



A Study of Effects of Micro Finance on Success of Businesses: The Case of Afghan
SMEs

By

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AUAF Declaration of Authorship
Masters in Business Administration Thesis

I hereby declare that:

- This thesis for the Masters in Business Administration at the American University of Afghanistan is my original work. I wrote this myself under the supervision of the MBA faculty assigned to me by the program director.
- To the best of my knowledge, I have cited accurately all sources I have used for this thesis.
- I have acknowledged those parts of this thesis that are based on the collaborative work with third parties other than my supervisor.
- I have not submitted this thesis or substantial parts of it for a degree or any other qualification at another institution.

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Abstract

This provides a theoretical and statistical explanation for the puzzle: Why do some SMEs effectively utilize microfinance loans and boost their business, while other SMEs do not? The study considers seven factors that impact an effective loan utilization. One hundred and ten randomly selected SME owners in Kabul who had borrowed from microfinance institutions operating in Afghanistan, and in Kabul city in particular, were surveyed. The results of the survey reveal that there is a significant association between “time realization of loss” and effective loan utilization. Moreover, the study found that the easier the access to the loan (the easier the procedure of registration for receiving the loan) the higher the probability that the SME could utilize the loan effectively. Moreover, the study benefits the Afghan business community, specifically the SME owners. It helps them understand the factors that are important to consider in order using the loan effectively. In addition, the implications of this study prompts future researches to (a) include provincial SMEs in respondents (b) study how MFIs can shorten the process for loan disbursement to not only help SMEs access the loan easily but also increase their own sells of the loan.

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Dedications

I dedicate this work to the people of my society whose endless efforts for rebuilding
Afghanistan makes it a better place to live.

I also dedicate my thesis to my loving family. A special feeling of gratefulness to my
adoring parents, Mohammad Hussain and Sakina whose sincere support and
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Abbreviations:

SME	Small and Medium Enterprises
MFI	Microfinance Institutions
AMA	Afghanistan Microfinance Association
MISFA	Microfinance Investment Support Facility For Afghanistan

Terminologies:

1. **Time Realization of Loss:** this is one of the independent variables in this study, where in the existing literature has not been considered so far and is the new contribution of this study to the broad existing literature. By this term, the study measures the effect of time between when SMEs realize a loss in their profit, revenue, in other words a need for external capital, and the time when they actually apply for such loan on helping SMEs to have an effective loan utilization.
2. **Time Effect of Loan:** this term measures the role of time on how long it takes SMEs, after receiving the loan, to realize the positive / negative effect of the loan on their productivity.
3. **Decision Making Factor:** this term gauges the effect of how the decision is made or what factors influenced the decision to apply for a loan on whether or not having an effective loan utilization.

Chapter 1: Introduction

Microfinance institutions and small and medium scale enterprises (SMEs) both have been recognized as key players for economic development, as entrepreneur creates job opportunities, increases competition, and to some extent improves productivity through technological change (Acs, 2006). Research findings indicate that financial institutions, particularly the ones that finance SMEs play a significant role in economic growth. This change is fostered through “evaluating, managing, and funding the entrepreneurial activities that enhance economic development” (King and Levine, 1993, P. 515), which in this case is entrepreneurship. Having the most prominent role to economic growth; therefore, these topics have been well researched and studied by scholars in different contexts and in both industrialized societies and in developing societies. Many studies have found that there is a positive correlation between the money received from microfinance institutions and growth and sustainability in small and medium scale enterprises (Christopher, N.D.; Babagana, 2010; Makorere, 2014).

However, few studies have analyzed the factors that influence the relationship between the two variables. This research aims to take the topic deeper and not only to analyze the relationship but also to explore the factors that affect the relationship. In other words, this study aims to examine the factors that influence effective utilization of the loans that small and medium enterprises acquire for the purpose of firm growth and development.

Each business has several indicators of its growth and success. These elements, however, differ from one business to another. A factor that has helped in success and prevented failure in one business may not work in the same way for

another. For example, many new start-up businesses as well as long-lived businesses face financing problems. As research shows SMEs are not only suppliers, but also customers for industrial and consumer goods. They need access to finance not only for operation but also to improve and expand their businesses (Ackah and Vuvor, 2011). In order to solve the problem and boost their business, the SMEs look to the financing market. Hence, micro-finance service becomes one of the factors helping in the success of businesses.

Many of studies have concentrated on positive impacts that microfinance can have on business's growth and success (Makorere, 2014; Osunde and Mayowa, 2012). However, in the existing literature the question has not been answered why some businesses that use microfinance loans cannot make good use of the loans and preserve their operation from failing. A research is necessary to explore reasons why financial services are helpful in some cases but not others.

1.1. Background

This section will firstly explain the main terminology and concepts that are related to topic, and then will introduce the established theories concerning microfinance loans and small and medium enterprises. First a concrete definition of SMEs is suggested. In other words, how are we to determine an enterprise that falls under SME category? According to organizations such as the World Trade Organization, the World Bank, and United Nations, businesses whose organizational structure includes up to 10 employees, up to 50, and up to 250 are considered as micro, small, and medium enterprises respectively (SME Small and Medium Scale Enterprises, 2017). Moreover, depending on the contexts studies have highlighted holistic factors that affect SMEs performance. Regarding the influential factors of sustainability and growth of SMEs researchers have identified company's

performance, entrepreneurial traits, innovative performance and firm performance that determine growth of SMEs (Sidik, 2012).

For example, according to Kemayel (2015), in Bangladesh the factors are related to “managers” (e.g., educational level, age, and risk-aversion), while in Algeria, industry affiliation and security are important factors to be considered (Kemayel, 2015). Although there are other influential factors which determine the growth and sustainability of SMEs, this study focuses on one of the major factors, the role of financial loans that SMEs receive.

Regarding microfinance concepts and terminologies, this section provides a brief background. These will be included in appendix at the end of the paper. For instance, “affordability” is an important factor and it is the ability to repay the loan which presumably this terms is more applicable for SMEs; another one is “asset liability management” (ALM). The main aim of this concept is to lessen interest rate risk and yet earn a profit (Hari , 2017). Moreover, “due diligence” is the task of evaluating customers, which in this case SMEs’, financial statements, their income status and the value of their assets that could serve as collateral and other information related to the borrower that need to be verified at time of loan distribution (Hari , 2017). Last but not least, “collateral” is important to consider, it is an object that has value mostly equivalent or bigger than the value of the loan (What is Collateral? 2016).

Subsequently, important theories with regards to the relationship between microfinance loans and SMEs’ growth can be categorized into two major ones. Most of the literature; have focused on positive correlation that they tried to prove exist between microfinance loans and sustainability and growth of SMEs (Christopher, N.A.; Babagana, 2010; Makorere, 2014; Osunde and Mayowa, 2012; Dennis et al,

2015). This argument has basis of statistics from many countries; in other words, the scholars who have found this result each have conducted their research in different contexts: developing nations: Nigeria, Kenya, Ghana, and Bangladesh and developed countries: South Korea and Canada but still their findings show the same result. On the other hand, a very small group of scholars have argued quite the contrary, and it is that microfinance does no “positive” effect on growth and sustainability of SMEs in particular and on economy in general (Bateman and Chang, 2012). The second group have drew their claim based on observations and explain the factors deriving to their statement.

Moreover, even though the relationship between microfinance and small and medium enterprises are analyzed and well-studied in different contexts, almost none of these studies; however, have addressed the root causes to the problem that why some SMEs cannot make effective utilizations of finance loans that they receive from microfinance institutions. Not only this, but also rare researches have been conducted in Afghan context. Therefore, this study is significant because it addresses the two above issues that are missed in the literature.

The importance of this study lies on two main reasons. Number first and most important one, even though there is a big number of researches that are done with regards to relationship between microfinance and enterprises performance, no studies have been done so far in Afghan context. This is what that distinguishes the importance of this study with the rest of literatures. Therefore, this study’s contribution in the literature is to discuss the relationship of the two: microfinance institutions and small and medium size enterprises in context of Afghanistan, but also to address an untouched puzzle that has been remained unresolved in broad literature which leads to the next reason.

Secondly, even though majority of studies have analyzed the relationship between microfinance loans and growth of small and medium scale enterprises, almost none of these studies have touched base on factors that impact such relationship. Rather, other studies have tried to simply demonstrate that, in fact, there is a correlation between the two, and almost no research has been done to study the relationship and deriving factors in it. The issue that some researches illustrated the positive, some the negative, and others the no correlations is out of scope of this study. Therefore, the second significance of this paper is that it aims to study the factors influencing the relationship and correlation between microfinance loan servicing and growth and sustainability in small and medium size enterprises. In other words, the study aims to figure out the elements that support and or avoid small and medium size enterprises to make an effective loan utilization. This second reason has a great role in the main research question of this study which will be illustrated as below.

Moreover, the targeted audience to this study is not only scholar communities, business theorists but also a wide range of audiences: existing business owners who aim to expand their business, new joiners into business market of Afghan society, the microfinance institutions, and the country's economy as a whole. It is important because as the two parties: microfinance industries and small and medium size enterprises already do business in the market; however, no studied theories have so far guide the two for betterment. In other words, so far both the parties have been cooperating and coordinating with each other; however, there has not been any studies that could analyze the business relationship between MFIs and SMEs.

1.2. Statement of the Problem and Objectives

In the broad literature, there is a strong debate on effectiveness of microfinance institutional services on success and growth of small and medium scale enterprises in particular and economic growth in general. Majority of scholars have found through their practical researches that, in fact, there is a positive effect of microfinance institutions on success and growth of small and medium scale enterprises (Christopher, N.D.; Babagana, 2010; Makorere, 2014; Osunde and Mayowa, 2012; Dennis, Achesa, & Gedion, 2015). On the other hand, there is a small group of scholars who argue absolutely against these “positive” observations. This later asserts that the “positive” perception of microfinance is; rather, an illusion and in reality there is no such “positive” impact of microfinance institutions on success and growth of small and medium enterprises (Bateman and Chang, 2012). Considering the debates, it comes to attention that there is a recognized issue to be addressed in case of effectiveness of microfinance loans on success and growth of small and medium size enterprises which this issue leads the study to the established puzzle of this study. Therefore, the problem that this study aims to address is:

Why some enterprises can make the best utilization of the financial loans and boost their business while others cannot?

By this research question the study aims to evaluate the relationship between microfinance and SMEs’ growth and sustainability, and assess if loans do actually help enterprises in improving their businesses. Hence, this main research question is followed by below detailed research questions to analyze the relationship between microfinance loans and SME growth. The intention to following sub-research questions is to explore on factors within both MFIs and SMEs that either help them or destruct them from an effective loan utilization.

- How do microfinance loans help SMEs to grow?

- What role does interest rate play in an effective loan utilization?
- What role does repayment period play in an effective loan utilization?
- What role does accessibility to loan play in an effective loan utilization?
- How could SMEs have an effective loan utilization?
 - At what point in time, especially when SMEs realize a loss in business, should they go and apply for a loan?
 - How experience of having multiple loan profile help SMEs in a better loan management?

Moreover, this work's one of the main objectives is to find and or establish a mechanism that can explain how could small and medium size enterprises effectively utilize the loan and fund received from microfinance institutions. Other sub objectives of this study are to examine the change in profitability (revenue and or net income) of small and medium size enterprises as a result of taking loans from microfinance institutions, to evaluate the internal factors within small and medium enterprises to affect their decision to take loans, and to assess the external factors influencing an effective loan utilization by the enterprises.

1.3. Research Methodology

The research is consisted of both primary and secondary data. The study has surveyed a total of 110 SME owners in Kabul city. The selection was based on a simple random sampling (SRS) where the respondents were clients of MFIs in Kabul branches and each had equal chance of being selected. These MFIs were such as First Microfinance Bank-Afghanistan, and other microfinance institutions registered in

MISFA (Microfinance Investment Support Facility for Afghanistan) and AMA (Afghanistan Microfinance Association).

1.4. Limitation of the Study

The major limitation to the study was the knowledge level of the respondents to the English language and internet usage. The research had to collect the primary data through physical field travel and conduct the survey in person, and it was a big time consumption. Not only the field travels, but also the data entry and data operation was another limitation caused by person to person survey. It means that if the respondents could fill the survey through the Survey Monkey, it would not only save the time with field trips but also it would be easier to enter and operate the data and analyze it as the tool has functions applicable in regards.

1.5. Scope of the Study

The study covers the relationship between microfinance loans and SMEs' growth and sustainability in Afghan market. Hence, the research focuses on factors of the correlation between the two. These factors can be categorized into two groups. First group consists of elements from SME's side themselves such as their initial investments, market positions, organizational structure (e.g. total number of staffs, decision making processes especially in terms of taking the loan), organizational profitability before taking the loan in previous four business quarters, age of the enterprise, and experience level of SMEs with regards to financial loans. The other group is from external, microfinance institutions' side and their rules and regulations for their customers. For example, the interest level that they charge on each loan, the repayment periods, collateral requirements, accessibility to the finance, and the registration process to take the loan.

Moreover, the study had aimed to gather information and control for other influencing variables, other than microfinance loans, that may affect sustainability and growth of SMEs. The elements that fall under this category could be of: first, security issues, it is because it is an important factor that impacts sales volume and profitability of SMEs, the other constituent could be presence of FDIs in the society. This goal; however, has remained unaccomplished due to two reasons: one time limitation and two the unavailability of data especially in Afghan context.

Chapter 2: Literature Review

This section of the paper reviews the existing literature surrounding the topic. The first part will give a brief background, separately, to both microfinance institutions and their activities, and then to small and medium size enterprises and the factors that distinguish small from medium size. The second and third parts of this chapter to the study review diverse theories concerning efficiency of microfinance institutions and the relation of loans to success of SMEs. The second part is inclusive of articles pros to microfinance initiatives and pointing out the positive impacts of microfinance institutions on SMEs. The third part will discuss the con to this aspect, and reviews the theories criticizing the reverse effects that microfinance might have on growth and development of SMEs. The fourth par will review articles analyzing other factors influencing the growth and success of SMEs, such as the capital structure of SMEs. After introducing and analyzing each theoretical framework and identifying the gap in the literature, the chapter will conclude with introducing this study's theoretical framework and demonstrating contribution to the literature.

2.1 Overview of Microfinance Institutions

2.1.1 Microfinance Institutions

The primary aim of a microfinance institution (MI) as initiated by Mohammad Yunus, is to eradicate poverty and offer financial support to the poor portion of the population, who may have great business ideas but need capital (Brune, 2009). However, today microfinance institutions are not only supportive of startup businesses but also key players in the success and growth of small-and medium-size enterprises. Through different forms of service, such as providing loans, collecting deposits, marketing, sale of input, and sale of consumer goods, and to some extent, repayment of previous loans, the microfinance initiative aims at enhancing growth of all sort of businesses (Senanayake, 2003).

An important portion of the literature has been concentrated on analyzing the effects of microfinance tools on poverty reduction. Results show that microfinance has been very helpful and effective in reaching the poor and eliminating poverty through following two schemes: “increasing incomes” as well as “reducing vulnerability” of poor part of population (Morduch & Haley, 2002). Additionally, a wide range of literature has taken the form of public policies on how MIs can improve the quality of their programs and reach the poor. These studies approach the topic from one side, and that is the MIs. However, one should be asking what SME owners themselves should do to utilize the microfinance service in the best way possible to boost their businesses.

Other research has concentrated on microfinance institutions’ mission of funding female-run businesses. There have been a lot of pro and cons to this aspect of the microfinance mission. Some researchers have argued that microfinance has a

positive impact on success of women entrepreneurs which eventually leads to women's economic independence and empowerment. The results have shown positive changes in economic indicators of empowerment, such as income, employment, investment, savings, assets, and consumption (Mula & Sarkar, 2013). However, others studies have strongly refused this argument, and questioned MI policy of targeting poor women over poor men. They have argued that there is no evidence that females can manage loans better than men, and that is just an attention-grabbing policy of institutions (Taha, 2012).

Most of other research has elaborated on differential impacts that microfinance have on growth and success of SMEs in general. For instance, some argue that microfinance credits have direct positive impact on growth of business. Their reasoning is due to a firm's insufficient internally generated liquidity which may lead to a business's failure; hence, microfinance credits has become not only an alternative to solve this problem but also help businesses grow further (Carpenter and Petersen in Wanambisi, 2013). Based on UWFT (2005) findings, the majority of the SMEs that accessed microfinance sourcing have increased in their sale volume and profit (UWFT in Wanambisi, 2013).

Other researchers have argued that even though microfinance services are helpful and have positive impacts, there are challenges, as well, associated that must be encountered. These challenges are for both microfinance institutions and for SME owners. For example, the cumbersome process of receiving credits, which includes both the security and interest rate issues, in some cases would discourage SMEs from going for microcredits (Daniel, 2011). Other microfinance related challenges including savings, and regular, short, and immediate repayment periods (Wanambisi, 2013).

Another criticism and challenge addressing the “ineffectiveness” of microfinance services is that participants and borrowers use the fund for individual consumption other than for investment which eventually, would lead to an “unsustainable” failure enterprise (Margolis in Cooke, 2011). That is why Kenneth et al (2007) state that most microfinance institutions have considered giving loans for enterprise expansion as their priority (Kenneth et al, 2007). However, research shows quite the contrary. Regardless of loan size, enterprises of any age (e.g. infant businesses and ongoing businesses) could establish “for-profit models” and demonstrate that microfinance is not only a poverty reduction tool, but also a growth driver in the life of enterprises (Cooke, 2011). Even with predicted challenges in front of both microfinance industry and SMEs, research has been able to draw a positive correlation between them. Previous literature has focused solely on “positive” impacts that microfinance industry can bring to SMEs. However, observation shows that there are many cases (SMEs) that even with the help of microfinance loans cannot save their businesses from failure. This study express on reasons why some businesses cannot make good use of microfinance industry while others can.

2.1.2 Microfinance Institutions in Afghanistan

According to the Afghanistan Microfinance Association (AMA, 2015), there are eight microfinance institutions of which two of are microfinance banks and finance institutions (“Afghanistan Microfinance Association”, 2015). AMA is the Afghan national network for development of finance institutions (“Afghanistan Microfinance Association”, 2015). AMA’s members are Exchangerzone Microfinance, Foundation for International Community Assistance (FINCA), Islamic Investment & Finance Cooperatives (IIFC) Group, Mutahid Development Finance Institution, Oxus Afghanistan, Tikkun Olam Microfinance (TOM), and the microfinance banks are:

First Microfinance Bank (FMFB) Afghanistan, Afghan Rural Finance Company (ARFC) (“Afghanistan Microfinance Association”, 2015). All of these institutions’ specifications based on the number of clients and areas that each covers are shown in table 1:

Table 1: Afghan Microfinance Institutions’ Spreads through Number of Customers and Branches

Institution Name	No. of Province Covers	No. of Branches	No. of MF Staff	No. of Loan Officers	No. of Clients	% of Women Clients	No. of Active Borrowers	% of Women Borrowers
FINCA Afghanistan	11	22	359	178	24,922	61%	24,922	61%
IIFC Group	14	29	246	92	114,957	17%	20,384	17%
Mutahid DFI	6	8	276	145	18,298	24%	18,298	24%
OXUS Afghanistan	10	19	404	212	21,725	41%	21,725	41%
Sub-Total		78	1,285	627	179,902	26%	85,329	38%
Afghan Rural Finance Co.	3	3	36	8	56	9%	56	0%
FMFB Afghanistan	14	38	1,029	464	137,961	21%	57,401	18%
Sub-Total		41	1,065	472	138,017	21%	57,457	18%
Afghanistan	2	6	15	6	925	100%	925	100%

Women Council								
Aga Khan Foundation	7	16	72	59	51,440	71%	37,341	56%
AREDP	6	6	126	75	85,449	54%	45,372	56%
Hand in Hand Afghanistan	4	8	81	77	20,041	73%	388	15%
Shelter For Life	6	1	6	3	617	14%	617	14%
Sub-Total		37	300	220	158,472	62%	84,643	56%
Grand-Total	19	156	2,650	1,319	476,391	37%	227,429	40%

Source: Afghanistan Microfinance Association, 2016.

The allocation and location of microfinance institutions in Afghanistan is shown in table 2.

Table 2: 10 Provinces by Number of Active Borrowers

Province	2016-Q4	Growth
Kabul	43,260	1.19%
Balkh	34,698	-3.44%
Badakhshan	27,477	2.13%
Nangarhar	17,573	3.34%
Takhar	16,262	1.89%
Herat	15,014	6.48%
Baghlan	14,933	2.20%
Bamyan	14,347	4.24%

Parwan	9,159	8.18%
Jowsjan	8,947	5.99%

Source: Afghanistan Microfinance Association, 2016.

As can be seen from table 2, Kabul city has the highest number of finance clients, This is why my study has surveyed only enterprise borrowers that are in Kabul: most of Afghan SME are located in Kabul.

Moreover, each of the above institutions has the following loan / product achievements.

Table 3: List of Microfinance Institutions by Loan Portfolio

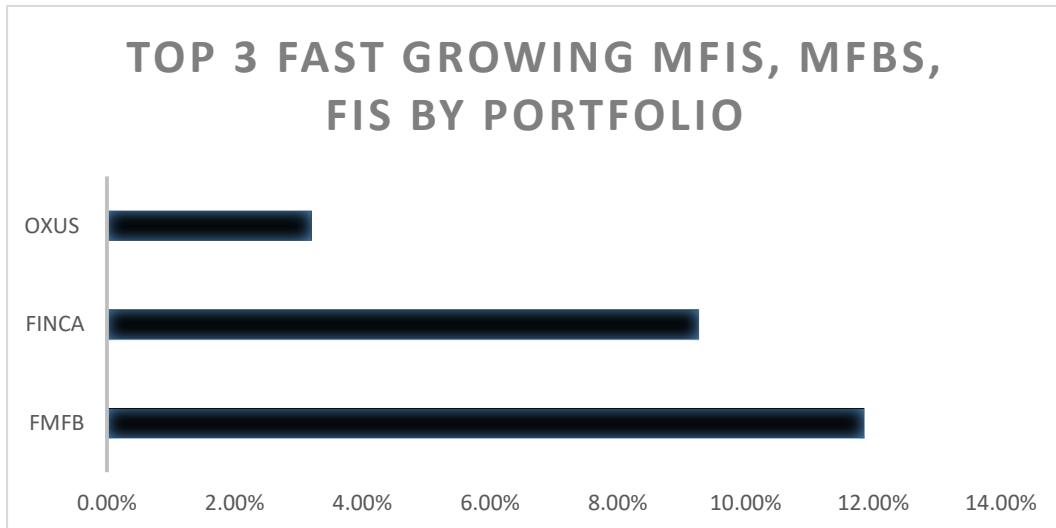
Institution Name	Cross Loan Portfolio (AFN)	Cross Loan Portfolio (USD)	No. of Active Savers	% of Wome n Savers	Amount of Saving (AFN)	Amount of Saving (USD)	OSS %	PAR >30 Days
FINCA Afghanista n	1,071,285 ,169	15,639,20 0	-	-	-	-	104 %	2.4%
IIFC Group	1,097,793 ,079	16,026,17 6	114,95 7	17%	142, 298,504	2,077,350	98% %	14.2
Mutahid DFI	549,807,7 40	8,026,390 1	-	-	-	-	120 %	6.9%
OXUS Afghanista n	842,296,7 30	12,290,90 1	-	-	-	-	109 %	1.3%
Sub-Total	3,560,812 ,717	51,982,66 7	114,95 7	17%	142,298 ,504	2,077,350		6.5%

Afghan Rural Finance Co.		616,629,6 94	9,001,893	-	-	-	-	117 %	19.5 %
FMFB Afghanista n		4,820,576 ,999	70,373,38 7	88,015	21%	1,675,0 41,706	24,453,164	112 %	1.2%
Sub-Total		5,437,206 ,693	79,375,28 0	88,015	21%	1,675,0 41,706	24,453,164		3.3%
AWC		2,590,000	37,810	925	100%	233,100	3,403		
Aga Khan Foundatio n		176,373,6 40	2,574,798	51,440	71%	103,033 ,252	1,504,135		
AREDP		705,434,1 60	10,298,30 9	85,449	54%	350,964 ,429	5,123,568		
Hand in Hand Afghanista n		2,170,350	31,684	20,041	73%	55,394, 429	808,678		
Shelter For Life		13,638,50 0	199,102	-	-	-	-		
Sub-Total		900,206,6 50	13,141,70 3	157,85 5	62%	509,625 ,200	7,439,784		
Grand- Total		9,898,226 ,060	144,499,6 51	360,82 7	38%	2,326,9 65,410	33,970,298		4.1%

Source: Afghanistan Microfinance Association, 2016.

Moreover, the market share by portfolio for each of these MFIs can be realized by following graph:

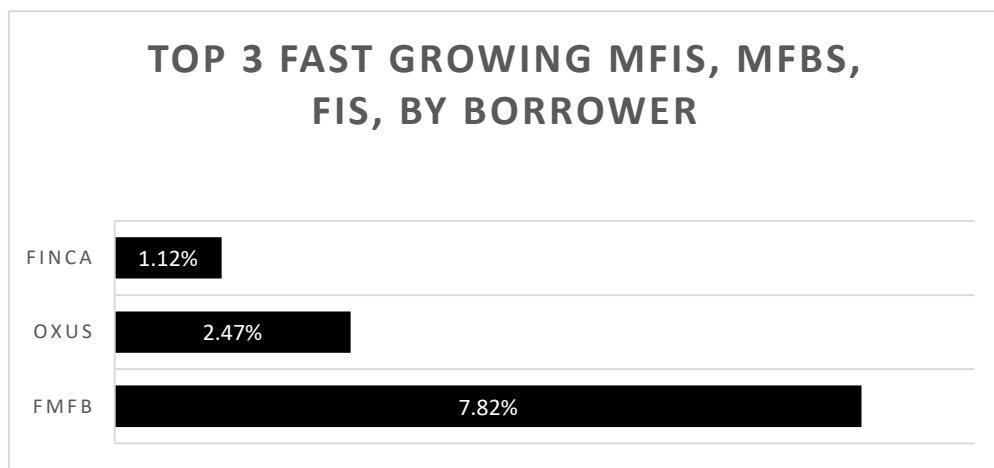
Figure 1: Microfinance Institutions that are Fast Growing in Terms of Portfolio



Source: AMA Microview: Quarter Comparison (Dec, 2016 – March 2017). Available via: <http://www.microview.info/>

Figure1 shows that the First Microfinance Bank (FMFB) Afghanistan has the highest market share for microfinance loans based on portfolio, followed by FINCA and Oxus. As figure2 indicates, FMFB Afghanistan has the highest market share in terms of number of borrowers as well.

Figure 2: Fast Growing Microfinance Institutions in Terms of Number of Borrowers



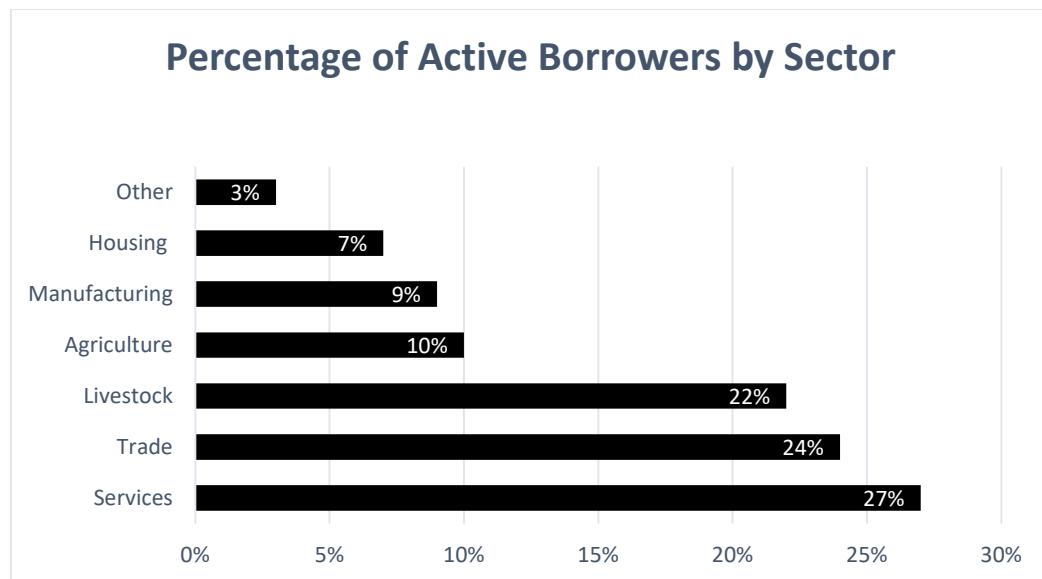
Source: AMA Microview: Quarter Comparison (Dec, 2016 – March 2017). Available via:
<http://www.microview.info/>

Figure level 2 shows that there is competition between MFIs in microfinance loans market in Afghanistan.

Also, the different product offerings that each of the microfinance institutions within AMA group propose to the market are: “car loans, education and training loan, agro-processing loan, gold secured loan, women empowerment loan, salaried employees loan, business growth loan, group guarantee loan, EzQastoona Loan, and business development loan” (“MICROVIEW,” 2015). Each of these products have their own conditions and requirements to be giving loan to customers. The conditions for each of these products are complex and they are as of following table:

Moreover, the type of the businesses that do consume services provided by MFIs in Afghanistan can be shown through following graph:

Figure 3: Active Borrowers by Business Sector



Source: AMA Microview: Quarter Comparison (Dec, 2016 – March 2017). Available via:
<http://www.microview.info/>

These available data are quarterly based that are updated and published each quarter by AMA, and reporting all the activities that fall under MFIs in Afghanistan. From above data, therefore, one can notice that the businesses that do borrow from MFIs are service sectors, following by trade, livestock, agriculture, manufacturing, housing and others. Indeed, the purpose of citing these data was to give a background to how MFIs work in Afghanistan, their customers, areas their customers are mostly operating, their services and product offerings. These data are significantly important to analysis of this study because when the study analyzes the factors influencing an effective loan utilization, there should be an already discussed overview on how SMEs and MFIs products are related, they meet each other's requirements or not. Therefore, this information is necessary to be included in order to have a just interpretation of the results found from this study.

2.1.2 Small and Medium Enterprises:

There is a wide range of definitions for small and medium size enterprises each depending on number of employees, total net assets, sales and investment level; however, the major measurement is employment (Ayyagari et al, 2003). Small and medium enterprises; therefore, is well defined with a cutoff 250 employment staff enrolled in the business (Ayyagari et al, 2003). Aside from definition of SMEs, there is a vast variety of literature each explaining the contributions that SMEs make in improving the economy in countries they operate in. For example, researches show that there is a positive correlation between SME's and GDP growth and employment rate (Ayyagari et al, 2003). Other scholars claim even a bigger statement, stressing that SMEs in real terms contribute a lot in industrialization process of a country (Saleh and Ndubisi, 2006). However, there are a lot of challenges encountering in success of SMEs which eventually challenge the industrialization process (*Ibid*).

Studies have identified these challenges as being: “low level of technological capabilities, limited skilled human capital resources, low level of technology and ICT penetration, low level of research and development sectors (R&D), a substantial orientation towards domestic markets, a high level of international competition, a high level of bureaucracy in government agencies, and internal sources of funds” (Saleh and Ndubisi, 2006).

Moreover, worldwide there is a significant attention to help SMEs boost their business; for example, the World Bank and other international agencies have initiated programs in support of SMEs in developing countries (Beck et al, 2005). The reason for their provisions is mainly the arguments that state SMEs play a major role in economy growth through contributing and increasing the GDP per capita, reducing poverty, and upturn employment rate (Beck et al, 2005). However, there are contradicting arguments, again, in favor and against of the theory that SMEs have the most significant impact on economic growth. Therefore, following will address each accordingly.

Researchers who are in support of the statement that SMEs play the most important role in economic growth base their logic on three arguments. First, according to this group, SMEs increases the competition and entrepreneurship which eventually results in greater innovation, efficiency and productivity growth, second, the supporters of SMEs argue that SMEs are “more productive than large firms;” however, SMEs are hindered in their growth due to financial supports, third, the proponents argue that growth in SMEs increases employment more in compare to growth in large firms and the reason is that “SMEs are more labor intensive than large firms” (Beck and Kunt, 2004).

The contrary side to these views state their own argument and defend their position according to following reasoning. They claim that large SMEs disregard the economies of scale and “easily” associate the fixed costs with research and development with “positive productivity effects” (Pagano & Schivardi in Beck et al, 2005). Also, some other argue that even if SMEs create more job opportunities, but the quality of jobs, that is the most important concept to consider, is better in large firms than in SMEs and also jobs in large firms are more stable comparatively (Rosenzweig in Beck et al, 2005). Furthermore, this school of thoughts emphasize largely on firm size and how that affects the economic state of a country. They argue that the size of a firm may significantly play a role in the company’s ability to compete in the international arena – the bigger the size of the firm the more capable the firm compete and perform in international trades and the more international trade firms have the better for the economy of the country (Caves in Beck et al, 2005). All in all, this section of the literature have analyzed these controversies to show a bit of small and medium size enterprises and illustrate different views on importance of SMEs on economic state.

As seen, SMEs, despite the controversies on this view as presented, do help economies. Hence, it is important to know how to help SMEs to boost their businesses so that they improve the economy as a whole. One way to do this is to figure out the challenges facing SMEs to grow. As researches show, one of the challenges is access to finance. Therefore, the importance of this study is that it will merge the two topics and analyzes the effects of microfinance credits on growth of SMEs. Moreover, the study will try to find an explanation for the question that why even SMEs receive the fund, some of them, instead of boosting their business with the fund after overcoming the big challenge, cannot grow, rather they fail and cannot even repay the loan. Thus,

the following parts will review the existing literatures in this regard analyzing different views on effectiveness of microfinance loans on growth of SMEs.

2.1.2.1 Small and Medium Enterprises in Afghanistan

According to Mashal (2014), as private sectors play crucial role on economic development of Afghanistan, and as small and medium scale enterprises contribute the major parts in private sectors, the SMEs; hence, play a significant relationship at Afghan economic development strategy (Mashal, 2014). Moreover, statistically Mashal shows that SMEs make almost half of the country's GDP, increases employment, and he further claims that even though SMEs play a very important role in the economy, the SMEs' development has not been fully supported by the government (Mashal, 2014). He further claims that the so far development and supports for SMEs were due to donors coming in to the country (Mashal, 2014). For instance, DAI is an organization which supports, with the help of U.S. Agency for International Development, existing and new enterprises establish and implement their business ideas into action ("Afghanistan—Small and Medium Enterprise Development (ASMED)," 2012). Moreover, not only there is not economic and financial support for SMEs in Afghanistan, but rather there are challenges that face SMEs. As Mashal cites, the challenges are that of uncertainty about business situations in the market economy, the dependency level on external donors for starting-up new business, less accessibility to finance, no "quality control and creativity", and challenge of not being exposed to new economic and trade systems in the global economy (Mashal, 2014).

Considering; on one hand, the fact how significant and important role SMEs play on economic development of the country, and on the other hand, how fragile the business condition is, one could claim that there is a necessity to study how to

improve the SMEs' well-being in the economy. One of the ways, as listed a challenge, is accessibility to finance. Hence, there is a need in studying the relationship between financial institutions and SMEs, in order to find the gap, if there exists any, and come up with solutions on how these two sectors could go hand in hand in order to improve the economy. Hence, this study is important not only to a particular group of people but also to the entire economy, and the country as a whole eventually.

2.2 Theories Supportive of Microfinance Loans

Various studies with different objectives, different research problem, and different methodologies have come up almost with same result, indicating the effectiveness of microfinance credits on success and growth of SMEs. Hence, as the outcome is more or less the same across different existing literature, this section will first, if applicable, analyze the theories generated in each study and then review their findings, and the methods that they have used to reach to their findings. The reason for including developing countries is contextualization of the topic – because Afghanistan is also a developing country and the contextualization of theories matter a lot. In other words, a lot of studies have been, so far, conducted and theories are generated in the rest of developing countries like Nigeria, Kenya, and so forth.

However, none or very few studies are conducted in Afghan context. Therefore, it is important to analyze those theories and see if they are applicable in Afghan context. If so, then all good, but if not, the study will look into reasons of why not and then will build its own theory that best fits the context. Moreover, inclusion of cases from developed countries makes sense too to see how did those countries start, how did they proceed and how effective their procedures have been, and where are they now. And then the study will look into their procedures and see if Afghanistan

should or could use their footsteps and follow the path or should Afghanistan seek a way of its own. If so, what path that could be.

2.2.1 Microfinance in Developing Countries

It is important to study how microfinance institutions have been effective in other developing countries in the rest part of the world because a comparison can help learning from challenges, opportunities, and shortcomings of microfinance institutions and see if those factors are applicable in case of Afghanistan too. If yes, then the comparison would help by understanding how other countries have encountered such challenges and if it were effective and if such procedures could be applied in Afghan context as well. Hence this part discusses the cases of other developing countries to draw a comparison to see if Afghan context is similar to them or not, if yes, then how could procedures in other countries be applied in Afghanistan. If not, then what procedures should or could be taken in Afghan context.

2.2.1.1 Nigeria

Most of the researches in Nigerian context have found that there is a significantly positive effect of microfinance institutional activities in large, and credit loans in particular, on growth of SMEs (Christopher, N.A.; Babagana, 2010; Makorere, 2014; Osunde and Mayowa, 2012; Dennis et al, 2015). However, the explanation that each of these studies offer and methodological approaches that they have taken are different one from another, that is why makes each of these articles unique and contributing to the literature. For example, even though most of these studies have conducted surveys, their questionnaire, their target population and samples, their respondents would be different one from another. Idowu Friday Christopher (N.A.) who used simple random sampling—descriptive survey of 100

Nigerian SMEs; for instance, argue that his research results indicate that microfinance loans have a positive impact on expand businesses’ “market share, product innovation, and achieving market excellence” (Christopher, N.A.). On methodological contrast, Babagana S. A. (2010) has surveyed senior management staffs in microfinance banks of Nigeria, and found that there is a positive contribution of microfinance banks to growth of SMEs (Babagana 2010). However, a critique to this study’s methodological approach is noticed, and that is with choosing the respondents to this research. In other words, how effectively the employee and staff of the bank, the providers of the loans could analyze the impact of loans as they are the suppliers not the receivers. Therefore, the study should have taken the approach from the SME owners themselves than the provider.

The suppliers; obviously, in order to show their effectiveness and that they are actually doing the right thing for the society and the economy as a whole, response positively that there is effective impact of MFBs on SMEs. In other words, the study, as seems from its methodology and questionnaire, has been biased towards microfinance institutions, banks, and somehow against the SME owners to consider their attitudes as well. Therefore, the study should have a more of balanced approach and its respondents should include the supplier of financial service as well as demander of it. Moreover, other researches have theorized that accessibility to microfinance credits help SMEs to expand their businesses and increase their sales volume (Makorere 2014).

As of a background similarity between Nigerian context and Afghan context, one could note that both countries have gone through a certain period of civil unrest and whose economies are not well developed. According to CIA Factbook’s reports, in recent years Nigeria’s economy has been hugely infected by terrorist attacks and

kidnapping (“Nigeria,” 2009). As can be seen, lack of physical security is one of the common issues that both countries: Afghanistan and Nigeria share and this could hamper the economic activities in the society such as entrepreneurship and financing. However, this similarity could add to the point that if even with lots of risks and insecurities Nigerian SMEs and financial can go hand in hand together that could imply in Afghan context as well.

Moreover, both Afghanistan and Nigeria are landlocked territories and their economy depends so much on livestock crops and agricultural products (“Nigeria,” 2009). An implication of this similarity can be that since agricultural SME make a big portion of SMEs, and studies in one of the agricultural contexts, Nigeria, have proved that microfinance loans have a positive effect on success and growth of SMEs, and since both Nigeria and Afghanistan are agricultural based economies, it might be applicable in Afghan context as well that microfinance loans have positive impact on Afghan agricultural SMEs’ growth. However, this is a premise implied from other context, which its truthfulness needs research that is what this study attempts to do.

2.2.1.2 Kenya

Resolving the liquidity constraints, increase SMEs’ ability to bear more risks, strategically manage risks, and enlarging consumptions overtime are the direct – specific cited impacts that microfinance loans have on SMEs (Ngugi and Kerongo, 2014). Also it is noted that more financially sustainable microfinance institutions have greater impact on SMEs growth and success because they can provide and ensure a more maintainable access to credit to SMEs (Rhyne and Otero in Ngugi and Kerongo, 2014). Moreover, studies have argued that in order to have microfinance loans rapidly increase growth in SMEs, the credits should be “customer-oriented” and not “product-oriented” (Ngugi and Kerongo, 2014). However, Dennis et al (2015) have taken one

step further to look into factors that hamper SMEs from growth even in presence of loans. These scholars have found that the factors hindering SMEs from growth are: “capital access, cost, capital market, collateral requirements, information access, capital management, and cost of registration” (Ngugi and Kerongo, 2014).

Moreover, Gathogo (2014) have found in her research on effects of microfinance institutions on growth of SMEs in Kiambu County that the most important factor on growth of SMEs is savings, and it is rather a crucial source of finance in compare to microfinance institutions (Gathogo, 2014). She argues that it is because most of the businesses depend on community support and loans, self-help groups which have relatively high level of savings (Gathogo, 2014).

Additionally, as of the similarities between Afghanistan and Kenya County, the CIA Factbook reports that Kenya's economy is a growing as it should; however, “weak governance and corruption” threaten the economic growth. As can be observed from Afghan society, there are also many growth opportunities in Afghan society; however, due to less proper governance functioning where it could not only manage but also support the businesses, the economy as a whole is facing lots of challenges. The result drown from this point is that both Afghanistan and Kenya have many chances to grow and become a developed nation if and only if the government allies on with businesses entity. If not aligning but at least support and provide the opportunities, such as peaceful environment for businesses to function so that they could at least improve the economy. Aside from government's less activeness, the Kenya's unemployment rate just alike to Afghanistan's unemployment rate is significantly low (Kenya, 2017; “Afghanistan Unemployment Rate”, 2017). The implication that could be applied from this similarity is that, since in the earlier part was shown how entrepreneurship and financing institutes both run hand in hand

towards economic growth, there is a need for both countries: Afghanistan and Kenya to expand on their entrepreneurship to lessen the unemployment rate, and that is possible when there is more of MFIs to help entrepreneurship to grow and as a result create more job opportunities.

2.2.1.3 Ghana

Finding with regards to relationship between microfinance institutions and SMEs growth has been proved complicated. Some researchers have shown that finance play a significant role in operation of SMEs, especially in rural SMEs, helping SMEs start, expand and sustain (Anane, 2012). Others have identified that access to finance has been a major problem for growth of Ghanaian SMEs, and the highlighted reasons for it are: “high cost of borrowing and rigidities of interest rates” including collateral charges (Ahiabor, 2013). Moreover, even with identified challenges, researchers have defined the relationship so much as conditional. It means that in Ghana, accessibility to finances and loans by SMEs depend on three conditions that SMEs should have in order to be considered for the loan; and the conditions are: “SMEs must be located within the catchment area of MFIs, the SME must have an account with MFI, and SMEs must have saved with the MFIs for six months” (Anane et al, 2013). These conditions, as could be seen, could create inconveniences to access to finance and loans to both starting up enterprises as well as existing ones.

However, even with these challenges and these established constraints, the microfinance institutions have proven to provide great economic accelerator for small enterprises to boost their business (*Ahiabor, 2013*). Therefore, the conclusion that could be drew is that there is a positive correlation between microfinance institutions and SMEs’ growth and sustainability.

Background to Ghana County reveals differential periods of economic state as well. For example, in the last 250 years, according CIA Factbook report, the economy was doing well in terms of establishing a good business environment, capable management, and a lowering poverty level continuously (“Ghana,” 2017). However, in recent years, due to sudden fiscal policy, the country was facing current deficits and currency depreciation (“Ghana,” 2017). Despite all these, alike Afghanistan, Ghana has a market economy with few trade barrier policies (“Ghana,” 2017). It implies that the government supports attempts to keep the trade open and support economic activities in the country.

This fact is also very similar to what Afghan government has been doing since last 16-14 years. The reports in this regard shows a market based free economy for the Afghan society since 2001 as well (Fishstein and Amiryar, 2015). The reason for this rapid change in economic course, as Afghan analysts interpret, could be over three decades of civil war, destruction, and infrastructure that afterwards of these civil unrest the Afghan government was asked by international organizations such as the World Bank and IMF, to establish a free market economy through which privatization, liberalization and globalization become a principle (Sharifi, 2014). As similarity point, both Ghanaian and Afghan economy are facing a critical stage towards strengthen, under this phase is that SMEs could emerge; hence, in both countries SMEs should perform actively and the governments and finance institutions should do anything to support SMEs.

2.2.1.4 China

Even though the history indicates that up until 1988 the private enterprises could not emerge, since 1978, the start of economic reform era, small and medium enterprises play a vital role in economic growth of China (Li, 2002). Not only SMEs

play a significant role in economic development but also in stimulate technological adjustments (Li, 2002).

Microfinance institutions in China is consisted of different types based on their supplies, offerings and products such as public-interest microfinances, mutual, and commercial microfinances (Tongquan in “World Microfinance Forum Geneva, 2010). Moreover, the demand for microfinance is significantly big in Chinese society, and importantly its economic activities such as enterprises, and these demands cover credit demand, demand for savings, insurance and investments which among all, it is difficult for MFIs to meet the demand for credit (“World Microfinance Forum Geneva, 2010). Considering this economic point, there is other research data that also illustrate the gap between microfinance institutions and their market demand, in other words the gap between MFIs supplies and offerings and the SMEs’ demand.

Even with considering encouraging and positive signs that SMEs contribute in Chinese economy, it seems surprising to know that SMEs in industrialized countries too face challenges in financing and refinancing their businesses. The reason for this is, in industrialized countries, as that of China, has been so far cited to be collateral charges (Wang, 2013). The analysis reveal that as the level of risk associated with SMEs process is higher, the higher the collateral charges (Wang, 2013). Not only that, but also there is, in general, limited sources of funding for SMEs which also exacerbate the issue of collateral (Wang, 2013). Considering these issues; however, a question rises in mind and that refers back to the wonder that one could feel with regards to industrialized countries. The question is that how countries whose most portion of the economy is consisted of large companies, could have enterprises that would default which makes the possibility of receiving finance lower in the entire country. One should; rather, compare how big microfinance institutions and SMEs

could be in such countries relative to other developing countries whose economies and social environment are not actually that supportive of big enterprises.

Moreover, Shinozaki (2012) stress the pivotal role that microfinance institutions play on success and growth of SMEs, and at the same time draws attentions to the global economic facts such deficits and global financial uncertainty that make access to finance SMEs development quite challenging (Shinozaki, 2012). Considering this claim, the reason that SMEs in China are facing lack of finance might be these economic facts.

Additionally, according to CIA Factbook, China's economy; in recent years, has been facing challenges: decrease in domestic saving rate and lower domestic households consumption, helping with high corporate debts, creating higher-wage job opportunities for middle class, reducing the investment, and most importantly an efficient allocation of capital on productive businesses ("China," 2017). Above facts indicate that; perhaps, these facts and challenges that are facing the Chinese economy might be the reason that affect the relationship and / or correlation between microfinance and SMEs' growth as mentioned above.

Even if the gap between SMEs and sources of their financing is considerable, researches show that there is a significant and positive role that SMEs have plaid on the economy as cited in the first paragraph of this section. Seeing the big contributions that SMEs have plaid on the economic well-being of China; hence, the government has been prompted to develop policies, procedures and measures to help and improve SMEs (Li, 2002). It shows that the Chinese does try to help SMEs because they noticed the importance of SMEs; hence, so should Afghan government do. It is because in a condition that Afghan society has, it is important to encourage every economic initiatives and especially SMEs because as in most of contexts have

shown that SMEs helped in economic development, there is a high chance that it do so in Afghanistan too.

2.2.1.5 Bangladesh

Alike to China, SMEs do play a vital role in economic development of Bangladesh as well, as Dr. Bakht and Dr. Basher (2015) argue that in order to attain an economic growth support of SMEs is very important (Bakht and Basher, 2015).

Studies have revealed the varying impacts of microfinance institutions on individual enterprises. One of the results show that microfinance institutions have created diseconomies of scale on male owned enterprises whose businesses are in rural areas and who have borrowed higher amount of loans (Khandker and Samad, 2014). Hence, Khandker and Samad (2014) argue that too many of microfinance institutions are not that good not for the borrowers nor for the economy as a whole (*Khandker and Samad, 2014*). The reason that these researches have base their arguments on is the market saturation depending on the level of villagers participation in the financing programs and level of competitions among microfinance institutions in those programs (Khandker and Samad, 2014). However, Uddin (2014) argues that financial institutions argues that since SMEs play a major role in economic development of the country, there should increase financing institutions to help SMEs with their challenges as he cites the major ones are lack of sufficient funds, “high cost of borrowing, limited source of financing, and collateral requirements” (Uddin, 2014).

2.3 Cases of Developed Countries

Including cases of developed countries is important too because it gives an insight on how developed countries could improve the effect of their microfinance institutions on their SMEs. If there is any effect at all, another reason for this analysis

is to see if their procedures are applicable in Afghanistan as well or not. Overall, this adds different dimensions to our analysis and does not only focus on the less developed or developing countries.

2.3.1 South Korea

Researches do support that small and medium enterprises have vastly contributed in industrialization process of the country (Nugent and Yhee, 2002). The study details the changing share contributions of SMEs in economic development of South Korea, and after portraying different role trends of SMEs in the process, concludes that since 1990 has a rising share (Nugent and Yhee, 2002). After determining the positive impacts that SMEs have, the study identifies the supporting sources for SMEs. Nugent and Yhee (2002) shed lights on internal and external sources of support for SMEs. Besides the varying level of support that SMEs have received, Nugent and Yhee have illustrated that there are challenges associated with accessing finance support; that is why the Korean government and nongovernmental organizations have attempted policies in outreaching SMEs for financial supports; however, there has been, as the study claims, less evidence that these policies were actually helping the SMEs (Nugent and Yhee, 2002). Moreover, the research finds that the effectiveness of sources of financial support for SMEs depend so much on financial institutions' ability to supply the type of "service needed and in an easily accessible and timely manner" (Nugent and Yhee, 2002).

2.3.2 Canada

SMEs in Canada play a significant role in Canadian economy too and the most of this contribution is concentrated on increasing employment rate in the country ("Key Small Businesses Statistics-June 2016"). Considering this positive impact that

SMEs have one should claim that there should be financial institutions to support these businesses. And as statistics show, there is, in fact, institutions that help enterprises in Canada; as access to loan in Canadians is provided through: “micro loans, micro savings, and micro insurance” (Microfinance, Micro Loan, 2017).

Therefore, in Canada, there is a well-established program in called: “Canada Small Business Financing Program” whose main mission is to provide finance to “establishing, expanding and or modernizing small businesses” (“Understanding the Canada Small Business Financing Act,” N.A.). Studies; therefore, have been conducted to analyze the effectiveness of such programs. Chandler (2012); through survey studies of registered SMEs in CSBF Program, that the program has a positive impact on Canadian economy as a whole and on SMEs’ growth (Chandler, 2012).

Moreover, reports are published and researches have proven that SMEs play a significant role in Canadian and other developed countries’ economy. For instance, as following figures show, SMEs have contributed significantly; e.g. 55% in GDP, and more than 65% of total employment rate in “high-income countries (“Promoting Entrepreneurship and Innovation SMEs in A Global Economy: Towards a More Responsive and Inclusive Globalization,” 2004).

Figure 1. SME Sector's Contribution to Employment and GDP (Median Values)

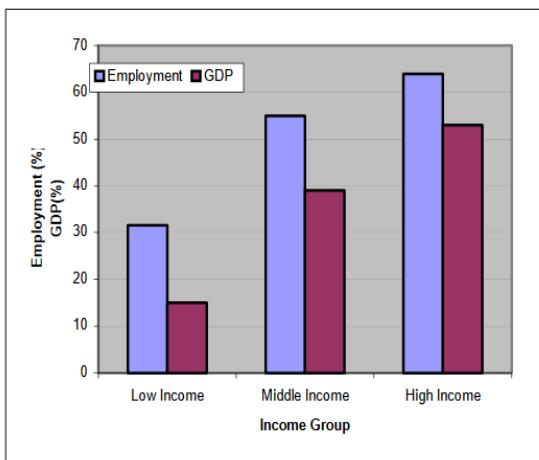
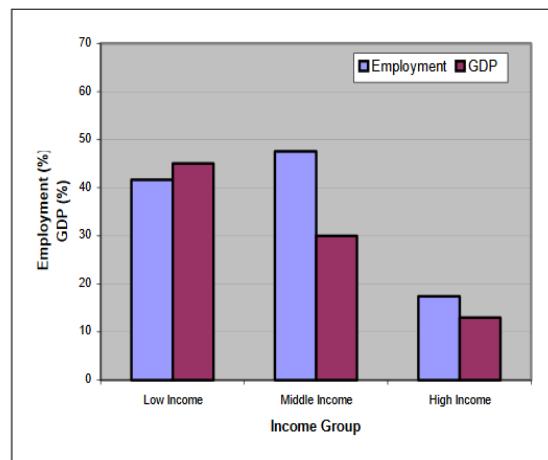


Figure 2. Informal Sector's Contribution to Employment and GDP



Source: Ayyagari, Beck and Demirguc-Kunt (2003), p. 27-28.

The figures above indicate an excellent comparison between low-income countries and high-income countries and fulfill the main purpose of this section. As can be seen, in the low income countries, the private and informal enterprises contribute lesser in economic growth of these countries, therefore, factors that would dismay entrance of these businesses, and rather promote emergence of more formal and registered enterprises into market would help the economy in these countries grow and run faster toward, what can be seen from figures, a more developed economy as figures illustrate formal enterprises play better in economy of developed countries ((“Promoting Entrepreneurship and Innovation SMEs in A Global Economy: Towards a More Responsive and Inclusive Globalization,” 2004).

To conclude 2.3. Part of chapter two of this study, the result that SMEs play a significant role in economic growth and economic development is proven in both developed and developing countries. Hence, the support from microfinance institutions to help these enterprises in all these countries is also positively perceived. However, there is another group of scholars that disagree with microfinances’

influence and role in helping and promoting economic development through supporting SMEs.

2.4 Theories Not Support of Microfinance Loans

“The microfinance illusion” argues that microfinance institutions do not contribute in social and economic development, nor they are “poverty reduction tool” (Bateman and Chang, N.A.). They base their statement on three reasons. First, the theories around positive impacts of “microfinance model” are just “make-believe” (Amsden in Bateman and Chang, N.A.) while practical evidences have brought doubts in effectiveness of microfinance (Bateman and Chang, N.A.). What they mean by this logic might imply that it is what has been said over and over to make people believe in positive impact of microfinance while in reality and practicality it might not be that effective. The second reason that the article gives for ineffectiveness of microfinance is that there is no vivid “results for sustainable poverty reduction and social and economic development” (Bateman and Chang, N.A.). However, the reasons for rapid economic growths in various countries are rather “state coordinate policy interventions” and microfinance have plaid no role (Bateman and Chang, N.A.). The third reasoning the relationship between microfinance and neoliberal and globalization model (Bateman and Chang, N.A.).

Bateman and Chang base their theory on “minimum efficient scale of production” and state that there is an acknowledged “efficient scale of production” for SMEs which below that it is almost impossible for SMEs to survive and this level can be achieved by enough basic investment (Bateman and Chang, N.A.). Therefore, the argument suggests that sufficient level of investment is crucial for SMEs’ survival and eventual growth and it can be attained through MFIs (*ibid*). However, MFIs encouraging high number of new SMEs to enter the market, disregards the “minimum

efficient scale of production” theory through two possibilities (Bateman and Chang, N.A.). First, MFIs intensify SMEs’ access to microfinance within their locality in the market, which leads to endangering SMEs’ survival and eventual high SMEs turnover from the market (Bateman and Chang, N.A.).

Second, even if the SMEs can access to the initial investment from MFIs, there will be an intense competition among those SMEs that could make to the market and this will lead to over-supply, and lowering the price of their products in the market and eventually less profitability (*ibid*). All in all, Bateman and Chang list following number of inefficiencies that MFIs cause SMEs: 1, “microfinance ignores the crucial role of scale of economies” 2, “microfinance ignores the problem of ‘fallacy of composition’” 3, “microfinance acts to ‘crowd out’ industrial microenterprises with prospects of technological upgrading” 4, “microfinance ignores the need to promote vertical and horizontal ‘connectability’” 5, “microfinance encourages an unsustainable import-dependent and trade-based local economic structure” 6, “microfinance ignores the crucial importance of solidarity and local community ownership and control” (Bateman and Chang, N.A.).

2.5 Review of Studies that Highlight Other Influencing Factors in Success of SMEs

Other studies have come up with another mechanism inclusive of factors directing success and failure of SMEs in their life time, one of these factors is capital structure of SMEs. It is important to consider these approaches to the topic in order to avoid any biasness in the study.

2.5.1 External Factors Affecting SMEs

Various theories have been generated to analyze influencing factors on growth and success of businesses. The major theories; in this regard, have argued that these factors can be categorized into two types. One is market force approach and the other one is intervention approach; where the first school of thoughts focus on implementation of policies and structural adjustments for SMEs, while the second approach; rather, emphasize the availability of resources, for instance, micro-finance institutions (Wilfred, et al, 2013). Other studies have pointed on linkages between SMEs and multinational companies, networking, diversification of the market as well as products, and franchising opportunities as influencing factors indicating the success and growth of SMEs (Rotich et al, 2015). However, among all other well investigated factors, this paper will primarily and solely focus on importance and impact of microfinance services on growth and success of SMEs. Particularly, after analyzing different theories in the field, the study will try to find if the existing theories are applicable in context of Afghan SMEs.

Moreover, besides direct positive impact analysis, there is an approaching difference to the topic in the literature. For example, many studies have analyzed the impacts of microfinance on SMEs from supplier's perspective, from side of micro finance institutions. Impact evaluation studies argue that effectiveness of microfinances on success and growth of SMEs depends on structural and product variation of the services that microfinance institutions provide to its customers (Karlan & Goldberg, 2007). This group of literature; hence, represent their results through policy recommendations and offering information on what types of products and services work best for particular customers (Karlan & Goldberg, 2007). However,

this study will analyze the impacts from the demand's (enterprises that consume microfinance) perspectives.

2.5.2 Internal Factors: Capital Structure

It is important to study the role of capital structuring in SMEs because capital structure of a firm may have effects on financing decisions that the firm take to reach out to financial sources and how effective can the firm utilize these finance sources. By capital structure what previous studies have concentrated so far is the “debt-to-assets” ratio or the leverage in each business (Iavorskyi, 2013). Different studies have shown differential results for the relationship between a business’s performance and its leverage, some found that there is a negative correlation between the two, gauged based on firms’ profitability, while others displayed a positive correlation (Iavorskyi, 2013). It implies that the more debt, finance, the enterprise, which in this case is mostly firms, borrow the more productive the business could be (Iavorskyi, 2013). Among all, for instance, in Ukraine economy, within period of 2001-2010 there is proven to be a negative relationship between firms’ leverage and firms’ productivity (Iavorskyi, 2013). Therefore, even though this subject is not in the scope of this study, it is significantly important to consider these statistics because they may influence the enterprises’ decisions to go for loans.

2.6 Summary of Literature

From review of above literature, it comes to realize that even though there are many factors influencing growth and sustainability of SMEs, financial assistance is one the major factors. Even with respect to microfinance loans services and its function ability, different scholars contributed different theories

Chapter 3: Methodology

This research surveyed 110 SME owners who had taken loans from microfinance institutions. The respondents were selected randomly and included microfinance loan customers and SME loan customers. The research attempted to identify the relationship between dependent variable (growth in SMEs' business revenues, performance) and independent variable, microfinance loans.

The variables measured in different ways. For example, the effects of the independent variable was measured through three dimensions: interest rate, repayment period and its conditions, and accessibility to loans. Moreover, what is new in this study than the rest of the literature is that it takes into account the “time effect” of loan on the profitability of SMEs. In other words, the study aims to explore on how long it takes for SMEs after taking the loan to realize the return on the loan in their business profitability, and this is asked on business quarter basis (e.g. each three months).

The dependent variable is measured based on the business's change trend in income and revenue. However, in this section the other factors that might influence the business's decision in taking the loan are paid attention too. For example, not only drop in revenue have caused the business to go and take the loan, but rather peer-influence (other business partners), or senior management sudden decision or higher employee turn-over might do so. Therefore, considering the effects of other factors, this study has attempted to control as much as possible for factors that might be influence able.

Lastly but not the least, as the research does not want to make the respondents uncomfortable with asking questions that would force them disclose their business

data (e.g. exact amount of profit and loss), nor would ask about respondents' name. The questionnaire has taken form of descriptive questionnaire, where major parts are Likert scale questions.

3.1. Sampling Design

The research has taken a simple random sampling model because it give a more accurate picture of entire population and also can help the researcher to generalize the finding of this study to larger population (DePersio, 2015). Moreover, the research site is chosen only Kabul city for two main reasons. First, most and to some extent all of the businesses function in Kabul city because (a) it is the capital city and center for many sources: electricity, foreign funds, and also literacy level is higher, and (b) security situation is better in the capital than in provinces.

The method through which the sample was selected is as following:

$$n = \frac{\frac{z^2 \times p(1-p)}{e^2}}{1 + (\frac{z^2 \times p(1-p)}{e^2 N})}$$

- n is the required size of the sample
- N is the population size which in this case is 65,000
- e is the margin of error which in this study it is 5%
- and the confidence interval is 95%
- z is the z-score
- p is the probability

Following the above formula, the sample size required in this study is almost 73. According to Stockholm International Peace Research Institute's Report, there are 65,000 SMEs registered with legal authorities in Afghanistan (Ghiasy, Zhou, & Hallgren, 2015). However, the report also claims that this number may not accurately

represent the number of businesses as there might be many other enterprises that operate in the market but are not registered (Ghiasy et al, 2015). Hence, considering the fact that the number of SMEs in Afghan business sector might be higher than 65000, this study has chosen a sample size that is slightly higher than the required sample size. The sample size the study surveyed was 110, and the reason to having a higher sample size was to compensate for the unknown number of SMEs that are not registered but actually operate in the market.

3.2. Data Collection

The main sources of data collections for this study have been primary and secondary. The primary data was collected through field survey of entrepreneurs who are customers to microfinance institutions such as: the First Microfinance Bank-Afghanistan and Oxfam. There have been challenges and benefits associated with this process. For example: one of the big challenges with regards to the primary data was that the sample was not representative of whole Afghanistan but only representative of Kabul, a city. Even though the justification at the beginning showed the reasons for choosing Kabul city, it could be a limitation for this study not to be inclusive other provinces of Afghanistan. It has been a challenge because: (a) it was difficult to travel to provinces (b) even if being able to travel, there would be less probability that any SMEs would operate and if there would be some the possibility of being able to contact them would be very small, costly and time consuming.

3.3. The Survey Structure

As the design to the study is quantitative, the sole source of information was based on the questionnaire. Hence, the questionnaire was consisted of five sections which

each was asking different factors that the study has taken into consideration as being significant. The first part asked respondents about their background.

The second part has measured for the effect a unique independent variable that in previous studies in any context has not been studied so far, and that is the time realization of loss. By this phrase, the research aims to study the effect of time between when SME's actually realize a drop in their revenue or profit and the time they actually apply for the loan. It means that there might be cases where SMEs realize a downtrend in their profit, but they may not immediately apply for the loan. Rather they wait too long, and bearing losses for too long, and very late decide to apply for the loan. And there might be some other SMEs where after realizing a loss in their business profit, they immediately apply for a loan. Hence, by this new independent variable: time realization of loss, the study aims to explore the effect of time of time it takes SMEs to decide to apply for the loan. This variable; therefore, is measured quarterly basis. Therefore, this section is consisted of four sub questions, each in a likert scale measuring respondents' level of agreement and / or disagreement on specific questions.

The third part of the questionnaire has asked questions with regards to who or what has inspired, encouraged, or obliged SMEs to take loans. This question was included because there might be an association between the factor leading SME owner to take loan and his or her perception of the loan which eventually would affect his or her behavior and management of the loan, leading toward an effective loan utilization or vice versa. Suppose, an SME owner personally reaches to a belief that a loan could help to boost the business, hence, he or she would do everything that they can to well manage the loan and therefore, using the loan effectively. However, there could be another possibility as well, which might the SME owner is influenced by his

or her business partners' encouragement to apply for a loan, therefore, there might not be an effective effort to make a good use of the loan. Just like this, there might be other factors influencing the decision to whether apply for a loan or not, and eventually leading towards an effective loan utilization or not. Therefore, there has been three items in this section of the questionnaire that could capture the effect of this variable in the model, and all the items are structured again based on Likert scale statements.

The fourth section to the questionnaire is the time effect of the loan on SMEs' productivity and growth. It means that this part of the questionnaire aims to explore on how long after receiving the loan, the SMEs actually realize its positive / negative impact on their business' productivity. Hence, this part of the questionnaire is consisted of four items and is also asked on a quarterly basis.

Part fifth is about measuring the dependent variable, and it is measured by eight items each structured on a likert scale basis. These items are all about business' productivity level and growth level after utilizing a microfinance loan.

The next three parts of the questionnaire asks questions with regards to the loan itself. And condition associated with receiving a loan. These criteria are: interest rate, repayment period and its own measurements, and accessibility to loan that has its own terms and conditions. For example, part six is consisted of five items through which the study aims to analyze the effect that the interest rate play on an effective loan utilization.

The seventh section asks questions about the repayment and its terms and conditions. This part is consisted of eight items through which the overall effect of repaying can be analyzed, such as the effect of installment amount on each

installment, the repaying interval was it too short or long, the amount of charges on late repayments, and so on. This section is also structured on a Likert scale basis.

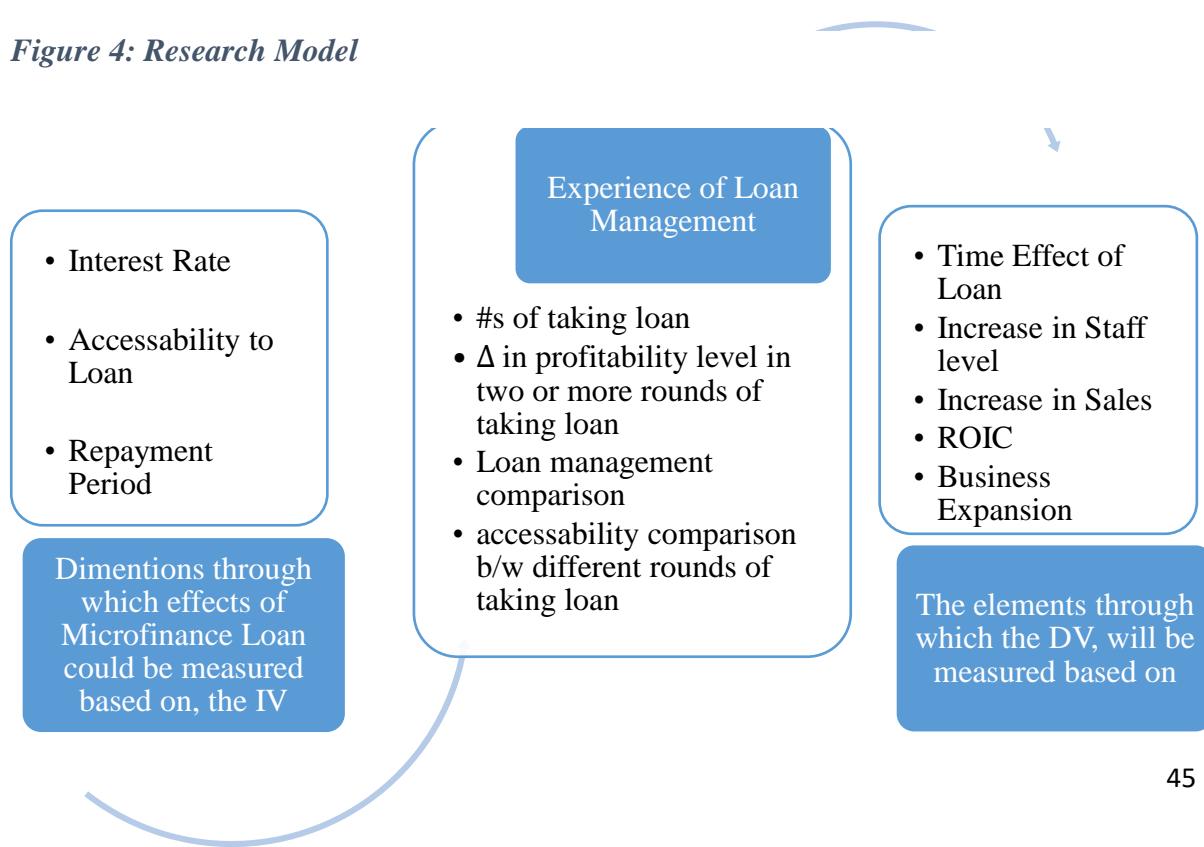
Section eight is consisted of question with regards to accessibility to loan. This part is included in the questionnaire, because there might be an association between how long the SMEs' wait or undergo to receive the loan and their ability to effectively utilize the loan. This part has five items where each of them are structured in Likert scale format.

Part ninth asks questions with regards to SMEs' experience level in managing the loan, and is consisted of four items that can measure this variable and are likert scale. This section is included because, logically, there might be an association between the more SMEs receive loan, the better they are capable in managing the loan and using it effectively.

3.4. Research Model

The model that this study has structured and intends to use is as following:

Figure 4: Research Model



As above model indicates, the relationship which analyses the effects of microfinance loans on growth and sustainability of SMEs through two ways: direct and indirect. In the first manner, the microfinance loan, as can be seen from the model, has three dimension through which its effects can be analyzed. In other words, the study aims to examine which of following factors: interest rates, accessibility to loan, and repayment period mostly affect the relationship between microfinance and SME growth. Moreover, this research takes into consideration the effects that experience of taking multi-loan might have on an effective loan utilization by SMEs. For this, the study examines the number of loans an SME takes within one period, compare and comparison of profitability of SME between different rounds borrowing, loan management comparison in different periods of loan consumptions, and comparing challenges faced by SMEs between different rounds of borrowing.

3.5. **Codes of Survey**

Prior to running operations such as regression, the data from conducted survey was coded into spreadsheet. The questionnaire is divided into groups through which each section addresses both the dependent variable and the independent variables separately. For example, accessibility to loan, repayment period, and interest rate are elements through which the effect of the independent variable, loan, is measured. The dependent variable is gauged based on SMEs' increase in employment, business expansion, and increase in business income.

3.6. Data Analysis Methods

After the data was entered and coded in three statistical tools: SPSS version 20.0 Microsoft Excel sheet, and STATA Statistical software were used in this study. As can be seen, multiple statistical means were used to test the hypotheses, it is because of the function-ability and spread, and convenience that each of these tools can provide in any specific area even though the study is using only one dataset collected from the survey's conducted. Hence, charts for responses' graphical assessment, for instance, are extracted from the dataset using Excel, the frequency of responses were found using SPSS software, and the regressions are run using STATA models of ordinal Logistic Regression.

3.6.1. Reliability of the Data Collected

In order to test the reliability of the data collected, a Cronbach's Alpha test is run. For this the following formula was used:

Cronbach's Alpha Test:

$$\frac{K * \mu}{1 + \mu(k - 1)} = 0.866723$$

where:

$$K = \# \text{ Variables} = 40$$

$$\mu = \text{Average of Correlation of all Variables} = 0.139844$$

After calculating this formula, the result is a number of 0.866723 which mean the data is strongly reliable; hence, the results drew from the gathered data are reliable as well. Therefore, there can be concluded that the study's finding is significant to the literature as well.

3.6.2. Ordinal Logistic Regression

Since the study is structured in a categorical order, where both dependent and independent variables are ranked on scale of one to five measuring respondents' level of agreement or disagreement towards specific inquiries, than asking questions with continuous responses, linear regressions do not apply in this study. Therefore, the study runs multiple ordinal logistic regressions models, using AIC rating tests as well to find the best fit model possible for this study. Akaike Information Criterion (AIC), is a statistical measurement for the quality of multiple regression models possible in a study for one particular dataset, and amongst all models, the model that has the lowest AIC score is relatively the better model to base the analysis on (Hu, 2012). Therefore, since the questionnaire has multiple questions for each dimension of variables: both dependent and independent, the study developed multiple regression models for different questions picked from different dimension in each variable, and then runs the regression for each of them. And hence, the study chooses among all developed and run regressions, the best that fit the study's purpose.

3.7. Hypotheses:

Considering above research models, with available data and available variables on hand, this study hypothesizes following statements and tests them by the gathered data from the surveys.

H1: There is a significant relationship between “time realization of loss” and an effective loan utilization.

H2: There is a significant relationship between time effect of loan and SMEs' growth and profitability due to loan.

H3: There is a significant relationship between the decision making factor to applying for a loan and having an effective loan utilization.

H4: There is a significant association between interest rate to the loan and having an effective loan utilization.

H5: there is a significant relationship between repayment period of the loan and having an effective loan utilization.

H6: There is a significant association between accessibility to loan and having an effective loan utilization.

H7: There is a significant relationship between borrowing experience and having an effective loan utilization.

Chapter 4: Research Findings

This chapter discusses the findings extracted after analyzing the data collected through the survey and the questionnaire. The primary goal was to analyze the relationship between microfinance loans and SMEs' growth and sustainability.

This section will first give a background on respondents that have filled the survey. Second, it will analyze the results for each question, and then the relationships between variables.

Moreover, there are two big contributions of this study into existing literature; meaning this study has taken into consideration two other factors that so far other studies in other contexts have not considered. These two elements are: first the role of time that play on an effective loan utilization, implying the role that the decision for when to apply for a loan play on an effective loan usage, plus the time effect of the loan itself, meaning that after how long do the SME owners realize the effect of loan on their profitability. The second one is the experience of loan management on an effective loan utilization, meaning to examine if repeat customers of microfinance institutions have a relative better loan utilization than the new ones. Hence, this chapter categorized into four big subsections to approach the study and explain the relationship in full details.

4.1. Response Rate

There were two primary approaches to collecting the data. One was that the researcher was going to the several branches of MFIs located in different parts of the city, sitting there for a whole day, and surveying the customers visiting the branch for any reasons be it, installments and / or issuance of a new loan and so forth. The second approach, because of the time constraint, used a helping hand from loan officers in the branches. The loan officers were asked to survey at least 3-5 customers per day for a period of one week and the customers were selected completely randomly. Of 200 questionnaires distributed only 110 were returned.

Table 4: Response Rate

Description	Total	Response Rate
Questionnaires Distributed	200	100.00
Questionnaires Returned	110	55.00
Questionnaires Unreturned	90	45.00

4.2. Respondents' Profile

a. Gender:

After entering all the data into excel, the calculation shows following:

Table 5: Respondents' Gender

Male	83
Female	27
Total	110

Above data indicates that out of 110 SME owners that have filled the questionnaire and are microfinance loan customers, 83 of them are male and 27 of them are female. This result is not very surprising, considering the country's current political and security conditions it seems acceptable to have fewer female SME holders. Moreover, if one compares the current condition with historical events where women had fewer or to some extent no chance to work outside the house, the environment is even more welcoming for women to rise and establish their businesses; however, if this result shows a big gap between men's and women's participation in the economy, it is because it takes time to bring women into socio-economic arena and slowly this gap will narrow. For now this result seems agreeable.

b. Type of the business that SME owners have:

Table 6: Business Type Statistics

Service Provider	24
Manufacturing Firm	37
Tailoring	12
Food Vendoring	17
Carpentry	8
Carpet Waving	5
Agricultural	0
Others	7
Total	110

The Table 6 shows that the majority of SMEs have a business on manufacturing firms. These results on the business type of SMEs are surprising because according to CIA Factbook, the biggest contribution on Afghan GDP is from service providers, following by manufacturing (e.g. small-scale production of bricks,

textiles, soap, furniture, shoes, fertilizer, apparel, food products, non-alcoholic beverages, mineral water, cement; handwoven carpets; natural gas, coal, copper) and agriculture (“Afghanistan,” 2017). However, the result from this survey shows quite the opposite, where it ranks SMEs that provide service second after manufacturing, and none as agricultural business owner. It might be due to the time the survey is conducted, implying that the questionnaire was distributed among the loan officers in MFIs’ branches where customers are visiting the branches for any reasons be it installments, renew of a loan, or for issuing a new loan, so these loan officers may have conducted the survey at early morning in day because most of the customers visit branches in early morning, while the agricultural ones visit at noon time when there is no rush on them and can take one to two hours off to visit the branch. Among all these 110 respondents, 7 of them are occupants of other businesses such as coaling, mechanical so on and so forth that this questionnaire did not include. And not very surprisingly, some of SME owners are carpenters and carpet-waving business owners.

- c. When asked about age of the businesses, how long they are running the business, following are known:

Table 7: Age of Businesses

<2		24
2_5		35
5_7		34
7_10		10
>10		7

From the table above, it becomes clear that most of the SME owners are in the market for between two to five years. The sequence of responses to this question is

such that the second majority of the respondents' businesses are in the market for almost seven years, and the third high number of businesses are young, in the market for less than two years. Ten of the respondents that were surveyed have businesses that are in the market for seven to ten years. And the rest of the respondents chose the fifth option, meaning that their businesses are operating more than ten years.

This factor in respondents' profile play a significant role in almost every aspect of decisions that SMEs taken, such as taking a loan. It is important to know about the age of an SME while analyzing the loan effect on SMEs' performance because, as previous studies have illustrated, loans play differently for different purposes such as taking a loan to starting up a new enterprise or taking a loan for growing and expanding an existing enterprise. For example, Kenneth and the others (2007), have argued that loans that are used for sustainability and growth of SMEs are more effective than for those who are infant SMEs (Kenneth et al, 2007). Therefore, this study has included this question because it is important to consider on the factors that may affect an effective loan utilization.

d. Initial Investment

Table 8: Initial Investments' Statistics

<100,000 AFs	20.9%
100,000 – 300,000 AFs	40.9%
300,000 – 500,000 AFs	18.18%
500,000 – 1,000,000 AFs	16.36%
>1,000,000 AFs	3.63%

From statistics below, it is evident that 23 of respondents started their business with an amount of below 100,000 AFs, while 45 of SMEs had an initial investment of

100,000 to 300,000 AFs. Moreover, the third range of investments was between 300,000 to 500,000 AFs which only 20 of respondents had that amount when opening their business. And 18 of the respondents started their business with a budget of up to one million while only 4 of businesses had over one million when establishing their businesses.

e. SMEs' position in the relevant market

Table 9: Relative Positions in the Market

Monopoly	1.81%
First Leading	20%
Second Leading	27.27%
Third Leading	21.81%
Not in the Competition	28.18%
Blank Response	0.9%

From data above, it is clear that only 2 of respondents, who are also microfinance loan customers, are operating in a monopoly level in the market. The rest are as following: 22 of the SMEs surveyed are in the first leading position in their own relative operating market, 30 of them are in second leading position, followed by 24 that are in third position, and not very surprisingly 31 of the respondents are not even in the competition but are willing to enter into market competition in the future. Moreover, one of the respondents left the question unanswered.

f. Employment Level

Table 10: Employment Level

<50	93.63%
-----	---------------

50-100	0%
100-200	0%
200-300	0%
300-400	0%
>400	0%
None	6.36%

From the results above, there seems an issue, and that is over-estimating the number of employees that SME owners might have. It means that the questionnaire has ranged the number of employees starting from below 50. However, the survey should have ranged the number of employees, according to Afghanistan's Ministry of Commerce and Industry, between 5 and 99 so that a business could fall under SME categories ("Ministry of Commerce and Industry," N.A.). Therefore, the result to this question is skewed to the left where 103 of respondents chose the option where it said their employment level is under 50. However, when the surveyor was asking how many they actually have, most of respondents were saying they have two or three employees hired in their business. Therefore, none of the respondents chose any of the options that ranged employment of above 50. However, there were seven respondents who did not have any employees at all, and they were running their business on and by their own.

g. Enterprises' Monthly Income

Table 11: Monthly Income

<100,000 AFs	23.63%
100,000 – 200,000 AFs	31.81%

200,000 – 300,000 AFs	10.9%
300,000 – 500,000 AFs	21.81%
500,000 – 700,000 AFs	10%
700,000 – 1,000,000 AFs	1.81%
>1,000,000 AFs	0

The data above shows a logical illustration, and that is no SMEs have an income of over one million AFs, and it is not surprising. However, 26 of the respondents have an average income which is less than one hundred thousand AFs, 35 of the SMEs survey have a monthly profit which is between 100,000 and 200,000 AFs. Surprisingly, 12 SMEs surveyed have an income which is between 200,000 and 300,000 AFs, while doubled of this number of respondents chose the option which says an income of 300,000 to 500,000 AFS, and back 12 of the SMEs have an income of 500,000 to 700,000 AFs, and not very surprisingly none of these SME owners have an average monthly income of over one million.

From analyzing the profile background of respondents to this research, it can be concluded that the respondents were selected fairly random as the outcome reveals.

4.3. Major Findings

The major finding to this study is as a result of different models testing using Ordinal Logistic Regression (OLR). The primary source of the data was a survey, and the questionnaire was structured in categorical orders divided into different groups of questions, each measuring the effect of different factors in the relationship between microfinance loans and SMEs' growth and productivity because of having an effective loan utilization. The nature of the survey is in a way where each section

gauges the different influential factors, and yet each section has its own multiple questions and or statements regarding to one specific factor. Hence, the study has developed four different models for running ordinal regressions. For each model, the study tested for AIC score, and then chose the model with lowest AIC score. Developing all these, each model presented as following, and the best-fit model of the study discussed toward the end.

The **first model** that was developed is:

$$Y = \beta_0 + \beta_1 B_{11} + \beta_2 B_{21} + \beta_3 C_{11} + \beta_4 D_{12} + \beta_5 D_{21} + \beta_6 D_{25} \\ + \beta_7 D_{31} + \beta_8 E_{11}$$

Where:

Y = the overall SMEs' productivity level after receiving the loan

B₁₁ = the SMEs' loss realization one quarter before apply for the loan

B₂₁ = SMEs' self-decision to whether apply for the loan or not

C₁₁ = profit realization one quarter after receiving the loan

D₁₂ = interest rate fluctuation effect

D₂₁ = short repayment period

D₂₅ = big installment amount

D₃₁ = difficulty level to accessing loan

E₁₁ = profitability difference between many rounds of receiving loan

Considering these variables, the AIC test for this specific models is as below:

The Results for First Model developed for this study:

Table 12: AIC Results for First Model

. glm C25 B11 B21 C11 D12 D21 D25 D31 E11							
Iteration 0:	log likelihood = -172.85728						
Generalized linear models		No. of obs	=	110			
Optimization : ML		Residual df	=	101			
Deviance = 149.2261438		Scale parameter	=	1.477487			
Pearson = 149.2261438		(1/df) Deviance	=	1.477487			
Variance function: V(u) = 1		(1/df) Pearson	=	1.477487			
Link function : g(u) = u		[Gaussian]					
		[Identity]					
Log likelihood = -172.85728		AIC	=	3.306496			
		BIC	=	-325.5224			
<hr/>							
		OIM					
		Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
C25							
B11	.1994969	.0977744	2.04	0.041	.0078626	.3911312	
B21	-.2167045	.1044555	-2.07	0.038	-.4214335	-.0119756	
C11	-.0076313	.1081977	-0.07	0.944	-.219695	.2044323	
D12	.1974978	.0943171	2.09	0.036	.0126398	.3823558	
D21	.0069557	.0985322	0.07	0.944	-.1861638	.2000753	
D25	.0009501	.1107823	0.01	0.993	-.2161792	.2180793	
D31	-.0798752	.1001556	-0.80	0.425	-.2761766	.1164263	
E11	.0522047	.1054571	0.50	0.621	-.1544874	.2588967	
_cons	2.046466	.449973	4.55	0.000	1.164535	2.928397	

As can be seen, the AIC score is: 3.306496; however, the model in itself cannot say anything unless it is compared with other models. Hence, the second model can be evaluated by following credentials in it:

Second Model:

$$\begin{aligned}
 Y = & \beta_0 + \beta_1 B12 + \beta_2 B22 + \beta_3 C12 + \beta_4 D13 + \beta_5 D21 + \beta_6 D25 \\
 & + \beta_7 D34 + \beta_8 E12
 \end{aligned}$$

Where:

Y = the overall SMEs' productivity level after receiving the loan

B12 = the SMEs' loss realization two quarters before apply for the loan

B22 = SMEs' high employee turnover that made them apply for loan

C12 = profit realization two quarters after receiving the loan

D13 = well prediction of SMEs' management about interest rate fluctuation

D21 = short repayment period

D25 = big installment amount

D34 = difficulty level to finding guarantor to be able to receive loan

E12 = difficulty level of managing the loan in the first round of receiving loan
than subsequent rounds

Considering these variables, the AIC test for this second specific models is as below:

Table 13: AIC Results for Second Model

<pre>. glm C25 B12 B22 C12 D13 D21 D25 D34 E12 note: E12 omitted because of collinearity</pre>					
Iteration 0: log likelihood = -166.6504					
Generalized linear models	No. of obs = 110				
Optimization : ML	Residual df = 102				
Deviance = 133.3011089	Scale parameter = 1.306874				
Pearson = 133.3011089	(1/df) Deviance = 1.306874				
Variance function: v(u) = 1	(1/df) Pearson = 1.306874				
Link function : g(u) = u	[Gaussian] [Identity]				
Log likelihood = -166.6503986	AIC = 3.175462 BIC = -346.1479				
C25	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
B12	.3250124	.0960752	3.38	0.001	.1367086 .5133163
B22	.1033441	.0843166	1.23	0.220	-.0619134 .2686016
C12	.0268458	.1028829	0.26	0.794	-.1748009 .2284925
D13	-.2366365	.1093379	-2.16	0.030	-.4509349 -.0223381
D21	.0240543	.0961337	0.25	0.802	-.1643644 .212473
D25	.1476065	.1031068	1.43	0.152	-.0544792 .3496922
D34	-.2611365	.0910318	-2.87	0.004	-.4395556 -.0827175
E12	0 (omitted)				
_cons	2.012322	.4993539	4.03	0.000	1.033607 2.991038

As can be seen, the AIC score for second model is: 3.175462; however, the model in itself cannot say anything unless it is compared with other models. Hence, the third model can be evaluated by following credentials in it:

The Third Model:

$$Y = \beta_0 + \beta_1 B_{11} + \beta_2 B_{21} + \beta_3 C_{11} + \beta_4 D_{15} + \beta_5 D_{21} + \beta_6 D_{27} \\ + \beta_7 D_{28} + \beta_8 D_{35} + \beta_9 E_{13}$$

Where:

Y = the overall SMEs' productivity level after receiving the loan

B₁₁ = the SMEs' loss realization one quarter before apply for the loan

B₂₁ = SMEs' self-decision to whether apply for the loan or not

C₁₁ = profit realization one quarter after receiving the loan

D₁₅ = underachievement of SMEs due to interest rate fluctuation

D₂₁ = short repayment period

D₂₇ = small installment amount

D₂₈ = big amount of charges for late installments

D₃₅ = difficulty level to fulfilling all the requirements to receive loan

E₁₃ = difficulty level of managing the loan in the first round of receiving loan than

Considering these variables, the AIC test for this third specific models is can be shown in below table:

Table 14: AIC Result for Third Model

<pre>. glm C25 B11 B21 C11 D15 D21 D27 D28 D35 E13 Iteration 0: log likelihood = -165.33122 Generalized linear models Optimization : ML Deviance = 130.1419022 Pearson = 130.1419022 Variance function: V(u) = 1 [Gaussian] Link function : g(u) = u [Identity] Log likelihood = -165.3312161</pre>						
C25	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	OIM
B11	.1789855	.0942742	1.90	0.058	-.0057885	.3637595
B21	-.1736707	.1029714	-1.69	0.092	-.3754908	.0281495
C11	.0372004	.1005624	0.37	0.711	-.1598982	.234299
D15	-.1089121	.1008525	-1.08	0.280	-.3065794	.0887552
D21	-.0037126	.0925585	-0.04	0.968	-.185124	.1776988
D27	-.0020446	.1061747	-0.02	0.985	-.2101432	.2060541
D28	-.0845311	.0999537	-0.85	0.398	-.2804367	.1113745
D35	.382502	.0875078	4.37	0.000	.2109899	.5540141
E13	.0561582	.1102911	0.51	0.611	-.1600083	.2723248
_cons	1.707521	.4687355	3.64	0.000	.7888159	2.626225

As can be seen, the AIC score for third model is: 3.18784; however, the model in itself cannot say anything unless it is compared with other models. Hence, the fourth model can be evaluated by following credentials in it:

$$Y = \beta_0 + \beta_1 B11 + \beta_2 B21 + \beta_3 C11 + \beta_4 D11 + \beta_5 D21 + \beta_6 D25 \\ + \beta_7 D28 + \beta_8 D32 + \beta_9 D34 + \beta_{10} E13$$

Where:

Y = the overall SMEs' productivity level after receiving the loan

B11 = the SMEs' loss realization one quarter before applying for the loan

B21 = SMEs' self-decision to whether apply for the loan or not

C11 = profit realization one quarter after receiving the loan

D11 = how easy it was for SMEs to pay the interest rate by their earnings

D21 = short repayment period

D25 = big installments amount

D28 = fair amount of charges for late installments

D32 = long waiting time to receiving the loan

D34 = difficulty level of finding guarantor

E13 = the more frequent receiving the loan the more capable of managing the loan

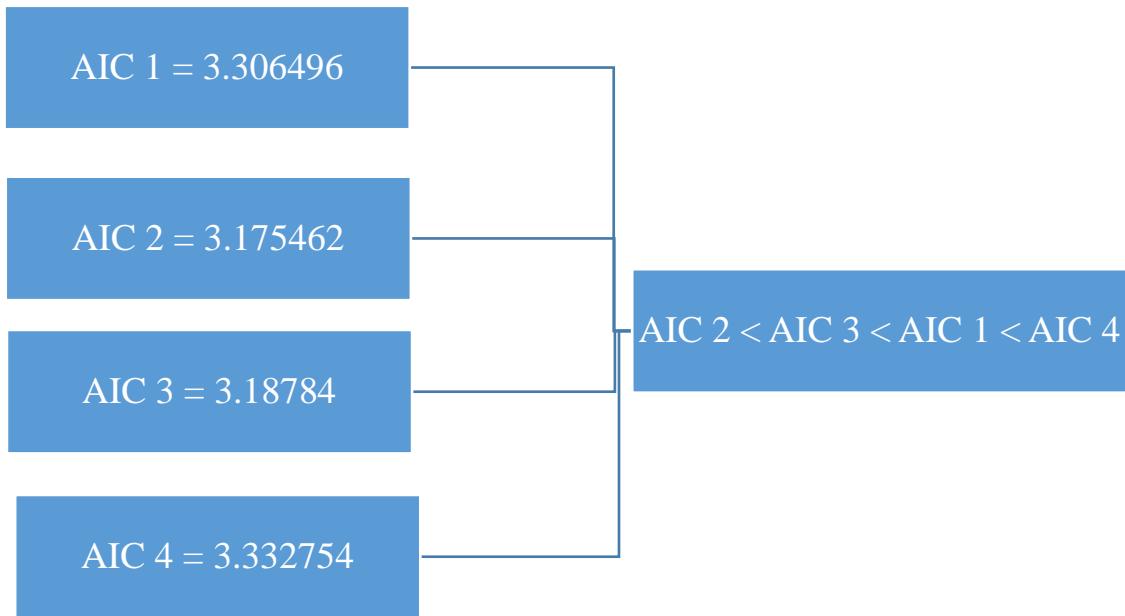
Considering these variables, the AIC test for this fourth specific models can be shown in below table:

Table 15: AIC Result for Fourth Model

glm C25 B11 B21 C11 D11 D21 D25 D28 D32 D34 E13						
Iteration 0: log likelihood = -172.30146						
Generalized linear models						No. of obs = 110
Optimization : ML						Residual df = 99
Deviance = 147.7256804						Scale parameter = 1.492179
Pearson = 147.7256804						(1/df) Deviance = 1.492179
Variance function: v(u) = 1						(1/df) Pearson = 1.492179
Link function : g(u) = u						[Gaussian]
						[Identity]
Log likelihood = -172.3014559						AIC = 3.332754
						BIC = -317.6219
C25	Coef.	OIM Std. Err.	z	P> z	[95% Conf.	Interval]
B11	.1462567	.1025918	1.43	0.154	-0.0548195	.347333
B21	-.1273122	.1086068	-1.17	0.241	-.3401777	.0855532
C11	.0286297	.108944	0.26	0.793	-.1848966	.2421559
D11	.1370547	.0960227	1.43	0.153	-.0511464	.3252557
D21	.0819003	.1037465	0.79	0.430	-.1214391	.2852398
D25	.0685653	.1133983	0.60	0.545	-.1536912	.2908219
D28	-.0702792	.0950196	-0.74	0.460	-.2565141	.1159558
D32	-.0736119	.1001742	-0.73	0.462	-.2699498	.122726
D34	-.1831822	.0982112	-1.87	0.062	-.3756727	.0093083
E13	-.048567	.1167521	-0.42	0.677	-.2773968	.1802628
_cons	2.533873	.5203554	4.87	0.000	1.513995	3.553751

As can be seen, the AIC score for fourth model is: 3.332754; however, the model in itself cannot say anything unless it is compared with other models. Therefore, following compares the AIC values between the four established models.

Figure 5: Models' AIC Comparison



The figure above shows that the second model has the lowest AIC score and the fourth model has the highest score; therefore, the study should run ordinal logistic regression following the second model, and the following table examine the hypotheses.

Table 16: Ordinal Logistic Regression Results for Lowest AIC Model: Fourth Model

Ordered logistic regression						
C25	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
B12	.4621455	.1545748	2.99	0.003	.1591845	.7651065
B22	.1859475	.139282	1.34	0.182	-.0870402	.4589353
C12	-.0109476	.1624678	-0.07	0.946	-.3293787	.3074834
D13	-.3622527	.1859465	-1.95	0.051	-.7267011	.0021958
D21	.0931478	.1726664	0.54	0.590	-.2452721	.4315678
D25	.2167544	.180746	1.20	0.230	-.1375012	.5710101
D34	-.5080207	.1658753	-3.06	0.002	-.8331304	-.1829111
E12	0	(omitted)				
/cut1	-.8398283	.7719438			-2.35281	.6731537
/cut2	.6819018	.7655861			-.8186193	2.1824223
/cut3	2.268085	.8055945			.6891485	3.847021
/cut4	2.787641	.8267926			1.167157	4.408125

The results from Table 16 summarizing the results for each hypothesis.

The H1 claims that there is a significant relationship between “the time realization of loss” for SMEs and an effective loan utilization. As the p-value is statistically significant, 0.003 at a confidence interval of 5% and a confidence level of 95%. The null hypothesis is rejected. The coefficient to this relationship explains that the closer the gap between the time SMEs actually realize a loss, in other words when they realize a need for external finance, and the time they actually apply for such loan, the greater the probability that they use the loan effectively and boost their business. This claim is more valid considering the fact that the sign of the coefficient is positive, meaning that there is direct association between this variable and SMEs productivity due to receiving the loan. Moreover, the strength of this relationship, as the coefficient shows is 46%, it means that the sooner the SMEs apply for the loan, and there will be 46% chance that their productivity will grow.

The second hypothesis states that there is a significant relationship between decision making factor (e.g. who or what encourages SMEs) to applying for the loan and profitability due to the loan. Surprisingly the results for this hypothesis is not statistically significant as the p-value is 0.182 which is greater than 0.05. The assumption underlying this premise was that whether the SME owner, individually, decides to apply for the loan may lead him or her even more enthusiastically to effectively utilize the loan than if there is an external factor compelling him or her to apply for a loan. However, the result for this theory proves that there is no such association between who or what influence the decision to go for the loan and whether or not having an effective loan utilization.

The third hypothesis asserts that there is a significant relationship between the time period after SMEs receive the loan and its effect on the productivity level of

SMEs. Not very surprisingly, the data results do not support this assumption and disproves that there is a significant association between the two.

The fourth hypothesis claims that there is a significant relationship between interest rate to the loan and having an effective loan utilization. However, the P-value for this assertion is 0.051 which is not very statistically significant. Even though the P-value is not very supportive, the coefficient sign shows a rational direction between the two variables, and it is an inverse direction. Implying that as the interest increase by one unit, there is a 36.22% chance that SMEs cannot make an effective use of the loan. Indeed, the point is that even though the statistical evidence does not support the association, the direction that the coefficient shows is realistic and rational. Therefore, considering these results, the null hypothesis for this claim is accepted.

The fifth premise is that there is a significant relationship between repayment period of the loan and an effective loan utilization. The finding for this assertion does not support such claim as the P-value is 0.590 which is not statistically significant. The reason for this might be with choosing a statement that could best explain this relationship because in the survey questionnaire, particularly in the category that measures the effect of repayment period, there were multiple statements, or measurements. However, this model has picked the one that says the repayment period was too short. Perhaps, if the model has picked the measurement that looks at the effect of charges for late installments, there would be found a statistical support for such association if existed at all. However, this specific model has looked for the effect of installment amount; however, surprisingly no statistical significance is found for this measurement either. Moreover, perhaps the reason for overall this is that there are two variables chosen from this category. However the reason is choosing two variables. The model should have picked one variable, nevertheless there were many

important factors that should have been included but the model narrowed it as much as possible.

The sixth hypothesis asserts that there is a significant relationship between accessibility to loan and effective loan utilization. The results for this claim are supportive as the P-value is 0.002 which is less than 0.05. Therefore, at 95% confidence level and 5% confidence interval, there is statistical evidence that there is a significant association between accessibility to loan and having the loan impact the productivity level of SMEs. The measurement for this variable was the difficulty level of finding a guarantor in order to receive a loan. The coefficient to this association shows an inverse direction, implying that the more difficulty an SME face in finding a guarantor, there is a 50.8% chance that the SME might not be able to effectively use the loan. Rationally, it makes more sense as finding a guarantor takes time and as it was shown in the very first hypothesis that the later the SME start applying for the loan, the lesser the likely that they may have an effective loan utilization. Therefore, the more challenges the SMEs face to finding guarantor that pulls them back from actually receiving the loan, the less likely them using the loan effectively.

The seventh hypothesis measures the effect of loan management experience on having an effective loan utilization. The result for this variable, surprisingly, is omitted by the proposed regression model. The reason for this might be the dependency between variables, as science proved that STATA omits a variable if there might be dependency, correlation among the explanatory variables (“STATA—Data Analysis and Statistical Software.” 2017). However, this reason does not make sense either as in the earlier sections, methodology chapter, the study has tested, particularly during the Cronbach Alpha test, for autocorrelations, if existed any, but results were clear for any signs of autocorrelations. Hence, there must be other

justifications for STATA to remove this variable. Nevertheless, the seventh hypothesis is rejected and the null is accepted.

4.4. Descriptive Findings

Since the questionnaire was in categorical orders and, a descriptive study was also carried out in order to compare the findings with the OLR model to see if they match each other or not. Therefore, following tables summarize the descriptive findings, and a visual presentation of this section is included in the appendix III.

Row Labels	Q1	Q2	Q3	Q4
No Response	0.91%	0.00%	0.00%	0.00%
Strongly Agree	27.27%	10.00%	5.41%	5.54%
Agree	26.36%	15.45%	12.01%	17.23%
Neutral	17.27%	17.27%	27.93%	20.31%
Disagree	15.45%	28.18%	27.63%	30.77%
Strongly Disagree	12.73%	29.09%	27.03%	26.15%
Grand Total	100.00%	100.00%	100.00%	100.00%

With respect to the first variable which measures the effect of “time realization of loss” on effective loan utilization, the following table elucidate that when respondents were asked about how long after realizing a loss in their business did they apply for loan, as that of first quarter most of the respondents selected the option that says “strongly agree.” It indicates that among all the 110 respondents were applying for the loan in one quarter (three months) distance from when they actually realize that they have faced a loss in their profit. It also implies that they have an intuition of the time effect of when to apply for a loan in order to enabling them to have an

effective loan utilization and that is the sooner apply for a loan after realizing the need for it, the better.

The table below portrays a descriptive analysis of respondents' answers on the effects of the second variable, the decision making factor, on the dependent variable, which is effective loan utilization and in this case measured by SMEs' increase in overall productivity after using the microfinance loan.

Row Labels	Self-Decision	Employee Turnover	Bus. Partners
Strongly Agree	11.99%	37.06%	30.48%
Agree	23.22%	22.68%	26.98%
Neutral	29.21%	21.41%	20.32%
Disagree	14.98%	10.86%	8.25%
Strongly Disagree	20.60%	7.99%	13.97%
Grand Total	100.00%	100.00%	100.00%

The table above indicates that the most influential factors in deriving SMEs decision to apply for a loan can be scaled through: high employee turnover, business partners' encouragement, and self-decision respectively. Even though largest portion of the respondents has strongly agreed that they decided to apply for the loan due to high employee turnover, the results for the OLR shows no significant association between the two variables: decision driven factor and effective loan utilization.

The third tables illustrates the respondents' ratings for the effects of time that takes SMEs to realize the profit in their business after receiving the loan.

Row Labels	Q1	Q2	Q3	Q4
Strongly Agree	16.73%	15.12%	11.59%	4.64%
Agree	13.52%	15.12%	12.46%	8.74%

Neutral	21.00%	18.56%	19.42%	20.49%
Disagree	12.81%	15.12%	20.58%	19.67%
Strongly Disagree	35.94%	36.08%	35.94%	46.45%
Grand Total	100.00%	100.00%	100.00%	100.00%

As the table indicates, most of the respondents have strongly agreed to the first quarter (three months distance) after receiving the loan. It implies that majority of the SMEs realize the effect of loan on their productivity in the first quarter after they receive the loan. And almost all of the SMEs surveyed had strongly disagreed to the statement that says they realized the effect of loan on their business productivity four quarters after receiving the loan. Indeed, the result that one can obtain from these statistics is that SME can immediately (i.g. within first three months) can grow their business after they receive the loan. However, the OLR, surprisingly, does not show any statistically significant support for the association between these two.

The fourth category evaluates the respondents' answers on the effect of

	Ability to Pay	I.R.	Prediction of I.R.	Overachievement due to I.R.
Row Labels	I.R. by Earning	Fluctuation	Fluctuation	Fluctuation
Strongly Agree	8.20%	14.55%	17.74%	16.55%
Agree	18.36%	21.09%	27.92%	21.83%
Neutral	25.57%	25.45%	20.38%	24.65%
Disagree	11.80%	11.27%	10.19%	9.15%
Strongly Disagree	36.07%	27.64%	23.77%	27.82%
Grand Total	100.00%	100.00%	100.00%	100.00%

interest rate that play on enabling or disabling SMEs to effectively use the loan.

From the table above, it becomes clear that 36% of the respondents have difficulty to pay the interest rate by their monthly earnings, and almost 29% of the respondents strongly disagreed that they have had overachievement of the loan due to interest rate fluctuations. Considering these significant statistics, one can assume that there is a statistically significant association between the interest rate and the ability to effectively utilize the loan, meaning that interest rate could have a role to play on the effective utilization of the loan by the SMEs. However, so much surprisingly, the OLR results show that there is no such association between the two.

The fifth category of the questionnaire tried to analyze the role of repayment period on effective loan utilization. Using Spreadsheet's pivot charts/tables functions, the following is vivid.

Row Labels	Short Repayment Period	Big Installments Amount	Fair Charges for Late Installments
Strongly Agree	5.75%	13.70%	17.36%
Agree	19.17%	22.26%	27.01%
Neutral	26.84%	27.05%	24.12%
Disagree	24.28%	21.58%	15.76%
Strongly Disagree	23.96%	15.41%	15.76%
Grand Total	100.00%	100.00%	100.00%

As can be seen from table above, majority of the respondents have strongly disagreed that the repayment period was short, the same level of respondents remained neutral to the statement that asked about amount of installments. And most of the SMEs surveyed agreed that the amount of charges for each late installments were fair, it might be due to the fact that these clients might be on time for their installments.

The sixth category asked about the effect of level of difficulty in accessing the loan on having an effective loan utilization, and following table shows the results for this factor.

Row Labels	Difficult to Access Loan	Long Waiting	Difficult Finding Guarantor	Difficult Fulfilling Requirements
No Response	0.00%	2.60%	0.72%	3.57%
Strongly Agree	9.67%	14.29%	23.38%	24.64%
Agree	24.54%	25.32%	30.58%	27.86%
Neutral	32.34%	32.47%	27.70%	25.71%
Disagree	14.87%	10.71%	7.55%	8.93%
Strongly Disagree	18.59%	14.61%	10.07%	9.29%
Grand Total	100.00%	100.00%	100.00%	100.00%

Considering these data, it becomes clear that most of the respondents' either have agreed to the difficulty level of accessing the microfinance loan or stayed neutral; however, very few portion have disagreed. Moreover, most of the respondents have agreed that finding a guarantor was an issue for them in order to be able to access the loan. Besides these results, it was statistically supported that there is a significant association between accessibility to loan and being able to effectively utilize the loan.

The last category aimed to analyze the effect of experience level in managing a loan on the ability to effectively use the loan. Having said that, the following table indicates the descriptive results for this relationship.

Row Labels	Profitability in 1st vs. 2nd	Difficult Loan MGT in 1st Round	Freq. Loans--Easy Loan MGT	Freq. Loan Application--Easier Receiving
Strongly Agree	3.64%	9.18%	11.23%	13.60%
Agree	14.01%	24.83%	23.55%	27.60%
Neutral	17.65%	21.43%	22.83%	21.20%
Disagree	26.89%	21.09%	19.93%	14.80%
Strongly Disagree	37.82%	23.47%	22.46%	22.80%
Grand Total	100.00%	100.00%	100.00%	100.00%

When asked respondents about their experience in managing the loan, and the questions were referring mostly to the difficulty level of loan management. For

example, the first question stated that SMEs profitability has increased in the first round of the loan than to the subsequent rounds, and not very surprisingly, majority of the respondents, as can be seen the 39% of the respondents had disagreed to this statement. It gives an illustration that SMEs are more likely to profit from loan in subsequent rounds of receiving loan than first ones, and intuitively it makes sense as well. However, the hypothesis with regards to this relationship is, surprisingly, rejected meaning that there is no association between the two variables: loan management experience and being able to effectively utilize the loan.

To evaluate the finding of this study to what the existing literatures have found, there were some contradicting theories with regards to the role of microfinance loans on success and growth of SMEs. However, this study aimed to explore on reasons that drawback SMEs from an effective loan utilization. Therefore, the uniqueness of this particular study makes the comparison with previous studies incomparable. Indeed the following table summarizes the major findings to this study.

Table 17: Summary of Major Findings

Hypothesis	Decision
H1: There is a significant relationship between “time realization of loss” and an effective loan utilization.	Accepted
H2: There is a significant relationship between the decision making factor to applying for a loan and having an effective loan utilization.	Rejected
H3: There is a significant relationship between time effect of loan and SMEs’ growth and profitability due to loan.	Rejected
H4: There is a significant association between interest rate to the loan and having an effective loan utilization.	Rejected
H5: there is a significant relationship between repayment period of the loan and having an effective loan utilization.	Rejected
H6: There is a significant association between accessibility to loan and having an effective loan utilization.	Accepted
H7: There is a significant relationship between borrowing experience and having an effective loan utilization.	Rejected

Chapter 5: Discussion and Conclusion

This study explored the factors that are important for SMEs to consider in order to effectively using the financial loans that they receive from microfinance institutions. In order to have highlight the significance and need for more research, this study has reviewed existing literature. Even though there are many researches being done on the effect of loans on success and sustainability of SMEs, none of them have mentioned the reason that why some SMEs cannot use the loan effectively.

Before concluding and showing the result to this study, this section will briefly summarize the existing literatures, the methodological approach to this study and then will illustrate the results, will mention the limitation to this study and will conclude with recommendations for future researches.

The relationship between microfinance loans and SMEs growth has been broadly analyzed and researched in various contexts: developing and developed countries. However, there have been two contradicting theories with regards to microfinance loans. Most of the studies proved that microfinance loans, services and institutions positively impact the economic growth and specifically the growth in private sectors, particularly the SMEs (Christopher, N.A.; Babagana, 2010; Makorere, 2014; Osunde and Mayowa, 2012; Dennis et al, 2015). On the other hand, Bateman and Chang (2009), have strongly disagreed with notion of microfinance loans and its positive impact on SMEs in specific and on economic development in general. They argued that microfinance loans are rather “illusion to economic development rather than in reality helping achieving the economic growth (Bateman and Chang, 2009).

By distributing survey questionnaire, this study has taken a simple random sampling approach. The questionnaire was distributed to the clients of MFIs in their branches. Each branch and the number of clients surveyed had equal chance to be

chosen among all operational branches of MFIs operating in Kabul. Since the questionnaire was in Liker scale, the study has used an ordinal logistic regression.

Prior to conducting this study, observations have shown that not all the small and medium enterprises that actually do use loans can effectively utilize the loan and boost their businesses. Even though there are some of the SMEs can use the loan effectively, yet other SMEs not only fail to use the loan effectively but also cannot even repay the loan itself. Hence, this study aimed to find a solution the puzzle that: **“why some SME can effectively use the microfinance loan and boost their business while others cannot?”** This study has several implications in the business community in Afghanistan, particularly to that segment of SMEs that utilize financial loans from MFIs.

1. The results and outcomes of the research show, surprisingly, that there is no association between interest rate and an effective loan utilization. The fact that the result does not reach significance for the interest rate might be due to the structure of the questionnaire. The categorical structure of the questionnaire might affect this result. Since interest rate factor could be measured by numbers, if the questions were numeric that would enable the researcher to run a simple linear regression than an ordinal logistic one. This would change the result as well. This could be an implication for future studies to modify the questionnaire with numeric measurements for the effect of interest rate.
2. The second implication of this study considers the effect of repayment period on an effective loan utilization. The study finds that the repayment period does not necessarily affect the ability of SME owners to use the loan effectively.

3. The third implication analyzes the effect of accessibility to loan on making the loan user successful. It implies that the easier the procedure of receiving the disbursements for the loan, the higher the chance to utilize the loan effectively and successfully. The coefficient to this variable was negative illustrating an inverse relationship between the two variables. As the variable, which in this case was the level of difficulty to accessing the loan, increases the ability to effectively using the loan decreases. Intuitively, if the accessibility to loan becomes more difficult, it takes longer for the SMEs to receive the finance, and the later it takes them to receive the loan the lesser the probability that the loan be effective for the SMEs' financial need and growth process of their business. This relationship is in other parts of the following sections in-depth. It is better if MFIs shorten their procedures and disburse the loan quicker from the time an SME owner applies for it. This would allow the SME owner to sooner put the loan into business operation and avoid losses in the business. This way the SME owner uses the loan more effectively and in a timely manner that would boost the business.
4. The fourth implication of this study is a consideration to the importance of time that SMEs take to decide whether apply for a loan or not. There is statistical significance to this factor, and that means that there is a significant relationship between the two. It implies that when an SME owner realizes a loss in its business, the sooner the owner applies for a loan the better will he / she be able to manage the loan effectively and boost their business. This implication of this study is the major contribution in the literature. Therefore, the fact that this study has included "time realization of loss" and its effect on effective loan utilization, and plus finding that this variables has a significant

impact on the loan utilization, shows the importance of this study and research.

5. The fifth implication of this study has been the effect of loan management experience from SME owners on their ability to use the loan effectively. Even though the findings do not show statistical significance for this association, the implication is still important and calls for future researches to study this factor in different ways. Perhaps developing a different questionnaire would help.

Moreover, there were limitations to this study as well such as time constraint and respondents' less familiarity with survey tools such as internet—Survey Monkey. Moreover, another limitation was the ability to travel to provinces and surveying SMEs that operate in provinces. The study has assumed that most of the SMEs operate in Kabul because of two reasons: (a) it is the capital city where there is more accessibility to business facilities, and more customers for the businesses to work and have their supplies (b) the capital city is relatively more safe than provinces.

Considering these limitations, the research propose following recommendations for future studies.

- This study has focused only in Kabul city. Other provinces might have SMEs operating and MFIs' branches as well. Future researches can include surveying SMEs that operate in provinces. This way may give a more inclusive result as it may control for factors influencing operation of SMEs.
- The second recommendation depends on one of the key findings that revealed accessibility to loan plays a significant role on SMEs' ability to use the loan effectively. Future studies can research and study solutions on how MFIs can shorten their procedures. Shorter loan disbursement procedures will not only

benefit SMEs but also it will help the MFIs themselves to disburse loans faster and increase their customers as well.

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Appendix1:

A Study of Effects of Micro Finance on Success of Businesses: Case of Afghan SMEs Survey Questionnaire

Section A:

Respondent's Profile: This section intends to get information about respondent's demographic background.

Please tick the box that best describes you.

1. Gender

Male

Female

2. Type of business:

Service Provider

Manufacturing Firm

Tailoring

Food Vendoring

- Carpentry Business
- Carpet Waving Business
- Agricultural Business
- Others:

3. Age of the business:

- <2
- 2-5
- 5-7
- 7-10
- >10 years

4. Initial investment:

- < 100,000 AFN
- 100,000 – 300,000 AFN
- 300,000 – 500,000 AFN
- 500,000 – 1,000,000 AFN
- > 1,000,000 AFN

5. Position in the relative market:

- Monopoly
- First leading member (in case of oligopoly)
- Second leading member
- Third leading member
- Not in the competition yet, but seek to participate soon

6. How many, in total, employed staff are in the company.

< 50

50 - 100

100 – 200

200-300

300 – 400

> 400

7. The company's monthly profit / revenue on average

< 100,000 AFN

100,000 – 200,000 AFN

200,000 – 300,000 AFN

300,000 – 500,000 AFN

500,000 – 700,000 AFN

700,000 – 1,000,000 AFN

> 1,000,000 AFN

Section B: Assessment of internal factors within SMEs influencing its decision to go for loans and at what time in business.

Please indicate your response by circling the appropriate number using the scale below:

Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1	2	3	4	5

Section B.1	Profit / Revenue	1	2	3	4	5
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My business's revenue / profit had significantly dropped one quarter before I apply for the loan					
My business's revenue / profit had significantly dropped two quarter before I apply for the loan					
My business's revenue / profit had significantly dropped three quarter before I apply for the loan					
My business's revenue / profit had significantly dropped four quarter before I apply for the loan					

Section B.2	Other Factors:	1	2	3	4	5
	My management team encouraged me to go for the loan.					
	As a result of employee turnover we decided to go for the loan.					
	Other business partners suggested us to go for the loan.					

Section C: Assessment of SMEs' profitability performance after taking the loan.

Section C.1	Time effect of the loan	1	2	3	4	5
	My business's revenue / profit has significantly increased one quarter after I received the loan.					
	My business's revenue / profit has significantly increased two quarter after I received the loan.					
	My business's revenue / profit has significantly increased three quarter after I received the loan.					
	My business's revenue / profit has significantly increased four quarter after I received the loan.					

Section C.2	Other measurement of profitability	1	2	3	4	5
My business's employment level has increased due to finance credit that I have received.						
My business has expanded in branches due to finance credit that I have received.						
My business's sales volume has increased overall due to finance credit that I have received.						
My business's fixed asset increased due to finance credit that I have received.						
My business's productivity level has increased due to finance credit that I have received.						
Overall, the return on capital has increased in my business after I received the credit from microfinance institution.						

Section D: Assessment of factors influencing an effective loan utilization provided to SMEs by MFIs.

Section D.1	Interest rates	1	2	3	4	5
I could easily pay the interest charges of the loan by our earning.						
The interest rate fluctuated a lot during our repayment period.						
We have well predicted fluctuations in the interest rates.						
We have overachieved due to interest rate fluctuations.						
We have underachieved due to interest rate fluctuations.						

Section C.2	Repayment period	1	2	3	4	5

The repayment period was too short.					
The repayment period was too long.					
The MFI was too strict with on time installments.					
The MFI was a bit flexible with one time installments.					
The amount of each installments was too big.					
The amount of each installments was moderate.					
The amount of installments was too small.					
The charges for late installments was fair.					

Section D.3	Accessibility to the loan	1	2	3	4	5
It was really difficult for you to access to the loan.						
You waited too long to receive the loan from MFI.						
The MFIs' requirements and registration process was too long to receive the loan.						
Finding guarantor to register yourself for the fund was difficult.						
It was difficult to fulfill all the requirements in order to receive loan.						

Section E: Compare and contrast of loan derived outcomes for SME's between two rounds of financings in case the SME has taken loans for more than two times.

I have received loan from MFIs repeatedly for:

1 time

2 times

3 times

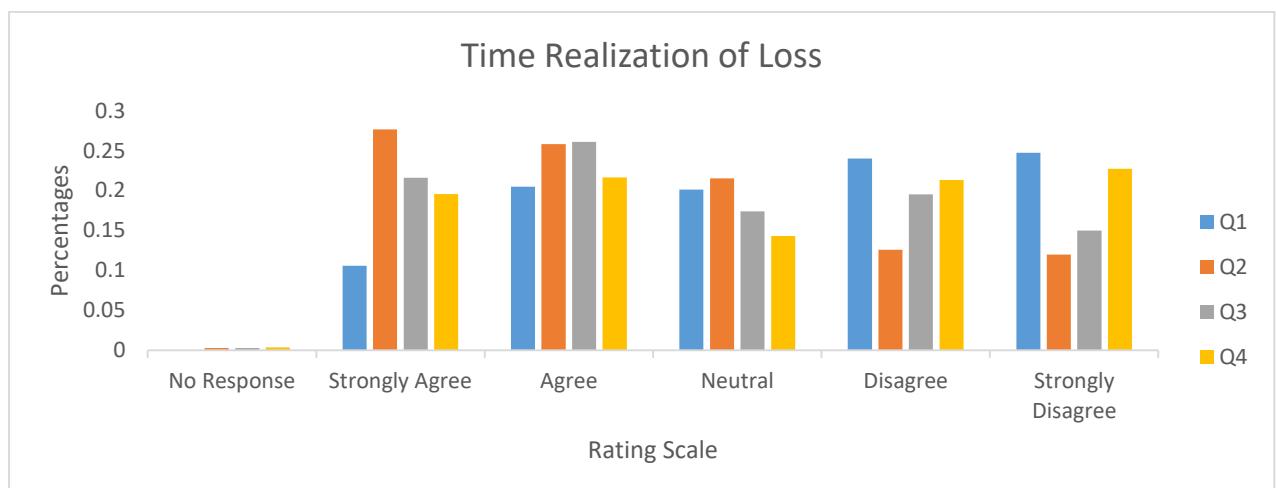
4 times

> 4 times

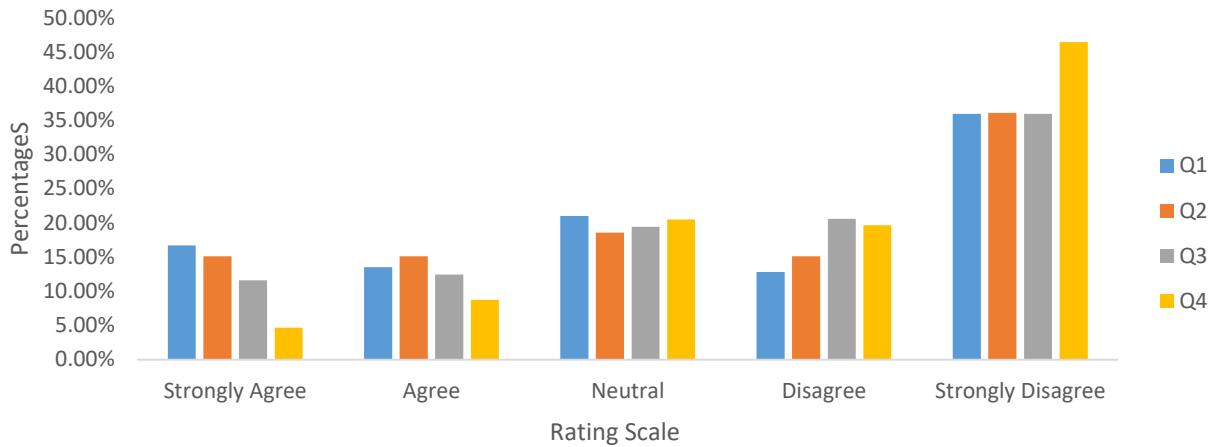
Section E.1 Differences in SMEs' performance / profitability	1	2	3	4	5
Your profitability has increased more in the first round of the loan than in the second, third, or fourth rounds.					
It was difficult to manage the loan in the first time in compare to the second round of borrowing.					
The more frequent I receive the fund the easier it becomes to manage the fund.					
The registration process becomes easier after first round of the loan.					

Appendix 2

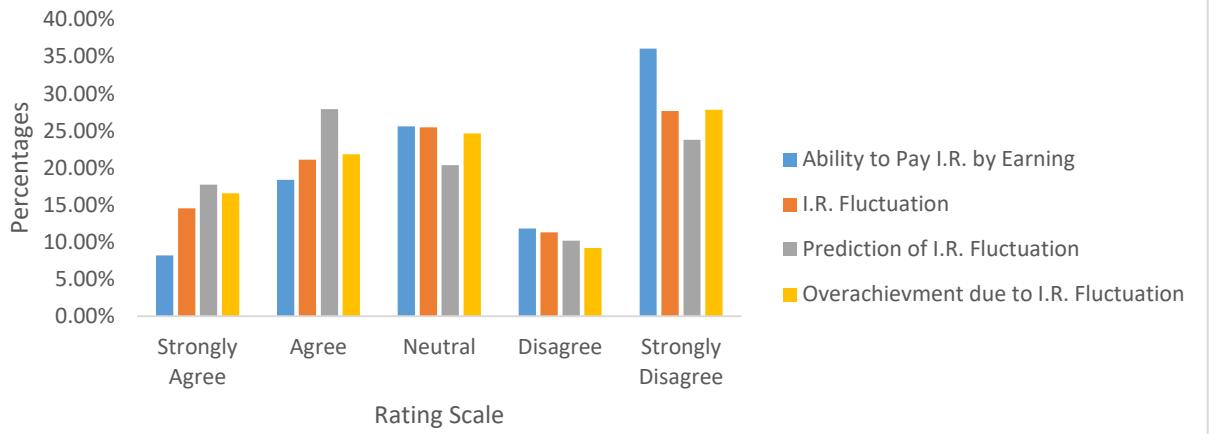
The following charts provide a visual presentation of results gathered from surveys.



Time Effect of Loan on Productivity



Interest Rate Effects



Repayment Period

