MICROFINANCE INTERVENTION AND ENTERPRISES GROWTH: AN APPLICATION OF STRUCTURAL EQUATION MODELLING (INTERACTIVE PAPER)

Severine Kessy
University of Dar es Salaam, severinesk@yahoo.com

Recommended Citation
Kessy, Severine (2012) "MICROFINANCE INTERVENTION AND ENTERPRISES GROWTH: AN APPLICATION OF STRUCTURAL EQUATION MODELLING (INTERACTIVE PAPER)," Frontiers of Entrepreneurship Research: Vol. 32: Iss. 1, Article 3.
Available at: http://digitalknowledge.babson.edu/fer/vol32/iss1/3

This Interactive Paper is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized administrator of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.
Principal Topic

In conceptualisation of impact assessment, there are a number of variables that the assessors can consider. These present a complex set of links among the variables of the study because the casual effect among the variables may be influenced by different factors (Hulme, 2000). In this regard, the assessors may focus their attention in different areas of impact assessment. For example, if the objective of a microfinance project is to provide loans to poor people in order to improve their standard of living, then the impact assessment study will reveal whether the standard of living of the targeted group has improved or not. Likewise, if the objective of microfinance providers is to facilitate the growth of enterprises, impact assessment will show whether the growth of these enterprises has been realised or not. This paper assessed the impact of microfinance services on growth of micro and small enterprises.

Method

In order to conduct impact assessment a survey was conducted to 225 MSEs supported by MFIs in Tanzania to test the hypothesis that the credit service has positive influences on the growth of MSEs owned by MFIs clients. Growth of enterprises was measured by sales revenue, number of employees and assets level while indicators of microfinance services were loan received, loan invested, interest rate and repayment time. Structural Equation Modelling (SEM) was used to test the hypothesis.

Results and Implications

Through the use of SEM, the findings revealed that while the loan amount (i.e. amount received and amount invested affected growth positively, loan conditions (interest rate and repayment time) affect growth negatively. It is thus recommended that microfinance institutions (MFIs) should find proper conditions that will not hinder the growth of enterprises owned by their clients. MFIs clients are also required to utilise the available resources in a non-fungible manner because the study found that fungibility is one of the limiting factors for MSEs growth. Therefore proper utilisation of the received loans will enable the businesses owned by MFIs clients to grow and contribute towards economic development in terms of income generation and the creation of employment opportunities.

CONTACT: Severine Kessy; severinesk@yahoo.com; (T) +255713 370208; University of Dar es Salaam, Dar es Salaam, TANZANIA.