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THE EFFECT OF MICROFINANCE SERVICES ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMES) IN DAR-ES-SALAAM REGION, TANZANIA

Abstract:

The major purpose of this paper is to analyze the impact of microfinance services on SME's performance in Dar-es-Salaam region, Tanzania. Using a sample of 350 SMEs, the study adopted a descriptive-correlation research design an econometric analysis using statistical package for social sciences (SPSS) version 24. The results show that microfinance services in the form of financial intermediation and enterprise development had to a large extent adequate to small and medium-sized entrepreneurs. Then from above analysis we may conclude that there existed a strong relationship between the extent of microfinance services and the performance of SMEs and that microfinance services influenced the performance of the SMEs in the Dar-es-Salaam region.

Keywords:

Microfinance services, SMEs, Microfinance institutions, Financial literacy and enterprise development

JEL Classification: G29

1 Introduction

The small and medium-sized enterprises (SMEs) create a large part of all business operations in the world. The SMEs are vital to the national and global economies as they generate employment opportunities, eradicate poverty and create economic growth in urban and rural areas and thus raising the living standards of people.

The lack of microfinance services/products by SMEs is a major challenge which hinders start-up, sustainable development and stability the enterprises. Since it is difficult to separate personal and business issues due to lack of such services and enterprise development education, the owners of the business sometimes use their personal savings to finance their undertakings. The need to have a knowledge and skills in financial management and enterprise development is essential as this ensures persistent advancement and performance of the enterprise. It guides an entrepreneur to manage finance and other operations of the business efficiently and effectively since he or she can be able plan for cash inflows and outflows and enterprise development properly.

Apart from the recent development in the microfinance, most SMEs still face lack of microfinance services from microfinance institutions (MFIs). In particular, this is a major handicap for their growth and survival. Various studies, including that of Makorere (2014); Kimaru (2009); and Musomandera, Shukla, & Luvanda (2015) exhibit that this affects entrepreneurs' capacity to start or run their businesses profitably.

Financial intermediation and enterprise development services are of paramount importance to an entrepreneur for a number of reasons. It is said that financial literacy equips entrepreneurs with knowledge and skills bookkeeping, planning and forecasting, borrowing, spending, earning, and saving (Tuyisenge, Mugambi, & Kemirembe, 2015). More importantly, training in enterprise development encourages the success of microenterprises and improves their growth.

Nyamboga, Nyamweya, Abdi, Njeru, & Gongera (2014) exhibits that SMEs suffer from both internal and external constraints that that expose them to risk and prevent them from growing and access adequate funds to be able to attain economies of scale. Similarly, Tuyisenge, Mugambi, & Kemirembe (2015) reveal that "poor financial literacy rate has affected economic growth as the citizen fail to diversify risk involved in financial management and inefficient portfolio allocation which leads to low level of savings and investment among the citizen".

Moreover, availability of microfinance services, including; financial intermediation, enterprise development and other social services provides a vehicle through which the SMEs and economies of many countries can be grow. Through such services, the SMEs have in recent years being able to contribute the development of their countries (Kimaru, 2014).

Since Tanzania attained independence in 1961, considerable efforts have been directed towards the nation's industrial development. The initial efforts were government-led through the vehicle of small industry by establishing the small industry development organization (SIDO) in 1973. The objective of SIDO was to develop the small industry sector in Tanzania. It was expected to fulfil a very wide range of functions, from policy formulation to direct support to industries, to hands-on involvement in the establishment of Small and Medium Enterprises (SMEs) in both rural and urban areas.

Before liberalizing financial sector in Tanzania in 1991; there were few financial institutions, including three commercial banks. The financial system has since then expanded with more than

35 commercial banks, 20 licensed financial institutions, and 2 development banks. There are also leasing companies, insurance companies, foreign exchange bureaus, Savings and Credit Cooperatives (SACCOS), micro-finance institutions and stock exchange.

1.1 Research Objective

The general objective of this study is to examine the effect of microfinance services on performance of Small and Medium (SMEs) in Dar-es-Salaam region.

The research undertaking further seeks to address the following specific objectives:

(i) To determine how microfinance services improve financial performance among small and medium enterprises in Dar-es-Salaam Region.
(ii) To determine how microfinance services improve market and customer care performance of small and medium enterprises in Dar-es-Salaam Region.
(iii) To determine how microfinance services improve business process performance of SMEs in Dar-es-Salaam Region.
(iv) To determine how microfinance services improve innovation process performance of SMEs in Dar-es-Salaam Region.

1.2 Research Hypotheses

In order to be able analyze and interpret data properly, the study was hypothesized as follows:

Research hypothesis 1

Ho: Financial literacy has no effect on the financial performance of small and medium enterprise in Dar-es-Salaam region.

Research Hypothesis 2

Ho: Training on marketing and entrepreneurship has no effect on market and customer performance of small and medium enterprise in Dar-es-Salaam region.

Research Hypothesis 3

Ho: Training on business development has no effect on the business process performance of small and medium enterprise in Dar-es-Salaam region.

Research Hypothesis 4

Ho: Training on business development has no effect on innovation process performance of small and medium enterprise in Dar-es-Salaam region.

1.3 Scope of the study

The study was conducted among the SMES in Dar-es-Salaam Region, which comprise of five districts, namely; Ilala, Kigamboni, Kinondoni, Temeke and Ubungo. The survey was undertaken between July 2017 and April 2018.

1.4 Significance and Justification of the Study

The study will contribute to the literature since the empirical literature on microfinance services (financial literacy and enterprise development) and SME performance in Tanzania is inadequate; the few papers in this area have mainly focused on five issues:

- exploring the challenges of microfinance accessibility by SMEs in Tanzania (Mashenene & Rumanyika, 2014; Mohamed & Mnguu, 2014; Woldie, Mwita, & Saidimu, 2012);
- examining the impact of entrepreneurship training on SME's sales revenue, employee number, and firm's asset values (Kessy & Temu, 2010);
- examining the role of microfinance in the growth of and sustainability and success of SMEs in Tanzania (Makorere, 2014; Kuzilwa, 2003; Chijoriga, 2000);
- studying the microfinance regulation and the way small firms are financed in Tanzania (Johnson, 2001; Bank, 2001; Chijoriga & Cassimon, 1999);
- examining the difference in performance among the female owned enterprises and male owned enterprise, the way women entrepreneurs are empowered and growth strategies for their survival and performance (Maziku, Majenga, & Mashenene, 2014; Mushumbusi & Kratzer, 2013; Tundui & Tundui, 2013; Tundui, 2012; Kessy, 2009; Nchimbi, 2002).

Thus, this study is significant because of the following reasons:

- The empirical literature on microfinance services and SME performance in Tanzania still shows considerable gaps;
- The research on microfinance and firm sustainable grow/success to-date has explored only a variety of growth, success, regulation, and gender differences);
- However, little attention has been given so far to other microfinance products provide microfinance institutions (MFIs).

Thus, study findings herein are of great significance to SME owners who will have a clear understanding of the requirements for effective business development and management, loan repayment and access to finance. This will enhance their repayment behavior, improve their credit ratings and improve their innovative capacity. Researchers and scholars are now availed with additional literature on the concepts of financial literacy and enterprise development and their impact on loan repayment and better performance by SMEs.

1.5 Statement of the problem

In Tanzania, the fifth phase government is determined to raise the middle class status of the nation through the participation of SMEs. This initiative has received the support of the banking sector and microfinance institutions (MFIs). These institutions allow the marginalized groups to diversify their levels of income. The MFIs have established special microfinance programs to cater for SMEs in which they are provided with financial and enterprise development skills necessary to create efficiency and effectiveness in their enterprises.

Despite all these efforts, several of the entrepreneurs are suffering huge setbacks that hinder them from growth and survival; one of them being lack of financial information and services and skills on how to run the day-to-day business operations and debt management. It is upon the above that is why the researcher wants to investigate the influence of microfinance services on SMEs performance. This study is an effort to establish the link between microfinance programs offered by the MFIs and SME financial performance, market and customer performance, business process performance, and innovation process performance.

2 Literature Review

2.1 Financial literacy and SME's performance

It is argued that when SME owners acquire knowledge on financial management they can perform better. Thus, training on credit management techniques is crucial to the SMEs so as to enable them enhance their operational and financial capacities. A study by Nyamboga, Nyamweya, Abdi, Njeru, & Gongera (2014) reveals that there is a link between book keeping, credit management and budgeting skills and the ability of SMEs to service their loans.

Provision of microfinance services is essential for firm sustainable development as it enables the SMEs to grow and achieve economic scale. A study by Mohamed (2016) on sample of 82 SMEs from Mogadishu, Somalia shows a positive moderating relationship between the financial service factors (namely, financial sustainability, financial literacy, and risk diversification) and financial performance.

Cherugong (2015) studies the effect of financial literacy on a sample of 85 SMEs in Trans Nzoia County. The author finds a strong positive relationship between financial literacy on SMEs performance, especially for those enterprises employing more than three permanent employees and that have been in business operations for more than five years.

Mutegi, Njeru, & Ongesa (2015) utilize a sample of 30 SMEs in Ngara, Nairobi County, that have received training from Equity Bank to study the relationship between financial literacy and ability to repay loan by SMEs. The study results reveal that book keeping, credit management and budgeting skills play a great role on determining the ability of an SME to repay the loan.

Availability of financial services is seen as a major determinant on the performance of SMEs in developed countries and developing countries. A study by Lusimbo (2016) of 306 SMEs in Kakamega indicate the need for financial management education as those SMEs whose managers lack financial literacy do not grow at all.

Many SMEs in developing countries fail to grow rapidly because of many constraints that are facing them. Non-availability of microfinance services is major hindrance for their progress. As Rotich, Lagat, & Kogei (2015) postulate, availability of microfinance services such as managerial training, access to savings scheme, and loan grace period plays a crucial role in promoting the growth of SMEs and determining their performance in Kenya. Similarly, an empirical analysis by Kibet, Achesa, & Omwono (2015) has found that microcredit financing, favourable grace periods, favourable initial ceiling amounts and achievable collaterals are positively related with SME's performance.

Furthemore, a study by Musomandera, Jaya, & Luvanda (2015) on 275 women SMEs in Kicukiro district establishes that microfinance institutions have effect on SMEs' growth via provision of services such as training on investment, savings, advice on investment, and loans. Thus, poor

women entrepreneurs are advised to seek such microfinance services so as to grow and excel in their business undertakings.

2.2 Enterprise development services and SME's performance

Enterprise development services are one of the microfinance services provided by microfinance institutions (MFIs) to SMEs to ensure that the credits provided are efficiently utilized. According to Parameswaran & Raper (2003) services such as training on marketing and business management is provided so as to ensure that credit provided to small-sized entrepreneurs acquire the better rate of success.

2.3 Market and entrepreneurship skills and SME's performance

Knowledge and skills obtained from training on marketing and entrepreneurship is essential to small-sized entrepreneurs and help them improve performance of their business ventures. Through such training initiatives, business men and women are able to acquire skills on how to improve the quality of their products. The findings of empirical study by Ebitu (2016) indicate the positive relationship between marketing strategy (that is, product quality strategy) and business performance of SMEs in Akwa Ibom state, in Nigeria. However, their findings show negative relationship between communication strategy and business growth.

Through market strategy, SMEs are able to improve quality of their products and services, charge for their products and services, find markets and promote their products and services. Market strategy has a strongest positive relationship with performance (Pelham, 2000).

Entrepreneurship skills help the business owners to be innovative than competitors hence create value and enhance the wealth. The skills also enable them to invent new technologies and be able them to a competitive base. Mohammed & Obeleagu-Nzelibe (2014) indicates that entrepreneurial skills are one of the significant factors necessary for business profitability and success in Nigeria. However, a study by Meshack (2014) reveals that a large percentage of entrepreneurs in Tanzania lack entrepreneurial skills such that they are not able to grow and develop. Also, Bosire & Nzaramba (2013) posit that generally owners of businesses have inadequate entrepreneurial skills. It was found that they lack effective communication skills, innovative skills and skills in identifying and seizing business opportunities.

Simialrly, a study by Yahya, Othman, & Shamsur (2012, p. 22) of Malaysian SMEs has "found that training has a positive impact on SMEs performance (profits, revenues and size)".

It is not always that entrepreneurship skills is positively correlated with firm's performance. For instance, Narkhede, Nehete, Rau, & Mahajan (2014) indicates that entrepreneurial skills are not positively related with firm's performance of SMEs. The author points out that other factors such as technical skills, personal skills and business skills are positively related to enterprises' performance.

2.4 Business process skills and SME's performance

2.4.1 Enterprise development and SME's innovation process performance

It argued that SMEs need to put more efforts in innovation process as it is the major factor behind increased productivity, profitability and competitiveness. A firm which lags behind innovation process is likely to loose markets for its obsolete products. Furthermore, innovation constitute the crucial progression of the economic development in the industrialized/advanced world. Terziovsk (2010) postulates that SME's performance is likey to increase if they adopt recogized strategies and arrangement as large mafucturing firms do.

However, for most SMEs in developing countries this is a relatively new phenomenon (Oyelaran-Oyeyinka & Sampath, 2007). Also, a number of barriers hinder small firms, especially in less developed countries, from taking advantage of innovation. An empirical study by Madrid-Guijarro, Garcia, & Auken (2009) reveals a number of internal and external barriers which impede to process, product, and management innovation differently. The authors indicate that internal barriers such as delicate financial position and human resources affect process and management innovation negatively; whereas they are affected positively by environmental barriers.

When innovation is strategically implemented it can help SMEs meet both local competition and global competition for their products and services. A study by Rosenbusch, Brinckmann, & Bausch (2011) reveals that there is positive relationship between innovation and SME's performance. The findings by Brinckmann, & Bausch (2011, p.453) "exhibit that internal innovation projects lead to greater firm performance than innovation projects with external partners".

According to Mahemba & De Bruijn (2003), many SMEs in Tanzania are backward in the adoption of new technology as they are not aware of the sources of technology. They point out that most of them utilize absolete technology, the result of which is poor productivity. The authors posit that Tanzanian SMEs depend mostly on external environmental technology from customers and other firms, but not from government or universities.

On the other side, a study by Robson, Haugh, & Obeng (2009) of 496 entrepreneurs from Ghana shows that the extent of innovations depends on the education level of the entrepreneurs. Furthermore, it is revealed that innovation is possible for those enterprises located in cities as compared to those located in large and small towns.

2.5 Literature Gaps

The issue of the direction of causality between microfinance services and the way the SMEs behave is far from being resolved. From the studies conducted, there is mixed evidence about the effects of microfinance services on the SME's performance. It is therefore, important for bankers, bank regulators, supervisors, investors and researchers to understand how various products of microfinance affect the SMEs' performance, including loan repayment. The researcher's main purpose in this study is to fill this significant gap by providing systematic analysis of the role of microfinance services on enterprise's performance. Additionally, few researches have been conducted on financial literacy, marketing skills, and business development skills on enterprise performance in Tanzania.

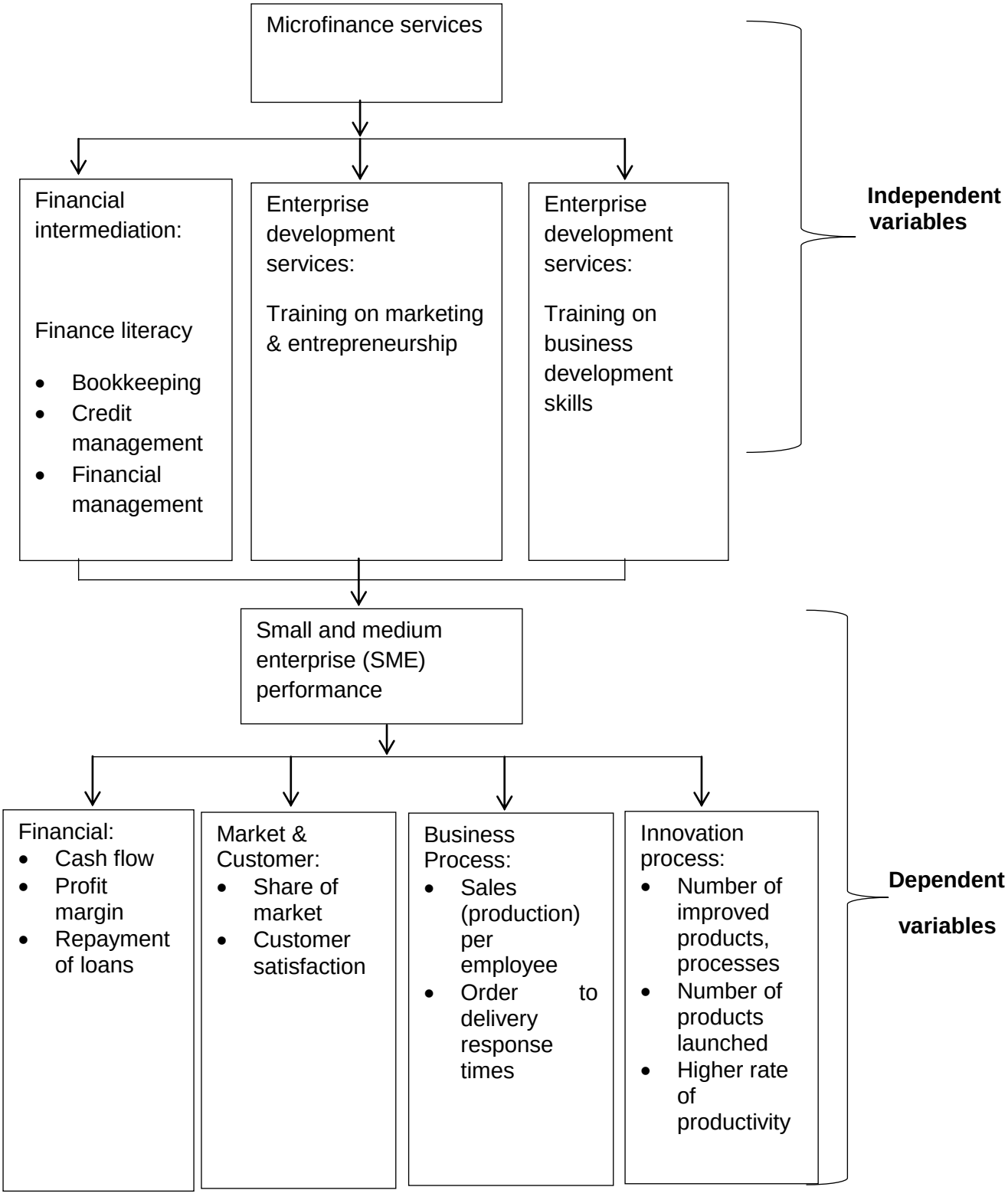
2.6 Description of Variables

Conceptually we look at the influence of microfinance services on SME performances of some selected SMEs in Dar-es-Salaam region.

Independent variables used include financial literacy (i.e. bookkeeping skills: cash flow management and debtors and creditors management; credit management skills: interest rate, loan period and amount of the loan; and budget skills: planning skills, running costs, and internal audit); training on marketing and entrepreneurial skills; and training on business development.

Dependent variables include financial performance (i.e. cash flow, profit margin, and repayment of loans); business process performance (i.e. sales/production per employee, and order to delivery response times), market and customer performance (i.e. share of market and customer satisfaction), and innovation process performance (i.e. number of improved products, number of products launched, and higher rate of productivity).

Figure 1: Microfinance Services Conceptual Framework



Source: Researcher (2019)

3 Research Methodology

3.1 Introduction

This section discusses the research methodology that was used for the study. Research Methodology gives details regarding the procedures used in conducting the study. The research design, target population, data collection and analysis methods are elaborated.

3.2 Research Design

This study was a descriptive-correlation research design. The study was designed to determine the role of microfinance services on performance among small and medium entrepreneurs in Dar-es-Salaam region. A survey research questionnaire that combines both open ended and closed ended questions was used. Cooper & Schindler (2008) define descriptive research as a study that attempts to describe or define a subject, often by creating a profile of a group of problems, people or events, through the collection of data and the tabulation of the frequencies on research variables or their interactions. It concerns a univariate question or hypothesis in which the research asks about or states something about the size, form, distribution, or existence of variable. It is restricted to a fact finding and may result in the formation of important principle of knowledge and solutions to significant problems. According to Saunders, Lewis, & Thornhill (2007), surveys allow the researcher to summarize the characteristics of different groups or to measure their opinions towards some issues.

3.3 Target Population

Bryman & Bell (2007) define population as the universe from which the sample is to be selected. The target population of this study was 350 small and medium entrepreneur customers in Dar-es-Salaam region.

3.4 Sampling frame

A list was obtained from various MFIs showing the number of small and medium enterprises which undertake different business activities like general trade, services and manufacturing.

3.4.1 Sampling Method and Sample Size

Sampling techniques provides a range of methods that enable you to reduce the amount of data you need to collect by considering only data from a subgroup rather than all cases or elements.

A non-probability sampling method mainly purposive sampling method was used in the sample size of respondents who participated in the study. Saunders, Lewis, & Thornhill (2007) posit that it is commonly called a judgmental sample that enables you to use your judgement to select cases that will best enable you to answer your research question(s) and to meet your objectives. The subjects are selected because of some specific characteristic the research is looking for, and depending what is investigated.

3.5 Data Collection

The researcher collected only primary data, but also document review was done. A structured questionnaire was administered to the 400 small and medium entrepreneurs and only 350 respondents returned the questionnaires (which is 87.5%).

3.5.1 Instruments

In this study, both closed ended and open ended questions were used. All questionnaires were translated into Kiswahili first. According to Bryman & Bell (2007), closed-ended questions are advantageous because the questions enhance the comparability of answers, making it easier to show the relationship between variables and to make comparisons between respondents or types of respondents. Also responses are easily tabulated and analyzed and respondents can answer the questions easily and quickly.

3.6 Data Analysis

After all primary data were collected; the researcher classified it in accordance with variables. Excel spread sheet and Statistical package for social sciences (SPSS) software version 24 was used to generate descriptive statistics and percentages and frequencies for variables and statistical tests.

The researcher used correlation test, whereby the variables of the interest here are financial literacy, training in marketing and training in business development, which are the independent variable and SME performance the dependent variable. Thus the tentative hypotheses were tested for confirmation.

4 Data, Results, and Analysis

The majority of the participants who responded to questions on the impact of microfinance services on SME's performance were male (64.9%) whereas female were 34.9%.

On education, the majority of respondents (51.1%) had acquired university education followed by those who had completed secondary education (34.9%). Only a small proportion of the respondent had acquired primary education (8.3%) or tertiary education (4.9%) showing high level of education among SME's owners and managers.

On industry sector, majority of the firms came from trade and services (15.1%), followed by retail (14.6%), construction (12.0%), and selling and buying (11.1%). Only a small proportion of the firms belonged to publishing (8.0%), transport (7.1%), health & beauty (6.3%), hospitality (6.3%), services (6.0%), agriculture (3.7%), manufacturing (2.3%), and others (2.0%).

It was established that a large number of SMEs were owned by individuals (52.3%) whereas company and partnership forms of ownership accounted for 31.4% and 14.3%, respectively.

4.1 Financial literacy impact on SME's financial performance

Ordinal logistic regression was performed to assess the impact of a number of factors on the likelihood that respondents would report that they had problems with the financial services they received. The model contained three independent variables (bookkeeping skills, credit management skills, and financial management skills). The test was used to determine the strength and direction of the relationship between the above-mentioned independent variables and three dependent variables (cash flow, profit margin, and repayment of loans).

From the *Chi-Square Goodness-of-fit Test***:** A good of fit assumption gives an overall idea on the model. *If your model fits well, the observed and expected cell counts are similar, the value of each statistic is small, and the observed significance level is large*.

Table 1 provides the actual result of the chi-square goodness-of-fit test that was run on SPSS. To be significant, the Sig. values needs to be .05 or smaller. We can see from this table that our test it is statistically significant: X^2 = 1159.888 and Pearson = .000; hence p < .05. Therefore, we reject the null hypothesis, which states that financial literacy has no effect on the financial performance of small and medium enterprise in Dar-es-Salaam region. The results of our analysis therefore, conclude that the model does not fit very well.

Table 1: Goodness-of-Fit

	Chi-Square	Df	Sig.
Pearson	1159.888	107	.000
Deviance	237.704	107	.000

Link function: Logit.

Table 2 represents the test for parallel lines. Our test is significant (that is, p < .05) and thus we reject the null hypothesis. We also conclude that financial literacy plays a great role in influencing SME's financial performance.

Table 2: Test of Parallel Lines[a]

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Null Hypothesis	300.889			
General	.000[b]	300.889	39	.000

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.

a. Link function: Logit.

b. The log-likelihood value is practically zero. There may be a complete separation in the data. The maximum likelihood estimates do not exist.

4.2 Marketing and entrepreneurial skills on SME's market and customer performance

Ordinal logistic regression was performed to assess the impact of a number of factors on the likelihood that respondents would report that they had problems with the enterprise development service. The model contained one independent variable (market and entrepreneurial skills). The test was used to determine the strength and direction of the relationship between the above-mentioned independent variable and two dependent variables (share of the market and customer satisfaction).

From Table 3, we can see that our test it is statistically significant: X^2 = 102.496 and Pearson = .000; hence p < .05. Therefore, we reject the null hypothesis, which states that Training on marketing and entrepreneurship has no effect on market and customer the performance of small and medium enterprise in Dar-es-Salaam region. The results of our analysis therefore, conclude that the model does not fit very well.

Table 3 Goodness-of-Fit

	Chi-Square	Df	Sig.
Pearson	102.496	50	.000
Deviance	108.234	50	.000

Link function: Logit.

Table 4 represents the test for parallel lines. Our test is significant (that is, p < .05) and thus we reject the null hypothesis. We also conclude that market and entrepreneurial skills play a great role in influencing SME's market share and customer satisfaction performance.

Table 4: Test of Parallel Lines[a]

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Null Hypothesis	184.451			
General	110.413[b]	74.038[c]	30	.000

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.

a. Link function: Logit.

b. The log-likelihood value cannot be further increased after maximum number of step-halving.

c. The Chi-Square statistic is computed based on the log-likelihood value of the last iteration of the general model. Validity of the test is uncertain.

4.3 Business development skills and SME's business process performance

Also, ordinal logistic regression was performed to assess the impact of a number of factors on the likelihood that respondents would report that they had problems with the enterprise development service. The model contained one independent variable (business development skills). The test was used to determine the strength and direction of the relationship between the above-mentioned independent variable and two dependent variables (sales production per employee, and order to delivery response times).

From Table 5, we can see that our test it is statistically significant: X^2 =177.442 and Pearson = .000; hence p < .05. Therefore, we reject the null hypothesis, which states that training on business development has no effect on the business process performance of small and medium enterprise in Dar-es-Salaam region. The results of our analysis therefore, conclude that the model does not fit very well.

Table 5: Goodness-of-Fit

	Chi-Square	Df	Sig.
Pearson	177.442	87	.000
Deviance	146.185	87	.000

Link function: Logit.

Table 6 represents the test for parallel lines. Our test is significant (that is, p < .05) and thus we reject the null hypothesis. We also conclude that training on business development skills plays a great role in influencing SME's business process performance, particularly for sales/production per employee and order to delivery response times.

Table 6: Test of Parallel Lines[a]

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	228.265			
General	180.842[b]	47.423[c]	27	.009

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.

a. Link function: Logit.

b. Maximum number of iterations was exceeded, and the log-likelihood value and/or the parameter estimates cannot converge.

c. The Chi-Square statistic is computed based on the log-likelihood value of the last iteration of the general model. Validity of the test is uncertain.

4.4 Business development skills and SME's innovation process performance

Finally, we performed ordinal logistic regression to assess the impact of a number of factors on the likelihood that respondents would report that they had problems with the enterprise development service, in terms of innovation. The model contained one independent variable (business development skills). The test was used to determine the strength and direction of the relationship between the above-mentioned independent variable and three dependent variables (number of improved products, number of products launched, and higher rate of productivity).

From Table 7, we can see that our test it is statistically significant: X^2 =354.969 and Pearson = .000; hence p < .05. Therefore, we reject the null hypothesis, which states that training on business development has no effect on innovation process performance of small and medium enterprise in Dar-es-Salaam region.

The results of our analysis therefore, conclude that the model does not fit very well.

Table 7: Goodness-of-Fit

	Chi-Square	Df	Sig.
Pearson	354.969	202	.000
Deviance	220.064	202	.182

Link function: Logit.

Table 8 represents the test for parallel lines. Our test is significant (that is, p < .05) and thus we reject the null hypothesis. We also conclude that training on business development skills plays a

great role in influencing SME's business process performance (number of improved products, number of products launched, and higher rate of productivity).

Table 8: Test of Parallel Lines[a]

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	319.636			
General	214.571[b]	105.065[c]	42	.000

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.
a. Link function: Logit.
b. The log-likelihood value cannot be further increased after maximum number of step-halving.
c. The Chi-Square statistic is computed based on the log-likelihood value of the last iteration of the general model. Validity of the test is uncertain.

5 Conclusions and Recommendations

The findings indicated that microfinance services in the form of financial intermediation and enterprise development had to a large extent adequate to small and medium-sized entrepreneurs. The study established that there existed a strong relationship between the extent of microfinance services and the performance of SMEs and that microfinance services influenced the performance of the SMEs. The findings thus imply that improvement in financial services in the form of proving training in bookkeeping, credit management, and financial management can improve performance of SME's in terms of cash flow management, profit margin and repayment of loans. Training in enterprise development in the form of market and entrepreneurial development and business development can help SME's owners in improving performance in market and customer relations, business process, and innovation process. Subsequently, these help owners of businesses to increase share of the market, customer satisfaction, sales/production per employee, order to delivery response times, number of improved products, number of launched products and high rate of productivity.

The study recommends that the microfinance service institutions and the donor agencies need to consider including social services into their micro finance package. Since many poor people are living in extreme poverty such that they cannot engage themselves in viable entrepreneurial undertakings, it can be difficult to provide microfinance services to them. Thus, they are advised to include assistance with education and health as they are far more important than financial intermediation.

The current study was confined to Dar-es-Salaam region only, which has five districts only. A similar study which will cover a large part of Tanzania is recommended.

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