CUSTOMER SATISFACTION IN SMALL AND MEDIUM ENTERPRISES FINANCING SERVICES:
WITH REFERENCE TO WORKING CAPITAL LOAN AT NBC, TANZANIA
CUSTOMER SATISFACTION IN SMALL AND MEDIUM ENTERPRISES FINANCING SERVICES:
WITH REFERENCE TO WORKING CAPITAL LOAN AT NBC, TANZANIA

By
Bertha Peter Mavere

A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration in Corporate Management (MBA-CM) of Mzumbe University.

2014
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommended for acceptance by the Mzumbe University, a thesis entitled “Customer Satisfaction in Small and Medium Enterprises Financing Service: With Reference to Working Capital Loans at NBC, Tanzania” in partial fulfillment of the requirements for the degree of Masters of Business Administration in Corporate Management (MBA-CM) of Mzumbe University.

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I, Bertha Peter Mavere, declare that this dissertation is my own original work and that it has not been presented to any other university for a similar or any other degree award.

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ACKNOWLEDGEMENTS

This research report has not only been finalized by my own efforts, but certainly also with the support of many people.

Deservedly I like to thank those who have made this opportunity possible and have given me the necessary support.

First and foremost a thanks to the Almighty God, my endless support throughout my life-journey.

A special thanks to my lovely mother and my husband for their priceless support and belief in me. My love and gratitude cannot be expressed in words.

Thanks to Mzumbe University for sharing valuable knowledge and experiences through this fruitful study. Keep on doing the good job!

Thanks to my supervisor Prof. Shiv K. Tripathi and my fellow employees for their participation. Without your time and kind assistance this research report could not have been completed.

Last but not least a word of thanks to my friends your understanding and assistance are much appreciated.
Thank you!
DEDICATION

I dedicate this work to my lovely mother and husband; Patricia Daniel Mavere and Frank Andrew Mwakipesile for their materials and moral support God bless them.
## ABBREVIATIONS

<table>
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<th>Acronym</th>
<th>Description</th>
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<tr>
<td>ABL</td>
<td>Asset Based Lending</td>
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<tr>
<td>CRM</td>
<td>Customer Relationship Management</td>
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<td>CS</td>
<td>Customer Satisfaction</td>
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<tr>
<td>IMP</td>
<td>Industrial Marketing &amp; Purchase</td>
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<td>MFIs</td>
<td>Microfinance Institutions</td>
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<tr>
<td>NBC</td>
<td>National Bank of Commerce</td>
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<tr>
<td>NSGPR</td>
<td>National Strategy for Growth and Poverty Reduction</td>
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<tr>
<td>POF</td>
<td>Pecking-Order Theory of Framework</td>
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<tr>
<td>RM</td>
<td>Relationship Marketing</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>TCCIA</td>
<td>Tanzania Chamber of Commerce Industrial and Agriculture</td>
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<tr>
<td>TCF</td>
<td>Treat Customer Fairly</td>
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The main objective of the study was to evaluate the customer satisfaction in financing of SMEs within banks in Tanzania, taking cognizance of the role and contributions of National Bank of Commerce Limited. In most jurisdictions, commercial banks as a group are the main source of external finance for SMEs. However, there are number of rigidities of a macroeconomic, institutional and regulatory nature that may bias the entire banking system against lending to SMEs. The statement of the problem is that these commercial banks are most often unwilling to increase loan funding without an increase in the security given thereby leading to stagnation of growth and certain instances unable to expand to enjoy economies of scale necessary to serve their potential of being an engine of national growth and are thus collapsing.

The sources of materials for the study were both primary and secondary. Primary data was collected by the use of structured questionnaires which designed and distributed to SME customers to some different bank branches in Dar es salaam City. Stakeholders like SME customers, management executives and some staff of NBC were interviewed for input on this study.

Secondary materials were extracted from relevant textbooks, newspapers, reports/articles, journals, bulletins and documents presented by corporate financial analysts and policy planners.

The study was engaged to the staff respondents that have been on the SME Banking between the period of less than two years and three years. In view of the above the study would help out the financial institutions in Tanzania to focus on satisfying SME customers in order to have strong policies that will assist customers to have greater opportunities to grow their business effectively hence to the economic development of the country.
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CHAPTER ONE

INTRODUCTION

This chapter contains background of the study, statement of the problem, objectives of the study, research questions, significance of the study, scope of the study, limitation of the study, delimitation of the study as well as organization of the study.

1.1 Background of the Study

Small and medium enterprises (SMEs) all over the world have been playing a crucial role in promoting economic development as well as industrial production. In particular, SMEs provide the necessary foundations for sustained growth and rising income in the less developed and transitional economies. SME financing is a topic of significant research interest to academics and an issue of great importance to the policymakers of Tanzania and around the world.

Economic as well as technical and social arguments warrant the promotion of SMEs as they create large scale, low-cost employment opportunities, use locally available inputs and technologies, mobilize small and scattered private savings, develop entrepreneurship, and correct the regional imbalance in development that exists in developing countries. Despite could have played in economic development. Several studies have identified the major obstacles that include, but not limited to financing, infrastructure facilities, taxes and regulations, and stability in policies. Access to financing continues to be one of the most significant challenges for the growth and survival of SMEs especially innovative ones.

The majority of banks operating both in developed and developing countries have decentralised the selling of non-lending products to small and medium-sized enterprises 61% of banks in developing countries and 70% of banks operating in developed countries respond that the sales of non-lending products to small businesses is done only or primarily at branches. Relative to foreign and government-owned banks, private domestic banks are somewhat less likely to decentralize the
sale of non-lending products only 50% of private banks say they have decentralized the sale of non-lending products compared to roughly 70% of government and foreign-owned banks.

In contrast to sales, banks’ loan approval, risk management, and non-performing loan recovery functions tend to be more centralized, in particular, among developing country banks.

The differences are particularly striking for loan approval and risk management. Here we are summing the percentage of banks that responded that they have a separate department for small firms, for medium sized firms, for SMEs combined, and for small and medium sized enterprises separately.

While 45% of developed country banks say that loan approval for small loans is done only or primarily at branches, only 19% of banks operating in developing countries report this option for small business lending. Similarly, 40% of developed country banks respond that risk management for small business lending is done only or primarily at branches, relative to 8% of developing country banks. Comparing banks across ownership types, government-owned banks are significantly more likely to decentralize loan approval, risk management, and the recovery of non-performing loans, (Chambo and Sekioua, 2012)

Banks from developed and developing countries are more prone to use scoring models in making decisions regarding small rather than medium-sized enterprise loans. Only 18% of developed country banks say they do not use scoring for small business lending, while almost 45% report not using scoring for medium-sized enterprise lending. Among banks in developing countries, a higher percentage is not using scoring, not surprisingly given that they tend to operate in less sophisticated markets with less information available. Comparing banks by ownership type, foreign-owned banks are somewhat more likely to rely completely on scoring for credit decisions than domestic banks, for both small and medium-sized enterprises. This might reflect that foreign banks have better statistical models and/or have less
direct contact with borrowers and, hence, have to rely more on arms-length lending techniques.

But scoring is used primarily as one input in the lending decision process. Among banks in developing countries, only 10 (seven) percent of banks report approving small (medium-sized) business loans purely based on scoring as opposed to 55(44) percent that report using scoring as an input for small (medium-sized) business lending. Among banks in developed countries, 82 percent say that scoring is only an input into loan decisions for small businesses and 55 percent give the same response in connection to loans to medium-sized enterprises.

Foreign banks are most likely to either rely completely or not use scoring at all in lending to small and medium-sized enterprises.

In terms of the specific factors that banks consider in evaluating loans, we examine separately the criteria used for small and medium-sized business lending and compare this to banks’ responses regarding lending to large firms. In particular, reports the percentage of banks that rank each criterion presented as the most important for small, medium-sized and large business lending, respectively. The financial assessment of the business is the most important consideration across all firms, although it is more important for large than for small enterprise lending. A firm’s credit history with the bank is the second most important criterion, with the owner’s characteristics and the purpose of the loan being next in importance.

Examining more closely the factors relevant for small business lending, we observe some differences between banks in developing and developed countries. While the size of the loan is the second-most important criterion for developed country banks (20%), the firm’s credit history with the bank is the second most important factor in developing countries (16%).( Addotei , 2012).

There are also some differences across bank ownership types. Most notably, foreign-owned banks tend to base their decisions more on the financial assessment of the business than domestic-owned banks. Specifically, 58% of foreign-owned banks see
the financial assessment as the most important criterion compared to 37% of privately-owned domestic banks.

This is consistent with privately-owned banks being better able to screen customers using soft information and foreign-owned banks relying mostly on hard, quantifiable information.

At least three-quarters of banks require collateral to make business loans. Furthermore, there are no significant differences for small, medium-sized, and large firm financing. As expected, however, given that the informational and institutional environment is weaker in developing countries, a slightly higher percentage of banks require collateral to make business loans in these countries relative to banks in developed countries. Comparing across bank ownership types, we observe that government banks are somewhat more prone to require collateral from medium-sized and large firms relative to the other bank types. While 100% of government banks state that they require collateral for medium and large firm financing, close to 90% of private domestic and foreign-owned banks respond in a similar fashion.

Real estate is the most frequently accepted type of collateral for business lending, regardless of firm size. Close to 40% of banks rank real estate as the most important type of collateral used for small, medium, and large firm financing. Cash and other liquid assets are the second most important forms of collateral used across all firm sizes of banks rate this form of collateral as the most important), followed by bank and personal guarantees (10-15% of banks).

Comparing banks in developed and developing countries, we find that real estate is more frequently ranked as the most important collateral type by banks in developed countries relative to those in developing countries. Almost 56% of banks in developed countries indicate that real estate is the most important type of collateral for small business lending, compared to 37% of banks in developing countries. There is more variety in the type of collateral that banks in developing countries consider important. While banks in developed and developing countries rank cash, liquid
assets, bank and personal guarantees as important collateral types, only banks in
developing countries seem to rank land and equipment as important types of
collateral,(Rwingema and Karungu, 1999).

In Tanzania, the government has been attracted by SMEs to solve unemployment
problem which recently is spreading across the country. More than 700,000 job
seekers enter the Tanzanian labor market annually but only 40,000 new jobs are
created annually within formal sector, therefore those who unable to find jobs in the
formal sector end up in the informal sector whereby SMEs dominate (Olomi, 2005).
Despite of SMEs contributions in the county’s job creation, their continuing growth
and strengthens has been compromised by the persistent limitations on their access to
financing from formal-sector. The finance gap exists in the Tanzanian SME sector
deteriorate SMEs’ productivity, performance and contributions to the country’s
economy.

Tanzania government by recognizing the importance of SMEs in economic
development has set up various programs aimed at developing the SME sector. The
National Strategy for Growth and Poverty Reduction (NSGPR I & II), famous known
as MKUKUTA I & II in Swahili, as a medium plan towards the eradication of
poverty in the country by the year 2025. The policy categorizes agricultural sector
and informal business sectors as the main segments in which majority of
disadvantaged people generates their income. The policy tempts to speed up growth
in the economic activities in which the poor societies are dominant and those sectors
which are left behind economically in Tanzania. In tackling the issue, the Property
and Business

Formalization Program “famous as MKURABITA in Swahili” was established to
initiate and facilitate formalization of informal property and business entities in order
to enhance their access to services enjoyed in the formal sector, and thus speed up
their growth, ability to compete and survive within Tanzanian business environment.
Practically, the Formalization Program seeks to establish an integrated system of
property rights and business rules as a basis of transition of the urban, peri-urban and
rural areas into a market that enables the program intends to steadily transform informal sector to an acceptable national limit to which the informal sector can be able to enjoy the benefits that are enjoyed by formal sector including easy access to credit facilities.

Studies of the informal sector in Tanzania indicate that more than 90% of properties and business activities in the country operate in the sector. By implication, policies and strategies targeting economic growth and poverty reduction in Tanzania should fundamentally deal with activities in the informal sector. However, these strategies and programs still unattainable, SME sector still vulnerable and very few manage to survive due to shortage of finance.

Pretorius and Shaw (2004) observed that accessibility to external finance is essential to solve shortage of SMEs cash flows. Financing is required for SMEs’ to set up and enlarge their business operations, new product development, research and development, human resource development and acquirement of up-to-date production equipments and technology. Most of SMEs rely on internal finance since they can’t afford external finance easily only prioritized source become internal finance but still internal finance is inadequate for SMEs’ development and profitability. Most SMEs failures to access debt financing result into an inadequate capital structure.

Majed et al., (2010) and Sorooshian et al., (2010) evidenced that firm characteristics have an impact on capital structure and performance of SMEs. Firm characteristics include attributes such as firm’s location, firm industry, firm size, firm age, firm’s legal status and the availability of collateral and business information.

The initial capital and expansion capital fund for Tanzanian SMEs has been a perpetual problem in even though the government still intending to empower the sector. Lending financial institutions have the capacity to pull their financial resources together to meet SMEs’ credit needs but still they are unwilling to take
part. Finance gap still exists between the supply capabilities of financing sources and the demanding needs for capital to SMEs.

This paper focuses on customer satisfaction on the SME financing in Tanzania. Where, commercial banks are not interested to finance SMEs because of the high risk and high supervision cost associated with this type of financing. Absence of sound collateral puts SMEs at a relative disadvantage. However, this study will focus that to see that commercial banks have some “innovative” products or services targeting at SMEs only, it is generally recognized that SMEs have a significant role in employment generation, poverty reduction and overall economic growth, especially for a developing economy like Tanzania. SMEs are typically labour-intensive industries with relatively low capital intensity. As such, for a country like Tanzania, which is labour abundant and capital scarce, SMEs have a natural comparative advantage.

1.2 Statement of the Problem

In most jurisdictions, commercial banks as a group are the main source of external finance for SMEs. Therefore, it is essential that the banking system be prepared to extend credit to the SME sector. However, there are number of rigidities of a macroeconomic, institutional and regulatory nature that may bias the entire banking system against lending to SMEs.

Parker et al (1995) indicated that credit constraints pertaining to working capital and raw materials as a major concern in the industry reported that 38% of the SMEs surveyed mention credit as a constraint. This stems from the fact that SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity mostly from the formal financial institutions, particularly the commercial banks. Banks are unwillingly to support operations of SMEs due to varied problems.
A common problem is the unwillingness of banks to increase loan funding without an increase in the security given; which the SME owners who most of the time are entrepreneurs and sole proprietors may be unable to provide. A particular problem of uncertainty relates to businesses with a low asset base. These are companies without substantial tangible assets which cannot be use as security for lenders. About 90% of small firms are refused loans when applied for from the formal financial intermediaries, due to inability to fulfill conditions such as collateral requirement (Bigsten et al., 1999).

The statement of the problem is that due to banks unwillingness to increase loan funding without an increase in the security given; which the SME owners who most of the time are entrepreneurs and sole proprietors may be unable to provide; thereby leading to stagnation of growth and certain instances unable to expand to enjoy economies of scale necessary to serve their potential of being an engine of national growth and are thus collapsing. Hence, most SMEs are resorting to sources of finance such as retained earnings, personal savings, borrowing from friends and relatives, supplier credit, borrowing from moneylenders at very high rates.

It is therefore opportune to assess the financing challenges being faced by SMEs in Tanzania with specific reference to on the role and contributions of National Bank Commerce and to find appropriate and workable means of financing in the industry. As today’s customers buying decisions or choosing the service provider are not based simply on the quality of the product or service but with the excellent services offered by the company. Banking industry has gone through many changes, privatization to nationalization and back to privatization with the international players on the one hand and on the other hand accepting deposits and giving advances to expanding services to its wide variety of products. It is the responsibility of the organizations to provide what they need so that they can do their job properly.

In today’s world, we do business with individuals or groups with whom we may never meet and hence much less known in person to person sense. Customer satisfaction in SME financing is about creating the feel of comfort in this high tech
environment. Thus in today’s environment which has high competition with a lot of bank arise like a mushroom, banks should look forward in not only finding new customers but also maintaining relationship with the existing ones so us to gain and continue be the big owner of market share.

In this ever-increasing competitive, complex and challenging business environment, banks need to be determined to attract and retain clients, which will be attained only if high levels of service quality are delivered. Support and loyalty from clients are ensured through acceptable customer service that is delivered. The banking branch of the financial services industry is one of the most competitive industries as far as customer service is concerned.

This paper focused to the role of Customer satisfaction in banking sector also to analyses the implementation of customer satisfaction in SME financing as the concept is remain theoretical rather than practical in today’s environment moreover the paper also looked on the need for Customer satisfaction to increase customer value and Customer Relationship Management in Banks with special reference to National Bank of Commerce (NBC) Tanzania.

1.3 Objectives of the Study

1.3.1 Main Objective of the Study
Customer satisfaction in SME financing services in the banking industry

1.3.2 Specific Objectives of Study
(i.) To assess the constraints that customers faces to access finance
(ii.) To evaluate the SME financing services offered to customers by the bank.
(iii.) To identify the barriers that commercial banks (National Bank of Commerce Limited) faces in the financing of SMEs.
(iv.) To suggest how best to improve access of funds to SMEs by NBC ltd
1.4 Research Questions
(i.) What are constraints that customers face to access finance?
(ii.) What are the SME financing services offered to customers by the bank?
(iii.) What are the barriers that commercial banks face in the financing of SMEs?
(iv.) What are best suggestions to improve access of funds to SMEs by NBC ltd?

1.5 Significance of the Study
The study findings served as a guideline and contribution by adding knowledge to the existing body of knowledge on application of customer satisfaction in SME financing services; in addition, the study is considered useful to improve company policing in organizations other than financial institutions to ensure that they have an effective SME financing which leads to customer satisfaction as well as the overall organizational commitment. However, this research expresses itself by being a helpful tool for banks and bankers to direct their effort in customer satisfaction to service in order to win big market share and competition.

Also this research report serves as commitment which may be used by other future researchers of the same topic. Finally, the study is a partial fulfillment of the requirements for the award of Masters of Business Administration in Corporate Management at Mzumbe University Dar es Salaam Campus.

1.6 Scope of the Study
The study was carried out at the NBC as a case study in its various branches such as corporate branch, Samora branch and Head quarters respectively. The branches based in Ilala in Dar es Salaam region. The choice of the study is based on the fact that Tanzania National Bank of Commerce is among of the financial institutions which implement SME financing as an independent business unit within the organization and the employees are practitioners of the day to day activities within it. Data were collected from the employees and customers at these branches. Therefore,
the area of study chosen is the key players of the company’s development. In this respect, due to insufficient funds, time scheduled and cooperation, the researcher decided to take only one institution i.e. National Bank of Commerce as a case study to represent other financial institutions.

1.7 Limitation of the Study
The researcher predicted some barriers which could affect the study. However, Inadequacy of funds was one of the limitations faced by the researcher. The study required sufficient amount of money for food, accommodation, transportation, stationeries, and computer services, photocopying and binding. This made the study to be very tough. In addition, duration scheduled to accomplish the work was not enough.

Insufficient of enough time as the researcher is working at the same time is a student thus lacks enough time to concentrate fully on the data collection and report writing. Lastly, the researcher anticipated insufficient cooperation since respondents in the financial institutions are always busy.

1.8 Delimitation of the Study
Due to insufficient funds, time scheduled and cooperation, the researcher decided to take only one institution i.e. National Bank of Commerce (NBC) as a case study to represent other financial institutions.

1.9 Organization of the Study
This study was being in five chapters. Chapter one is the general introduction. At the background to the study, the objectives of the study and the statement of the problem. It also briefly looks at the research questions, scope and limitations and delimitation of the study and organization of the study.

Chapter two is literature review. Literature reviewed according to the research questions used in the study. The conceptual framework for the study will also outline. Chapter three is methodology. It explains the research design. It also gives
details about the population, sample and sampling procedures used in the study. It explains the research instruments, methods of data collection, data analysis plan. Chapter four is presentation of findings, analysis and discussion. Chapter five is presenting the summary, conclusions and recommendations for the study.
CHAPTER TWO

LITERATURE REVIEW

This chapter contains two parts which are Theoretical literature review and Empirical literature review.

In theoretical literature review we can see different policy and theories related to SME financing services likewise in Empirical literature review we also look on what others talk or write concerning SME financing services.

2.1 Theoretical Literature Review

Modern Financial Management Theories on SMEs

The following are some examples of modern financial management theories formulated on principles considered as 'a set of fundamental doctrine that form the basis for financial theory and decision-making in finance' by Emery et al.(1991):

2.1.1 Agency Theory

Agency theory deals with the people who own a business enterprise and all others who have interests in it, for example managers, banks, creditors, family members, and employees. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders. The theory is on the notion of the principle of 'two-sided transactions' which holds that any financial transactions involve two parties, both acting in their own best interests, but with different expectations.

Problems usually identified with agency theory may include:

(i.) Information asymmetry- a situation in which agents have information on the financial circumstances and prospects of the enterprise that is not known to principals (Emery et al.1991). For example "The Business Roundtable" emphasised that in planning communications with shareholders and investors, companies should consider never misleading or misinforming stockholders.
about the corporation's operations or financial condition. In spite of this principle, there was lack of transparency from Enron's management leading to its collapse;

(ii.) Moral hazard—a situation in which agents deliberately take advantage of information asymmetry to redistribute wealth to themselves in an unseen manner which is ultimately to the detriment of principals. A case in point is the failure of the Board of directors of Enron's compensation committee to ask any question about the award of salaries, perks, annuities, life insurance and rewards to the executive members at a critical point in the life of Enron; with one executive on record to have received a share of ownership of a corporate jet as a reward and also a loan of $77m to the CEO even though the Sarbanes-Oxley Act in the US bans loans by companies to their executives.

(iii.) Adverse selection—this concerns a situation in which agents misrepresent the skills or abilities they bring to an enterprise. As a result of that the principal's wealth is not maximised (Emery et al.1991).

In response to the inherent risk posed by agents' quest to make the most of their interests to the disadvantage of principals (i.e. all stakeholders), each stakeholder tries to increase the reward expected in return for participation in the enterprise. Creditors may increase the interest rates they get from the enterprise. Other responses are monitoring and bonding to improve principal's access to reliable information and devising means to find a common ground for agents and principals respectively.

Emanating from the risks faced in agency theory, researchers on small business financial management contend that in many small enterprises the agency relationship between owners and managers may be absent because the owners are also managers; and that the predominantly nature of SMEs make the usual solutions to agency problems such as monitoring and bonding costly thereby increasing the cost of transactions between various stakeholders.

Nevertheless, the theory provides useful knowledge into many matters in SMEs financial management and shows considerable avenues as to how SMEs financial
management should be practiced and perceived. It also enables academic and practitioners to pursue strategies that could help sustain the growth of SMEs.

2.1.2 Signaling Theory

Signaling theory rests on the transfer and interpretation of information at hand about a business enterprise to the capital market, and the impounding of the resulting perceptions into the terms on which finance is made available to the enterprise. In other words, flows of funds between an enterprise and the capital market are dependent on the flow of information between them. (Emery et al, 1991). For example management's decision to make an acquisition or divest; repurchase outstanding shares; as well as decisions by outsiders like for example an institutional investor deciding to withhold a certain amount of equity or debt finance. The emerging evidence on the relevance of signaling theory to small enterprise financial management is mixed. Until recently, there has been no substantial and reliable empirical evidence that signaling theory accurately represents particular situations in SME financial management, or that it adds insights that are not provided by modern theory.

Keasey et al(1992) writes that of the ability of small enterprises to signal their value to potential investors, only the signal of the disclosure of an earnings forecast were found to be positively and significantly related to enterprise value amongst the following: percentage of equity retained by owners, the net proceeds raised by an equity issue, the choice of financial advisor to an issue (presuming that a more reputable accountant, banker or auditor may cause greater faith to be placed in the prospectus for the float), and the level of under pricing of an issue. Signaling theory is now considered to be more insightful for some aspects of small enterprise financial management than others.

2.1.3 The Perk Order Theory of Framework (POF)

This is another financial theory, which is to be considered in relation to SMEs financial management. It is a finance theory which suggests that management prefers to finance first from retained earnings, then with debt, followed by hybrid forms of
finance such as convertible loans, and last of all by using externally issued equity; with bankruptcy costs, agency costs, and information asymmetries playing little role in affecting the capital structure policy. A research study carried out by Norton (1991b) found out that 75% of the small enterprises used seemed to make financial structure decisions within a hierarchical or pecking order framework. Holmes et al. (1991) admitted that POF is consistent with small business sectors because they are owner-managed and do not want to dilute their ownership. Owner-managed businesses usually prefer retained profits because they want to maintain the control of assets and business operations.

2.1.4 Access to Capital
The 1971 Bolton report on small firms outlined issues underlying the concept of 'finance gap' (this has two components-knowledge gap-debt is restricted due to lack of awareness of appropriate sources, advantages and disadvantages of finance; and supply gap-unavailability of funds or cost of debt to small enterprises exceeds the cost of debt for larger enterprises.) that: there are a set of difficulties which face a small company. Small companies are hit harder by taxation, face higher investigation costs for loans, are generally less well informed of sources of finance and are less able to satisfy loan requirements. Small firms have limited access to the capital and money markets and therefore suffer from chronic undercapitalization. As a result; they are likely to have excessive recourse to expensive funds which act as a brake on their economic development.

2.1.5 Equity Funds Theory
Equity is also known as owners' equity, capital, or net worth. Costand et al (1990) suggests that 'larger firms will use greater levels of debt financing than small firms. This implies that larger firms will rely relatively less on equity financing than do smaller firms'. According to the pecking order framework, the small enterprises have two problems when it comes to equity funding

(i.) Small enterprises usually do not have the option of issuing additional equity to the public.
(ii.) Owner-managers are strongly averse to any dilution of their ownership interest and control. This way they are unlike the managers of large concerns who usually have only a limited degree of control and limited, if any, ownership interest, and are therefore prepared to recognize a broader range of funding options.

Modern financial management is not the ultimate answer to every whim and caprice. However, it could be argued that there is some food for thought for SMEs concerning every concept. For example Access to Capital and POF are really eye-openers for SMEs in Ghana to carve their way into sustaining their growth.

2.2 Empirical Literature Review

2.2.1 Limited Provision of Working Capital
According to Hansen, Kimeria, Ndirangu, Oshry and Wendle (2012) SMEs interviewed often reported that there are significant gaps between the form of finance they had access to (typically overdrafts) and what they really need. SMEs cite working capital as one of the two areas of greatest need that is unmet by banks. Working capital, which enables SMEs to expand their operations incrementally and meet ongoing operational expenses, is directly linked to the growth and survival of SMEs. The lack of appropriate working capital products has resulted in SMEs relying on traditional loans, which typically entail lengthy approval procedures. Several SMEs spoke of instances in which they were unable to meet customer orders, or make an important purchase, due to delayed loan approvals. The speed of approval for working capital is critical as SMEs may have only a limited amount of time to fulfil a particular order – some SMEs mentioned using mostly overdrafts because when a good opportunity comes their way they cannot afford to wait out the lengthy loan procedures.

The Enterprise Survey data confirming that the use of external financing for working capital is low for SMEs in the countries studied, as compared to the Developed country average. What is more striking? Is that the gap between large and small firms
is much wider for the countries we studied. Ghana, Kenya and Tanzania average a 20 percentage-point difference between large and small firms, whereas that difference is only 7 points for the countries, and 10 points for Sub-Saharan Africa.

While overall rates of external working capital finance might not completely reflect the supply of working capital (e.g. lower levels could represent lower demand because of country-level factors) the gap between large and small firms is a reflection of the disadvantage faced by small firms in these countries. In countries with a greater supply of capital to SMEs we observe that the rates of external financing are much more similar between large and small firms.

Although working capital is emerging as a critical need for SMEs, and banks are beginning to recognize this, there are significant barriers limiting the widespread use of sophisticated working capital finance. Banks cited a range of obstacles in the business environment, e.g. legal frameworks or inefficient judicial systems that prevent SMEs from using their inventories and accounts receivables to secure working capital loans. This is unlike the situation in developed financial systems, where the use of accounts receivables and inventory is standard practice. Given weak legal systems and the fact that invoices are often not considered legally binding documents, banks may be reluctant to accept invoices as collateral. This is important because banks are particularly worried about “diversion” risk – when working capital provided to SMEs is not linked to the productive activities represented by the invoices posted as security, or when funds received from paid invoices are not channelled back into loan repayment.

Some banks, especially those with large corporate clients, are crafting solutions in supply chain finance aimed at mitigating the legal hurdles and the risk of fund diversion by SMEs. An example solution would be for corporate customers of SMEs to channel payment for invoices through the banks providing the finance. Overall, there is a need for capacity building and other interventions at the banks in order to help them meet the working capital needs of SMEs. In some cases, this may be as basic as educating the banks themselves on the use of working capital loans. It is
interesting to note that banks in Ghana and Tanzania are fairly unsophisticated in their product offerings, and as such, most of their borrowers do not know about the possible use of products like invoice discounting.

2.2.2 Bank Financing of SMEs

According to the commercial bank surveys, the share of SME lending in the overall loan portfolios of banks varies between 5 and 20 percent. While SME definitions certainly differ across countries, when analyzing their overall loan books, banks in Kenya, Rwanda, and even in Tanzania seem to be more involved with SMEs than banks in South Africa and Nigeria. Compared to international evidence, Beck et al. (2008b) estimate the share of SME lending in total lending across developing economies to be about 16 percent.

Bank of Africa Tanzania Managing Director, Mr Ammish Owusu-Amoah said "The bank seeks to provide swift financing solutions and upscale the SME community to higher levels", adding that the bank’s SME portfolio has grown significantly over the last few years. Mr. Ammish said advances to customers in 2012 increased approximately 31 per cent compared to 2011 and most of the advances went to SMEs. "This demonstrates our commitment to grow with the SMEs," he said. The bank provides banking support to transporters, distributors, suppliers of different goods to big companies, hotels and importers of goods from Asia. Customized solutions for small and medium business owners will enable them to go about their business activities and increase productivity. (The Guardian Tuesday, 05 March 2013)

According to Chijoriga (2000), MFIs help to promote enterprise culture among SMEs by providing various financial services to SMEs. These services include; advancing loans and provision of credit management training to SMEs and holding their deposits. These services together help to promote enterprise culture which encompasses savings culture, investing culture and entrepreneurial skills
It is generally accepted that the broad goal of SME policy is to accelerate economic growth and in so doing alleviate poverty. While there are many developmental constraints on the SME sector, bridging the financing gap between SMEs and larger enterprises is considered critical to economic growth. To assess the effectiveness of schemes for promoting SME finance, an effective SME financing scheme should provide opportunities for SMEs to meet their financing needs and must maintain the profitability of the enterprise, or on the eventual sale of investments or collection of loans that would provide cash for later investments.

2.2.3 Contribution of SMEs to Economic Development

There is a general consensus that the performance of SMEs is important for both economic and social development of developing countries. From the economic perspective, SMEs provide a number of benefits. SMEs have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries.

SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula and Quartey, 2000). SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation. They perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centers and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth.
SMEs contribute to a country’s national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. In Ghana and South Africa, SMEs represent a vast portion of businesses. They represent about 92% of Ghanaian businesses and contribute about 70% to Ghana’s GDP and over 80% to employment. SMEs also account for about 91% of the formal business entities in South Africa, contributing between 52% and 57% of GDP and providing about 61% of employment.

2.2.4 Importance of Small and Medium Enterprises

It is estimated that about a third of the GDP originates from the SME sector. According to the Informal Sector Survey of 1991, micro enterprises operating in the informal sector alone consisted of more than 1.7 million businesses engaging about 3 million persons, which was, about 20% of the Tanzanian labour force. Though data on the SME sector are rather sketchy and unreliable, it is reflected already in the above data that SME sector plays a crucial role in the economy.

Since SMEs tend to be labour-intensive, they create employment at relatively low levels of investment per job created. At present, unemployment is a significant problem that Tanzania has to deal with. Estimates show that there are about 700,000 new entrants into the labour force every year. About 500,000 of these are school leavers with few marketable skills. The public sector employs only about 40,000 of the new entrants into the labour market, leaving about 660,000 to join the unemployed or the underemployed reserve. Most of these persons end up in the SME sector, and especially in the informal sector. Given that situation and the fact that Tanzania is characterised by low rate of capital formation, SMEs are the best option to address this problem.

SMEs tend to be more effective in the utilisation of local resources using simple and affordable technology. SMEs play a fundamental role in utilising and adding value to local resources. In addition, development of SMEs facilitates distribution of
economic activities within the economy and thus fosters equitable income distribution. Furthermore, SMEs technologies are easier to acquire, transfer and adopt.

Also, SMEs are better positioned to satisfy limited demands brought about by small and localised markets due to their lower overheads and fixed costs. Moreover, SME owners tend to show greater resilience in the face of recessions by holding on to their businesses, as they are prepared to temporarily accept lower compensation.

Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industries requirements. A strong and productive industrial structure can only be achieved where SMEs and large enterprises not only coexist but also function in a symbiotic relationship. However, the linkages between SMEs and large enterprises are very weak in Tanzania. SME development Policy, therefore, creates the potential for enhancing linkages within the economy. In addition, SMEs serve as a training ground for entrepreneurship and managerial development and enable motivated individuals to find new avenues for investment and expanding their operations. There are also opportunities indicating a bright future for SME sector development in Tanzania. This includes the various ongoing reforms that are oriented towards private sector development and, thus, lay the ground for SMEs development. In addition, the recognition of SME sector that it has higher potential for employment generation per capital invested attracts key actors to support SME development programmes. Since SME development does contribute significantly to poverty alleviation, resources earmarked for poverty alleviation will also be availed to the SME sector.

Various initiatives towards improving the infrastructures and especially roads do provide an added opportunity for SME development. Furthermore, there are several ongoing schemes aimed at strengthening SME service providers such as Small Industries Development Organisation (SIDO), Vocational Education Training Authority (VETA), Micro Finance Bank (NMB) and various Industrial Support Organisations. These interventions do provide opportunities for growth of the SME
sector. Given the fact that Tanzania is endowed with abundant natural resources, the creation of enabling business environment will facilitate exploitation of these resources through SMEs. This is again an opportunity for SMEs development.

2.2.5 General Constraints to SME Development

Despite the potential role of SMEs to accelerated growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey et al, 1994; Gockel and Akoena, 2002). The lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on SMEs. The lack of support services or their relatively higher unit cost can hamper SMEs’ efforts to improve their management, because consulting firms are often not equipped with appropriate cost-effective management solutions for SMEs. Besides, despite the numerous institutions providing training and advisory services, there is still a skills gap in the SME sector as a whole (Kayanula and Quartey, 2000). This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. In terms of technology, SMEs often have difficulties in gaining access to appropriate technologies and information on available techniques (Aryeetey et al., 1994). In most cases, SMEs utilize foreign technology with a scarce percentage of shared ownership or leasing. They usually acquire foreign licenses, because local patents are difficult to obtain.

Regulatory constraints also pose serious challenges to SME development and although wide ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm-level. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims,
and excessive delays in court proceedings adversely affect SME operations. In the case of Ghana, the cumbersome procedure for registering and commencing business are key issues often cited. The World Bank Doing Business Report (2006) indicated that it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. Meanwhile, the absence of antitrust legislation favours larger firms, while the lack of protection for property rights limits SMEs’ access to foreign technologies (Kayanula and Quartey, 2000).

A cursory analysis of survey and research results of SMEs in South Africa, for instance, reveals common reactions from SME owners interviewed. When asked what they perceive as constraints in their businesses and especially in establishing or expanding their businesses, they answered that access to funds is a major constraint. This is reflected in perception questions answered by SME owners in many surveys (see BEES, 1995; Graham and Quattara, 1996; Rwingema and Karungu, 1999). This situation is not different in the case of Ghana (see Sowa et al., 1992; Aryeetey, 1998; Bigsten et al., 2000, Abor and Biekpe 2006, 2007; Quartey, 2002). A priori, it might seem surprising that finance should be so important. Requirements such as identifying a product and a market, acquiring any necessary property rights or licenses, and keeping proper records are all in some sense more fundamental to running a small enterprise than is finance (Green et al., 2002). Some studies have consequently shown that a large number of small enterprises fail because of non-financial reasons. Other constraints SMEs face include: lack of access to appropriate technology; the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity and lack of management skills and training (see Kayanula and Quartey, 2000). However, potential providers of finance, whether formal or informal, are unlikely to commit funds to a business which they view as not being on a sound footing, irrespective of the exact nature of the unsoundness. Lack of funds may be the immediate reason for a business failing to start or to progress, even when the more fundamental reason lies elsewhere. Finance is said to be the “glue” that holds together all the diverse aspects involved in small business start-up and development (Green et al., 2002).
2.2.6 The Financing Gap

According to Stiglitz and Weiss (1981) on a theoretical level, there is some controversy as to whether it is meaningful to speak of a “financing gap”. Clearly, there can be such a gap if the authorities intervene in the market and maintain interest rates below the equilibrium rate, which would inevitably lead to excess demand for loanable funds. In the past, some analysts argued that it was not meaningful to speak of a funding gap unless the authorities actually kept interest rates below market clearing levels. It was held that as risks rise, providers of financial resources would sufficiently increase interest rates charged to all borrowers to bring the supply and demand for credit into balance. Due to problems of asymmetric information and agency problems, banks have difficulties distinguishing good risks from bad risks and in monitoring borrowers once funds have been advanced. Moreover, banks will hesitate to use interest rate changes to compensate for risk in the belief that by driving out lower-risk borrowers, high interest rates may lead to a riskier loan portfolio, thus setting in motion a process of adverse credit selection.

Banks could maximize their return by setting an interest rate that left large numbers of potential borrowers without credit. In the Stiglitz-Weiss formulation, credit rationing is said to occur if i) among loan applicants who appear to be identical some receive credit while others do not; or ii) there are identifiable groups in the population that are unable to obtain credit at any price.

2.2.7 The Distinctive Challenges of SME Finance

Any potential provider of external debt or equity finance will want to monitor the company to determine whether it is acting in accord with the initial contract, to follow the progression of the firm and to have the means to oblige the user of funds to respect the interests of the provider of funds. There are numerous reasons why doing this effectively is more problematic for SMEs than for larger firms. Hence, banks are more likely to engage in credit rationing (i.e. not extending the full amount of credit demanded, even when the borrower is willing to pay higher rates) to SMEs than to larger companies (Stiglitz and Weiss, 1981; Hoff and Stiglitz, 1999).
In the first place, the SME sector is characterized by wider variance of profitability and growth than larger enterprises. SMEs also exhibit greater year-to-year volatility in earnings. The survival rate of SMEs is considerably lower than that of larger firms. Thus, one analyst found that manufacturing firms with fewer than 20 employees were five times more likely to fail in a given year than larger firms (Storey, 1995).

In the case of SMEs, it is very difficult to distinguish the financial situation of the firm from that of its owners. The use of company cars and home accommodations for both private and business purposes are clear cases in point. Furthermore, estate tax and intergenerational succession are important issues in SMEs but usually unimportant for larger companies.

Relations between the firm and its stakeholders are likely to reflect personal relationships to a much higher degree than in larger firms where such relationships are formalized. Whereas large firms are expected to observe recognized standards of corporate governance in which actors such as executives, auditors, and boards of directors are expected to conform to transparent norms, SMEs tend to reflect much more closely the personalities of their owners (Storey, 1995).

The linkage between SMEs and financial markets is looser than in the case of larger companies. SMEs often obtain funds from informal sources and, thus, may be less linked to trends in the formal fixed-income or equity markets. SMEs often use internally generated funds or loans from family and friends in “quasi-equity form”. Funds from close acquaintances may be obtained at sub-market rates while borrowing from formal markets may be at rates higher than those available to larger companies.

Trade credit, i.e. credit supplied by non-financial entities, has always been an important component of SME finance and many analysts argue that the development of trade credit is an important element in assuring adequate finance for SMEs in emerging markets. There are also potential principal/agent problems. The provider of
credit will seek to require the borrower to act so as to maximize the probability that the loan is repaid, while the borrower may seek higher risk/higher return solutions. Once financing is received, the entrepreneur may be motivated to undertake excessively risky projects, since all of the upside of the project belongs to the entrepreneur, while the lender prefers a less risky project that increases the probability that the loan will be repaid. This problem, which is potentially present in all lending, is more serious for smaller firms than for larger firms because of the blurring of the line between the firm and the entrepreneur, and due to information asymmetries (Storey, 1995).

Asymmetric information is a more serious problem in SMEs than in larger firms. The entrepreneur has access to better information concerning the operation of the business and has considerable leeway in sharing such information with outsiders. However, the entrepreneur is also likely to have less training/experience in business than those in a larger company, although more adapted to operating in an uncertain environment. Hence, it may be difficult for the outside provider of financing to determine whether the entrepreneur is making erroneous decisions or for the outsider to understand the business adequately. In addition, the entrepreneur may have incentives to remain opaque, not only in dealings with financiers, but also with other outsiders such as regulators and tax authorities. The analysis of credit rationing is believed to provide special insights into problems of finance in developing and emerging markets. Thus, this argument has become part of the analysis generally applied to problems of finance in emerging markets.

2.2.8 Barriers to Finance for SMEs
The following section will first look at debt financing, and the reasons why regular banks provide insufficient debt to SMEs. It will demonstrate that the access to finance gap is a complex problem driven by several factors including lower returns, higher risk perceptions, an uninspiring regulatory environment, and a lack of intermediary skills, experience and capacity.
Debt financing

Banks are not adequately providing SMEs with capital in developing countries. There is large financing gap for SMEs in developing countries. The top five banks serving SMEs in non-OECD countries reach only ~20% of formal micro enterprises and SMEs. In Sub-Saharan Africa, this number is even lower, at 5%. Nearly 25% of SMEs in emerging markets have a loan but are financially constrained, and almost 60% do not have a loan overdraft, but need one. This deteriorated further during the 2008-2010 financial crises.

Banks can often earn high returns in their core markets, giving them little reason to take on additional risk in the SME market. Banks in countries with immature financial systems often face little competition and a low threat of entry and can therefore earn handsome returns by lending to large public and private players, 55 Banks in Africa are among the most profitable, earning often returns in equity in the 15-25%. They might realize the potential of the SME market, but they have little incentive to move outside of their comfort zone and develop SME products. As Paul Collier observed: “African banks were operating profitably via the easier and safer role of lending to large firms, and holding high-yielding government debt.” As a result, in the words of a manager of one leading African bank “we have only scratched the surface of the SME market.”

Banks incur higher administrative costs by lending to SMEs. The costs of lending to SMEs are relatively high, as loan sizes are small, and the transaction costs per loan are relatively constant. This reduces incentives for regular banks to lend to them. The difference in fees, interest rates and relative share of loans to SMEs for African and non-African banks.

Banks have difficulty providing long-term capital. Banks in developing countries are often reliant on short-term liabilities (such as deposits). There are few traditional long-term borrowers, such as pension these players focus mostly on large- and medium-sized firms, and would commonly not invest in smaller SMEs. However, some specialized investment firms have emerged,
which focus on financing small enterprises that have an intentionally positive social impact and address poverty beyond local economic stimulation. In addition, albeit still at a very small scale, the first local venture capital funds have started to emerge in developing countries.

Banks have difficulty providing tailored foreign exchange products. SMEs seek financing in currencies that match their income streams, to prevent foreign exchange mishaps. SMEs that have income in foreign currencies (e.g. USD for a cocoa trader) want debt in the same currency. Alternatively, an SME with only local currency income wants to avoid dollar-denominated debt. Banks in developing countries sometimes face restrictive local regulation and limited forex availability that make tailored foreign exchange solutions more difficult.

Banks have limited information, skills and regulatory support to engage in SME lending.

There are a variety of different forms of SME lending, as shown in many forms, however, are difficult to implement in developing countries. The countries often have weak accounting standards, and the SMEs have little to no accurate financial statements on their revenues, profits and ability to pay. Furthermore, there is often little to no general market data available on the SME market and specific sub-sectors (e.g. default rates). This limits the potential for lending based on financial statements or small business credit scores. Therefore, banks primarily engage in relationship-based or other forms of collateral-based lending, rather than cash-flow based lending. Banks tend not to provide financing for working capital to SMEs, which is cited by SMEs as one of the areas of greatest need. The lack of collateral for some borrowers and/or clear recourse legislation (e.g. ability to claim collateral) however, can complicate the possibilities to do collateral based lending (e.g. asset-based, real-estate or equipment lending). Finally, banks need specific skills to engage in the different forms of SME lending. A recent Dalberg survey showed that the difficulty in establishing credit-worthiness was a key barrier, with 80% of banks stating challenges in this area. Lack of these skills can lead banks to avoid the SME market in its entirety, and invest only in high-yielding sovereign government debt, or it can
translate into inadequate risk management, leading to lower repayment rates and returns. Some recent initiatives, such as the IFC SME banking guide, are aimed at decreasing this skill gap.

These characteristics of the banking system generate unfavorable lending conditions for SMEs.

The higher costs, lack of skills and higher (perceived) risks of investment in SMEs translate into high interest rates and collateral requirements. Banks sometimes charge more than 150% of the loan amount in collateral, and interest rates might be 5 to 6% higher than in the rest of the world. Furthermore, posting collateral is complicated by the fact that most SMEs operate in environments with weak property rights and poor contract enforcement, in which borrowers do not have legal titles to house or land, and therefore cannot use these as collateral.

SME lending is further held back by a self-reinforcing market failure. The lack of SME lending leads to higher costs and lack of familiarity and knowledge, which in itself can lead to adverse selection (only the riskiest SMEs seek external financing), which in turn can lead to higher costs and interest rates, and less lending. Stiglitz and Weiss showed that this vicious cycle/market failure can lead to an end-state in which no SME lending takes place at all.

**Equity financing**

An emerging industry of equity providers has emerged in developing countries. Whereas the previous sections discussed the barriers in the provision of debt, this section focuses on equity. SMEs can grow into large firms on a combination of equity investment by the founder, debt and retained earnings. However, the provision of external equity (“private equity”) becomes relevant to facilitating changes in ownership of these larger SMEs, for example when the founder wants to retire. Secondly, there is a sub-set of SMEs, especially start-ups with highly uncertain and fluctuating cash-flows that are harder to finance through a debt model, and are better suited to external equity investment (“venture capital”).

Historically, there were few external equity providers in developing countries, whether private equity or venture capital. The venture capital and private equity industry is still relatively new, and most players have not expanded beyond the developed world. Furthermore, equity financing is hindered by similar reasons as debt financing (e.g. asymmetric information, lack of reliable financial information) Finally, entrepreneurs in developing countries have little familiarity and affinity with the equity model. However, over the last decade a private equity industry for developing countries has surfaced, due to the efforts of pioneers such as Business Partners. Dalberg identified 192 private equity funds supporting SME investment in emerging markets and developing countries with an aggregated capital of US$7 billion. Many of these funds were created in the last five years, and 60% of them focused on Sub-Saharan Africa.

### 2.2.9 Structural Rigidities and Distortions Willworsen the Funding Gap

Storey (1995) argued in the preceding section that even in financial markets that have no distortion stemming from official intervention and major private monopolies, SMEs will often be more difficult to assess than established companies. Therefore, the possibility that large numbers of small firms will be excluded from the credit market, already present to some extent in a fully competitive and transparent market, becomes greater as market imperfections grow. This initial disadvantage of SMEs can worsen if the business environment and the financial system have certain characteristics.

(i.) The domestic savings investment balance

Storey (1995) further showed that national savings may be at low levels and may result in a chronic insufficiency of domestic savings with respect to domestic investment or lead to excess demand for available domestic savings. In addition, government policy may favor industrialization and/or import substitutions, which effectively give large domestic firms, privileged access to finance. The hesitancy to lend to SMEs and the resulting credit rationing will become more acute in times of monetary stringency and disinflation.
(ii.) **Legal, institutional and regulatory framework**

Storey (1995) revealed that Banks will only seek to develop the SME market as a source of profit if the economic and business framework is calibrated to transmit reliable economic signals and the legal regulatory institutional setting enables banks to lend with confidence. The legal system should have a strong regime to protect property rights, including creditor rights and be relatively efficient in resolving cases of delinquent payments and bankruptcy. Additionally, the tax and regulatory framework should encourage firms to operate in a transparent manner. If these conditions are absent, the tendency to exclude SMEs from lending will be more pronounced.

(iii.) **Structure of the financial system**

On a global level, a model of market-based bank governance has gained acceptance. Under this model, supervisors are expected to hold bank managers accountable for adequacy of earnings and for the prudential quality of their institutions while bank management and boards act to produce high returns to shareholders and maintain high prudential standards. This model has proven to produce significant efficiency gains. As this model is applied and as the business environment becomes more competitive, banks have strong incentives to find means to overcome the difficulties in SME lending. However some countries have been comparatively slow in implementing this model.

2.2.10 **Role of Capital in Development of SMEs**

The role of finance has been viewed as a critical element for the development of small and medium-sized enterprises. Previous studies have highlighted the limited access to financial resources available to smaller enterprises compared to larger organizations and the transaction costs than larger enterprises in obtaining credit (Saito & Villanueva, 1981). Insufficient funding has been made available to finance working capital (Peel & Wilson, 1996). Poor management and accounting practices have hampered the ability of smaller enterprises to raise finances. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises. In spite of these claims however, some studies
show a large number of small enterprises fail because of non-financial reasons consequences for their growth and development (Levy, 1993). Typically, smaller enterprises face higher The case of Tanzania shows that despite financial sector reform, the strengthening of banking capabilities and the introduction of numerous financial instruments, such as the stock exchange, a venture capital company and business assistance funds, access to institutional credit for working capital and equipment continued to be a major constraint to small enterprise development (Steel & Webster, 1992). Even where demand for small scale enterprise products appeared strong, a lack of credit meant that many small enterprises did not have the capacity to respond and expand production. Interest rates of 30% or more, high transactions costs and an administration and culture unfriendly to small scale enterprises contributed to the problem. The Ghana study by cites similar evidence; 95 per cent of the respondents depended solely on personal resources and loans from relatives and friends. Dawson's (1993) work in Ghana and Tanzania also confirms these findings; of the 672 small scale enterprises in the Ghana study, only two had received a bank loan. In Tanzania, the formal banking system was seen to be out of reach for almost all small enterprises. The World Bank reported that around 90 per cent of small enterprises surveyed indicated that access to credit was a major constraint to new investment (World Bank, 1994).

Small and medium enterprises (SMEs) make up the largest portion of the employment base in many developing countries and, indeed, are often the foundation of the local private sector. The entrepreneurs behind them could—and should—play a much larger role in development, but too often are held back by a lack of ready access to financing from local formal sector financial institutions.

2.2.11 SME Policy in Tanzania

According to SME Policy (2002). In Tanzania, the full potential of the SME sector has yet to be tapped due to the existence of a number of constraints hampering the development of the sector.
They include: unfavourable legal and regulatory framework, undeveloped infrastructure, poor business development services, limited access of SMEs to finance, ineffective and poorly coordinated institutional support framework etc.

It is for this reason that this SME Development Policy was formulated so as to address the constraints and to tap the full potential of the sector. Ad hoc and piecemeal measures will then be replaced with sustainable, integrated and coordinated interventions. This policy will serve as guidelines to all stakeholders and thus stimulate new enterprises to be established and existing ones to grow and become more competitive. The expected outcome is to have a significantly increased contribution of the SME sector to economic development of Tanzania Product.

The policy governing small and medium enterprises (SMEs) set out in 2003 is likely to take a new shape, following a recent report by the United Nations Industrial Development Organisation (UNIDO) and the Ministry of Industries and Trade quest for a rapid review.

The project is premised on the fact that in ten years (2003-2013) the policy has faced a number of drawbacks that held back its growth, including inadequate resource mobilization, a weak implementation framework relying on the parent ministry at all levels, officials said.

Observations by economic analysts during a workshop organized jointly by UNIDO and the ministry over the weekend saw Professor Amon Mbele of the University of Dar es Salaam explain the need for a new policy outline.

In an exclusive interview with Business Times, he said that the policy was supposed to be clear to the people. The government and supporting units believed the policy would be easy to provide sustainable employment to a majority of job seekers, he said.

“I support the rapid review of the policy approved by the cabinet in February (this year),” he said, noting the review shall take into account that implementation of the policy met with difficulties that need be addressed.
He expresses the importance of the policy falling under two aspects, that it calls for review and it highlights the main problems in implementation as there were a number of problems in implementation.

These aspects include inadequate financial resource mobilization and a weak implementation framework as the policy was anchored in ministerial activities mostly.

The policy as well had no legal instruments that would stand on their own during the implementation, the don underlined. As if that was not enough, the definition of SMEs was not clear, to the extent that it was difficult to operational the policy, as the process was not well identified, showing errors of both omission and commission, he stated.

Daniel Mchemba, executive director of the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), slams the policy that in the long period it has been there, the sector failed grow fast enough for lack of finance support the main stakeholders for quality goods to reach world markets.

The policy lacked a definition of who are entrepreneurs and who are not in a real sense, thus not in a position to develop entrepreneurship.

“SMEs fail because of financial problems, as government policy is ambiguous on SMEs development in the 2003 policy,” he emphasized.

Producers fail to increase productivity with a low amount of money fetching high interest rates and recoverable in six months, he stated.

Ms. Elihaika Mrema is a key stakeholder, based on handicap products collectively under the umbrella of the Tan craft. She points at deficiencies in Tanzania SMEs policy, in relation to China and India.
She poses a question, "why did the newly elected Chinese President Xi Jinping choose to open his pace setting tour with Tanzania and Africa? She says the reason is to create a conducive environment to enable Chinese products by the SMEs sector from his country to trade with locals, take up greater market share in Tanzania and Africa as a whole.

The question of SMEs has been there for over 30 years, but the government has not pushed the financiers to work closely with the sector, she specified.

"Instead the government was standing aside leaving individual players fighting desperately alone. As a result a number of players had their properties auctioned for failure to repay their loans," she pointed out.

Nature Ripe Kilimanjaro Limited marketing manager, Anzuani Diwani, talks of small amounts of loan cash when issued, that could not suffice to improve the business.

That apart, financiers are a problem as high interest rates do not develop the sector, to the extent that there is need for the government to provide conditions where at least repayment starts after one year or so.

Nature Ripe Kilimanjaro Limited deal in processing of agro-products. The firm cries for quick review of the policy, requiring that the government should direct the financiers as part of agreement to operate business in the country to abide by the new policy to work for the growth of the SMEs.

Almost all banks in the country have now established SME banking departments. Most notable ones are CRDB Bank, NMB Bank, Azania Bank, Standard Chartered Bank, Kenya Commercial Bank, Stanbic Bank, BOA Bank, Ecobank and Tanzania Investment Bank among others. The Small and Medium Scale Enterprises (SME) Departments are specially structured to meet the banking needs of Small and Medium Scale businesses.
However, many non-financial constraints inhibit the success of such enterprises. SME owners are reluctant to be transparent or open up their businesses to outsiders. They seem to be unaware of their obligations and responsibilities they have toward capital providers, and the need to acquire or seek support for technical services like accounting, management, marketing, strategy development and establishment of business linkages.

2.2.12 Improvement of Access to Funds by Banks

(i.) Commit to Transparency and Consistency

Banks should improve their relationship management with businesses and their advisors. Restoring trust between banks and their clients will require a commitment to transparency and consistency on the part of lending institutions.

It is clear that some banks have re-appraised their risk and reward preferences for SMEs. Banks need to address the consequential ‘fear of approach’ held by businesses by clearly explaining how the changed economic environment has affected banks’ business lending policies. In particular, they should make a sustained effort to better communicate with businesses at early stages in the lending application process to improve understanding of the following:

(a.) How long credit applications are likely to take
(b.) What restrictions on decision-making are imposed on relationship managers and branch managers by head office and whether specific decisions will be transferred to higher levels?
(c.) How many credit committees will examine the application?
(d.) The full extent of non-price lending conditions
(e.) The enforcement regime for covenant breaches
(f.) How much financial information will be required from the SMEs, including whether management accounts will be required on a monthly basis rather than quarterly or bi-annual basis?
Within banks there needs to be greater consistency of SME lending practices. Greater transparency in communicating the credit application process, as detailed above, may help to address inconsistency by publicly managing expectations towards a consistent approach to lending.

(ii.) **Promote alternative forms of finance**
Banks should adopt a more holistic approach to helping businesses access appropriate forms of finance.

Banks need to be more proactive in creating awareness of complementary forms of debt finance or asset-based lending (ABL), where appropriate for the business, together with the associated legal, financial and operational implications for that business.

ABL includes invoice discounting and debt factoring and other forms of asset-based finance, where an organisation borrows money against their property, plant, machinery, stock, or sometimes even their brand name. ABL can be an appropriate alternative to bank loans and overdrafts for relieving pressure on cashflow or for funding business needs such as capital purchases or financial restructuring. ABL is not generally dependent on the existing profitability of a business and, compared to bank loans and overdrafts, can support business growth without imposing additional banking restrictions on a business.

(iii.) **Strengthen the appeal process**
Banks should strengthen their appeal processes for lending and effectively communicate those processes to their credit applicants. For difficult decisions, particularly those involving existing clients, the appeals process should include an option to use an independent mediator with expertise in corporate finance.
(iv.) **Help improve general levels of SME financial management and awareness.**

There is a role for government in raising awareness about the importance of financial management as part of public policy efforts to improve access to finance. This might include the following:

(a.) Highlighting that evidence of sound financial management is essential when approaching lending institutions

(b.) Raising awareness of the range of finance options available to SMEs and the broad advantages and disadvantages of the various types of finance, including equity

(c.) Improving understanding of lending conditions and terms, including personal guarantees and security and loan covenants

(d.) Signposting wider sources of financial advice

(e.) For those micro-businesses and start-ups without in-house financial expertise, the government should emphasise the value and importance of seeking independent high-quality financial advice

In addition to better supporting existing businesses, improving levels of financial management is critical to strengthening the likelihood of entrepreneurial start-up success.

The UK government has had some success in raising awareness of many of the issues referenced above through the Finance and Grants theme of the businesslink.gov website and through the Best Practice.
2.3 Conceptual Frame Work

Figure 2.1: Conceptual Frame Work
There are two categories of variables; Independent variable and dependent variable.

![Conceptual Frame Work Diagram]

Source: Data 2014

2.3.1 Purpose of this Dissertation
This dissertation seeks to contribute towards a better understanding of the bank-SME customer satisfaction. More specifically, this thesis reports the findings of empirical research analysing the influence of adaptation and fairness on customer satisfaction. Customer satisfaction in the bank-SME relationship has been a subject of interest in academia and practice for a long time. However, few studies have specifically focused on how customer satisfaction in the bank-SME relationship is affected by the banks’ ability to adapt to their customers’ needs and to create fairness.
Fairness is a concept that has gained increased attention in the financial industry. Indeed, banks and other financial institutions are encouraged by authorities and policy makers to develop relationships in which customers feel that they are treated fairly.

However, there is limited empirical research examining this concept and more specifically, the effect of the fairness construct on customer satisfaction in the bank-SME relationship. There is also a need to analyse further the extent to which banks are able to adapt to their SME customers’ specific needs. Because SMEs are argued to be profitable customers for banks, the banks should adapt to their SME customers’ needs, according to marketing theory. However, banks have been criticised as being too standardised in their approach when dealing with SME customers.

This finding is further expanded upon in this thesis and is related to the concept of customer satisfaction. For a long time, marketing literature has assumed a transaction orientation in exchange relationships. Taken to its extreme, this transactional philosophy is characterised by short-term exchange events with distinct beginnings and endings, often involving small investments by both firms and customers. Transactional marketing relies on arm’s-length exchanges with minimal personal relationships and no obligation of future exchanges. However, interest in the nature of relationships increased in the 1980s, especially in business-to-business marketing. Consequently, there was a shift from transactional patterns of exchange to relational-oriented exchanges in the marketing literature. For example, the theory of relationship marketing (RM) was developed as an alternative to the established view of transactional marketing because many exchanges, particularly in the service industry, were perceived as being relational in nature. The International/Industrial Marketing and Purchasing (IMP) Group developed a conceptual framework of relational exchanges in a business-to-business context. The research conducted by the IMP Group resulted in an empirically grounded interaction model, in which the firm-customer relationship is considered to be complex and long lasting. Hence, in contrast to a transactional exchange, a relational exchange encompasses, amongst
other things, long-term relationships, customer focus, flexibility and adaptation to customers’ needs (Pillai and Sharma, 2003)

2.3.2 The Evolving bank-SME Relationship

Scholars have expounded on the value of banks adopting long-lasting and close relationships with important customers. Tyler and Stanley (2002) recognised that successful exchanges between banks and their SME customers depended on the existence of a close and personal relationship between the parties. In addition, a close working relationship can give rise to efficiency in action, reliability, cooperation and effective communication between the parties involved. Berger and Udell (1995) argued that bank financing should involve the cultivation and maintenance of long-term relationships as a means of overcoming the asymmetric information problem that often prevails in relationships with corporate customers, contended that banking business is not a matter of one discrete episode; rather, it is more often a continuous interactive deal between the bank and the customer, which covers a ‘non-ending’ string of transactions. Thus, bank-customer relationships should not end at the door of the bank. Consequently, a shift from a transaction orientation to a long-term relational interaction is expected to occur in the financial services industry, particularly in the corporate banking industry (O’Donnell et al., 2002; Tyler and Stanley, 2002)

Proença and de Castro (2006) argued that financial service relationships result from interactions. Both financial institutions and their customers are assumed to be actively involved in the interaction process by engaging in the relationship through their behaviours and policies. In viewed the marketing of banking services as an interaction process between a bank and its corporate customers within a certain environment and atmosphere. By interacting with customers, banks are able to obtain necessary information about their customers. The information obtained can indeed help a bank meet its customers’ needs and requirements—which is especially important when serving business customers, who are often described as unique with individual demands. Consequently, during the interaction process, firms learn about their customers’ needs, values, usage habits and expectations. By learning more
about their customers, banks can more easily convince their customers that they have made the right choice. Some studies have also indicated that most corporate customers still prefer human interaction with their banks, despite the fact that the banking industry has undergone a technological revolution.

### 2.3.3 The Concept of Customer Satisfaction

Grönroos (1990) stated that the perceived satisfaction and quality of a service have a functional dimension (process) and a technical dimension (outcome), where the functional denotes ‘how’ in the customer-seller interaction and the technical relates to ‘what’ in the actual service provision. In banking, the technical dimension can be referred to those aspects that influence the ability of banks to offer high quality and effective financial products. These factors, consequently, concern the perceived function and system of a bank organisation. The functional factors refer to the behavioural attitudes of the individuals when interacting with customers. Evidence supports the notion that quality and satisfaction of service are concerned not only with the technical dimension but also with the functional dimension (Kang, 2006; Lassar et al., 2000; Reichel et al., 2000; Lehtinen and Lehtinen, 1991). Hence, the technical and functional dimensions of services have been found to be important predictors of customer satisfaction in the bank-SME relationship.

Customer satisfaction is increasingly becoming an important strategic issue for most firms that strive for customer retention and loyalty. Earlier studies suggest a positive relationship between customer satisfaction and financial performance. Indeed, previous research about bank-SME relationship indicate that because of the positive relationships amongst customer satisfaction, loyalty and retention, ensuring customer satisfaction has become an essential task for most banks. Accordingly, a number of research studies investigating the bank-SME relationship have suggested that the more satisfied customers are, the higher the probability they will remain customers and the greater likelihood they will have repurchase intentions (Bloemer et al., 2002; Armstrong and Boon Seng, 2000; Patterson et al., 1997). In addition, argue that those customers who are very satisfied usually provide customer referrals for their bank. Customer satisfaction holds an additional attraction for banks in relation to their
employees. According to Homburg and Stock (2004), a positive relationship exists between the job satisfaction of salespeople and customer.

2.3.4 The Concept of Adaptation

Conventional wisdom in marketing theory holds that the competitive success of firms in business markets is highly dependent on their ability to make changes and adapt to change, particularly in accordance with the needs of their important customers (Woo and Ennew, 2004; Brennan et al., 2003; Hallén et al., 1991). Brennan et al. (2003), who suggested that adaptation comprises a diverse range of actions by firms, defined adaptation in dyadic relationships as ‘behavioral or organizational modifications at the money.

Individual, group or corporate level, carried out by one organization, which are designed to meet the specific needs of one other organization’ (p. 1639). Thus, the authors argued that not only firms need to make changes at the organisational level but also individual employees need to adapt their behavioural attitudes in accordance with the customers’ circumstances. By contrast, Canning and Hanmer-Lloyd (2002) suggested that ‘adaptation can be seen as a coordinated effort between two parties that consists of a repeated series of information exchange, negotiation, commitment and execution phases.

Hence, it is important that the parties involved are able to communicate each other’s expectations and expertise and resources necessary in the process. Moreover, firms in relationships must develop a common understanding of the nature of the problems and possess the ability to find a solution to which they both agree. Thus, adaptation can be seen as the process of modifying resources and the ways of operating so as to benefit more from a relationship.

Ahmad and Buttle (2001) considered adaptation to be a useful strategy for firms striving to obtain customer satisfaction and to develop long-term relationships with their customers. Adaptation is perceived as an investment from one or both of the parties involved, and a failed relationship is, therefore, seen as a wasted investment
that a firm can seldom afford (Brennan et al., 2003). A firm that cannot adapt to the specific needs of its customers will consequently encounter difficulties in developing beneficial partnerships with its customers. Also reported that firms with higher levels of adaptation have higher sales revenues and were more profitable than those firms that were unable to make changes in accordance with the needs of their customers.

In a relationship context, customers—not products—are put at the centre of marketing (Grönroos, 2004; Gummesson, 1996). Although it is preferable that both parties adapt mutually to each other’s needs, it is still the main responsibility of the firms to adapt to the needs of their important customers. According to Grönroos (2002), it is the customers (not the selling firm) who ultimately decide whether a relationship exists or not. Consequently, a prominent feature of a relationship concerns the ability of firms to identify and adapt to the needs of their important customers (Woo and Ennew, 2004; Turnbull et al., 1996).

Indeed, research conducted in a banking context has consistently demonstrated that customers desire relationships with their banks that are adaptive to their specific needs (Lam and Burton, 2006; Aldlaigan and Buttle, 2005; Farquhar, 2004; Adamson et al., 2003). More specifically, it is argued that bank customers expect their banks to understand their specific needs and to be able to offer them services that satisfy those needs. Moreover, they want to do business with a seemingly individualistic bank officer who appears to be as flexible as anyone else in their environment. SMEs consequently do not appreciate doing business with bankers who are more focused on selling the bank products and whose decision-making procedures are mainly based on the availability of their collateral (Harrison, 2001; Binks and Ennew, 1996).

2.3.5 The Concept of Fairness

Research on fairness in a service context has focused on organisational efforts to recover from service failures. In these research studies, the conceptualisation of fairness has been mainly based on the theory of justice or equity theory (Hocutt et al., 2006; Mattila, 2001; Maxham, 2001). From an equity theory perspective, the
satisfaction of customers is thought to increase as firms recover from their failure in a fair manner. Essentially, equity theory is based on the notion that parties involved in an exchange will feel that they are being treated fairly if the amount of input they contribute in the exchange is in balance with the output of the exchange. From the customers’ perspective, it means that customers who obtain what they deserve based on their input will feel that they are treated fairly and are, thus, more satisfied.

In the theory of justice, it is argued that customers evaluate firms based on three factors: distributive fairness, interaction fairness and procedural fairness. Distributive fairness refers to the perceived fairness of the terms and conditions of transactions. Interaction fairness refers to the perceived fairness of the way in which the exchange is conducted. Procedural fairness refers to the perceived fairness of the rules and procedures by which the management of customers is carried out (Holbrook and Kulik, 2001).

In a marketing context, Grönroos (1998) highlighted the same ideas of fairness by using the concepts of technical and functional dimensions of service management. According to this view, fairness is not solely about delivering the right product and/or services. It also entails how customers are treated in the delivery process and the flexibility of the firm’s practices, policies and personnel (Grönroos, 1990). Hence, the concept of fairness mainly involves the creation of confidence in products and services as well as the manner in which the services are delivered to customers (Llewellyn, 2005; Fulk et al., 1985).

Fairness has recently been recognised as being particularly important for financial firms in their customer relations. One of the objectives in the regulation and supervision of financial markets is to enhance confidence in financial institutions and in the financial systems. In the United Kingdom, the Financial Services Authority (2007) is promoting the ‘treating customer fairly’ (TCF) initiative to encourage financial institutions to treat their customers fairly and openly.

Researchers have picked up this term and have further developed the concept of fairness. According to Llewellyn (2005), the key to fairness is confidence in practices that, from the customers’ perspective, remain unseen. Bank organisations
that employ fairness in their strategy are assumed not only to provide their customers with high quality and effective financial products but also to encourage their employees to be flexible and responsive to their customers. Hence, fairness is as much about employee behaviours and approach as systems and controls. The concept of fairness captures the customers’ perception of how credible and professional the organisation is and makes them feel that they are getting good value for their

2.3.6 Adaptation, Fairness and Customer Satisfaction
Customer satisfaction has been described in terms of to what extent the customers’ expectations are met (Oliver, 1980). More specifically, customer satisfaction is considered the emotional reaction to the difference between the expectations of customers and what they actually receive (Zeithaml and Bitner, 2003; Bebko, 2000). The confirmation-disconfirmation paradigm is based on this notion (Eklöf and Westlund, 2002; Anderson and Fornell, 2000; Yüksel and Rimmington, 1998). According to this approach, positive disconfirmation that leads to customer satisfaction occurs when perceived performance exceeds expected performance. Several researchers have stated that customers expect firms to be able to meet their needs. In other words, customer satisfaction can be defined as the ability of firms to adapt to their customers’ needs (Ball et al., 2006; Babakus et al., 2004; Anderson et al., 1994). Indeed, studies conducted recently on the bank-SME relationship have indicated that SMEs reward flexible banks with higher satisfaction levels (Adamson et al., 2003; O’Donnell et al., 2002). In particular, SMEs reward banks for taking an interest in their businesses and in the industry in which they operate.

Although mostly used in the study of service failure and service recovery, fairness is an important consideration for firms—not only during the service recovery process but also in their daily interactions with their customers. All customers want to be treated fairly in their relationships with a firm; thus, fairness should be viewed as an important issue in the development of a relationship, rather than just a service recovery effort. Because of the intangible nature of services, fairness is considered particularly important for service firms. Services are difficult for customers to evaluate prior to purchasing; therefore, they have to trust a service firm to deliver on
its promises. Thus, the concept of fairness has been recognised as an important strategic issue for most service firms in enhancing customer satisfaction and in strengthening customer relationships.

The factors belonging to the organisational dimension in this study refers to those aspects that affect the financial conditions offered and the way in which services are provided to their SME customers. These factors consequently concern the perceived function and system of the bank organisation and can be found at the organisational level. The relational factors on the other hand refer to the behavioural attitude of the individuals in the organisation. The factors belonging to the relational dimension affect the interaction and personal relationship between the individuals involved in a relationship.

In this study, organisational factors such as the banks’ ability to provide financing at reasonable conditions and their focus on the banks’ products were found to influence SME customers banking relationship. Thus, the banks ability to provide financing at reasonable conditions affected the satisfaction of the SME customers positively. The banks focus on their products had a negative effect on the customer satisfaction. These findings are in line with earlier research suggesting that SME customers want their bank to treat them individually with unique needs (Lam and Burton, 2006). Thus, SMEs expect their banks to be able to provide them with financing at reasonable conditions that are in accordance to their specific needs. They do not want to be subjected to standardised treatment, where the individual bankers are more apt in selling the banks products then solving the specific problem of the SMEs. However, in this study we did not find evidence that the rigorous demands as regards to collateral for loan made the SMEs less satisfied with their bank. It might be so that SMEs do understand that banks need to take some form of collateral for their loans and SMEs accept this only the collateral demanded is reasonable. Thus, the banks’ demand for collateral for loan cannot be measured in isolation when analysing its effect on customer satisfaction. Instead it needs to be measured in relation with other factors. In relation to the other factors investigated in this study the banks’ demand for collateral as such is not a determinant factor for customer satisfaction.
As expected the more personal the SMEs perceive their banking relationship the more satisfied they are. In this study we also found that SMEs who felt that they could turn to their bank also in times of trouble were more satisfied than other customers who felt that they could not turn to their bank in times of problem. A probable explanation why some of SME customers feel hesitant to turn to their bank in times of problem is that they are afraid that by displaying their vulnerability the banks might draw back their financial support instead of helping them. However, at the same time developing a strong and close relationship with the bank can mean greater access to finance and assure financial support also in times of difficulties for SMEs (Berger and Udell, 1995).

In this study we did though not find any evidence that the satisfaction of SMEs was increased because of the banks acting as moral support providing the SMEs with important advice. A probable explanation for these findings is that SMEs appear to have formed a strong image of bankers in general. Banks are perceived as able to provide assistance in choosing financial products, but are not expected by SMEs to be able to provide valuable advice that are not closely related to bank financing. This deeply rooted image of banks is actually aimed at the entire industry. We have consistently found in our earlier studies that auditors generally are able to provide more depth in advice provided to SMEs. In general, SMEs report that the types of advice provided by auditors are far more crucial to the core business of the SME. Since SMEs do not expect banks to provide advice on a wide range of issues, it also becomes harder for bankers willing to do so.

In summary, we conclude that SMEs satisfaction with their banks depends mainly on the perceived ability of the banks to deliver financial services at reasonable conditions. In line with earlier research we also found in this study that SMEs want their banks to adapt to their specific needs and circumstances, they do not want the bank to act as sellers who in every situation try to convince to buy products they do really need (Lam and Burton, 2006)
In this study the banks demand for collateral is not found to be a main factor affecting the satisfaction of the customers. The SMEs seem to accept that banks need to take security for their loan as long as the banks have reasonable demands. We also found contradictive results in this study where factors such as personal relationship and the feeling of being able to turn to the bank also in times of difficulties have a positive effect on SMEs satisfaction while the perceived ability of the bank to provide moral support and advice were not found to positively correlated to customer satisfaction. A careful conclusion drawn in this study is that SMEs by developing close relationship with their banks are able to gain financial support also in times of trouble, but they do not expect the banks to provide them with necessary advice or moral support.
CHAPTER THREE

RESEARCH METHODOLOGY

This chapter presents the methodology used for the study. It explains the research design. It also gives details about the population, sample and sampling techniques and the research instruments used in collecting data for the study. It also discusses the data collection methods and data analysis plan.

3.1 Research Design

The research design of this project was a non-experimental or a survey, one which determined the perceived level of involvement of NBC Bank in the financing of SMEs in Tanzania.

The researcher gathered extensive data from the owners and managers of SMEs who does business with NBC Bank. Staff of the Business Banking/SME Banking Unit of NBC Bank, provided information for the study.

The researcher used a cross-sectional design to collect data on relevant variables, one time only, from a variety of people. To this end, questionnaire covering the objectives of the research was prepared and used to collect data from the owners or managers of all the sampled SMEs. The clear reasons for the researcher to use this design is due to the fact that its inexpensive and it take a little time to conduct and also it can estimate occurrence of outcome of interest because simply is usually taken from the whole population

3.2 Sources of Data

Data collection means gathering information to address the critical questions that had been identified earlier in the study. Many methods available to gather information, and a wide variety of information sources were identified. The most important issue related to data collection is 33 selecting the most appropriate information or evidence
to answer questions raised in the study (Brinkerhoff et al., 1983; Archer, 1988; Leeds, 1992).

Primary data is data observed or collected directly from first-hand experience. This type of data is more accommodating as it shows latest information. Secondary data is data published and collected in the past. This type of data is available effortlessly, rapidly and inexpensively.

Data was collected from both primary and secondary sources. Primary data were captured through the use of questionnaires and personal interviews. Secondary data was collected using journals, textbooks, handbooks and manuals, review articles and editorials, literature review, informal discussions with experts, colleagues and conferences as well as published guides.

Data on the internet were located using search tools. The World Wide Web was searched for information. The convenience of the web and the extraordinary amount of information to be found on it are compelling reasons for using it as an information source (Cooper and Schindler, 2001). Search engines such as Yahoo (http://www.yahoo.com), Google (http://www.google.com) and MSN (http://www.msn.com) were used to access vast information on SMEs that assisted in the study.

3.2.1 Interview
Interviews done through face-to-face interactions and constants between researcher and respondents. Both, structured and unstructured interviews were used by the researcher and a total of twenty people were approached through interview. This includes small and medium customers, staff at SME banking, customer experience manager and relationship managers. Interviewers were used to collect primary data

3.2.2 Questionnaire
Open-ended and closed questionnaires were employed so as to impress respondents in expressing their views in relating matter. The researcher used this method with a
reason that, the replied answers will be fully obtained from respondent’s own words and information obtained tends to be free from biasness. A total of twenty questionnaire forms were mailed to the targeted respondents. This method, however, enabled the researcher to get information from the respondents who might not spare time for interview. However questionnaires also were used to get primary data, so as to get insight to the topic.

3.2.3 Population
Before the main fieldwork, a pretest of the questionnaire and the interview schedule was conducted in some of the selected SMEs by the researcher. The main reason for this activity was to ensure that the questionnaire and interview schedules are meaningful, easily understood and appropriate for the main fieldwork. It also enabled the researcher and the field assistants to become familiar with the interview schedules and the questionnaire and to prepare them for the main fieldwork. The population is the complete set of individuals (subjects), objects or events having common observable characteristics in which the researcher is interested (Agyedu et al., 1999).

The targeted population of the study consisted of staff Business Banking/SME Banking of NBC Bank, SME Owners, managers and workers who worked in SME, especially, food processing, bakery, wood products, furniture works, metal works, and machinery works were used as the population for the study. The estimated population is 50 made up of 20 staff and 30 SMEs owners.

3.2.4 Sample
In designing the research study, the researcher took into consideration the need to make inferences from the sample of the population in order to answer the research questions and also meet the research objectives. A sample size of 50 respondents of NBC Bank was used for the study made up of 20 managers and staff of the Bank and 40 owners of SMEs who has been dealing with the Bank. The managers and workers who worked in the following SMEs in the Dar es salaam branches: Five (5) managers of SME Banking of the NBC Bank and owners and workers who worked
in the following SMEs in the City: food processing, bakery, wood products, furniture works, metal works, and machinery works in the Dar es Salaam City.

Table 3.2.4: Guide Sample Size and Technique for Selecting Respondents

<table>
<thead>
<tr>
<th>Target group</th>
<th>Sample method required</th>
<th>Estimated Number</th>
<th>Sample Selected</th>
<th>Technique used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff of the Bank Managers</td>
<td>Interviews and</td>
<td>50</td>
<td>20</td>
<td>Questionnaire</td>
</tr>
<tr>
<td>and Ordinary Staff</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Owners of SMEs Customers</td>
<td>Questionnaire</td>
<td>100</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>150</td>
<td>50</td>
<td></td>
</tr>
</tbody>
</table>

3.2.5 Sampling Technique
In order to get very accurate result for this study, people who were directly involved in the activities of the SMEs as far as financing and management of the businesses were concerned were thus selected. The purposive sampling method was used to select the sample from the population. This method is a non-random sampling where the researcher establishes a criterion devoid of randomness for selecting the sample. In the purposive sampling, the sample is chosen to suit the purposes of the study. This method was chosen because the sample was able to answer the questions and respond to the interviews as objectively as was possible.

3.2.6 Research Instruments
In view of the nature of the topic, it was realized that questionnaire would be the main and the most appropriate instrument to use. Questionnaires are an inexpensive way to gather data from a potentially large number of respondents.

The researcher gave a serious thought to the wording of individual questions. This was done to ensure that respondents answer objectively to the questions in the questionnaire.

The questions were in the open ended and closed or forced choice-format formats. In the open ended question, the respondents formulated their own answers. In closed
format, respondents are forced to choose between several given options. The open ended format allowed exploration of the range of possible themes arising from an issue. It was used where a comprehensive range of alternative choices could not be compiled.

The closed or forced choice-format was easy and quick to fill in. It minimized discrimination against the less literate (in self administered questionnaire) or the less articulate (in interview questionnaire). It was easy to code, record, and analyze results quantitatively and easy to report results (Leung, 2001).

3.2.7 Administration of Questionnaires

Questionnaires sent out to respondents had a personalized covering letter explaining briefly the purpose of the survey, the importance of the respondents' participation, who is responsible for the survey, and a statement guaranteeing confidentiality. This cover letter also expressed thanks to the respondents at the end.

Questionnaires were self administered or read out by interviewers. Interview administered questionnaires were done face to face (Leung, 2001). The self administered questionnaires were cheap and easy to administer. It preserved confidentiality and was completed at the respondent's convenience. It was administered in a standard manner. The interview administration questionnaires allowed participation by respondents who could not express themselves fluently in the English language and allowed clarification of ambiguity (Leung, 2001).

3.2.8 Piloting and Evaluation for Questionnaires

Given the complexity of designing a questionnaire, it is impossible even for the experts to get it right the first time round. The questionnaires were thus pre-tested - that is, piloted - on a small sample of people characteristic of those in the survey. The fieldwork lasted for a period of two weeks. The problem encountered each day was analyzed and resolved before going out the following day. For those owners or managers that could independently fill the questionnaire, it was handed to them and a follow up visit was made after two weeks for collection. For those who could not fill
their questionnaire independently, the researcher adopted face-to-face interactions and interviews based on the format of the questionnaire. Analysis of the responses and the interviewers' comments were used to improve the questionnaire. The pilot test was polished to improve the question order, filter questions, and layout. The respondents were given one month to fill out the questionnaires before their collection. This was done to give them ample time to respond to them. Repeated visits and phone calls though costly were made to the respondents, to ensure high return rate of questionnaires.

3.2.9 Interview Schedule
Interviews involve an interviewer asking one or more interviewees a set of questions which may be highly structured or unstructured; interviews are usually synchronous and are often face-to-face, but they do not have to be. The interviews were conducted with the respondents to get their views on the challenges SMEs were facing in the administration and management of the business and the supports they were receiving from bank to minimize those challenges or problems. The researcher used unstructured interviews for the SME relationship managers of the bank and structured interviews for SME customers.

3.2.10 Structured Interviews
The structured interview, at its most formal may be considered as an oral presentation of a written questionnaire. The interviewer read out the questions and the persons being interviewed gave their responses; while other interaction was kept to a minimum. The structured interviews had a fixed number of questions and even the possible responses were restricted. The questions used in structured interviews are likely to be closed questions although this is not always the case. The structured interview is more efficient in terms of the time taken to collect the data and the degree of reliability and validity is greater than in the more unstructured interview formats for the owners of SME businesses used for the study.

The main disadvantages with a structured approach is that the data gathered lack the richness obtained by more open-ended interviews, and because the number of
possible responses is often limited, participants may be forced into giving responses which do not reflect their true feelings about an issue. The structured interview schedules based on the modules of the questionnaire was very helpful in gathering the data from the owners or managers of SMEs who could not independently fill the questionnaire.

3.2.11 Unstructured Interview
Unstructured interviews tend not to use prepared questionnaires or interview schedules; rather they have a number of themes or issues which they aim to explore. The questions asked are more likely to be open-ended, with the participant providing responses in their own words. The respondent had more control over the conduct of the interview in that they were often allowed to discuss issues as they arose and not necessarily in an order predetermined by the interviewer. The result of this more open-ended approach was a richness of data which was unbiased by any interpretation which the interviewer may have placed on it. The main difficulties with unstructured interviews is that they are time consuming, and perhaps more importantly, the data collected from different respondents will obviously be different, and therefore not always comparable; this may raise issues of reliability and validity for data collected in this way.

3.3 Data Analysis
The raw data obtained from a study is useless unless it is transformed into information for the purpose of decision making (Emery and Couper, 2003). The data analysis involved reducing the raw data into a manageable size, developing summaries and applying statistical inferences. Consequently, the following steps were taken to analyze the data for the study. The data was edited to detect and correct, possible errors and omissions that were likely to occur, to ensure consistency across respondents.

The data was then coded to enable the respondents to be grouped into limited number of categories. The Microsoft Excel software was used for this analysis. Data was presented in tabular form, graphical and narrative forms. In analyzing the data,
descriptive statistical tools such as bar graph complemented with mean and standard deviations were used.

To ensure the external validity of the results of this thesis, two surveys were conducted to develop and test the knowledge acquired from the qualitative study, thus producing more generalisable results. In addition, a thorough drop analysis, with no indication of statistically significant differences between respondents and non-respondents, was conducted.

A description of the settings in which the study was conducted is provided so that other researchers can assess the potential transferability of the findings of the qualitative research portion of this thesis. Interviews with the bank managers and SMEs are also described. To enhance the understanding of the bank-SME relationship and to evaluate the applicability of the results, and the specific characteristics. Furthermore, the selection of the respondents and inclusion into the sample are described in detail in this thesis.

To increase the reliability and dependability of this study, documentation was maintained throughout the entire research process. Before the interviews were conducted, questionnaires were prepared as an aid to ensure that the issues of special interest were addressed in each interview. Notes were taken during the interviews, and the interviews were, if possible, recorded and later transcribed. Causal relations amongst the different constructs were confirmed using different statistical tools, thus ensuring the internal validity of the results of this thesis.

3.4 Limitation of the Methodology
The researcher recognized that the sampling from the target population might not be totally free from errors and as such, efforts were made to minimize such errors. The population of the study consists of Business Banking/SME staff of NBC Bank and customers of NBC SME Banking. Care must therefore be taken in generalizing findings.
Finally, it is important to repeat the limitations to the study which is beyond the control of the researcher in the area of questionnaire administration and retrieval. Concerted efforts were made to ensure better response and retrieval of questionnaires from the respondents.

3.5 Scope of the Study
The study mostly covers the period 2011 to 2013, as the time period is informed by the availability of data, as given by the bank, which is our main source of data, and is expected to be supplemented with some information from the beneficiaries of funds from the bank.
CHAPTER FOUR

PRESENTATION AND DISCUSSION OF FINDINGS

This chapter presents the findings obtained from the field, a total of 50 respondents involved in my study among them 20 were Employees respondents and 30 were Clients respondents. The first part of the section provides demographic profiles of respondents and its findings. The second part focuses on the analysis of response of respondent and discussion of findings.

During data collection both main objective and specific objectives of this research was part of the research questions thus the findings which obtained are direct answer the purpose of this research.

PRESENTATION AND OF FINDINGS

4.1 Demographic profiles of Respondents

The researcher selected the sample based on targeted units using the non-probability sampling method of random sampling, specifically the purposive sampling technique. This method ensured that representative samples of all the known elements of the population were covered in the sample.

A sample size of fifty (50), comprising ten (20) staff (representing 40%) and forty (30) customers (representing 60%) who are basically SME managers and owners of the targeted population responded to the administered questionnaire. Details are shown in Table 4.1.
### Table 4.1: Demographic profiles of Respondents

<table>
<thead>
<tr>
<th>Respondents Distribution Details</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percent (%)</td>
<td>Frequency</td>
</tr>
<tr>
<td>Staff</td>
<td>6</td>
<td>12.00%</td>
<td>4</td>
</tr>
<tr>
<td>Customers</td>
<td>22</td>
<td>44.00%</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>56.00%</td>
<td>22</td>
</tr>
</tbody>
</table>

*Source: Field Survey, June 2014*

The research revealed an overall ratio of 1:0.8 with regard to male and female distribution in terms of gender representation as demonstrated in Figures 4.2.1. The ratio is an indication of almost equal representation of both genders, thereby implying that even though the male dominated the respondents, there was a strong show of the female.

### 4.2 Educational Level of SME Owners/Managers

The study revealed that all the respondents are well educated with the least holding a Secondary ‘O’ & ‘A’ level certificate. Majority (45%) of the respondents have attained Bachelors degree; 42% were Secondary ‘O’ & ‘A’ level holders and the remaining 13% Diploma. None of them held a Masters Degree certificate. Figure 4.3 shows details.

<table>
<thead>
<tr>
<th>Education</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary level</td>
<td>13</td>
<td>42</td>
</tr>
<tr>
<td>Diploma level</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>Bachelor level</td>
<td>14</td>
<td>45</td>
</tr>
<tr>
<td>Masters level</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Field Survey, June 2014*
4.3 Analysis of Responses of NBC Bank Staff

4.3.1 SME Banking Period
The study showed that all the staff respondents have been on the SME Banking between the period of less than 2 years and four (4) years with the three (3) years class attaining the highest response of 60 percent. Nevertheless, the ‘less than 2 years’ class was the next on the rank, recording 30 percent; there was no representation for 5 years and ‘over 5 years, although the 4 years class attained 10 percent.

4.3.2 Financial Services offered to SME Customers
The study identified five main financial services rendered to SMEs; include Overdraft, Bank guarantee, term loan, Cash Management, and Business Advice. It was discovered that the financial services mostly offered to SME managers and owners by NBC Bank at Corporate and Samora branch were overdraft and term loan evidenced by the 3 percent each representation recorded in the aforementioned services, illustrate in Table 4.4.2. Cash Management also featured strongly as next most patronized service offered by the bank, as shown by the 20 per cent representation on; while over bank guarantee and business advice were the least rendered, evidence by the 10 percent representation each.

Table 4.3.2: Financial Services offered to SME

<table>
<thead>
<tr>
<th>Customer Service</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overdraft</td>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>Bank guarantee</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>Term loan</td>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>Cash management</td>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>Business advice</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey, June 2014
4.3.3 Relationship Ratings with SME

The research indicated that the relationship between the bankers and their respective SMEs is generally very good, supported by the 40 percent showings; followed closely ‘Good’, registering 30 percent and 20 percent believed it was ‘excellent’. Conversely, 10 percent insisted that it was poor, and therefore more needed to be done. Details are shown in Table 4.4.3 below.

Table 4.3.3: Relationship Ratings with SME

<table>
<thead>
<tr>
<th>Rating</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Very Good</td>
<td>4</td>
<td>40%</td>
</tr>
<tr>
<td>Good</td>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>Poor</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Survey, June 2014

4.3.4 Conditions for Extending Credit Facilities

The study identified six major conditions or criteria considered when the bank is extending credit to SME customers. These conditions are ‘years of existence’, ‘past and projected cash flow’, ‘credit history’, ‘lines of business’, ‘collateral’ and business location.

Table 4.3.4: Credit criteria to qualify SME

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years of existence</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>Cash Flows</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>Credit history</td>
<td>3</td>
<td>30%</td>
</tr>
<tr>
<td>Line of business</td>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>Collateral</td>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>Business location</td>
<td>1</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Survey, June 2014
Out of all the afore mentioned criteria NBC Bank, Corporate and Samora branches uses as benchmark for assessing the credibility of SMEs, credit history stood tall among the rest with 30 percent; closely followed by collateral and line of business, each of which registered 20 percent while the rest attained just 10 percent each.

4.3.5 Major Challenges of SME Banking
The study recognized three (3) major challenges (management, high default rate and monitoring) that militate against the SME Banking Unit of NBC Bank at Corporate and Samora branch. As indicated in Table 4.4.5. High default rate on the part of SMEs has been that bane for the SME Banking Unit of the selected branches.

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>High default rate</td>
<td>6</td>
<td>60%</td>
</tr>
<tr>
<td>Monitoring</td>
<td>2</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Survey, June 2014

4.3.6 Major SMEs financed
The five (5) major SMEs that NBC Bank, at Corporate and Samora has single-handedly extended assistance from their respective start-up stage to the current state are: S.A.AS Bakery, Majembe Auction Mart Ltd, Peky Enterprises Ltd, Psc General Traders Ltd and Azhar Construction Co. Ltd.

4.3.7 Other Assistance Aside Finance to SMEs
It was discovered that apart from the provision of financial assistance to the SMEs, the bank rendered services which could generally be classified as below:

(i.) Business and financial consultancy
(ii.) Customer relationship management
4.4 Analysis of Responses of SME owners and Managers

4.4.1 Main sector of SME Activity

Six main industry from which SME financed by NBC Bank are operating from were noticed by the researcher. They are Food processing, manufacturing, service, transportation, machinery and construction. The study showed that service sector has the modal class of 27 percent; followed by Food processing and construction, which recorded 20 percent each; the manufacturing and transportation 13 percent representation each and the least being metal machinery (7 percent).

Table 4.4.1: Main sector of SME Activity

<table>
<thead>
<tr>
<th>Activity Industry</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>6</td>
<td>20%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4</td>
<td>13%</td>
</tr>
<tr>
<td>Service</td>
<td>8</td>
<td>27%</td>
</tr>
<tr>
<td>Transportation</td>
<td>4</td>
<td>13%</td>
</tr>
<tr>
<td>Machinery</td>
<td>2</td>
<td>7%</td>
</tr>
<tr>
<td>Construction</td>
<td>6</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey, June 2014

It could be deduced that by the number of years of operation, at least above six years, SMEs customers are in the best position to give an account of the financial services challenges the industry faces.

4.4.2 Period of Doing Business with the Bank

The study indicated that all the respondents have been doing business with NBC Bank for more than 4 years; 37 percent have had the bank for a period of 10 to 12 years; 7-9 years recorded 27 percent; 13+ years attained 23 percent and 4-6 years registered 13 percent. Table 4.5.3 provides details. This is an indication that all the (business owners and managers) respondents have a clear assessment of the challenges facing satisfaction of SMEs and would be in the position to address issues raised in that area.
Table 4.4.2:   Period of being with the Bank

<table>
<thead>
<tr>
<th>Period</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 years</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>4 - 6 years</td>
<td>4</td>
<td>13%</td>
</tr>
<tr>
<td>7 - 9 years</td>
<td>8</td>
<td>27%</td>
</tr>
<tr>
<td>10 - 12 years</td>
<td>11</td>
<td>37%</td>
</tr>
<tr>
<td>13+ years</td>
<td>7</td>
<td>23%</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Field Survey, June 2014

4.4.3 First Financing Request

There was an overwhelming (100%) response to the fact that SMEs first request for financing from the bank was ‘application filled in at the branch’. Consequently, four assertions through which SME chose the bank to request for the first time or make additional credit requests were identified. These are:

(i.) ‘That was the regular financial institution for the businesses
(ii.) ‘That was the only financial institution in my area’
(iii.) ‘Thought other financial institutions would reject the application’
(iv.) ‘Thought this financial institution would offer the best terms’

It was noticed that majority (65 percent) preferred the assertion, ‘Thought this financial institution would offer the best terms’ to ‘This was the regular financial institution for the business’, which attained 25 percent; ‘Thought other financial institutions would reject the application’, registering 16 percent; and ‘This was the only financial institution in my area’ (4 percent).

4.4.4 Types of Financing

As many as six (6) types of financing were noticed as products requested by SMEs from NBC Bank. Overdraft registered 33 percent as the modal class; 20 percent for Term loan; 17 percent for Trade finance; Vehicle asset finance attained 13 percent; short term loan recorded 10 percent and 7 percent for current account as illustrated by Table 4.5.5 below.
Table 4.4.4: Types of Financing

<table>
<thead>
<tr>
<th>Type of Financing</th>
<th>Count</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overdraft</td>
<td>10</td>
<td>33%</td>
</tr>
<tr>
<td>Trade finance</td>
<td>5</td>
<td>17%</td>
</tr>
<tr>
<td>Term loan</td>
<td>6</td>
<td>20%</td>
</tr>
<tr>
<td>Current account</td>
<td>2</td>
<td>7%</td>
</tr>
<tr>
<td>Vehicle asset finance</td>
<td>4</td>
<td>13%</td>
</tr>
<tr>
<td>Short term loan</td>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey, June 2014

4.4.5 Use of Financing

The study exhibited that SMEs uses the requested financial facilities for ‘working/operating capital’ (45 percent) and construction (30 percent); 25 percent for fixed assets purchase. The details are tabulated represented below.

Table 4.4.5: Use of Financing

<table>
<thead>
<tr>
<th>Usage</th>
<th>Count</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Assets purchase</td>
<td>10</td>
<td>25%</td>
</tr>
<tr>
<td>Working/Operating capital</td>
<td>18</td>
<td>45%</td>
</tr>
<tr>
<td>Construction</td>
<td>12</td>
<td>30%</td>
</tr>
<tr>
<td>Debt Consolidation</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey, June 2014

4.4.6 Documentation-Application Process

As part of the application process the study showed that certain documentations are requested by the bank. These are: Formal application for financing, Business certificates of registration, Business financial statements, Business plan, Appraisals of assets to be financed and Cash flow projection.

Furthermore, it was detected that 73 percent of respondents have had their loan application rejected before and the remaining 27 percent had theirs accepted. The reasons assigned to the rejection of the loan applications or in other words major
problems faced by SMEs in securing funds are: Lack of collateral/guarantees, inadequate compiled financial records and accounts, Poor credit experience or history; inexperienced management team or lack of professionalism; inadequate technologies; and limited knowledge of business opportunities.

Again, the study brought to the fore the fact that almost 80 percent of SMEs were not satisfied with the reasons and explanation put forward for the rejection of loans. Also, majority (75 percent) indicated that SMEs were not required to provide personal assets as collateral by the bank to guarantee of loans; while the remaining 25 percent affirmed that they were asked to provide collateral as loan guarantee.

4.5 Impact of Financing on SME

The research identified the impact of financing SMEs as enlisted below:

(i.) To grow and develop the business;
(ii.) To provide employment;
(iii.) To empower the private sector; and
(iv.) Contribute to the GDP of the economy of Tanzania.

4.6 Assessment of SME Banking

The researcher used seven (7) variables as tools of measurement to assess NBC Bank SME Banking to its valuable SME customers as mentioned earlier. This is picture squeal represented by Table 4.6. On Appendix IV

4.6.1 Overall Quality & Interest Rate

The overall quality of the SME Banking of NBC exhibited an overwhelming satisfaction of 17 percent and dissatisfied by 83 percent the business owners as illustrated by Table 4.6. On the contrary, the interest rate and services fee charged met 67 percent dissatisfied and met 33 percent satisfied by SME owners where response by the study.
4.6.2 Process Time/Understanding Business Needs
The time to process application of financing was dissatisfied by customers with a 48 percent response; even though, 38 percent were satisfied and 15 percent very satisfied. Also, on the issue of understanding business the study discovered that 60 percent respondents were collectively satisfied, 3 percent satisfied and 37 percent dissatisfied as shown by Table 4.7.1 above.

4.6.3 Convenience and Accessibility/Account Manager relationship/Documentation
The study showed that 37 percent were satisfied with the convenience and accessibility of SME financing, though, 63 percent were dissatisfied. There was cumulative 57 percent satisfaction, 10 percent satisfied and 33 percent dissatisfied with the relationship SME account manager and the SME owners and managers alike. For required documentation, the study indicated that collective 23 percent satisfied, where the only 17 percent show to be very satisfied and 60 percent among them show being dissatisfied as detailed in Table 4.7.1 above.

4.7 Discussion of Findings
This part evaluates and discusses the findings of the study by drawing together all the issues of research and link back to the aim and objectives which were outlined in the introduction and methodology. The problem this study is executing Customer satisfaction in SME financing in banking industry involves many issues, including the use of unique processes and solutions. To be successful with SME finance banking organizations must define and develop a Solution for constraints that customers face as well as to find strategies which will enhance to provide customer satisfaction to such group. The overall objective of this study was customer satisfaction in SME financing services in the banking industry with the following specific objective were to assess the constraints that customers faces to access finance, to evaluate the SME financing services offered to customers by the bank, to identify the barriers that commercial banks faces in the financing of SMEs and to suggest how best to improve access of funds to SMEs customers by NBC Ltd.
4.7.1 To Assess the Constraints Those Customers Faces to Access Finance

According to reviewed literature above it shows that, the lack of appropriate working capital products has resulted in SMEs relying on traditional loans, which typically entail lengthy approval procedures. Several SMEs spoke of instances in which they were unable to meet customer orders, or make an important purchase, due to delayed loan approvals. The speed of approval for working capital is critical as SMEs may have only a limited amount of time to fulfil a particular order some SMEs mentioned using mostly overdrafts because when a good opportunity comes their way they cannot afford to wait out the lengthy loan procedures.

During the interview with Mr. Patrick Sungura Managing Director of PSC General traders ltd one of SME customer at Samora Branch argued that the delayed approval of working capital loans it cost such type of customers he said “I’m very hungry with such behaviour of our bank for taking long time to approval my application of TZS 150,000,000 which I applied since March 2014 as a result I lost a big order of more than TZS 150,000,000 with deadline at the end of April after the bank approved the application on May 2014, which cause the failure to my company to meet the order for my client and therefore no more trust to get another order from the same client at the future.

Then another constraint which SME customers face is Regulatory which pose serious challenges to SME development and although wide ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm-level. The high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims, and excessive delays in court proceedings adversely affect SME operations. In the case of Ghana, the cumbersome procedure for registering and commencing business are key issues often cited.

Apart from that, in this study the issue of access to funds is another constraint where SME faces caused by various factors like issue of securities needed by banks to cover the borrowing amount, such securities must be property with title deed while
you can see most of properties in town and cities have licenses which cause this type of customer to fail on requirements to get those finances.

In general SME customers is a segment which needed to be given their loan on time in order to meet their clients requests, also the legal frame work such cost to start up the business as well as cumbersome procedures for registering businesses are key areas to be considered and lastly the issue of securities to cover loans at banks should be taken into first consideration for those commercial banks to reduce such condition by providing loans with even property with licenses as you can see now in Tanzania many towns as well as cities like Dar es salaam most properties are recent does not poses title deed but they have licenses.

4.7.2 To Evaluate the SME Financing Services Offered To Customers by the Bank

Despite the recognized importance of the SME sector, evidence indicates that SMEs continue to be undersupplied with the financial products and services that are critical to their growth. In global surveys, including the World Bank’s Enterprise Surveys and Investment Climate Assessments, SMEs report that the cost of finance is their greatest obstacle to growth and rank access to finance as another key obstacle.9 While these constraints are more acute in developing countries, SMEs in any environment are nearly one-third more likely than large firms to rate financing constraints as a “major” growth obstacle. In low-income countries, this means that nearly half of small firms report being severely constrained by financing difficulties.

On the research finding itself through questionnaires it shows that most services offered SME customers are overdraft facility, term loan, Trade finance, vehicle asset finance and short term loan.

Complaints of financial constraints by firms may not be completely reliable indicators of what SMEs actually face, but data from these surveys also show that SMEs actually use external financing to a much lesser degree than large enterprises. For example, even though bank financing is consistently the most important source
of external financing for small firms, large firms are more likely than small firms to use bank financing for a new investment.

This differential use of bank financing could indicate a lack of SME demand, in addition to a lack of supply. However, microeconomic studies of SME behavior suggest otherwise. At least in the SMEs observed, these studies clearly locate the finance gap on the supply side. One such study showed that when SMEs were offered temporary access to subsidized credit, they used this credit to expand production, rather than to substitute for more expensive borrowing. The additional credit received by SMEs was directly linked with expanded business operations and increased sales and profits. The actions of these firms strongly support the common complaint by SMEs that finance is a major constraint to their growth.

This claim is also supported by measurements of the impact of financial constraints on firm growth. Not only do small firms have more difficulty accessing finance, but they are more negatively affected by this difficulty than larger firms. One study has estimated that the negative growth impact of financial constraints on small firms is two-thirds greater than the negative impact of financial constraints on large firms.

SMEs are particularly in need of bank services because they lack the cash flow to make large investments, they cannot access capital markets as large firms can, and they often lack qualified staff to perform financial functions. Here, bank-provided long-term debt can enable SMEs to invest in expansion without losing ownership.

In addition, short-term and working capital loans help SMEs grow incrementally. Lastly, bank deposit and transaction products can improve operational efficiency and enable SMEs to outsource financial functions.

Long-term financing products, such as term loans with longer maturities and fewer restrictions on usage, provide SMEs with investment capital for strategic business expansion for example, through research and development, or property and
equipment purchases. SMEs may have difficulty because of inadequate financial records or assets to use as collateral.

While some banks offer unsecured loans to SMEs, based on cash flow rather than collateral, these loans often come with shorter maturities; in general, collateral requirements have been the norm.

Partially due to this, long-term finance is one of the most commonly cited needs of SMEs, and in many aspects, long-term loans are where the “missing middle” problem has been most acute, especially in developing countries. Depicts the problem SMEs have faced when looking for long-term finance. Bank products can also enable SMEs to take on more and larger contracts. A small or medium enterprise may have a potential order from a customer in place, but need cash up front to complete the order. Banks can provide short-term working capital to such SMEs to purchase supplies, pay employees, and meet obligations to clients.

Providing help with order fulfilment can extend across borders as well, with trade financing assistance. For example, with a letter of credit, exporting SMEs can offer customers better payment terms because a bank pays the enterprise based upon documentation of the sale and extends credit to the customer of the enterprise.

**Transactional products (Business current account)**
Transactional products facilitate SME access to and use of available cash. Automatic payroll and payment collection, debit cards, and currency exchange are transactional bank offerings that lower the cost of doing business and streamline potentially complicated processes.

Finally, SMEs have important operational needs that banks can meet with non-lending products that include deposits and savings, transactional products, and advisory services. Some of these products can effectively enable SMEs to outsource financial functions to the bank. Deposit and savings products provide businesses with basic financial management tools to help organize revenues and savings.
Additionally, mutual funds and other investment products provide businesses with opportunities to obtain earnings on excess capital.

4.7.3 To Identify the Barriers that Commercial Banks Faces In the Financing of SMEs

On the review of the literature above it show that most of the commercial banks in Africa have been facing barriers in financing SMEs as explained below as;

Banks can often earn high returns in their core markets, giving them little reason to take on additional risk in the SME market. Banks in countries with immature financial systems often face little competition and a low threat of entry and can therefore earn handsome returns by lending to large public and private players; It shows that Banks in Africa are among the most profitable, earning often returns in equity in the 15-25%. They might realize the potential of the SME market, but they have little incentive to move outside of their comfort zone and develop SME products. As Paul Collier observed: “African banks were operating profitably via the easier and safer role of lending to large firms, and holding high-yielding government debt.” As a result, in the words of a manager of one leading African bank “we have only scratched the surface of the SME market.”

Then banks incur higher administrative costs by lending to SMEs. The costs of lending to SMEs are relatively high, as loan sizes are small, and the transaction costs per loan are relatively constant. This reduces incentives for regular banks to lend to them. The difference in fees, interest rates and relative share of loans to SMEs for African and non-African banks.

Also banks have difficulty providing long-term capital in developing countries is often reliant on short-term liabilities (such as deposits). There are few traditional long-term borrowers, such as pension these players focus mostly on large- and medium-sized firms, and would commonly not invest in smaller SMEs. However, some specialized investment firms have emerged, which focus on financing small enterprises that have an intentionally positive social impact and address poverty
beyond local economic stimulation. In addition, although still at a very small scale, the first local venture capital funds have started to emerge in developing countries.

Apart from that Banks have limited information, skills and regulatory support to engage in SME lending. There are a variety of different forms of SME lending, as shown in many forms, however, are difficult to implement in developing countries. The countries often have weak accounting standards, and the SMEs have little to no accurate financial statements on their revenues, profits and ability to pay. Furthermore, there is often little to no general market data available on the SME market and specific sub-sectors (e.g. default rates). This limits the potential for lending based on financial statements or small business credit scores. Therefore, banks primarily engage in relationship-based or other forms of collateral-based lending, rather than cash-flow based lending. Banks tend not to provide financing for working capital to SMEs, which is cited by SMEs as one of the areas of greatest need. The lack of collateral for some borrowers and/or clear recourse legislation (e.g. ability to claim collateral) however, can complicate the possibilities to do collateral based lending (e.g. asset-based, real-estate or equipment lending). Finally, banks need specific skills to engage in the different forms of SME lending. A recent Dalberg survey showed that the difficulty in establishing credit-worthiness was a key barrier, with 80% of banks stating challenges in this area. Lack of these skills can lead banks to avoid the SME market in its entirety, and invest only in high-yielding sovereign government debt, or it can translate into inadequate risk management, leading to lower repayment rates and returns. Some recent initiatives, such as the IFC SME banking guide, are aimed at decreasing this skill gap.

From the above findings, it can be said that smaller firms as costly, high-risk credit units which, many commercial banks avoid lending to and concentrate instead on "safer" options such as financing larger local or multinational corporations, or holding high-yield government bonds. While understandable given current realities at many banks, this approach unfortunately dims the prospects for sustainable development by ignoring the necessity of a bottom-up capital formation where a key factor in the job creation necessary for reduction of poverty and income inequalities.
Proven models of profitable small business banking do exist that can be transferred from country to country, scaled up over time, and then replicated more widely for considerable development impact.

4.7.4 To suggest how best to improve access of funds to SMEs customers by NBC Ltd.

Commit to transparency and consistency
The Bank should improve their relationship management with businesses and their advisors. Restoring trust between bank and their clients will require a commitment to transparency and consistency on the part of lending institutions.

It is clear that some banks have re-appraised their risk and reward preferences for SMEs. Banks need to address the consequential ‘fear of approach’ held by businesses by clearly explaining how the changed economic environment has affected banks’ business lending policies. In particular, they should make a sustained effort to better communicate with businesses at early stages in the lending application process to improve understanding of the following:

(i.) How long credit applications are likely to take
(ii.) What restrictions on decision-making are imposed on relationship managers and branch managers by head office and whether specific decisions will be transferred to higher levels
(iii.) How many credit committees will examine the application
(iv.) The full extent of non-price lending conditions
(v.) The enforcement regime for covenant breaches
(vi.) How much financial information will be required from the SMEs, including whether management accounts will be required on a monthly basis rather than quarterly or bi-annual basis

Within banks there needs to be greater consistency of SME lending practices. Greater transparency in communicating the credit application process, as detailed above, may help to address inconsistency by publicly managing expectations towards a consistent approach to lending.
Promote alternative forms of finance

Bank should adopt a more holistic approach to helping businesses access appropriate forms of finance. Bank need to be more proactive in creating awareness of complementary forms of debt finance or asset-based lending (ABL), where appropriate for the business, together with the associated legal, financial and operational implications for that business.

ABL includes invoice discounting and debt factoring and other forms of asset-based finance, where an organisation borrows money against their property, plant, machinery, stock, or sometimes even their brand name. ABL can be an appropriate alternative to bank loans and overdrafts for relieving pressure on cashflow or for funding business needs such as capital purchases or financial restructuring. ABL is not generally dependent on the existing profitability of a business and, compared to bank loans and overdrafts, can support business growth without imposing additional banking restrictions on a business.

Strengthen the appeal process

Banks should strengthen their appeal processes for lending and effectively communicate those processes to their credit applicants. For difficult decisions, particularly those involving existing clients, the appeals process should include an option to use an independent mediator with expertise in corporate finance.

To promote education training to SME customers to facilitate finances.

The bank also should provide education training support to SME customers in order to help them to utilize well their finances hence to the best outcome to their businesses. In this case one of the client called Phabian Victor Mhamilawa who is an SME Customer at Samora branch during the interview argued that, its better for the bank to train its clients on how to use such finances as we know that most of them they are not much educated especially in business skills that lead a big poor financial distress, which also cause most of them to fall in default over the bank.
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

It is generally held that accessibility to credit is one of the important ingredients of successful developing SMEs. Access to adequate finance is a major component of successful SMEs in Tanzania. The availability and good management therefore of finance is critical for the survival of any business.

Thus financial needs of SMEs are urgent and inadequately served to require special financing programmes especially from the financial sectors which grants credit to a large scale enterprises easily than small and medium enterprises. Considering the importance and the benefits to be derived by a well developed SME industries in Tanzania, one would have thought that every effort must be made to achieving maximum performance of its sector but unfortunately numerous problems hinder the achievement of these roles, hence, the need for improvement on the short falls in financing SMEs, though difficult as it is considering the Tanzanian circumstances is paramount.

The main objective of the study is to assess Customer satisfaction in SME financing services in the banking industry, taking cognisance of the role and contributions of NBC Limited; specifically looking at how to identify the main Service of finance for SMEs and assess their effectiveness on business in their respective industry; to determine the positive impact of financing on the business development of SMEs in Dar es salaam Region; and to verify the characteristics that influences the service satisfaction of SMEs by NBC Bank among others.

Adopting the non-probability sampling method of random sampling, specifically the purposive sampling technique a sample size of fifty (50), comprising ten (20) bank staff (representing 40%) and forty (30) customers (representing 60%) who are basically SME owners of the targeted population was selected; an overall ratio of 4:6
with regard to male and female distribution in terms of gender representation was also discovered.

5.1   Summary of Findings

5.1.1 SME Banking Period
The study showed that all the staff respondents have been on the SME Banking between the period of less than 2 years and four (4) years; majority having been with the Unit for three (3) years period.

5.1.2 Financial Services offered to SME Customers
The study identified five main financial services rendered to SMEs, as are current account, Overdraft, Term loan, Bank guarantee and Business Advice. It was discovered that the financial services mostly offered to SME owners by NBC Bank branches at Corporate, Samora and Head quarter were Business working capital (Overdraft) and Term loan.

5.1.3 Relationship ratings with SME
The research indicated that the relationship between the bankers and their respective SMEs is generally very good.

5.1.4 Conditions for Extending Credit Facilities
The study identified six major conditions or criteria considered when the bank is extending credit to SME customers; which are ‘account turn over’, ‘past and projected cash flow’, ‘credit history’, ‘ lines of business’, ‘collateral’ and business performance.

Out of all the aforementioned criteria NBC Bank, Corporate, Samora and head quarter uses as benchmarks for assessing the credibility of SMEs, credit history.
5.1.5 Major challenges of SME Banking

Three (3) major challenges (management, high default rate and monitoring) that militate against the SME Banking Unit of NBC Bank, Corporate and Samora branch were identified.

5.1.6 Major SMEs Financed

The five (5) major SMEs that NBC Bank, Corporate and Samora branch has single-handedly extended assistance from their respective start-up stage to the current state, namely, S.A.AS Bakery, Majembe Auction Mart Ltd, Peky Enterprises Ltd, Psc General Traders Ltd and Azhar Construction Co. Ltd. Apart from the provision of financial assistance to the SMEs, the bank rendered services which could generally be classified as ‘business and financial consultancy' and ‘customer relationship management' (CRM).

5.1.7 Main Sector of SME Activity

Six main industry from which SME financed by NBC Bank are operating from were noticed by the researcher. These are Food processing industry, manufacturing industry, Transportation industry, Machinery works industry, and Construction works industry and the Service producing sector being the most patronized sector. The research showed that 50 percent of SMEs registered their firms with the Registrar General and majority did so as sole proprietor, while Private Ltd and Private partnership are in the minority.

5.1.8 Period of Existence of SME and Doing Business with the Bank

Majority have been operating between the period of 6 and 10 years in their respective sectors. The study indicated that all the respondents have been doing business with NBC Bank for more than 5 years; but majority had been with the bank for a period of 10 and above years.

5.1.9 Types of Financing

As many as six (6) types of financing were noticed as products requested by SMEs from NBC Bank with Overdraft being most offered.
5.1.10 Use of Financing

The SMEs uses the requested financial facilities for ‘working/operating capital, to purchase fixed assets and construction. Several SMEs have had their loan application rejected before and the reasons assigned to the rejection of the loan applications or in other words major problems faced by SMEs in securing funds are: Lack of collateral/guarantees, Inadequate compiled financial records and accounts, poor account turn over, Poor credit experience or history; Inexperienced management team or lack of professionalism; Inadequate technologies; and Limited knowledge of business opportunities.

SMEs were not satisfied with the reasons and explanation put forward for the rejection of loans, that SMEs were not required to provide personal assets as collateral by the bank to guarantee of loan and take base of account turn over on approving loans.

5.2 Conclusion

The impact of financing SMEs is 1) To grow and develop the business; 2) To provide employment; 3) To empower the private sector; and 4) Contribute to the GDP of the economy of Tanzania. The overall quality of the SME Banking of NBC Bank exhibited an overwhelming satisfaction by the business owners; and was dissatisfied with the interest rate and services fee charged. SMEs were dissatisfied with the process of application of financing but were satisfied with the bank exhibiting understanding to their business needs.

They were dissatisfied with the convenience and accessibility of SME financing and there was satisfaction with the relationship between SME account manager and the SME owners.

5.3 Recommendation

In view of the findings of the research the following recommendations are made in order to sustain the SME to grow into much bigger industries in the near future.
**SME Banks**

It is not enough to have an SME Banking Unit but to ensure that management of the bank identifies the constraints of the SMEs on one-on-one basis and put in strategies to surmount not only customer satisfaction but also financial challenges and technical as well.

Apart from that, educational workshops and training should be organized by the banks for the SME operators to ensure efficient and effective management of financial resources. Again lack of knowledge by most industrialists on the activities and requirements of the established institution set up to help finance SME can be eliminated through such education.

Also SMEs are advised to use the approved loan for the specific business purposes and not otherwise to avoid loss to the business as well to avoid increasing default rate to the banks that uses to finance them.

**SME National Policy**

Government should take the lead in financing SME, if it believes that over 30-35% of Tanzania’s GDP is contributed by the SMEs which are with the private sector if it wants the saying that the private sector is the engine of growth and not one of that political rhetoric.

A national policy for SME including financing strategies should be formulated, implemented and monitored. It is expected that the government should provide resources to create an incentive scheme for financial institutions to make flexible loans available to SMEs in Tanzania. The government should also make available enough loan able funds to the institutions set up to help finance the small – scale industries. Again the government should take bold initiative to introduce more financial schemes into the system with appropriate policy objectives.
5.5 Suggestion for Further Research

The study is a case study of one particular bank, however, every aspect of SME satisfaction in financing could not be studied let alone taking some of the core variables of the SME industry and subjecting them to a more analytical study to determine the extent to which they can withstand competition using quantitative methods. As a result this other appropriate variables such as profit of the SMEs and viability should be taken into consideration to determine the exact effect of the challenges they face. A further study on this regard would be appropriate.
REFERENCES


APPENDICES

Appendix 1: Questionnaire for Staff

CUSTOMERS SATISFACTION IN SME FINANCING SERVICES: WITH REFERENCE TO WORKING CAPITAL LOAN AT NBC, TANZANIA

This is a research being conducted in partial fulfillment of the requirement for the award of Masters in Business Administration (MBA) in Corporate Management at Mzumbe University Dar es salaam Campus. Respondents are assured of confidentiality and anonymity of the information they provide. They are further assured that any information they provide is purely for academic purposes.

Instructions: Please kindly tick in the boxes provided or write in the spaces provided your responses

1. How long have you been in SME banking?
   (a.) Less than 2 years (       )
   (b.) 3 years (       )
   (c.) 4 years (       )
   (d.) 5 years (       )
   (e.) Over 5 years. (       )

2. Which financial services do you offer your SME customers?
   (a.) Overdraft (       )
   (b.) Bank guarantee (       )
   (c.) Term loan (       )
   (d.) Cash management (       )
   (e.) Business advice (       )
   (f.) Others (specify) ____________________________________________
3. What conditions do you consider when extending credit to customers who are SMEs
   (a.) Years in existence ( )
   (b.) Past and projected cash flows ( )
   (c.) Credit history ( )
   (d.) Line of business ( )
   (e.) Collateral ( )
   (f.) Business location ( )

4. What has been the major challenge for your SMEs banking unit?
   (a.) Management ( )
   (b.) High default rate ( )
   (c.) Monitoring ( )
   (d.) Other (specify) ________________________________

5. Provide the names of at least five major SMEs that your bank has single-handedly extended assistance from its start-up stage to its current state.
   (a.) ________________________________
   (b.) ________________________________
   (c.) ________________________________
   (d.) ________________________________
   (e.) ________________________________

6. Apart from the provision of financial assistance to the SMEs, what other service do you render to them?
   __________________________________________________________
   __________________________________________________________
   __________________________________________________________
7. What recommendations would you like to give which you believe would be a panacea to surmount the financing services challenges facing SMEs.

Thank You for Your Time
Appendix 2: Business Owners Questionnaire

CUSTOMERS SATISFACTION IN SME FINANCING SERVICES: WITH REFERENCE TO WORKING CAPITAL LOANS CUSTOMERS AT NBC, TANZANIA

This is a research being conducted in partial fulfillment of the requirement for the award of Masters in Business Administration (MBA) in Corporate Management at Mzumbe University Dar es salaam Campus. Respondents are assured of confidentiality and anonymity of the information they provide. They are further assured that any information they provide is purely for academic purposes.

Instructions: Please kindly tick in the boxes provided or write in the spaces provided your responses

1. Identify the sector that represents the main activity of your business
   (a.) Food processing industry (   )
   (b.) Manufacturing industry (   )
   (c.) Service producing industry (   )
   (d.) Transportation industry (   )
   (e.) Machinery works industry (   )
   (f.) Construction works industry (   )

2. Have you registered your business?
   (a.) Yes (   )
   (b.) No (   )

3. If your answer to question 2 is “yes,” what is the legal status of your business? (Check one only)
   (a.) Private limited liability companies (   )
   (b.) Sole proprietorship (   )
   (c.) Private Partnership (   )
4. How old is your firm?
   (a.) 2 years or less (  )
   (b.) 3 and 5 years (  )
   (c.) 6 and 10 years (  )
   (d.) 11 years and above (  )

5. For how long have your firm transacted business with NBC Ltd?
   (a.) 3 years or less (  )
   (b.) 4 - 6 years (  )
   (c.) 7 - 9 years (  )
   (d.) 10 - 12 years (  )
   (e.) 13 years and above (  )

6. Do you have a designated account manager assigned to manage your firm’s banking relationship?
   (a.) Yes (  )
   (b.) No (  )

7. How did the firm first request a financing from NBC Limited?
   (a.) Application filled in at branch (  )
   (b.) Application made by phone (  )
   (c.) Application over the internet (include electronic mail and website) (  )
   (d.) Others (please specify) __________________________________________

8. Why did the firm choose NBC Limited for request or additional credit?
   (a.) This was the regular financial institution for the business (  )
   (b.) This was the only financial institution in my area (  )
   (c.) Thought other financial institutions would reject the application (  )
   (d.) Thought this financial institution would offer the best terms (  )
   (e.) Other reasons (please specify) ________________________________
9. What type of product/financing did the business request from NBC Limited?
   (a.) SME current account (       )
   (b.) Overdrafts (       )
   (c.) Business Installment Loans (       )
   (d.) Express Trade (       )
   (e.) Trade Finance (       )
   (f.) Working Capital facility (       )
   (g.) Others (please specify) ____________________________

10. How the firm did use the financing that was requested from NBC Limited?
    (a.) To purchase fixed assets (       )
    (b.) Working capital/operating capital (       )
    (c.) Construction (       )
    (d.) Debt Consolidation (       )
    (e.) Others (please specify) ____________________________

11. Have you ever had your application rejected before?
    (a.) Yes (       )
    (b.) No (       )

12. If you answered “yes” to question 13, what are the major problems faced by
    SMEs in securing funds?
    (a.) Lack of collateral/guarantees (       )
    (b.) Inadequate compiled financial records and accounts (       )
    (c.) Poor credit experience or history (       )
    (d.) Inexperienced management team or lack of professionalism(       )
    (e.) Inadequate technologies (       )
    (f.) Low rate of return on capital (       )
    (g.) Limited knowledge of business opportunities (       )
    (h.) Other reasons, (please specify) ____________________________
13. Were you satisfied with the explanation above?
   (a.) Yes (  )
   (b.) No (  )
   (c.) Don’t know (  )

14. Are you required to provide personal assets as collateral by NBC Limited to guarantee the granting of loans?
   (a.) Yes (  )
   (b.) No (  )
   (c.) Don’t know (  )

15. Are business owners required to provide their personal assets as collateral by NBC Limited to guarantee the granting of loans?
   (a.) Yes (  )
   (b.) No (  )
   (c.) I refuse to answer (  )
   (d.) Don’t know (  )

16. On a scale of 1 to 5, where “1” stands for “very dissatisfied” and “5” stands for “very satisfied,” how would you rate your level of satisfaction with regard to questions (a) to (g)

   1-Very dissatisfied, 2-dissatisfied, 3-No Opinion, 4-satisfied, 5-Very satisfied

   1 2 3 4 5
   (a.) Overall quality of service (......)
   (b.) Interest rates and service fees charged (......)
   (c.) Time to process application (......)
   (d.) Understanding of your business needs (......)
   (e.) Convenience and accessibility (......)
   (f.) Relation with account manager (......)
   (g.) Documentation required (......)
17. Please tick your age group
(a.) Less than 20 years
(b.) 21-30 years
(c.) 31-40 years
(d.) 41-50 years
(e.) 51-60 years
(f.) Above 60 years

18. Gender:
(a.) Male
(b.) Female

19. What is the highest level of education that you have attained?
(a.) Secondary Ordinary/Advanced level
(b.) Diploma
(c.) Bachelor Degree
(d.) Master Degree

20. Did you create or participated in the creation of this enterprise?
(a.) Yes
(b.) No

21. Is the main owner also the manager of the enterprise?
(a.) Yes
(b.) No

22. How many years of experience do you have in managing this firm?
(a.) Less than 5 years
(b.) Between 5 years and 10 years
(c.) More than 10 years
23. What has been the impact of the financing/products received from NBC Limited on your business?

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................................................................................................................................................................

Thank You for Your Time
Appendix 3: About National bank of Commerce

NBC Ltd. was formed on 1st April 2000 when NBC (1997) Ltd. was privatized and sold to ABSA Group Ltd. (now called Barclays Africa Group Limited) of South Africa. NBC (1997) Ltd. was itself born out of the nationalization of banks and financial institutions in Tanzania in 1967. Tanzania later deregulated banking in 1991. In 1997, a decision was taken to split NBC into three entities, namely NBC Holding Corporation, National Micro-finance Bank (NMB) and NBC (1997) Limited. This was the first step towards the privatization of NBC.

NBC Ltd. needs to be seen as a partner with government, and other organizations, in promoting the socio-economic development and prosperity of Tanzania. The government of the Republic of Tanzania has committed itself to transforming the economy of the country from being public-sector driven to being private-sector driven. To this end, privatization has been chosen as one of the key routes by government.

Privatization entails that government is moving out of business - as in the management of companies - and promoting an enabling environment for economic growth and development as supported by the private sector.

Share holding structure

ABSA Group Ltd. (Barclays Africa Group Limited) 55%
Government of the Republic of Tanzania 30%
International Finance Corporation 15%

Vision
To be the 'Go-To' bank

Brand purpose
Helping people achieve their ambitions in the right way
The profile of SME Banking

NBC Ltd. was formed on 1st April 2000 when NBC (1997) Ltd. was privatised and sold to ABSA Group Ltd. (now called Barclays Africa Group Limited) of South Africa. NBC (1997) Ltd. was itself born out of the nationalization of banks and financial institutions in Tanzania in 1967. Tanzania later deregulated banking in 1991. In 1997, a decision was taken to split NBC into three entities, namely NBC Holding Corporation, National Micro-finance Bank (NMB) and NBC (1997) Limited. This was the first step towards the privatization of NBC.

In line with banks interest in cementing sound financial principles in serving its SME clients, the NBC management established SME Banking Department on 22nd August, 2011 that is vested with the responsibility of providing personalised value adding financial solutions including business accounts, lending, treasury solutions, trade finance, insurance, internet banking, and merchant services to SME clients. Currently the banks has about 12,000 SME clients out which, 1450 have borrowed funds from the bank for working capital and investment account.

Business Banking/SME Business Banking from NBC Bank is a comprehensive service offering for business owners. We recognise that as a Business Banking customer you lead a busy life. Through our offering we aim to simplify your financial transactions so you can spend more time on your business and less time on your banking. Every business is unique and needs its own combination of banking services. Whether you are starting or growing your business, we have the solutions to meet your needs. We offer you a team of business bankers and business managers who, backed by a global network, are committed to supporting the success of your business. These business bankers and managers can offer you the guidance and expertise you need and the NBC Bank delivers services across the country.
## Appendix 4: Assessment of SME Banking

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<td>5 17%</td>
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<td>19 48%</td>
<td>0 0%</td>
<td>7 38%</td>
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<td>3 10%</td>
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<tr>
<td>Documentation required</td>
<td>0 0%</td>
<td>18 60%</td>
<td>0 0%</td>
<td>7 23%</td>
<td>5 17%</td>
<td>30 100%</td>
</tr>
</tbody>
</table>

Source: Field Survey, June 2014