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Impact of Loan Provided by BRAC Microfinance on SME's Improvement in Zanzibar

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Abstract: The main concern of this paper is to examine the impact of loan on the improvement of Small medium enterprises (SMEs) in Zanzibar. The study concentrated on amount of loan provided by BRAC and cost of charged by BRAC to SME's in Zanzibar. The study conducted in West "A" District-Unguja. The study has mainly employed quantitative research approach with appropriate method of analysis for this study. The sample size for this study consists of 112 SMEs members supported and registered by BRAC, and survey questionnaire was used as data collection instrument. To achieve a credible result for this study, a standard multiple regression was used to analyze and interprets the collected data from relevant respondents. The results revealed that two predictors (loan amount and cost of loan) had a significant effect or impact on the outcome variable (SME's improvement). In other words, the results of predictor variables show that; loan ($\beta = 0.076$, $t = 1.977$, $p < 0.05$), cost of loan ($\beta = -0.900$, $t = -23.322$, $p < 0.05$). The study concluded that the amount of loan received by loan beneficiaries are no affordable and not sufficient to meet the expectations of loan beneficiaries. Also, unfavorable loan fees payment slows down the SMEs operation. Finally, the study recommended that micro finance institutions should prepare the seminar and trainings to be given to the entrepreneurs on the loan management.

Keywords: Loan Amount, Cost of Loan, SME's Improvement, Standard Multiple Regression

1. Introduction

Generally, the role of microfinance in economic development is to provide a microcredit and other financial assistance to low-income peoples and very small informal businesses. They provide a mechanism for the poor to smooth the effects of income shocks on consumption, find safe and affordable repositories for their savings take advantage of profitable investment opportunities and insure risk [1].

It has proven that Microfinance Institutions is very a significant sector since it helps poor people to increase their income, build their business (SME's) through provision of capital, and securing their future by reducing their vulnerability to external shocks. In addition to that microfinance is a powerful tool for empowering the marginalized group especially women, to take charge of their economic well-being and those of their families [2].

The establishment of small and medium enterprises in Zanzibar is not a new phenomenon since it has been traced back before the revolution of Zanzibar of 1964 where different business enterprises existed, some of them were dealing with Clove oil, coconut oil, and Timber processing and Milk, these businesses were owned by private people and soon after the Zanzibar revolution Government put effort on industrial sector and all industries became state properties [3].

From 1990s in Zanzibar, this phase of economic development was characterized by privatization of most productive sectors such as industrial sectors and enterprises, which have led to economic growth and an expanding the government and middle class with higher spending power in response to pressure from the World Bank (WB), International Monetary fund (IMF) and USAID to undertake more liberal trade and investment policies, from this period Zanzibar shifted from a state-run economy to free economy [4].

SMEs in Zanzibar contributed to a stable economic environment and development of economic sector which can be achieved by financial and managerial supporter, this help

to overcome difficult during the startup phase or to carry out their normally activities. Hence the need for Small and Medium Enterprises (SMEs) became a real means of ensuring self-independent, employment creation, import substitution, effective and efficient utilization of local raw materials, breeding ground for entrepreneurs, source of domestic and international trade and contributing to the country economic development. The benefits of Small and Medium Scale Enterprises cannot be achieved without direct intervention of the government and financial institutions. Over the years a number of policies have been formulated by the government with a view of developing Small and Medium Enterprises [5].

In Zanzibar most of business enterprises are categorized into group of Small medium enterprises (SMEs) which play a critical role in economic growth, employment creation, creating wealth and ensure that income is distributed equitably in the economy, and increase economic opportunities to the people involving in various SMEs sectors SMEs make significant contribution to the economy and bring about economic stability of Zanzibar since they present an integral part of the country development and uses added value of local goods and services [6].

Zanzibar realize that SMEs are fundamental driving forces for the economic development since it play a big role of creating country wealth, exploitation of the primary resources and the distribution of the income in addition to rapid responses with a small percentage of risk, therefore the role of SMEs in economic development in the field of entrepreneur ship is clear to all people and the integrated model given the new point of view to facilitate the simplification factors affecting the growth of SMEs [7].

Currently, the Revolution Government of Zanzibar (RGoZ) apply several efforts and strategies to develop SMEs sectors through establishing center for SMEs and entrepreneurs located at Mbweni urban west region January 2016 (Zanzibar Technology and Business Incubation Center- ZTIBI) and SMIDA Maruhubi also launching special policy for SMEs so as to create conducive environment to develop SMEs activities, conducting several training to provide new insight for SMEs concerning with basic skills to run their business, officials registration of small business enterprises in Zanzibar, establishment of Village Community Bank (VICOBA) and in June 2021 his excellence Honorable President of Zanzibar Dr Hussein Ali Mwinyi through his visiting in many area of Zanzibar ordered Government authorized department to help SMEs to create market plan and strategies and to find reliable market for their goods and services so as to create friendly environment for SMEs.

2. Statement of the Problem

Small and medium enterprises (SMEs) in Zanzibar face with many challenges to their growth and operations. These enterprises are struggling to survive due to lack and limited access to financing, unfavorable legal and regulatory frameworks, poor business development services, higher collateral security requirement, poor amount of credit, lack of training to run their business, unstable interest rate, underdevelopment infrastructure and ineffective coordinated institutional support frame work.

The efforts have taken by the revolution government of Zanzibar in order to overcome these challenges. For example, the Zanzibar budget 2017/2018 state that there were several ongoing schemes and program aimed at strengthening SME service providers such as establishing of Vocational Training Authority (VTA) in Mkokotoni, Makunduchi and Mtambwe, Micro Finance Bank (NMB) and various Industrial Support Organizations.

In spite of all strategies, efforts, and policies applied to improve Small medium enterprises (SMEs) in Zanzibar sector is still running into grass root position due to the number of problems hindering its improvement which include poor loan amount and high cost attached to loan (interest on loan). Therefore, this research paper intends to fill the gap and provide insight on how the amount of loan provided by Microfinance institutions is considered in improvement of SME's in Zanzibar as well as the effects of cost of loan on credit improvement for SMEs sectors.

3. Theoretical Review

The dynamic capabilities theory was used in order to validate the variables established in this study. The theory was launched by Teece, Pisano and Shuen [8], empowered through the efforts of Prahalad and Hamel [9]. It is noted that ordinary capabilities are mostly about businesses doing the right thing in terms of new product, system growth, unique, change-oriented organizational culture, innovation and accurate assessment of business climate and technology trends at the right time, this theory state how a company or business owners abilities integrate, build and reconfigure internal and external competence to deal with rapid environmental change [10]. This theory brings close relationship and implication to the improvement of small medium enterprise since it develops capabilities and strategic management to examine how small business enterprises can go beyond sustainable competitive advantages especially in term of change and uncertainty which are usually indicative of organizational experience and exposure to achieve new form of innovation.

4. Empirical Literature Review

This section discusses studies on what have been done by different authors concerning the impact of loan provided by microfinance institution to the improvement of small medium enterprises. The followings are some of them.

According to Haji [11] examines factors that determine the sustainability of small and medium enterprises in Urban West Region Unguja, under this study the survey based approach was used where primary and secondary data were used, the targeted population was restaurant, saloon, Pharmacies, food staffs shops and hard ware, the data were analyzed using

SPSS and Binary Logistic Regression technique, the study reveal that the most important internal factor that determine SMEs Sustainability is management style which include structure, system, rules and regulation, decision making and team working.

Also, Sufiyan, Mengesha and Tasențe [12] come with empirical study which examines the role of the Microfinance on funding of the Small and Medium Enterprises (SMEs) in town. This study was exploring the role of microfinance institutions on small and medium enterprise as well as the extent to which the small business has benefited from the credits scheme of microfinance institution. The specific objectives of this study were to determine the extent on how the role of microfinance lead to increase the volume of gross sales of participants and to understand other factors that affect SME's growth. With regard to study objective, the research is carried out by gathering primary data through questionnaires and interviews with key informants. In addition, secondary sources of data have also been used. Eventually, using a mix of qualitative and quantitative tools, the study found out that SMEs have played positive role in improving income, creation of employment and improving the quality of life of the participants of the enterprises in the study area.

Recently paper written by Makorere [13] analyzes the role of microfinance in promoting small and medium enterprises in Tanzania. the author of this study aimed to solve various key factors influencing small enterprise to become medium enterprise and hence large enterprises, A total of 51 respondents received microfinance from Tanzanian commercial banks were selected for an interview using simple random and snow ball sampling techniques. Results show that increased on business profits, labor employments, outlets, and sales volume are the impact of adequate microfinance access (statistically significant at $P \leq 0.05$ level of significant). Result shows increased on business profits, employments, outlets, sales volume are statistically significant at 0.000 when $P \leq 0.05$ level of significant. Statistically the finding shows that the increased of business capital structure has no direct relationship with microfinance access only (insignificant by 0.390 when $P \leq 0.05$ level of significant). The enterprises whose owners also received business training, tax exemption, fair interest rate, enough grace period and infrastructures performed better than those that did not. With all that, the study further shows that many problems facing Tanzanian entrepreneurs are not only related to size of capital.

Notwithstanding, Mwandoro [14] focused on analysis the role of microfinance institutions in the empowerment of women in Tanga region, the study used a descriptive design to identify characteristic of variables and data has been collected using questionnaire, interview and documentary sources, the researcher decided to apply both bivariate and multivariate data analysis. This study finds that many women after being empowered financially showed some positive change in term of economic, decision making and management. The studies conclude that there is a need to have training to women on how to conduct businesses, not only for the readymade products but also on other ways of producing the products. Hence, giving training to women, together with motivation towards achievements will lead to a greater level of achievements.

Furthermore, Salum [15] studied on the role of microfinance on entrepreneurial development. The author reveals the objectives of the study as were to identify barriers impede entrepreneurial development and to determine constrains facing micro entrepreneurs and to find out challenges facing microfinance institutions in providing services to micro entrepreneurs. Primary data were collected by using questionnaires and in-depth interview. The study found that MFIs play significant role in enhancing micro entrepreneurs and the majority of the respondents show that high interest rate is the strong barriers that constrain entrepreneur development Moreover; the study found that about 58.3% of respondent revealed that poor management is the strong challenge for microfinance institutions in providing loans to micro entrepreneurs. The study recommended that MFIs in Tanzania also need to review their policies on the maximum amount of loans to micro entrepreneurs to reflect the market demands. At the moment, new micro entrepreneurs should not have much hope of getting finance sufficient assistance from most of the MFIs.

In addition, the study conducted by Taiwo, Agwuu and Benson [16] on the Role of Microfinance Institutions in Financing Small Businesses This study explored the roles of these micro finance banks and institutions on small and medium enterprises as well as the extent to which the small businesses have benefited from the credit scheme of microfinance banks. Primary data was obtained via interviews conducted in 15 small businesses across Lagos state with their responses summarized in tables. This study advocates the recapitalization of microfinance banks to enhance their capacity to support small business growth and expansion and also to bring to the knowledge of the management of microfinance banks and institutions the impact of the use of collaterals as a condition for granting credit to small businesses.

Thus, Chukwuma [17] conducted study on the impact of microcredit on SME's in Florida. The main concern was to examine the induced effect of loan guarantee scheme, collateral, and leverage on credit rationing. The seminal work of Stieglitz and Weiss served as a framework for the study. The research questions were developed to inquire the relationship (influence) of loan guarantee scheme on credit rationing while controlling for collateral and leverage. Specifically, the data on small businesses were collected from the Small Business Administration and the National Survey of Small Business Finances websites. Collected data (n = 1,072) of small business firms in Florida for 2015 were analyzed through applying multiple regression methodology. The study results indicated that small business participation in loan guarantee scheme had a significant influence on credit rationing when the confounding effects of collateral and leverage were statistically controlled. The findings of

this research could lead to positive social change by providing small businesses with loan guarantee scheme.
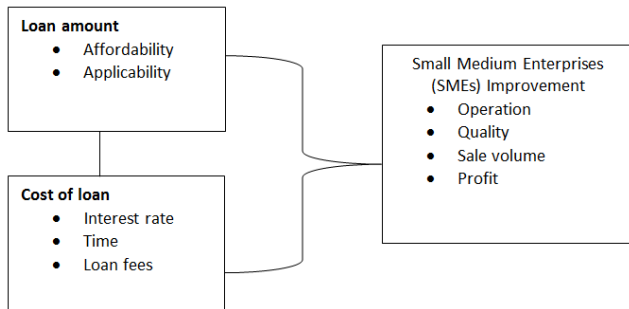
5. Conceptual Framework

Figure 1. *Conceptual Framework.*

From the figure 1 above, shows the graphical presentation of the impact of loan (in terms of amount and cost attached with loan) on small and medium enterprises improvement. The figure assumes that if the amount of credit given to small business enterprises is higher enough to complete their requirement can influence rapid improvement of SMEs sectors. Also, the increasing of cost of loan tend to threat creditors and can slowdown profit or revenue to SMEs business because of negative relationship between profit and interest hence will result poor improvement of SMEs, therefore lower interest rate improves the performance of SMEs and vice versa.

6. Methodology

Research approach: The researcher was deciding to use quantitative approach to ensure all facts relevant to research study are easily obtained and effective address the research problem. *Area of the study*: This study was conducted at West "A" District which is one among the three districts found in Urban West region Zanzibar. The researcher preferred this area due to larger number of SMEs who engage themselves into differences business entities. Specifically, the study was carried out in urban and rural area in the following wards; Mbuzini, Bububu, Dole, Chuini and Kizimbani.

Population of the study: With respect to the purposes of this study the targeted populations comprised 6 staffs of Bububu Kijichi BRAC Microfinance Institution which they provided needed information on behalf of others, and 150 SMEs members supported and registered by BRAC, these two groups were taken provide detail information through questionnaire so as to meet the study expectation.

Sampling Techniques and Sample Size: A simple random sampling technique was used to select 112 respondents as a sample size and considered as appropriate for a study of this nature. *Methods and tools of data collection*: Questionnaire was used as a method of data collection. Closed and open-ended questions were useful constructed to the proposed sample to gather actionable data direct from the individuals.

Data analysis: The Standard multiple regression was used to explore the relationship between one continuous dependent variable (SME's improvement) and a number of independent variables or predictors (loan amount and cost of loan).

7. Study Findings

7.1. Demographic Finding of the Respondents

Table 1. *Demographic of the respondents.*

Variable	Category	Percentage (%)
Gender	Male	61.6
	Female	38.4
Age	20-29	6.3
	30-39	36.6
	40-49	52.7
	50 and above	4.5
Marital Status	Married	67.9
	Single	10.7
	Divorced	21.4
Occupation	Loan officer	9.8
	Accountant	16.1
	Operational officer	17.9
	Entrepreneur	56.3
Education level	Primary	5.4
	Secondary Certificate level	12.5
	level	14.3
	Diploma level	48.2
	University level	19.7

From the table 1 above summarizes the demographic information about the respondents. Expectedly, the number of males is half with the number of female respondents. It has been observed that males are more concerned than female in small and medium enterprises in the society. The result in the table above it seems to suggest 52.7 percent of the respondents are between the ages of 30-49, which is more than half of the total respondents. This indicates that most of the respondents are economically active labor force and they can manage well their business and taking the responsibilities to their family.

Furthermore, almost 70 percent of the total respondents were married, 10.7 percent were single and 21.4. These results seem to suggest that marriage people are still highly valued in the study area and that cultural norms are still respected [18]. It can be seen in table 1 that, the respondents were engaged in different sectors. The large number of the respondents was entrepreneurs, which present 56.3 percent of the total respondents. Followed by the respondents who were operational officer and accountant were 17.9 percent and 16.1 percent respectively.

Finally, it can be concluded from the Table 1 above that the number of respondents attaining higher education was very little, only 19.7 percent are educated up to degree, while the remaining 80.3 percent are educated below the degree level. This does not mean that those who are able to get their degree they have guaranteed to get jobs because there is a great competition between young and old. According to the information above meaning that large portions of household heads have attained certain level of education, but very far to the higher level of education.

7.2. Empirical Findings of the Study

The study examines the impact of loan (loan amount and cost of loan) on the improvement of Small medium enterprises (SMEs) in Zanzibar. It mainly employed a standard multiple regressions technique to analyses the collected data from the respondents. In standard multiple regression all the independent (or predictor) variables are entered into the equation simultaneously. Each independent variable is evaluated in terms of its predictive power, over and above that offered by all the other independent variables [19].

The results of standard multiple regression as displayed in Table 2 below indicated that the independent variables cost of loan and loan amount accounted for 60% of the variability in SME's improvement in Zanzibar ($R^2 = 0.603$). The adjusted R square value was 0.601. Therefore, these findings substantiate that 60% of variability in SME's improvement could be explained by factors like cost of loan and loan amount. The remaining 40% of variability depends on other unexplained factors.

Table 2. Model Summary[b].

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.650[a]	.603	.601	.21069

a. Predictors: (Constant), Cost of Loan, Loan amount
b. Dependent Variable: SME's Improvement.

The next is to know which of the variables included in the model contributed to the prediction of the dependent variable. In this case, the researcher is interested in comparing the contribution of each independent variable. This means that the variable makes the strongest unique contribution to explaining the dependent variable, when the variance explained by all other variables in the model is controlled for. To make this comparison the researcher should look the value of Beta and find which beta value is the largest (ignoring any negative signs out the front). If the value of Beta is large it means that the variable makes the strongest unique contribution to explaining the dependent variable, when the variance explained by all other variables in the model is controlled for. If the Beta value was slightly lower indicating that it made less of a unique contribution.

Therefore, the following table 3 below displays the coefficients' columns for the standard multiple regressions conducted.

Table 3. Coefficients[a].

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.088	.083		1.059	.000
	Loan amount	.061	.031	.076	1.977	.041
	Cost of Loan	-.834	.036	-.900	-23.322	.000

a. Dependent Variable: SME's Improvement.

The table 3 above shows the coefficients for loan amount and cost of loan on SME's improvement at the 0.05 level of confidence. The study has revealed that two predictors (loan amount and cost of loan) had a significant effect or impact on the outcome variable (SME's improvement). In other words, the results of predictor variables as seen in Table 3 above are as follow:- loan ($\beta = 0.076$, t = 1.977, p < 0.05), cost of loan ($\beta = -0.900$, t = -23.322, p < 0.05).

Basically, the effect of loan amount on SME's improvement in Zanzibar was in a positive direction. This situation indicates that the increase of scores in these predictor variables results in the increase of scores in the outcome variable [20].

However, one predictor variable that is cost of loan show the significant impact but had indicated a negative direction on SME's improvement ($\beta = -0.900$, t = -23.322, p < 0.05). For this case, it means that when cost of loan increase it lead to poor improvement on SME's. This situation indicate that SME's members are highly affected with amount of loan and the cost attached with the loan which finally tend to low improvement of their business.. Therefore, these findings provide the opportunities for the microfinance in Zanzibar to improve their operations on providing loan to SME's.

The findings above are agreed with the finding of [12] which examines the role of the Microfinance on funding of the Small and Medium Enterprises (SMEs) in Gorodola Harakallo town and the study found out that SMEs have played positive role in improving income, creation of employment and improving the quality of life of the participants of the enterprises in the study area. In addition, the study of Chukwuma [17] conducted empirical study on the impact of credit on small business financing in Florida. The study results indicated that small business participation in loan guarantee scheme had a significant influence on credit rationing when the confounding effects of collateral and leverage were statistically controlled. The findings of this research could lead to positive social change by providing small businesses with loan guarantee scheme.

8. Conclusion

The study examines the impact of loan provided by BRAC microfinance on SME's improvement in Zanzibar

particularly in West "A" District. The study also concludes that, the amount of loan provided by BRAC Microfinance on SMEs improvement have the impact in several perspectives, such as affordability of loan and sufficient to meet business expectation, the study indicated that, the amount of loan received by loan beneficiaries are no affordable and not sufficient to meet the expectations of loan beneficiaries. On the effects of cost of loan on credit improvement for SMEs sectors, the study concludes that, the unfavorable loan fees payment slows down the SMEs operation. Also, higher interest can deprive the SMEs to win the market situation, then about loan processing time if it is transparent to the credit recipients the study concludes that, loan processing time is not transparent to the credit recipients and thus can hinder and discourage loans recipient.

9. Recommendation of the Study

Micro finance institutions should prepare seminar and trainings specific to the entrepreneurs on how to effectively manage the loan, run business and identification of market strategies and plans so as to expand more their business territories. This will help to establish a good relationship between loans recipients and micro finance institutions and skill will help micro enterprises to manage their business activities. Also, the micro finance institutions should review its policy and regulations in order to give high loan packages to facilitate the entrepreneurs to execute their projects which can have substantial impact to their life and community such as providing employment, increase revenue and creates other social entrepreneurs to emerge in other potential sectors/industry in the society.

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