repayment is a dependent variable, whereas default risk premium and liquidity risk premium are the independent variables.

Table 5. *Result of Multiple Regression Analysis.*

Variable	Constant	Std. Error	Regression coefficients	t	Sig
Constant term	1.383	1.014		1.348	.166
Default risk premium	-.134	.264	-.089	-.472	.618
Liquidity risk premium	-.787	.332	-.811	-3.54	.002

The econometric equation in linear forms will be:

$$Y = 1.383 - 0.134X_1 - 0.787X_2 \quad (2)$$

The result indicated that a unit change in a dependent variable causes a change in independent variables in the opposite direction. This means that when increase a loan repayment by 1 unit it decreases the independent variables by indicated units. In other hand the value of the constant designated that there are other factors whose combined effect on loan repayment was faintly greater than interest rates.

5. Conclusion and Recommendation

Microfinance's are concerned with deficiency reduction and/or extreme deficiency is progressively more focused on a program that links micro finance for community protection and other services. Based on that, one aspect that influences the intensity of interest rates in MFIs in Tanzania is the performance of the Bank of Tanzania (BOT). In demanding to avoid substantial swings in the business cycle, the BOT regulates short-term interest rates. It lifts up interest rates to slow down a cost-cutting measure (financial system) that is increasing too rapidly, and lowers them when the financial system is heading for a depression. Rising and falling interest rates will have a direct effect on consumers and individual economic decisions. Increasing interest rates make saving moderately more attractive and borrowing relatively more expensive. Diminishing interest rates have the reverse effect. Subsequently, the consequence of an interest rate going up or down will depend on whether you are an investor or a borrower. The intensity of interest rates has an undeviating consequence on a customer's aptitude to reimburse a loan. For example, [29] declare that once interest rates are low, buyers are borrowing for the reason that they stumble on the easiest way to repaying their debt. At the same time, when interest rates are high, customers are unwilling to borrow because of higher repayments on the loan. Several customers may even find it difficult to achieve their existing loan repayments, particularly if interest rates boost more rapidly than the increase in a client's expense. If interest rates go up roughly and keep on top-level (high) for a long period, some customers will collapse to pay their loans. The study recommended that in order to reduce the burden of interest amount to be paid by their clients reduce interest rate to cover its costs and obtain normal profits, as well as micro financial institutions should train their clients about business knowledge, importance of keeping business records and techniques of valuing business capacity to enable their clients to measure their business capacity and know the appropriate amount of loan to be applied for their businesses, and be able to evaluate the business capacity of their group member whom they guarantee, also MFIs should consider their loan portfolio, that is, the aggregate amount advanced to borrowers since too much lending would lead to liquidity problems. Further research needed in the performance evaluation of SMEs on the effect of interest rate on loan recovery by commercial banks.

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