

# Credit Characteristics and Business Performance: A Survey of Women owned Microenterprises in Tanzania

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## ABSTRACT

*This article provides assessment of the effects of four credit characteristics including size, interest rate, repayment period and borrowing experience on business performance. The article makes use of survey data collected from 217 women microcredit clients from Arusha, Dar es Salaam and Mwanza regions in Tanzania. Bivariate correlation analysis was used to find out specific effect of each of those four credit characteristics on three business performance measures namely total sales revenue, net profit and business net worth. The combined effect of all four credit characteristics on business performance was estimated by a multiple linear regression model. The findings revealed that size of credit was positively correlated with total sales revenue and business net worth at significant level. Interest rate was negatively correlated with all three measures of business performance at significant level. It was also found out that repayment period was positively correlated with all three business performance indicators at significant level. Furthermore, the study established that borrowing experience was positively correlated with total sales revenue at significant level but not with other two indicators. The model accounted for 25% of sales revenue, 9% of net profit and 28% of business net worth.*

**Key words:** Size of credit, interest rate, repayment period, borrowing experience and business performance

JEL Classification Code: E51, E43

## 1 INTRODUCTION

Credit is an important source of capital to finance women owned microenterprises in Tanzania. This is particularly so given that most of those enterprises are capital constrained (Martijn and Daan, 2012). Evidences from a study by International Labour Organization (ILO, 2003) show that 67% of women enterprises in Tanzania use their meagre savings to start up their businesses. Amidst this situation, women owners of microenterprises can hardly secure loan from the commercial banks which offer relatively low interest rates because have no control over the conventional collaterals like land or houses. This view is supported by Nchimbi (2002) and Olomi (2001) when they observe that microenterprises owners, especially women, cannot easily borrow from commercial banks due to lack of collaterals which are demanded in the process of asking for financial supports. Since women owners of microcredit cannot access credit from the mainstream financial system, their only remedy are the Microfinance Institutions (MFIS) and money lenders, who unfortunately attach their loan products with stringent conditions including high interest rate, short repayment period and limited amount to borrow. This paper therefore is set to assess how those stringent lending conditions affect business performance in terms of total sales revenue, net profit and business net worth.

## 2. LITERATURE REVIEW

Lack of enough capital is one of the major constraints against growth of women owned microenterprises. It is on this background Coleman (2001) observes that without sufficient capital, micro and small firms are unable to develop new products and services or grow to meet demand. However, microcredit has always constituted small-size-loans (Mosley and Hulme, 1998; Morduch 2000; Ghatak and Guinnane, 1999) which can hardly suffice the actual business needs to grow or expand.

The contribution of optimally large size of loans to the performance of microenterprises cannot be overemphasised. According to Godquin (2004) there is linear relationship between size of loan and profit that a firm can make as a result of borrowing. She underscore the contribution of size of loan particularly focusing on what the same can do increase business returns and investment. She notes "as the net return is an increasing function of the size of the loan, the borrower always prefers bigger loans and therefore asks for the largest loan size she may apply for given the set of projects within her reach as defined by her own characteristics, those of her environment, and those of her lending group" (Godquin, 2004:1911).

Vogelsang (2001) studied the impact of loan size on the performance of the clients' enterprises in Bolivia using data from one of the microfinance institutions called Caja Los Andes. Basing on the information from 76,000 clients and

28,000 rejected loan applicants; the author found out that clients with average higher loan size generated higher revenues than those with lower loan size. Accordingly, the study found out that those with average higher loan size has higher level of assets than those with lower average loan size. Coleman (1999, 2001) studied microfinance programs in Thailand and found out that those programs had insignificant or negative impact on the borrowers' household wealth. According to him, those loans had negative effect because were too small in size to make investments in business and thus were used for consumption. The borrowers because even poorer because had to turn to money lenders to finance the repayment the fact that lead the borrowers into a vicious cycle of poverty.

Otieno et al., (2011) conducted a study in Kisii County in Kenya to assess the effect of provision of micro finance on the performance of microenterprises focusing particularly on microenterprises under Kenya Rural Enterprise Program (K-REP). The study, which involved a total of 86 enterprises, found out that the size of loan given to majority of borrowers was inadequately small to facilitate significant investment in businesses. The study also found out that loan amounts disbursed to the majority of applicants (respondents) were less than the amount applied for. The authors concluded that due to inadequately small loans, youth microenterprises were not able to grow to small and medium size enterprises.

At this point it is important to note that all of the above studies confirm to the fact that financial constraints, due to limited loan amounts by MFI, prevent firms from making enough investment in their businesses thus leading to depressed growth, productivity and eventually their survival (Carreira & Silva, 2010; Musso & Schiavo 2008; Parker & Van Praag, 2006). Cognizant of the contribution of size of credit in business performance, this study establishes the following hypothesis.

*H1. The performance of microenterprises with large loan size is significantly higher than those with small loan size.*

Microenterprise operators, especially in the developing countries, have limited access to credit from formal sources. Banks, which offer relatively low rates compared to MFIs and money lenders, continue to favour large-scale business and neglect the poor potential entrepreneurs on the basis that have no the conventional collaterals to guarantee for the loan they request. A study by Banerjee and Duflo (2006) covering a total 13 developing countries revealed that only 6% of the borrowings of poor people came from formal sources. According to them 94% of the borrowed funds by the poor came from money lenders, friends and merchants. Given this situation, it turns out that the only viable sources of credit to women owners of microenterprises are the microfinance institutions (MFIs) and sometimes money lenders.

However, it might be important to note that MFI loans have always been attached to high interest rates. Specifically, high interest rates on microcredit are typical in the so called 'new wave MFIs' where financial services have been commercialized (Huq, 2004). Bateman (2009) found out that women borrowers from one

of Mexico's MFI called Compartamosbanco were paying a high interest of around 90-100%.

Literature suggests that MFIs associate their loan products with high interest rates in order to meet the operating costs and to achieve financial sustainability. In order to achieve financial sustainability and, arguably be able to reach more poor people with microloans, MFIs have to attach their loan products with high interest rate so as to gain profit (Roodman, 2011; Rosenberg et al., 2009, Ruben, 2007). According to Roodman (2011), the impact of high interest rates has to be judged against the possible harm of poor people having no access to credit at all. Explaining why small loans should be attached to high interest rate; Rosenberg, Gonzalez and Narain (2009:1) note "lending \$100,000 in 1,000 loans of \$100 each will obviously require a lot more in staff salaries than making a single loan of \$100,000".

Ruben (2007) in his work titled "The Promise of Microfinance for Poverty Relief in the Developing World" explains the reason why MFIs have to attach their loan with high interest rates. He argues that MFIs have to hinge the credit products with high interests so as to be able to meet the high administrative costs associated with small loans. According to him, the interest rates of 30 to 50% or more offered by MFIs are low compared to that which is offered by local money lenders. While this is classic explanation around high interest rate offered by MFIs, the argument I put forward here is that those rates are too high to really make it possible for borrowers to expand their business through increased volume of tradable goods and services, investment on productive assets and eventually earn profit.

High interest rates can prevent the poor from borrowing. This may happen when those interest rates prevent investment on activities that produce high returns (Fernando, 2006). This is clear when he notes that 'only those who can generate a sufficiently high surplus of funds can afford high interest rates on microcredit. More specifically, a borrower's realized rate of return on investment needs to be greater than the interest rate to service the loan' (Ferdinando, 2006:7). In fact, loans with high interest rates can have devastating impact on the borrowers when the same are used to facilitate consumption than business investment (Stewart et al. 2010). For instance, women owners of microenterprises are likely to be unable repay loans with high interest rates given that they are tend to invest the borrowed money in other activities like health, education and basic needs than in business.

Further empirical evidences suggest that high interest rates offered by MFIs have been reason why microfinance services have not been able to improve the clients' wellbeing particularly in Sub-Saharan region (Stewart et al, 2010). The authors observe that the poor borrowers are made poorer not richer and because their businesses do not produce enough profit to compensate for the high interest rates and that due to high interest rate, the poor do fail to repay loan and may fall into a debt trap (Stewart et al., 2010: 49). Higher interest rates were one of the causes of indebtedness among MFI borrowers. In a study conducted in Ghana by the Centre for European Research in Microfinance, Schicks (2011) found out that high interest rates were one among

highly mentioned reasons for borrower's indebtedness in the interviews. In Tanzania, high interest rate on microloans has been found to constrain financial stability of microenterprises. For instance, Kayunze et al., (2005) list high interest as one of the constraints against borrowing other than lack of collateral by the poor.

However, poor people go on borrowing from MFIs in spite of the high interest rates. Engagement in loans with high interest rates means that women borrowers would have little returns on their businesses the fact that will in turn limit business performance in terms of investment on assets, profit and hired labour force. On the basis of these arguments, the study establishes the following hypothesis.

*H2. The performance of microenterprises whose owners are servicing loans with low interest rates is significantly higher than those whose owners are servicing loans with high interest rates*

Generally, the beneficiaries of microcredit schemes, especially where Grameen banks' solidarity group lending applies, experience short repayment time most often one week after loan disbursement. Hulme and Mosley (1996) note that frequent repayment scheme is used by MFIs to reduce repayment insecurity. According to them, advantage of this scheme is that it screens out the undisciplined borrowers, thus giving early warning to loan officers and group members. However, short repayment period means that borrowers have to make returns before making any investment. In the same vein, Armendáriz and Marduch (2005) argue for tight repayment schedule showing that flexible repayment contributed to high default rate among microcredit clients in Bangladesh.

Scanty literature available on the role of repayment period and business performance suggests that there is positive correlation between more flexible repayment period and business performance. Field and Pande (2008) conducted a study to evaluate the effect of weekly repayment in a microfinance institution called Village Welfare Society in Calcuta – India. In this study, borrowers were randomly assigned to one of three conditions: usual weekly reimbursement starting immediately after loan disbursement, monthly reimbursement, or weekly reimbursement starting a few weeks after the loan started. The findings revealed that the group which was given a gap of a few weeks was more likely to start a business, and when they started they were more likely to make a bigger investment than one that only started paying after a while. Particularly, women borrowers who started loan repayment after a few weeks were less likely to buy saris for resale and more likely to invest on productive assets like acquire a sewing machine. In another study involving 845 clients of a microfinance institution called "Village Financial Services" in Kolkata India, Field et al., (2011) found out that immediate repayment obligation distorted investment in microenterprises financed through credit. The study further found out that longer grace period had positive effect on profit and investment in business but could increase delinquency.

The ideal advantage of tightly short repayment schedule is that it may screen out the undisciplined borrowers, thus giving early warning to loan officers and group members (Hulme and Mosley, 1996). However, short repayment period means that borrowers have to make returns before making any investment. Particularly, short repayment time may not favour women borrowers who do so to start up a new business because repayment has to begin before the returns on investment. With due consideration of the importance of reasonably enough grace period and eventually long repayment period in the growth and eventually performance of women owned MEs the study considers the following hypothesis.

*H3. The performance of microenterprises whose owners are servicing loans with long repayment periods is significantly higher than those whose owners are servicing loans with short repayment periods*

Literature consistently shows that women operators of MEs have limited experience with credit and other microfinance services. In essence this is closely related to limited access to credit among them (Ibru, 2009; Iganiga, 2008; Iheduru, 2002; Kuzilwa, 2005; Lakwo, 2007; May, 2007; Okpukpara, 2009). Limited experience with credit is likely to lead to limited use of other related microfinance services (Karnani, 2007). This view is reinforced by Shane (2003) arguing that "the ability of women to make use of the opportunities provided by microfinance services to ensure enterprises' performance depends on the attitude to risk".

The duration of participation in credit scheme, therefore, is an important factor to consider while assessing the impact of microcredit scheme. However, the available empirical evidences show mixed results with regard to usefulness of credit and duration of participation in credit schemes. A study conducted in Zimbabwe showed that households of clients who had participated for long time were likely to fall into poverty than non-clients (Barnes et al. 2001b). A study in Ghana (Adjei and Arun, 2009) revealed that women clients were more likely to purchase refrigerators and sewing machines but the duration of participation did not matter. A study by Lakwo (2006) on "microfinance, rural livelihood and women's empowerment in Uganda" revealed that microcredit did improve the wellbeing of clients relative to that of non-clients but those gains were reducing as time for participation increased. The study observed further that clients who had been involved for more than three years saw very negligible value-addition to their wellbeing (Lakwo, 2006).

However, in this study it is assumed that women operators of MEs with repeated borrowing experience (i.e. those with higher frequency of borrowing) are more likely to use credit for effective business performance. This is particularly so since most of the MFIs do not provide enough and relevant business education to their clients; especially on the use of credit for business performance. With due consideration of the importance of credit experience, this study puts forth the following hypothesis.

*H4. The performance of microenterprises whose owners have had repeated borrowing experiences is significantly higher than those whose borrowers have had limited experience.*

### 3. MATERIAL AND METHODS

#### 3.1 Sampling procedures and sample size

This article used data from a survey of women owners of microenterprises who had borrowed money from various microcredit schemes from three major cities in Tanzania including Arusha, Dar es Salaam and Mwanza. The study, which was cross-sectional by design, adopted a combination of purposive and simple random sampling techniques. Purposive sampling technique was used to identify the suitable locations (wards) from which women operated their microenterprises. This was done by the help of Business Directors for the three city councils. The researcher consulted the Ward Executive Officers (WEOs) who helped him to identify specific women's groups to be visited. Using women's groups in the different business locations, the researcher was able to get the list of women owners of micro-enterprises who had borrowed from various sources. He then used simple random sampling technique to select few women from each group to represent others. To accomplish this task in a manner which was less biased, the researcher used a table of random numbers. In Total, therefore, 217 women borrowers including 59 from Arusha, 102 from Dar es Salaam and 56 from Mwanza were selected.

#### 3.2 Data collection and variable measurements

Data collection exercise commenced in February through May 2012. Structured questionnaire was used to collect required information. Three business performance measures namely total sales revenue, net profit and business net worth were used. Total sales were considered to be sum of all revenues obtained from business in specific month of reference. Information on the sales was collected by one question requiring the entrepreneur to state the total sales on specific period of time including the previous day, the previous week or the previous month. These three reporting options were provided with due realization that some of the operators of microenterprises did not keep written business records and therefore would face recall problems if they had to give weekly or monthly reports. The weekly and monthly options were specifically meant for those who kept written records. All of the reported sales were converted to monthly sales by multiplying sales per day or week by total number of days for which the business operated in the reference month.

Net profit was defined as sum of sales revenue less total business and operating cost in the previous month plus value of output consumed by the entrepreneur or her household plus value of output given away (Daniels, 1999:4). The operating costs were calculated from a list of costs and the amount spent on each per day/week/month. Information on sales was collected using a single question "what were your sales in the last day/week/month?" This question was obtained from AIMS (Assessing the Impact of Microfinance Services) questionnaire (Cohen, 1999:63). Net profit was calculated using the following formula.

$Net\ Profit = Sales - [business\ costs + other\ operating\ costs] + output\ consumed\ by\ entrepreneur\ or\ her\ household + output\ given\ away.$

Business net worth was considered to be the sum of fixed and current assets only. Human asset and human and/or social assets were left out because of the difficulties of measuring them among women owners of microenterprises. Thus business net worth was calculated using the following equation.

$$Business\ net\ worth = Current\ asset + Fixed\ assets$$

Current assets involved inventory of finished goods (for manufacturing businesses), raw materials, cash, deposit/checking accounts, account receivables and loans. The value of loan was given a negative sign (-) because this was something the proprietor had to pay off from her earnings. The fixed assets included the monetary values of utilities, machinery, equipment and tools. All three business performance indicators namely total sales, net profit and business net worth were expressed in Tanzanian Shillings (TZS).

Data on the four credit characteristics namely size, interest rate, repayment period and borrowing experience were collected as follows. Information on the size of credit was collected by use of a single question where respondents were asked to state the amount of their last loan in TZS. This question was followed by two others requiring them to state the interest rate per annum associated with their last loan and repayment period in weeks. Where respondents could not give proper information on the interest rate, the researcher either calculated it or sought the required information from the respective lending institution. Lastly, the information on borrowing experience was collected by compiling information from two questions which required respondents to state: (a) number of cycles for which she had participated in microcredit schemes, and (b) Length of those individual cycles. This information was converted into weeks.

#### 3.3 Data analysis

Bivariate correlation analysis was used to assess the relationship between the four credit characteristics namely size of credit, interest rate, repayment period and borrowing experience on the one hand and business performance on the other. The results were presented using Pearson correlation coefficient (r) and p-value.

The combined effect of all four credit characteristics on the aforementioned three business performance measures was estimated by a multiple linear regression model. Rationale for using this type of model was based on the study's goal of finding out the contribution of each of the individual aforementioned four credit characteristics on business performance. Specifically, this type of model was preferred given that there more than one predictor variables. The model adopted logarithmic form because the variables were not normally distributed. It looked as follows.

$$\log Y_n = B_0 + B_1 \log X_1 + B_2 \log X_2 + B_3 \log X_3 + B_4 \log X_4 + \varepsilon$$

Where  $B_0$  was a constant and  $B_1, \dots, B_4$  are beta Coefficients and  $\varepsilon$  was an error term. For operational purposes  $Y_1, Y_2$  and  $Y_3$  represented total business sales (*tsales*), net profit (*nprofit*) and business net worth (*networth*) respectively. Accordingly,  $X_1, X_2, X_3$  and  $X_4$  represented Size of credit (*size*), Interest rate

(*interest*), Repayment period (*repayment*) and borrowing experience (*experience*) respectively.

The interpretation of regression analysis was based on group statistics (Means and Standard Deviation), Pearson Correlations, Beta Coefficients, t-values, adjusted R square values, F statistics and significance (P-values).

## 4. FINDINGS

### 4.1 Size of credit and business performance

The findings revealed that there was significant positive correlation between loan size (amount borrowed) and total sales ( $r = 0.300$ ,  $p < 0.01$ ). There was also significant positive correlation between size of loan and business net worth ( $r = 0.307$ ,  $p < 0.001$ ). However, loan size was not significantly correlated with net profit. The implication of these findings is that the businesses borrowers with large loan size (i.e. those who borrow a large amount of money) were likely to perform better in terms of total sales and net business worth than of those who borrow little (limited) amount. The findings therefore concur with the first hypothesis for this study that *"the performance of microenterprises with large loan size is significantly higher than those with small loan size"*.

### 4.2 The interest rate per annum and business performance

The interest rate per annum varied from 5% for borrowers from VICOBA to 600% for borrowers from individual money lenders. The average interest rate was 52.19% per year. The results of bivariate correlation analysis revealed that interest rate was negatively correlated with sales ( $r = -0.178$ ,  $p = 0.011$ ) and with business net worth ( $r = -0.137$ ,  $p < 0.001$ ) at significant levels. Interest rate was also negatively correlated with net profit when the significance value was adjusted to two decimal places ( $r = -0.137$ ,  $p = 0.05$ ). Thus, the findings support the second hypothesis that *"The performance of microenterprises whose owners are servicing loans with low interest rates is significantly higher than those whose owners are servicing loans with high interest rates"*.

### 4.3 Loan repayment period and business performance

The repayment periods ranged from 4 to 52 weeks. The average repayment period was 28.6 weeks. The findings of bivariate correlation analysis revealed that there was positive and statistically significant correlation between loan repayment period and total sales ( $r = 0.221$ ,  $p < 0.001$ ), between repayment period and net profit ( $r = 0.168$ ,  $p < 0.05$ ) and between repayment period and business net worth ( $r = 0.429$ ,  $p < 0.001$ ). These findings imply that longer repayment period may lead to more sales, higher profit and higher business net worth. The findings therefore support the third hypothesis that *"the performance of microenterprises whose owners are servicing loans with long repayment periods is significantly higher than those whose owners are servicing loans with short repayment periods"*.

### 4.4 Borrowing experience and business performance

Out of 217 borrowers, 76 (35%) had repeated borrowing experience while 141 (65%) had not. The borrowing frequency ranged from 1 to 14 times. The average borrowing frequency was 1.92. The borrowing experience was calculated as total number of weeks for which a borrower had been on the loan(s) and it ranged from 4 to 468 weeks, with the average of 55.3 weeks.

The findings reveal that there was positive and statistically significant correlation between borrowing experience and total sales ( $r = 0.237$ ,  $p < 0.001$ ). The rest of two business performance measures namely net profit and net business worth were not significantly correlated with borrowing experience. The findings reject the fourth hypothesis that *"the performance of microenterprises whose owners have had repeated borrowing experiences is significantly higher than those whose borrowers have had limited experience"*.

### 4.5 The model estimation

*Effect on total sales:* Using an enter method, a model emerged ( $F_{4,176} = 16.167$ ,  $p < 0.01$ , Adjusted  $R^2 = 0.252$ ). The predictor variables with significant positive effect on the total sales were size of credit (Beta = 0.410,  $p < 0.001$ ) and borrowing experience (Beta = 0.195,  $p = 0.04$ ). The remaining two independent variables namely interest rate (Beta = -0.096) and repayment period (Beta = -0.102) were not significant predictors of this model.

*Effect on net profit:* The findings on the model summary, ANOVA results and regression coefficients showed that using an enter method a statistically significant model emerged ( $F_{4,176} = 5.65$ ,  $p < 0.001$ , Adjusted  $R^2 = 0.094$ ). The findings revealed that size of credit was the only predictor variable with statistically significant positive effect on the model (Beta = 0.268,  $p = 0.004$ ). The rest of the three independent variables including interest rate (Beta = -0.020), repayment period (Beta = 0.076) and borrowing experience (Beta = 0.020) were not significant predictors of this model.

*Effect on business net worth:* The results showed that a statistically significant model appeared ( $F_{4,172} = 17.889$ ),  $p < 0.001$ , Adjusted  $R^2 = 0.277$ ). However, the results of regression coefficients showed that only size of credit (Beta = 0.308) and repayment period (Beta = 0.399) were significant predictors of this model. Interest rate (Beta = -0.014) and borrowing experience (Beta = -0.135) had negative but statistically insignificant effect on the model.

## 5. DISCUSSION OF FINDINGS

Size of credit (amount borrowed) was positively correlated with total sales and business net worth at significant levels. However, the same was not significantly correlated with net profit. The implication of these findings is that borrowers could quickly spend the borrowed money to restock their businesses or purchase business assets. However, since the borrowed sums were as small as TZS 25,000, their businesses could not fetch enough profit to guarantee sustainable investments and expansion. This

view is well supported by empirical study by Kuzilwa (2005) where women owners of restaurants in Morogoro regions had failed to expand their businesses due to inadequate credit. The stance is also supported by evidences from Kenya showing that credit clients under Kenya Rural Enterprise Program (K-REP) had failed make significant investment on their businesses because the loans were too small to do so.

Interest rate per annum was found to have negative and significant correlation with all three indicators of business performance namely total sales, net profit and business net worth. This implies that annual interest rates associated with microloans were too high to allow firms make profit and investments. The findings conform to a reasonably large body of knowledge that suggests that high interest rates have been the reason why microcredit clients have always remained poor (Stewart et al., 2010). The findings are also in consonance with evidences from the previous studies that high interest rates was one of major causes of borrowers' over indebtedness (Schicks, 2011) and that the same is a disincentive to further borrowing (Kayunze et al., 2005), at least, for investment in business.

Loan repayment period was positively correlated with all three indicators of business performance including total sales, net profit and business net worth at statistically significant level. The findings imply that borrowers given more flexible repayment option in terms of grace period and loan term were likely to have their businesses perform better than those whose loans are guided by strict and tight repayment schedules. The findings corroborate those of previous studies showing that flexible repayment period coupled with a grace period made it possible for borrowers to get more profit and invest on productive assets (Field and Pande, 2008; Field et al., 2011).

Borrowing experience was positive and statistically significant correlation with total sales. The rest of two business performance measures namely net profit and net business worth were not significantly correlated with borrowing experience. The implication of these findings is that long participation in microcredit schemes (long borrowing experience) was unlikely to have positive impact profitability and business investment. In fact, there are empirical evidences showing that households of clients who had participated for long time were likely to fall into poverty than non-clients (Barnes et al. 2001b; Lakwo, 2006).

It is worth noting that whereas women borrowers could repay their loans in the first borrowing cycles, they were likely to fail in the subsequent following cycles. According to SEDA's loan manager, in the first rounds new entrants in the loan schemes worked hard to repay their loans so as to impress the lender and thus qualify for another round with more funds. This could even involve borrowing from other sources thus increasing their state of indebtedness. Some of the FGDs also revealed the same scenario and that explains the reason why some women borrowers ended up losing household items when they were auctioned by fellow solidarity group members. This is the idea held by Coleman

(2001) when he posits that due to small size of loan, borrowers have to occasionally turn to money lenders for more loans to finance loan repayment thus making them even poorer than they were before.

Finally, the findings revealed that the combined effect of loan size, interest rate, repayment period and borrowing experience accounted for 25% of total sales revenue, 9% of net profit and 28% of business net worth. The models were weak and this can be explained by two reasons. First, borrowers used part of borrowed money to finance other household requirements than business. This means that little credit went into business and thus its effect on the same would as well be little. Second, the performance of women owned microenterprises is a function of a multitude of factors; some of them known to operators themselves. Credit therefore accounts for just part of those many factors.

## 6. CONCLUSION AND RECOMMENDATIONS

This study has shown that interest rate, which was as high as 600% per annum, had negative effect on all three business performance indicators. Both the model results and specific correlation analysis results indicated that the relationship between net profit and the four credit characteristics was either significantly negative or insignificant. This leads to the conclusion that the businesses of women borrowers were not as profitable as they could be due to, among other things high interest rates and other stringent lending conditions by MFI and individual money lenders.

Based on the above findings and conclusion, this paper recommends for the following measures. The MFIs operating in Tanzania should consider lowering the interest rates attached to their loan products to a level which can guarantee a win-win situation. By lowering the interest rates, women owned microenterprises will be more profitable the fact that will in turn contribute to the improved loan repayment rate. The Government thought the Ministry of Cooperatives and Food Security should wage serious campaigns to expand the outreach of Savings and Credit Cooperative Societies (SACCOS) to help the poor get financial services at relatively low cost. This initiative is likely to curb the penetration of microcredit services provided by individual money lenders whose interest rates are exorbitantly high.

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