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Causes of Loan Delinquency by Small and Medium Enterprises in Dar Es Salaam Tanzania

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Abstract

The study aimed at determining the Causes of Loan delinquency in small and medium Enterprises operating in Dar es Salaam Tanzania with a focus on factors touching on the SMES that is , funds utilization practices, owner management competence, entrepreneurial risk taking behaviour and level of innovativeness. The Study followed an inductive process where both primary and secondary data collection tools were used to achieve the results. Both descriptive and inferential analysis (Correlation and regression analysis) was used. Data was analysed using SPSS version 22 and the findings revealed that funds utilization practices positively and significantly affect loan delinquency among SMEs in Dares Salaam town. This implies that an increase in loans utilization practices such as borrowing funds to expand into new markets, using loans whenever there is a need to diversify and using borrowed funds to undertake new ventures increases loan delinquency. The study findings also indicated that management competence negatively affects loan delinquency among the SMEs investigated. It was also established that innovativeness has a negative and not significant relationship with loan delinquency among SMEs in Dares Salaam. This implies that experimentation and introduction of new products or services anytime and incorporation of the employee's ideas into the organization leads to a small effect on reduction of loan delinquency.

Key Words: *Funds Utilization Practices, Owner Management Competence, Entrepreneurial Risk Taking Behaviour, Level of Innovativeness, Loan Delinquency, Small and Medium Enterprises, Dares Salaam Tanzania*

Background of the study

Globally, SMEs are of significant importance in economic and industries growth. According to International Finance Corporation (2011) report, SMEs play an important role in enhancing per capita income and output, generating job opportunities, promoting regional economic balance by ensuring industries are well distributed and it also ensures that resource are utilized effectively as its seen critical to engineer the economic development and growth. SMEs are among competitive industries in the world, they help in poverty reduction by providing large numbers of jobs needed to curb the menace (International Finance Corporation, 2011). SMEs are very flexible and the ease to adapt changing which is vital in promoting both entrepreneurship and entrepreneurial skills (Govori 2013). Ganbold (2014) argued that in rural areas, SMEs help marginalized and vulnerable individuals on how to spread their incomes, so that they can generate other economic growth and create more job opportunities.

The main challenge in the world facing Microfinance Institutions (MFI) is loan delinquency, for commercial bank low financing SMEs rate is due to loan delinquency. Warue (2012) argued that most microloans are unsecured and prone to delinquency spread, this increases the chances for the microfinance institution not to retrieve their money back from debtors with the interest, this increases vulnerability of microloan institution. Bovee et al. (2011) established that USA market economy is driven by SMEs, more than 60% of new jobs are generated yearly SME entrepreneurs in the US and at the same time SMEs accounts for 99.7% of all employer firms, and for private sector employees 45% of them are SMEs. According to an analysis conducted by the European Commission in 2012, across Europe about 80 percent of enterprises are owned by families and they account for about 50 percent of the job opportunities. Family owned businesses hold an important part in all economy sectors, despite the fact that these businesses are largely predominant in traditional and labor intensive sectors.

Latha and Murthy (2010) reported that SMEs in India have a significant role as they assist entrepreneurs by promoting their entrepreneurial skills and also help them in continuous entrepreneurship development training programs on financial management knowledge such budgeting, costing and how to sustain a cash flow of their business. SMEs in Czech Republic accounts for around a third of GDP and around 50% of the value added, SMEs accounts 65% of job opportunities (Czech Statistical Office 2014 and the Ministry of Industry and Trade 2012). The report also confirmed that Small and Medium Enterprises play a significant part in the Czech economy, thus legislators should give maximum attention to its development given the crucial roles it plays within the economy. European Commission survey (2012) confirmed that the number of employment opportunities created by SMEs had gone up standardly at 2.1% rate annually as job opportunities in big firms had gone up 0.8 % annually.

Hallberg (2010) argued that SMEs in developed countries are more innovative than larger firms; this is due to use of product high quality, their SMEs are flexible and quick respond to their clients services as a means of edging large-scale firm producers in competitive market. In Ghana, 70 % of industrial employment is provided by SMEs and they contribute to more than 50 % of the GDP (Abor and Biekpe, 2012). In Ghana the SMEs are still facing several challenges when trying to secure loans from the formal MFIs despite the fact that they still have a crucial role to play by SMEs towards economic expansion. Association of Ghana Industries (AGI) business report 2010 indicated that that one of the problems encountered by SMEs in Ghana is access to credit.

This challenge was associated to the desire of the MFIs to minimize loans default cases that greatly reduced credit to businesses (AGI's Business Barometer Report, December 2010). Tagoe et al (2011) argued that some of the challenges that SMEs encounter to access the credit is due to the inability of most SMEs to comply with the legislation set by the FIs, some of the FIs perceive the SMEs as risk-prone sectors of poor guarantees and some of

the SMEs owner are less informed on how to repay their loans. In Ghana Microfinance Institutions such as private microfinance institutions and commercial banks are facing loan default problems and this might have long-term consequences if not addressed. Fatoki (2012) indicated the present failure rate of SMEs in South Africa leads in the world as the rise up of the present day SMEs in South African ranked bottom globally. The number of SMEs failures in South Africa in their first five years of operation falls in the range of 50% and 95% (Willemse, 2010) and 75% of newly generated SMEs don't grow to established businesses, which is classified as the highest failure rates in the world. In Nigeria, SMEs are very imperative and their contribution economic growth is significant. Eniola et al (2014) posited that SMEs in Nigeria accounts for 60% to 80% of the established business in the manufacturing sector. GCI 2014 placed Nigeria in 126th position, downfall of six as it was ranked it at the 120th position in 2013.

In Tanzania, the contribution of SMEs as a creator of employment, in particular to those with low skill levels is widely recognised. Tanzania has about 3 million small and medium enterprises creating approximately 23.4% of the entire employment level and 27% to the Gross Domestic Product (URT 2012). This shows that the sector is important in enhancing jobs as well as economic expansion. In South Africa, SMEs contributes 56% of private segment job creation and 36% of the GDP (Ntsika, 2012). In Malaysia, SMEs comprise of 99.2% of businesses and contribute about 47.3% of the GDP while employing 65.3% of the nation's workforce. According to Chong (2012), majority of SMEs don't prosper during their first two years of business because of inadequate capital, inadequate finance and operation management capabilities, and among other factors. This study is motivated by the high delinquency rates amongst small and medium enterprises in general. Hove and Tarisai (2013) argued that failure to get to finance mostly from creditors was the major factor contributing high failure rate of the SMEs in the world.

Statement of the problem

The general economic situation has supported the microfinance industry to grow significantly but not without a multitude of challenges such as default challenges that have had operations of the MFIs beleaguered and therefore significantly hampering their sustainability. Of particular interest to the sustainability of the MFIs is the challenge of loan delinquency that has significantly adversely affected the performance of these institutions (Mungure 2015). It is important to appreciate the role played by loan portfolios on financial performance for a good number of the lending organizations when their influence on liquidity, loan extension capacity, revenues generated as well as the level of profitability for the MFIs is put into perspective (Krauss & Walter, 2009). Financial lenders often incur heavy losses as a result of loan defaults due to the fact that when the MFI registers huge amounts of unsettled loans on their balance sheet, liquidity, profitability as well as debt- servicing capacity operations of the institution are unfavorably affected (Mungure, 2015).

According to Kohansal and Mansoori (2009), restrictions resulting from self-funding, insecurity relating to the output level as well as time difference between the effort and yield usually provides the justification for making credit facilities necessary. The area of concern for the SMEs is loan repayment that primarily effects their level of success, creditworthiness as well as progress of business undertakings (López, 2007). The trends for loan defaults in Tanzania indicate an increase in the number of loan defaulters not only in MFIs, but also in commercial banks as well as pension schemes. Between the year 2003 and 2007 for instance, Barongo (2013) revealed that nonperforming loans in NSSF in Tanzania increased by a whopping 250% from Tsh. 2,173.22 million of loans defaulted to Tsh. 9,800.07 million. With regard to commercial banks, KPMG (2016) report indicated that the bad debts, otherwise called NPLs in Tanzania, increased beyond the threshold set for country of 5.0% up to 8.3% on average as of the year 2016 as a result of an increase in loan default. As a result of that, some banks are already

shying off from lending to SMEs. For instance, in the year 2016 alone, Bank of Tanzania (BOT) revised its bank credit to the private sector downwards from 19.3% to 16.2%.

Among the MFIs, taking an example of National Microfinance Bank (NMB) which is the largest MFI lender in Tanzania with over 140 branches across Tanzania, the loan-to-deposit ratio increased to 86.2 % in the year 2012 and the SME loan performance statement showed an augmentation of NPLs to 9.9% in the same year against the recommended 2% benchmark specified under Basel II (Basel, 2011). Even though this is the case, given the current decline in economic activity in Tanzania, which has seen the inflation of Tanzania record a persistent increase in for the last 3 years, NPLs may still keep increasing. This worrying trends therefore warrants an in depth relook into the causes and solutions to this problem and that is why the study tried to establish the client specific Causes of loan delinquency by SMEs financed by MFIs in Tanzania. This is because, regardless of the part played by SMEs in job establishment and poverty mitigation, SMEs in the country are presently confronted with numerous severe loan delinquency problems that are hampering the SMEs` emergency as well as growth. Besides, no study has examined the client specific impacts of loan delinquency on SMEs financed by MFI in Tanzania; this study hence aimed at examining the effects of client specific Causes of loan delinquency by SMEs in Dar es Salaam Tanzania.

Research Objectives

- i. To establish the effect of funds utilization practices on loan delinquency by SMEs in Dar es Salaam Tanzania
- ii. To determine the effect of SMEs' owner management competence on loan delinquency by SMEs in Dar es Salaam Tanzania
- iii. To establish the effect of entrepreneurial risk taking behaviour on loan delinquency by SMEs in Dar es Salaam Tanzania
- iv. To establish the effect of level of innovativeness on loan delinquency by SMEs in Dar es Salaam Tanzania

Literature Review

Theoretical Review

Credit Access Theory

This theory was invented by Stiglitz and Weiss (1981); it gives an insight into how information asymmetry can bring about credit constraints. Alfo and Trovato, (2006) explained that asymmetric information led to credit curbing conditions that modified the risk-return circulation; this fact encouraged banks to be reluctant in advancement of investments finance which later results to divergence between finance demand and finance supply. The theory will be important to the study as it will help understand the advantage of sharing information between the banks and the SMEs on finance accessibility of the SMEs.

According to Kashyap (1993) most of the financial institutions they are in a good position to efficiently screen and examine their clients based on crucial private information that is screened based on information of bank account holders as well as documents on firm's receipts or expenditures which can be traced. However the relationship between the bank and borrowers is not always perfect since there exists informational asymmetries between them. Therefore interest rates alone cannot be relied on to clear the credit market (Pinaki, 1998). According to Stiglitz and Weiss (1992) imposing many collateral requirements on borrowers reduces their willingness to undertake risky investments and thus increasing the returns of banks. However, such undertaking may have very adverse effects on different mix of borrowers even if they had similar utility functions and were presented with the similar

opportunities to do investment.

Finance Theory

Meggison (1997) proposed that financial theory constitutes three components, namely budgeting of capital, structure of the capital and working capital management. The long term financial investments are associated with the capital budgeting and capital structure decisions while the short term financial investments are mostly defined by working capital management. Raheman and Nasr, (2007) argue that firm liquidity and performance is directly affected by working capital management efficiency, firm bankruptcy reveals erroneous working capital management procedures in practice, but the firm performance is always continually positive (Kargar and Bluementhal 1994). The incorrect working capital management can be avoided by retreating from the optimal working capital level that aims at profit maximization in the foreground; it focuses on liquidity and subsequently passes over profitability.

In other cases excess working capital level results into inadequate revenue generation that later brings difficulties in maintaining daily operations hence shortage in production output. With adequate working capital, SMEs short term obligations are easily tackled, enough working capital reduces the risks of loan default and it also increases firm borrowing capability hence reduced capital cost and increased firm value. Moyer et al., (1992) argued that working capital efficiency has a significant effect on both long term and short term financial performance.

Financial Literacy Theory

The theory is an explanation of people, who are financial knowledgeable (literate), dual process theory suggests that peoples' financial literate depends on the institution and cognition. Evans (2008) posited that dual theory is for the idea that individual's decisions can be as result of both institution and cognition process. The theory is relevant as it allow consumers' or investors' in understanding their financial products concepts, helps consumers' to appreciate financial risks, the theory assist investor make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being (Miller et al., 2009).

In context of this study the theory is useful to SME's specifically in making financial decisions in relation to loan acquisitions. Financial literacy allow SME's owners to make appropriate decisions in relation to loan acquisitions, payment time, saving and careful debt spending. Financial literacy enables the firms in controlling of their future finance, it also ensures that finance is spend effectively on products and services and financial literate retailer is protected against frauds cases. Financial institutions regulator are mandated to ensure that the financial services are efficient and of high quality, some of the SMEs are financial literate and this enable them to pose competitive pressures on financial institutions to offer more appropriately priced and transparent services. Miller et al., (2009) argued that SME's whose staff are financial literate are efficient in making optimal financial decision, their staff are in a better position in assessing and comparing of their financial products, such as bank accounts, saving products, credit and loan options, payment instruments, investments, insurance coverage. Greenspan (2002) argues that financial literacy provides entrepreneurs with the financial knowledge required in home budgeting, implementation of strategic investment decision and they also help in creation of initiative savings plans. Correct application of financial knowledge by SME's offers good assistance in meeting their financial goals through prudent planning and resource distribution so as to develop maximum finance utilization.

Empirical Literature Review

Haron, Said, Jayaraman and Ismail (2013) studied factors influencing small medium enterprises (SMES) in obtaining loan in Pennsylvania. The study objective was to examine characters' influence on borrowed capacity by

the SMEs, that is measured by loan default as shown by CCRIS report and also to examine characters' influence on the loan approved by the bank officers. Questionnaires were used to collect data from bank managers. The study results indicated that SMEs should be well informed on loan application by ensuring that they have good relation with financial institution and their financial records are valuable. The study results also established that government agencies assisting SMEs should provide training opportunity to SMEs to ensure the SMEs are equipped with relevant knowledge that is required by the financial institutions. Shu-Teng, Zariyawati, Suraya-Hanim and Annuar (2015) conducted a study on Causes of microfinance loan repayment performance by small medium enterprises in Malaysia. The study aimed at analysing the Causes loan repayment performance by SMEs in Malaysia. The study used a descriptive research design and data collection was done using open and closed ended questionnaires. The data was analysed using linear regressions by use of SPSS. The study findings indicated that both educational level, business experience, loan amount and loan duration are significantly related with loan repayment.

Wahyudi (2014) study aimed at analysing loan default risks by micro, small and medium entrepreneurs. The study objective was to determine the influence of loan default to the growth intention and fresh debt opportunities. The study findings indicated that firm cash flow, financial capacity and financial leverage are contributing factors of loan default by many firms, while gross margin and efficiency measure are not significant predictors. The study findings of rating transition behaviour indicated that the higher the rating migrates, the smaller the probability of transition (low loan default) and that the probability towards loan default is greater along with the decreased quality rating. Peprah (2016) conducted comparative study between Finland and Ghana on challenges facing small businesses in securing loans from financial institutions. The study reviewed; the debt availability option to SMEs, the defining factors that banks consider before crediting SMEs and the researcher also analysed the challenges SMEs in Finland face to access bank loans. The study used a cross sectional survey design, interviews schedules was used to collect primary data while the secondary data was generated from records, books, journals, published and unpublished research materials. Data was analysed using SPSS. The study findings indicated that banks Finland consider SMEs as high credit risk entities as compared to larger business corporations. The study results also indicated that Finland banks are strict on the collateral guarantee due to increased reported cases loan default by their SME customers in Finland. The study findings further indicated that most challenges SMEs face in accessing bank loans included poor business plan, unprofitable investment decisions and unfavourable government economic legislations.

Chelagat (2012) carried a study on Causes of loan defaults by SMEs financed by Commercial Banks in Kenya. The study objective was to establish factors that promotes Non-performing loan among small business sectors funded by commercial banks in Kenya. The study used descriptive research design and data collection was done using both open and closed ended questionnaires. The data was analysed SPSS software. The study findings indicated that loan defaults by SMEs had significantly increased and this was due to high interest rates and business operation period. The study results recommended that creditors should put more on Credit Risk Management, staff training and adopt credit scoring in vetting of SME customers loan requests. Appiah (2011) study investigated the Causes of loan defaults among SMEs in Abossey-Okai, Accra. The data used for the study was collected using structured questionnaires that were administered to owners of SMEs in Abossey-Okai. The data was analysed quantitatively by linear regression analysis using SPSS software. The results from the study indicated that the borrower screening mechanism that Ghana Commercial Bank had adopted was defective and inefficient, at the same time the credit need assessment conducted by many banks in Ghana was flawed and it enhanced the risk of loan default. The study findings also depicted that high officer-application ratio tends to reduce efficiency in credit assessment which in turn accelerates the risks of loan default.

Mukono (2015) investigated the Causes of loan repayment by Small and Medium Enterprises in Nairobi County, Kenya. The descriptive research design was used in the study and data was collected using questionnaires. The data was classified, summarized analysed using the descriptive statistical tools and inferential statistics using SPSS. The study used the logit regression to model the factors of loan delinquency by SMEs in Nairobi County. The study findings indicated that loan, borrower, firm and lender characteristics are major factors of loan repayment by small business in Nairobi County, Kenya. The study findings recommended that financial institutions should revise their lending policies so that they can reduce loan repayment problems arising from loan and lender characteristics while SMEs owners and managers should develop effective policies to ensure they reduce loan repayment problems arising from firm and borrower characteristics.

Addae-Korankye (2014) study analysed the causes and control of loan delinquency in microfinance institutions in Ghana. The study used random sampling method, questionnaires and interview guide were used in data collection. The data collected was classified, summarized analysed using the descriptive statistical tools and inferential statistics using SPSS. The study findings revealed that high interest rate, insufficient loan, poor appraisal and improper client selection are major contributors of loan delinquency. The study findings recommended that debtor training before and after disbursement, affordable interest rate and proper loan appraisal are some of the measures that can help to control loan default.

Shikumo (2015) conducted a study on determinant of lending by Commercial Banks to SMEs in Kenya. The study adopted descriptive research design. The secondary data was picked from the annual published reports of commercial banks in Kenya for a period of 5 years, that is report from 2010-2014. The data collected was analysed using the SPSS version 20. The study findings indicated that bank size and liquidity significantly influences (positively and negatively, respectively) lending to SMEs by commercial banks in Kenya while credit risk and interest rates have no significant influence on lending to SMEs by commercial banks in Kenya. The study findings also indicated that lending to SMEs by commercial banks in Kenya can be enhanced by adopting policies that grow the commercial banks.

Hietalahti and Linden (2016) examined credit management and loan repayment of small businesses in Commercial banks in South Africa. The study objective was to analyse loan default and credit management amongst SMEs in a South African FIs. The study investigated 169 loans granted to small businesses by a South African commercial bank. The study findings indicated that 39 % of borrowed loans were not timely repaid and 28 % were default cases. The study findings also indicated that race and gender had a significant relationship with loan repayment and credit management. Wire (2015) studied the relationship between working capital management and financial performance of SMEs in Nairobi County in Kenya. The study employed a descriptive research survey design approach .the primary data was collected using questionnaires while secondary data was gathered from past published scholarly articles. Inferential statistics such as Pearson correlation coefficient was used to analyse quantitative data. The study findings indicated that about 83.7% of SMEs hardly prepared cash budgets and preparation and revision of the cash budgets were commonly done on monthly basis.

Yahya and Mutarubukwa (2015) conducted a study on the ability of Tanzanian SMEs in selecting the business opportunities in the East African community. The study aimed at understanding the better ways by which the SMEs enhance there are entrepreneurship activities within EAC. The study used secondary data that facilitated implement the empirical research design and complimenting field results. SPSS software was used to analyse data. The study results indicated that SMEs were not utilizing the business opportunities delivered by the EAC due to low capital, lack of entrepreneurial education and the networking activities were mostly social rather than business oriented. The study results recommended that entrepreneurship education be provided from primary to tertiary

level, the ministry responsible for SMEs needs to be established, and that SMEs need to network among themselves as that will improve business environment.

Mosha (2016) carried a study on Causes of loan defaults in microfinance institutions in Tanzania Dodoma Municipality. The study used cross-sectional design and primary data was collected using structured interview and semi - structured interview while secondary data were collected through a documentary review of sources including published and unpublished materials. Data obtained were analysed by descriptive statistics and logistic regression using SPSS software. The study results of the Logistic regression model showed that age of borrowers and interest rate charged by MFIs were significant at ($P < 0.05$) and business type, business management education and loan uses were found to be significant at ($P < 0.01$). The study further recommended that MFIs should involve borrowers in reviewing loan repayment terms, effective monitoring of loans, credit training programs and where necessary the use private debt collectors.

Makorere (2014) examined factors hindering loan repayment behaviour in Tanzania, as the main challenge that the financial institutions were encountering was loan delinquency. The data was collected using the questionnaire and analysed using SPSS version. The study findings showed that loan repayment by SMEs in Tanzania was strongly stimulated by loan period, business profit, moral hazard, creditor interest terms, electricity rationing, and economic stability. The study findings concluded that financial institutions to ensure thorough assessment of risks associated with credit management by adequately using collateral condition, debtors' characters, debtors' capacity and debtors' capital measurement to curb delinquency rate.

Research Methodology

The study adopted both cross-sectional research design and descriptive survey design. The target population of the study included all the 485 active SMEs with loans at the Equity Bank Tanzania (Equity Bank, 2017). The study adopted Yamane (1967) formula suggested by Garg and Kothari (2014): Kothari (2004); Barlett, Kotrlik, & Higgins (2001) to determine the sample size.

$$n = \frac{N}{1 + N(e)^2}$$

Where: n = sample size, N = Population size, e = margin of error set at 5%

Therefore, replacing the values in the formula gives a sample size of

$$\begin{aligned} n &= \frac{485}{1 + 485(0.05)^2} \\ &= 219 \end{aligned}$$

The study used primary data. Quantitative primary data was collected using closed ended questions. The quantitative data was analysed using SPSS version 21 software. The relationship strength between study independent variables and the dependent variable of loan delinquency was established using regression coefficients. The predictive element of the model was enhanced by the coefficient of determination. The model stipulated multiple linear regression was used for analysis to establish the significance of the independent variables on Loan delinquency.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where: Y is Loan Delinquency, X_1 is Funds utilization practices, X_2 is Owner management competence, X_3 is Business management strategies, X_4 is Level of innovativeness, β_0 is the regression constant or intercept, β_1 , β_2 , β_3 , and β_4 are the unknown parameters (regression coefficients), ε is the error term,

Data Findings, Analysis and Discussion

The study was conducted in Tanzania, Dar es Salaam bringing a total number of accessible active SMEs to 485. By applying random sampling, a sample of 219 SMEs was selected. Out of the sample covered, 147 were responsive while 72 were unresponsive. This gave a percentage response rate of 67%. A response rate of 50% is adequate, 60% is good and 70% and above is very good (Blumberg, Cooper & Schindler (2011) and therefore the response rate for the current stud can be deemed adequate for analysis. The study made use of interviewer administered questionnaire data collection procedure that yielded the high response rate for the study. Once the questionnaires were filled by the respondents, they were picked by the researcher who then made sure to make requisite follow ups and clarification queries to enhance the high response rate as argued by (Saunders, Lewis & Thornhill (2009).

Pilot Test

Before the questionnaire was used for the final survey, it was piloted on 20 respondents who were SME owners. They were not included in the main survey to reduce response bias. The data was used to establish the reliability of the questionnaire. Reliability can be construed as the extent to which consistent results are generated by the research instruments. Peffers *et al* (2007) explains that the Cronbach's Alpha measures internal consistency of the research questionnaire. The closer Cronbach's alpha coefficient is to 1.0 the greater the reliability of the research instruments. In this case, the Cronbach's Alpha reliability of all the latent variables are more than 0.7 (≥ 0.7), which according to Koul (2009) is considered to be good enough for a study of this nature. The higher the coefficient, the more reliable is the test. Cronbach (1951) indicated that a Cronbach Alpha value of 0.7 and above is reliable. The study used this threshold of 0.7 and above. All the questionnaire constructs recorded Cronbach's Alpha value of above 0.7 implying that the data could be treated as reliable (Nunnally & Bernstein, 2009). Accordingly, the study scales were considered reliable enough to measure the constructs. There was hence no need of revising the questionnaire before using it for the final survey. The results are shown in Table 1.

Table 1 Reliability test

Variable	Cronbach Alpha	Number of items (Questions)	Recommendation
Funds utilization practices	0.707	5	Reliable
Owner management competence	0.724	6	Reliable
Entrepreneurial risk taking behaviour	0.817	6	Reliable
Innovativeness	0.725	5	Reliable
Loan delinquency	0.762	5	Reliable

Correlations Analysis

Correlation analysis is a statistical method that determines the degree of association between two different variables. It is also known as a "bivariate" statistic, with bi- meaning two and variable indicating variable or variance. Correlation coefficient ranges from -1.00 to +1.00. Any values outside this range are invalid. The

findings revealed that there is a positive correlation between funds utilization practices and loan delinquency among SMEs in Dares Salaam town (R = 0.511, Sig = 0.000 <0.05). This reveals that an increase in bad funds utilization practices leads to an increase in loan default among SMEs.

Similar results revealed that innovativeness has a negative relationship with loan delinquency among SMEs in Dares Salaam town (R = -0.328, Sig = 0.000 <0.05). Showing that when innovativeness increases, there is a better chance that the business will perform well thereby reducing loan delinquency among SMEs. In regard to risk behaviour, the findings established that an increase in risk behaviour such as lack of risk analysis, risk awareness and heavy borrowing significantly increases loan default by SMEs (R = 0.321, Sig = 0.000 <0.05). The implication is that there is a need to perform these activities before engaging in ventures on borrowed funds which might yield low returns and compromise loan repayment schedules.

Lastly, the findings revealed that management competence has a negative significant effect on loan delinquency among the SMEs operating in Dare salaam and with loans at Equity bank (R = -0.321, Sig = 0.000 <0.05). This shows that high management competence relating to entrepreneurial skills, cash reconciliation and cash management skills stabilises businesses and with stable businesses, there is ease in loan repayment compliance. In summary, the study concludes that funds utilization practices, innovativeness, risk behaviour and management competence significantly lead to loan delinquency.

Table 2 Correlation Analysis

Correlations		Funds utilization Practices	Innovativeness	Risk behaviour	Management competence	Loan delinquency
Funds utilization Practices	Pearson Correlation	1				
	Sig. (2-tailed)					
Innovativeness	Pearson Correlation	.528**	1			
	Sig. (2-tailed)	0.000				
Risk behaviour	Pearson Correlation	-0.102	-.190*	1		
	Sig. (2-tailed)	0.221	0.021			
Management competence	Pearson Correlation	-0.037	0.066	-0.154	1	
	Sig. (2-tailed)	0.655	0.43	0.062		
Loan delinquency	Pearson Correlation	.511**	-.328**	.321**	-.322**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	147	147	147	147	147

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Multivariate Regression Analysis

The multiple linear regression analysis was carried out to determine the significant Causes of loan delinquency among SMEs in Dare Salaam town. The study findings in Table 2 showed that funds utilization practices, innovativeness, risk behaviour and management competence significantly explain up to 41% of the variation in loan delinquency by SMEs in Dar es Salaam Tanzania as shown by a coefficient of determination (R square value) value of 0.41.

Table 2 Regression Model Summary

Model Summary			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.652	0.426	0.41	0.475017

The study also tested the significance of the regression model linking funds utilization practices, innovativeness, risk behaviour and management competence to loan delinquency by SMEs in Dare salaam Tanzania as shown in Table 3. The findings showed that the F statistic value of 26.316 was significant at 5% level of significance (95% confidence level) as shown by a sig value of 0.000 which is less than 0.05. This shows that the model was significant and hence loan delinquency among these SMEs can be predicted significantly by using client specific factors such as funds utilization practices, innovativeness, risk behaviour and management competence.

Table 3 Regression Model Significance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	23.752	4	5.938	26.316	.000
Residual	32.041	142	0.226		
Total	55.793	146			

The findings of the regression model showed that funds utilization practices positively and significantly affect loan delinquency among SMEs in Dar es Salaam town (Beta = 0.393, Sig = 0.000 <0.05). This supports the correlation results that an increase in bad funds utilization practices leads to an increase in loan delinquency. An increase in funds utilization practices such as diversion of funds for expansion, diversification of activities, taking up new projects and new ventures leads to an increase in loan delinquency.

The study also shows that innovativeness has a negative relationship with loan delinquency among SMEs in Dares Salaam town although the effect is not significant as shown by an insignificant value (Beta = -0.002, Sig = 0.971 <0.05). This implies that frequent practice of innovative activities such as using appropriate technology, adoption of new services and adoption of new marketing methods leads to an improvement in business revenue hence reducing loan delinquency although insignificantly. The regression results also showed that risk behaviour has a positive and significant effect on loan default by SMEs (Beta = 0.122, Sig = 0.001 <0.05). This reveals that when there is an increase in risk behaviours such as lack of risk analysis, risk awareness and heavy borrowing, it leads to

an increase in loan delinquency. On management competence, the results showed that management competence negatively affects loan delinquency (Beta = -0.290, Sig = 0.008 <0.05). When businesses are run with people who have good entrepreneurial skills, cash reconciliation and cash management skills, there is a chance that it leads to a reduction in loan delinquency.

Table 4 Regression Model Coefficients

	Beta	Std. Error	t	Sig.
(Constant)	1.768	0.331	5.347	0.000
Funds utilization practices	0.393	0.059	6.627	0.000
Innovativeness	-0.002	0.069	-0.036	0.971
Risk behaviour	0.122	0.036	3.406	0.001
Management competence	-0.290	0.061	-4.74	0.000

Dependent Variable: Loan delinquency

Conclusion

The study sought to establish the extent to which funds utilization practices influence loan delinquency by Small and Medium Enterprises in Dar es Salaam Tanzania. The study concludes that funds utilization practices positively and significantly affect loan delinquency among SMEs in Dares Salaam town. This implies that an increase in loans utilization practices such as borrowing funds to expand into new markets, using loans whenever there is a need to diversify and using borrowed funds to undertake new ventures increases loan delinquency. The study also sought to establish the effect of owner management competence on loan delinquency by Small and Medium Enterprises in Dar es Salaam Tanzania. The study concludes that management competence negatively affects loan delinquency among the SMEs investigated. This implies that the more competent an SME owner is in terms of management skills such as cash reconciliation practices, entrepreneurial skills, accounts receivable management skills and working capital management skills lead to a significant decrease in loan delinquency.

Furthermore, the study sought to establish how entrepreneurial risk taking behaviour influence loan delinquency by SMEs financed by Small and Medium Enterprises in Dar es Salaam Tanzania. The study concludes that risk taking behaviour positively and significantly affects loan delinquency. This implies that an increase in entrepreneurial risk taking behaviour such as heavy borrowing, willingness to venture into riskier ventures as well as taking a loan in relation to the turbulence in the business operating environment leads to an increase in loan delinquency. The study sought to establish the effect of the level of innovativeness on loan delinquency by SMEs financed by MFIs in Tanzania. The study concludes that innovativeness has a negative and not significant relationship with loan delinquency among SMEs in Dares Salaam. This implies that experimentation and introduction of new products or services anytime and incorporation of the employee's ideas into the organization leads to a small effect on reduction of loan delinquency.

Recommendations for Policy

The study has shed more light on some of the Causes of loan delinquency by SMEs in Dare salaam and Tanzania as a whole. The major findings of the study revealed that client specific factors account for up to 41% of the variation in loan delinquency by SMEs in Dare salaam Tanzania and this calls for the lenders (MFIs, commercial banks and DTBs) to focus on training the SMEs so as to improve the client specific factors such as management of the business, risk analysis before venturing as well as how to effectively utilize funds to curb wastage. In so doing, there will be a considerable reduction of loan default by close to 41%.

The study also recommends that the Central Bank of Tanzania should workhand in hand with the national treasury monetary policies committee to put all the necessary monetary and fiscal policies in place so as to reduce the volatility in the macro environment of trading in Tanzania since high inflation rates affects businesses negatively in Tanzania and that leads to an increase in loan defaults among SMEs. In extreme instances, SMEs fail and that leads to unemployment which also reduces purchasing power thus worsening the cycle.

Conflict of Interest

No potential conflict of interest was recorded by the author

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