AN ASSESSMENT OF THE LINK BETWEEN PERCEPTION OF FINANCING BARRIERS AND SOURCES OF FINANCES: A SURVEYS OF SMALL TRADERS IN MOROGORO

AN ASSESSMENT OF THE LINK BETWEEN PERCEPTION OF FINANCING BARRIERS AND SOURCES OF FINANCES: A SURVEY OF SMALL TRADERS IN MOROGORO

By

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A Research Proposal Submitted to School of Business in Partial Fulfillment of the Requirement for the Award of the Degree of Master of Science in Accounting and Finance (MSc) of Mzumbe University

2014

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation titled **Assessment of the Link between Perception of Financing Barriers and Sources of Finances: A Survey of Small Traders in Morogoro** in partial/fulfillment of the requirements for award of the degree of Masters of Science in Accounting and Finance of Mzumbe University.

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When I remember the day I was told by one of my colleague in my office that it is my time to go for further studies, and asked me if I would you like to go or not, with fear in my heart I asked him do you think I can do it? He looked straight into my eyes and told me, yes you can! To me, this was a shocking message especially because it was not into my plans for that time; I knew the challenges and sacrifices ahead of me if I will go for Masters of Science in Accounting and Finance. I thank to the Almighty God for his endless love, mercies, good health, protections and strength he has given me throughout the time of studies. It was not easy, but for his mercies I managed.

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DEDICATION

Ernest, Ipyana, Niy'ikiza

ABBREVIATIONSANDACRONYMS

CARMATEC	-	Centre for Agricultural Mechanization and Rural Technology
CBOs	-	Community based Organisation
IPI	-	Institute of Production Innovation
KCB	-	Kilimanjaro Co-operative Bank
MEDA	-	Mennonite Economic Development Associates
MFIs	-	Micro Finance Institutions
NGO	-	Non-Governmental Organizations
NIGP	-	National Income Generation Program
OECD	-	Organization for Economic Co-operation and Development
SACAs	-	Savings and Credit Associations
SACCOs	-	Savings and Credits Cooperative Organizations
SBA	-	Small Business Administration
SIDO	-	Small Industries Development Organization
SMEs	-	Small and Medium Enterprises
SPSS	-	Statistical Package for Social Scientist
TBS	-	Tanzania Bureau of Standards
TIRDO	-	Tanzania Industrial Research and Development Organisation
VICOBA	-	Village Community Banks

ABSTRACT

The study was mainly aimed at assessing the link between perception of financing barriers and sources of finances by small traders in Morogoro. The study specifically looked at the ratio between different types of finances (capital mix), the reason for choosing the types of finance, the perceived barriers of each source of finance, and lastly the relationship between the ratio of source of finance and the perceived barrier of each source of finance. The study used a cross sectional study design, through questionnaires and observations and it was analyzed using SPSS. A total of 85 small traders were surveyed and five sources of financing were interviewed to get the information useful for assessing the perceptions on sources of finances.

The results obtained number of perceived barriers of each source of finance that determine the reason for choosing type of financing strategy. The author categorised the results into two groups of barriers; barriers that are from internal sources, (inadequate education and proper training, etcetera) and barriers that are from external sources, (high interest rates, grace period, lack of collateral, etcetera). The study found that, barriers that are from external sources of finance are almost the same, and there is no special treatment for small traders to make able to increase their capital through those sources of finance.

Based on the findings, the study recommends that proper trainings should be offered to small traders, this will decrease the perceptions and start to see those sources of finance as a good help to increase their capital. Also there is a need of big financial institutions to give them special treatment, like lowering the interest rates and offering long grace period compared to large traders, so as to make their business growing.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND OF THE RESEARCH

1.1 Introduction.

This chapter reviewed the availability of sources of finances in Morogoro Region, and the perceived barriers from small traders on obtaining those sources of finances. It also defined the meaning of small trade as it used in this research, objective of the study and the research questions.

1.2 Overview of Barriers of Sources of Finance

Lack of funding is the number one reason for the failure of many small businesses as well as knowing how to finance the business. Over the past twenty years or so Tanzania has constantly been embarking on a long process of political, economical and social reforms to improve the business environment, promote economic growth and reduce poverty in the country (Nkonoki, 2010). The availability of sources of finance has attracted much attention to small traders that they started to re think again for more strategies on how to develop their businesses. Though sometimes the strategies depend on several factors of the business someone is running, e.g. structure of the business, stage of growth, anticipated use of funds, etc. one can decide how to finance his/her business, by mix two or more sources of finances. But there are key question to ask yourself in advance, what do you need the money for? Where will you get the money? How much do you need? This is because financial solutions vary from one person to another depending on financial requirements of each person.

Many small traders know that the most sources of financing businesses are from debt and equity, and traditionally, banks have been viewed by these small traders as the primary source of debt financing, though in Tanzania we have others micro finances like SACCOs (Savings and Credits Cooperative Organizations) and VICOBA which are used to provide debt financing. Equity financing, involves self-funding and private resources which includes friend and family, private individual investors and partners. As McMillan (2007) narrates major sources of finance as;

- Personal Savings
- Grants
- Loans
- "Friends, families and fools"
- Business angels
- Venture capitalists

Apart from all that, the owner of the business needs to know the various costs and benefits of different sources available, he/she can determine from which source to seek the finance, and how can he/she mix the sources of finance to make the capital. Creativity counts, (www.econ.iastate.edu) argued that a businessman have to be as creative in their searches for capital as they are in developing their business ideas. This is very important as Collins (2007) explained that small businesses is a major source of employment as it employs more than half of all U.S. adults which are either self-employed or work for businesses with fewer than 500 employees, also the majority of Americans made their first entrance into the business world by working for a small business.

In Wikipedia (2014), A recent 2005 survey done by the Bank of Tanzania (the overseer of microfinance under the Ministry of Finance) updated the directory of microfinance practitioners and includes basic information on microfinance institutions including commercial banks, financial institutions, financial Non-Governmental Organizations

(NGO), Savings and Credit Cooperatives Societies (SACCOs) and Savings and Credit Associations (SACAs). The directory includes a total of 8 banks, 45 CBOs, 2 companies, 95 Government programs, 1,620 SACCOs, 48 SACAs and 62 NGOs.

This research determines the sources of finance available and their accessibility that help small traders of Morogoro for the growth or success of their businesses. It also examine the role of key actors like commercial banks, donors and other fund providers as well as small traders themselves, taking into account that the author is also an entrepreneur in that location. This will not only help her but it could be of great advantage to the Morogoro business community and the government as a whole and try to suggest solutions to these factors.

1.3 Defining small trade as per level of investment

Small trade, as it is used by many business stakeholders, is varied from country to country, and also sometimes industry. The Organization for Economic Co-operation and Development (OECD) states that small traders 'are traders operating at a small scale, used to distinguish from industrialized traders. What is considered small scale in one country or region may be considered large scale in another (Jeune 2009). For the purpose of this research we have to take into account that small traders are those that do not depend on hired labour, managing their business mainly with their family labour force. Or a business which employs small numbers of workers and does not have high volume of sales but also business premises can be legally located. Business owner must be responsible for the creation of business activities, to search for suppliers for his/her business supplies, vendors and make good relationship with customers so as to create good business environment with them.

The ministry of industry and trade in Tanzania defines small businesses under the classification SMEs, which means small and medium enterprises. According to Tanzania SME policy (2002), micro enterprises are those engaging up to four people and in most cases family members or with an investment not exceeding 5.0 million TSHS the

majority of which fall under the informal sector. Small enterprises are mostly formalized undertakings engaging 5 to 49 employees or with capital investment of TSHS.5.0 million to TSHS.200 million. Medium enterprises employ about 50 to 99 employees and use capital investment from about 200 to 800 million TSHS.

Table.1.1: Categories of SMEs in Tanzania

CATEGORY	EMPLOYEES	CAPITAL INVESTMENT (TSHS)
Micro	1-4	Up to 5 mil
Small enterprise	5-49	Above 5 mil-200 mil
Medium enterprise	50-99	Above 200 mil-800 mil
Large enterprise	100+	Above 800 mil

(Source: URT, SMEs Policy, 2002)

N.B. – In the event of an enterprise falling under more than one category, then the level of investment will be the deciding factor.

Why do people start businesses? Calcopietro & Massawe (1999) said that, SME's are estimated to contribute 30-35% of the gross domestic product. The sector consists of more than 1 million business activities engaging 3-4 million persons, that is, about 20 - 30% of the labour force. Also there has been an expansion of SMEs for income and employment generation between 1990 and 1996 following the adoption of economic reforms creating some space for the self-employment and private sector activities. They continue to argue that this growth would have been higher if the business environment and Government policies had provided deliberate incentives to the development of this sector. Collins (2007) explained that, according to the Small Business Administration (SBA), a government agency that provides assistance to small businesses, the most common reasons for starting a business are:

- To be your own boss
- To achieve financial independence
- To enjoy creative freedom

- To use your skills and knowledge

1.4 Statement of the Problem

Often the hardest part of starting or developing a business is raising the money and to get the business going. The entrepreneur might have a great idea and of how to turn the money into a successful business, but how and where to get the money is the problem. However, if sufficient finance can't be managed well it is unlikely that the business will get off the ground. But if one succeeds to get going, he/she takes pride in what he/she is doing and gets satisfaction from doing something he/she enjoy (Riley J, 2012).

Berger et al, (1998) argued, unlike large firms, small firms do not enter into contracts that are publicly visible or widely reported in the press, contracts with their labor force, their suppliers, and their customers are generally kept private. These make them not to have securities, and be difficult to the agencies to give them necessary assistances. He continue to argue that, it has been estimated that about 23.7% of small businesses disappear within 2 years and 52.7% disappear within 4 years due to failure, bankruptcy, owner retirement, owner health, or the desire to enter a more profitable activity.

Mullen (2012) explained that, it depends with one choosing the right type of mixture on how you finance the business, running cost must be factored in, so sufficient capital should be available to cover all running expenses. Having this issue in mind, major point which can be observed here is that, the success of small business mainly depends on not only financing but as well as good management of that fund, which in most cases is done with the owner him/herself, as it employs small numbers of workers and does not have high volume of sales.

On the other hand, McMillan (2007) observes that Government grants are available but for a range of reasons. Let say, if your business may be seen as strategic, or it may help in the development of the social goals, such as rural development or socially disadvantaged group it can be considered for such grants. Moreover, many of the small

traders do not have audited financial statements of their businesses at all that can be shared with any provider of outside finance. This may lead to build some difficulties in building reputations to those providers because they cannot credibly convey their quality, while they are responsible for finding the funds. Dilger (2003) confirmed that, some people including President Obama have argued that the federal government should provide additional resources to assist small businesses in acquiring capital necessary to start, continue, or expand operations and create jobs. Though it is important to understand that apart from source of fund, there are some other factors which also can determine the growth of the small business as explained by two researchers (Mfaume & Wilhelm, 2004), that it is important to note that small traders exist and operate in the environment that is characterized by many factors apart from lack of fund, which might be legal requirements in force at a particular administrative area, security and safety reliability in the business area, customer and consumer attitude toward the merchandize and environment, pricing and capitalization structure of the venture and many more.

1.5 Research Questions

1.5.1 Main Research Questions

What are the strategies and perceived accessibility of sources of finance among small traders?

1.5.2 Specific Research Questions

i. What are the sources of finance available to small traders?
ii. What are the perceived barriers on source of finance among small traders?
iii. What is the relationship between different sources of finance and the perceived financing barrier of the sources of finance?
iv. What is the effect of perceived barriers to finance on small trader's financing?

1.6 Objectives of the Study

1.6.1 General Objective

The main objective of the study was to assess the financing strategies, and perceived accessibility of the sources of finance among small traders in Morogoro.

1.6.2 Specific Objectives

The specific objectives of the study were;

(a) To identify the types of the sources of finance available in Morogoro
(b) To determine perceived barriers on sources of finance
(c) To assess the relationship between different sources of finance and perceived financing barriers of each sources of finance
(d) To identify the effects of perceived barriers on capital financing

1.7 Significance of the Study

i. The study helps our understanding on the various sources of finance and their accessibility to small traders.
ii. It add knowledge to small traders of Morogoro Region, where and how to get the financial assistance that help to grow their businesses.
iii. It provides information that is valuable to fund providers like commercial banks, financial institutions, NGOs, and other micro finance Institutions.

1.8 Scope and Limitation of the Study

The study concentrated on the sources of finance used by small traders, whether they were able to take debt, equity or both of them, and was conducted in selected areas in Morogoro region only. In Morogoro, there are some small traders which are not growing at all, while others are seemed to be growing very fast. The researcher find out different

reasons of not growing, which are insufficient of fund, barriers of getting sources of fund, and other reasons which will be explained in chapter four.

By observing that, also the study was able to reveal and educate small traders how to finance their businesses, where and how to use available sources of finance and other strategies. Though there are some other factors, they should consider as an important in improving their businesses like financial controls, and to improve in marketing.

1.9 Organization of the Study

The remaining part of the study is divided into five chapters. Chapter two reviews the theoretical and empirical literatures, conceptual framework on factors affecting choice of strategies and research hypotheses. Chapter three presents the research methodology. Chapter four presents the findings of the study. Chapter five reviews discussion of the findings, summary and conclusion.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the theoretical and empirical literature, by critically examining the various theories and previous studies done on the research problem, based on what was found in these studies, then identify strength and thereafter determine what weaknesses of earlier studies can be filled.

2.2 Theoretical literature review

2.3 Concept of Source of Finance

Raising the money is the hardest part in starting a business, as well as to get the business going. A businessman might have a great idea of how to turn it into a successful business but if sufficient finance can't be raised, it is unlikely that the business will collapse. However, we should not consider only the source of fund, but also the financial controls of such funds and how they will be recovered if they are coming from outside source. It is noted by Irwin (2009) that banks are less likely to lend long- term to SMEs due to lack of a track record of performance of which their credit rating will be assessed, therefore many small traders are refused to be financed by banks. He proved this by reporting that in the UK survey done by Fraser (2005), shows that some 2.9m (80%) had used external finance in the previous three years and the main source of finance was from personal servings (65%), bank loan (10%) and friends and family loan (6%).

In examining the sources of finance, Mutesasira et al (2001) explained the categories of sources of finance as formal (banks, hire purchase) or also known as micro-finance institutions (MFIs), and informal (relatives and friends, personal savings and liquidating

assets) sources. While, Riley (2012) said that, one way of categorizing the sources of finance is to divide them into sources which are from within the business (internal) and from outside providers (external).

2.3.1 Internal sources

2.3.1.1 Personal sources

These usually are funds from owner him/herself. These can be obtained from the following source;

i. **Savings and other "nest eggs"**

An entrepreneur will often invest personal cash balances into a start - up. Though this is a cheap form of finance but it is readily available.

ii. Borrowings from friends and family

Other friends and families come to supportive to the business idea; they can provide money directly to the entrepreneur or to the business. This can be quicker and cheaper to arrange (than bank loan). On the other hand, Advani (2003) reminds us that, it is important to borrow money from people you know so as to overcome the financial risk and emotional risk. He explained more about that risk as;

Financial risk; this means you must demonstrate to people who might be potential lenders that your business has a reasonable chance of success, and that their investment in it is worthy.

Emotional risk; means that, you must convince people who might be your potential lenders that investing in your business will not jeopardize their relationship with you.

2.3.1.2 Retained profits

These refer to Cash that is generated by the business when it trades profitably. McLaney (2000) gives major reasons for using retained earnings to finance a business are;

(i) Many companies management do believes that retained earnings are funds which do not cost anything. This is not true because that fund could be used to generate earning if invested in alternative investment (opportunity cost).

(ii) Management can retain earnings like an attractive source of finance because investment projects can be undertaken without involving either the shareholders or any outsiders.

(iii) The use of retained earnings as opposed to new shares avoids issue costs.

(iv) Management can use retained earnings to avoid the possibility of a change in control resulting from an issue of new shares

2.3.1.3 Share capital – invested by the owner of the business

To form the capital, the owner may decide to invest on the share capital of a company. This is a common method of financing a startup. Ordinary shareholders can put fund into their business by purchasing new issued shares. Simply retaining profits, instead of paying them out in the form of dividends offers an important, simple low-cost source of finance, although this method may not provide enough funds for a firm that is seeking rapid grow (Jarvis R, 2000).

2.3.2 External sources

2.3.2.1 Loan Capital

Loan capital can be either bank loan or bank overdraft

a) **Bank loan** is a longer term kind of finance and the loan is provided the rate of interest and the timing and the amount of repayments. The bank usually will

require some security of the loan, like personal guarantees provided by the trader. In other banks loan can be divided into two, business loan and consumer loan.

b) **Bank overdraft** is a more short term kind of finance. The bank allows the business to get some money when the balance goes below zero, in return for charging a high rate of interest.

2.3.2.2 Moneylenders

These are wealthy business people in the community who are willing to lend money to business people to individuals, generally on a short term basis. Moneylenders usually require some form of collateral to reduce their lending risk, e g a car log book. Repayment terms are negotiated between the moneylender and the borrower, with interest rates (Mutesasira *et al*, 2001).

2.3.2.3 Business Angels

These are kind of external investors; they prefer to invest in a business with high growth prospectus. Angels tend to have made their money by setting up and selling their own business – in other words they have established entrepreneurial expertise.

Rukaka (2011) consider that, business angels have often been successful in business; in addition to providing financial assistance they are often able to draw on wealth of business and management experience to help fledgling businesses. Angels also do fill an important gap in the market, as the size of investment required may be too small for a trader to consider.

2.3.2.4 Hire purchase

McLeaney (2000) challenges that; hire purchase is an agreement for the hiring of an asset with an option to purchase. The legal title will pass to the buyer when all payments have been made. The term of a hire purchase must be significantly shorter than the working life of the asset. As a buyer you are able to claim capital allowances as if you had purchased the asset outright, gaining immediate use of it. Hire Purchase agreements are typically written for domestic users, not so much for business users.

With hire purchase, the business eventually owns the asset, once all the payments have been made. One can claim back capital allowances against tax from the beginning of the hire purchase contract.

2.3.2.5 Government Assistant

The government encourages people to start businesses because it creates employment, and can assist small traders through the use of loan guarantee. Here the guarantees are designed to help small firms that have viable business plans but which are prevented from obtaining a loan through lack of security (Olomi, 2009). As it was explained earlier that lack of information concerning funding sources can be a real problem for small businesses.

Apart from that, a government can also assist a small trader through a grant. A grant is a sum of money given to a business for a specific reason. Meanwhile, grants sometimes may be difficult to obtain because business may have to meet number of conditions, such as creating a certain number of jobs, in order to qualify.

2.3.2.6 Micro Finance Institutions

These are financial institutions that play role of financing business entities to stimulate the growth process of the businesses because they are integral to the provision of

funding for capital accumulation. They designed primarily to meet the working capital needs of small businesses. In most instances, MFIs in East Africa provide progressively larger loans to the clients who are organized into solidarity groups (Mutesasira *et al*, 2001). According to Calcopietro, & Massawe (1999) the main entities/programmes that constitute the current support framework of financial services in Tanzania are the Small Industries Development Organization (SIDO); the National Income Generation Program (NIGP); Pride Tanzania; Mennonite Economic Development Associates (MEDA); the Kilimanjaro Co-operative Bank (KCB); the Savings and Credit Co-operatives (SACCOs); and the National Micro-finance Bank (NMB). Apart from that, there are major provider of industrial support and advisory services which are SIDO, TIRDO, CAMARTEC, IPI and TBS. The government is currently not supplying any budgetary support for development activities in these organizations.

2.4. Perceived barriers to sources of finance

Someone may wish to finance his/her business by using single source, but someone may finance by mixing several types of sources of finances, what determines that kind of financing is availability and his/her perception of obtaining the sources of finance.

There are several perceptions from business owners which may hinder them from applying those financial strategies, as researched by Irwin, (2006).

2.4.1 Interest Rates

In many countries around the world there are leasing institutions, commercial banks, and other formal financing institutions which offered finance with interest rates. Mutesasira et al (2001) argued that, the nominal interest rates from leasing companies are seems to be higher than those of banking sector, though they tend to be lower than those available from moneylenders.

2.4.2 Flexibility and mode of payment

Many MFIs nowadays require weekly repayments while banks and other leasing companies tend to have quarterly or monthly repayments to minimize the administrative costs. Small traders' comfort with the frequency of payments offered by the sources of finance will vary depending with the type of business they own.

2.4.3 Solidarity Groups

Some MFIs in our country offer finance to traders who are joined themselves into solidarity groups. These groups have to repay their money according to the requirements of that institution, sometimes it's difficult to be fulfilled by all group members depending with the character of each member in the group.

2.4.4 Deposit and Collateral

These are other assets deposited by the businessman or an entrepreneur to where he is going to ask for finance due to the fact that an institution or moneylender has limited information about that entrepreneur.

2.4.5 Personal characteristics

Irwin (2006) recognizes that, access to finance is very easy but sometimes the entrepreneurs do fear to apply because of his/her own problems like education, ethnic minorities (e.g. racism) and gender issues.

2.4.6 Grace Period

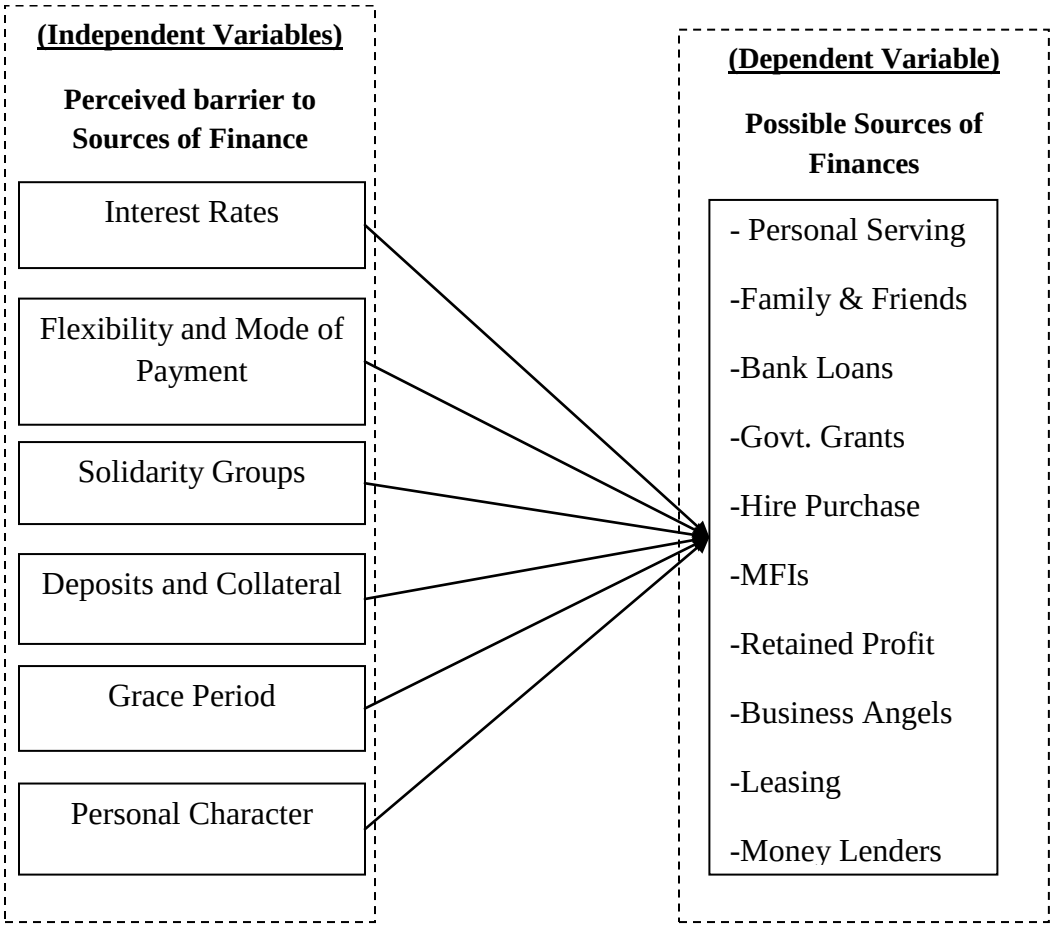
Formal financing institutions, including MFIs banks and leasing companies do not give their clients grace periods. But there are few Institutions like SIDO in our country which offers grace periods up to six months on some finance (Mutesasira *et al*, 2001).

2.4.7 Conceptual framework

To summaries the above review of literature, it here conceptualize that the sources of finance that a small trader will approach for financing his/her business is largely determined by his/her perception of barriers on that source.

This set of relationship is presented in Figure 1 below, where the perceived barriers (the independent variables) are thought to have an effect on the small trader's choice of the possible sources of finance (i.e. the dependent variable).

Figure 2.1: Conceptual Framework: Effect of Perceived Barriers on Small Traders' Financing Strategies



Source: Author (2014)

2.5 Empirical literature review

This section reviews a number of empirical works on financing strategies for small traders; Bhattacharjee and Deb Roy (2013) on studying roles of banks in growth of small retail traders found that the contribution of the commercial banks in financing the working capital needs of the small retail traders are sparse, and also there is ample scope of growth and development of small retail business which is seen to accommodate a mix

of sources of finance especially the plough back of profits. However the study did not show how easy to get those contributions are, i.e. if they are available to any small retail trader or there are some difficult conditions imposed by commercial banks.

A study which comprised of six small business owners and three officials representing three organizations on factors limiting the success /or growth of small businesses in Tanzania done by Nkonoki (2010) showed that there are limiting factors that are internal to the firm (inadequate education and training, lack of proper business plan, capital constraint etcetera) and those that are external to the firm (corruption, government policy, bureaucratic processes etcetera) and suggest that there should be a reformation of SME policy by the government and adequate business education by the small business community and trying to develop services and the maintenance of good relationships with small business owners by other stakeholders like the financial institutions. This study did not reveal how these financial institutions are available to all small business owners or there are some other ways of not depending on being financed by other stakeholder apart from his/her own saving.

Commercial banks have remained dominant supplier of fund for small businesses because most of forms of credit available from their bank need to be the customer of that bank. This is revealed by Mach and Wolken (2003), in financial services used by small businesses; evidence from the 2003 survey of small business finances and observed that the data show most small businesses were located on urban areas, and therefore affect the ability of the firm to obtain credit due to the fact that they don't have accounts to those financial institution or banks. In actual fact nowadays, small businesses are all over the places, what determine the success of the business is where to get fund to make it grow, though the use of non-standard work arrangements has become also the biggest problem for the firms to get funds as reported again by Mach and Wolken (2003).

In the study done by two researchers Roper and Scott (2009) showed that women are around 7.4 percent more likely to perceive financial barrier to their business than men.

As perceptions of financial barriers are linked negatively to their business decision, stronger perceptions of financial barriers among women are having an unequal effect on women's business decisions. They continue to argue that, being female has an additional negative effect on the business decision, not linked to financial barriers. In this case, there might be accessing finance to a small trader but there might be several perceptions of those sources of finance that will cause effects on their business environment. Although Irwin (2006) argued that the complex influences with gender and other variables, such as differences in personal characteristics, education, ethnicity which have impact upon their ability to access finance for their businesses.

Mwasha (n d) urged that, human capital of the owner managers play an important role in growth and survival of the business. The success of a business depends on the owner's ability (of which education plays an important role) to obtain the necessary resources, including finance which may be obtained from the bank, or other sources. Likewise in Morogoro Region, there are several types of external sources of finance which are accessible for small traders. Many studies report a significant positive relationship between level of education of the owner-manager and growth of the enterprise founded by him/her. It is for this reasons I would like you to share my experience with me in this luncheon on the assessment of the link between perception of financing barriers and sources of finance in Morogoro region.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents a systematic analysis of the research techniques which is used in the study. The chapter covers type of the study, area of the study, study design, study population, unit of inquiry and research design.

3.2 Type of the study

This study is a quantitative case study. Closed end questionnaire (see appendix no.1) were used to collect information from small traders and quantitative approach were used to analyze primary data collected from field survey. An interview guide and direct observation was used for the qualitative part.

3.3 Area of the study

This study was conducted in selected areas in Morogoro region. The region is administratively divided into six districts. But specifically the study was conducted in few areas in Morogoro Town Centre, outside Morogoro town, and Mvomero district. Morogoro has been chosen due to the following reasons:

i. It is endowed with varieties of small scale trade, microfinance institutions and business environment.
ii. It is an area convenience for researcher to collect data easily.
iii. The researcher is familiar with the place, which is easily accessible.

3.3.1 Study design

The cross sectional study design was used because the respondents was met once for investigation and provided questionnaire to answer. The cross section study design has the advantage of saving time and collecting data at a single point (Bailey, 1994). It also provides useful data for simple statistical descriptions and interpretations (Babbie, 1990). The cross sectional design is, however, limited to capture causal relationship, this is due to the fact that the researcher cannot manipulate the independent variable to make before and after comparison (which is well captured in experimental study design).

3.3.2 The Sampling Techniques and the Sample Size

There are sampling techniques namely probability sampling and non-probability sampling. The convenience sampling techniques was used to select a sample of 87 respondents (small traders).

3.3.3 The Study Population

In this study, the study population was traders and the targeted populations are small traders.

3.4 Data Analysis

The analysis involve both descriptive and in depth case analysis. In descriptive analysis, data will be summarized and tabulated in terms of percentage and frequencies, while in depth case analysis will involve the description of several cases and cross case analysis.

3.4.1 Unit of Analysis

This study intended to describe the emerging dimension, how they mix their capital and perceived barriers of the source of finance for small traders. To obtain this information the researcher used owners currently running small-scale businesses in Morogoro.

3.4.2 Data Collection Method

To obtain required information for the study the researcher used both primary and secondary data.

3.5 Primary Data

These are data collected afresh and for the first time and thus happen to be original in character (Kothari, 2004). These can be expressed as the first information collected through various methods such as direct observation, interviews, questionnaires etcetera. The primary data in this study were from both sides, owners running businesses and the loan officers working with financial institutions (both banks and non-banks).

3.5.1 Secondary Data

These are data which have been collected by someone else, and have already passed through statistical processes (Kothari, 2004). The researcher used generated secondary data from financial institutions like records files, and report documents, published data like such as various journals, magazines, presentations and different survey research papers.

3.5.2 Data Analysis Plan

The descriptive statistical analysis conducted as the tool for initial data analysis. Content analysis then applied in analyzing issues based on the research problem, research

objectives and research questions. The data collected from the primary source using structured questionnaire were coded and then a statistical programme known as Statistical Package for Social Science (SPSS) was used to process the data.
Frequency data on percentages to check bio-data of the respondents (age, gender, education and if applied for loan, etc.)

To run mean scores to obtain descriptive statistics like (strong sources of finances, perceived barriers etc.)

To run a correlation analysis to check for relationship of different variables, especially the relationship between the various sources of finances and the perceived barriers to finance (cf. Appendix no 2) – this was to address research question number 3.

To run a linear regression analysis to establish the influences (or cause – effect relationship) of the barriers to finances on the choice of sources of finances that traders used. This was mainly in responding to research question number 4 (cf. tables 4-8 to 4-12).

3.5.3 Research Validity and Reliability

3.5.4 Validity

This includes internal and external validity. As in this study, the internal validity looks on the possibility of cause and effect relationship, like content validity, empirical validity, and constructs validity. The external validity looks on possibility of generalization of findings to other settings.

In measuring the content of validity, the researcher prepared questionnaires that were easy to be answered by the respondents so as to get the required answers. And also to further ensure the validity, a researcher is using valid past studies on the literature review.

3.6 Reliability

The reliability of the study is observed through accuracy of the findings, the instruments such as questionnaires are used to prove the reliability of the study.

Significance levels of the statistical analyses from the SPPS were limited to the 5% threshold (i.e. $p < 0.05$).

CHAPTER FOUR

PRESENTATIONOF FINDINGS

4.1 Introduction

This chapter presents analysis and discussion of the results obtained from the study. The study was intended to assess the financing strategies, perception of accessibility on sources of finances, and problems facing them in financing their capital. This chapter comprises of five sections; section 1 provides general information of the respondents, including their personal information. Section 2 illustrates the Capital mix as strategy to finance the business. Section 3provides perceived barriers on each source of finance among small traders. Section 4 discusses relationship between different sources of finance and the perceived barriers.

4.2 Respondents' Personal Information

Eighty seven owners/ managers were targeted in this study. Eighty five questionnaires were returned, giving a 97.7% response rate. However, after the inspection and errors detection, only 84 questionnaires which are 96.55% were seen to be useful for further analysis.

The findings in table 4-1show the gender balance of the respondents. 41 owners, equivalent to 48.8% were male and 43 owners equivalent to 51.2% were female. This implies that there were somehow gender balances of the respondents, which make the study to have the opinions of both male and female.

Table 4.1: Gender Respondents

Sex	Frequency	Percent (%)
Male	41	48.8
Female	43	51.2
TOTAL	**84**	**100**

Source: Study findings (2014)

The findings in Table 4-2 below show the age group of the respondents. 7 owners, equivalent to 8.3% of the respondents were below 25 years. 25 owners, equivalent to 29.8% of the respondents were between 26 and 35 years. 21 owners, equivalent to 25.0% of the respondents were between 36 and 45 years. 30 owners, equivalent to 35.7% of the respondents were between 46 and 60 years. And only 1 owner, equivalent to 1.2% of the respondents were above 60 years.

Table 4.2: Age Distribution

Age	Frequency	Percent (%)
Below 25 years	7	8.3
26-35 years	25	29.8
36-45 years	21	25
46-60 years	30	35.7
Above 60 years	1	1.2
TOTAL	**84**	**100**

Source: Study findings (2014)

The findings in table 4-3 below show the educational level of the respondents. 22 owners, equivalent to 26.2% of the respondents were primary school level. 26 owners, equivalent to 31.0% of the respondents were secondary school level. 13 owners, equivalent to 15.5% of the respondents were certificate/ diploma level. Also findings show that 7 owners, equivalent to 8.3% of the respondents were at first degree level. 14 owners, equivalent to 16.7% of the respondents were second degree level. 2 owners, equivalent to 2.4% of the respondents were PhDs.

Table 4.3: Education of Respondents

Education	Frequency	Percent (%)
Primary	22	26.2
Secondary	26	31
Certificate/diploma	13	15.5
Undergraduate	7	8.3
Postgraduate	14	16.7
PhD	2	2.4
TOTAL	**84**	**100**

Source: Study findings (2014)

The findings in table 4-4 show the business experiences of the respondents. 2 owners, equivalent to 2.4% of the respondents were below one year of experience.32 owners, equivalent to 38.1% of the respondents were between 1-3 years of experience. 15 owners, equivalent to 17.9% of the respondents were between 4-6 years of experience. 35 owners, equivalent to 41.75% of the respondents were above 7 years of experience

Table 4.4: Business Experience

Business	Frequency	Percent (%)
Below 1 year	2	2.4
1-3 years	32	38.1
4-6 years	15	17.9
7 years and above	35	41.7
TOTAL	**84**	**100**

Source: Study findings (2014)

Results in table 4-5 below show if small traders had attempt to apply for loan to use as source of finance to make their capital, i.e. as part of the strategy to make their capital. It is clear that many of the respondents, 55 owners had once applied for loans for their businesses, which is equivalent to 65.5%, while only 29 respondents, equivalent to 34.5% had never applied for loans due to some reasons or the other.

Table 4.5: Loan Application

Loan application	Frequency	Percent (%)
Yes	55	65.5
No	29	34.5
TOTAL	**84**	**100**

Source: Study findings (2014)

4.3 Analysis of Capital Mix

The aim of these questions was to determine different sources of finance small traders used to make their capital, and the reason of choosing that kind of strategy to finance the business. Firstly the small traders were asked if they have ever applied for business loan. The table 4-6below shows that 55 owners, equivalent to 65.5% of the respondents once had applied for business loans. 29 owners, equivalent to 34.5% of the respondents have not applied for business loans, due to their different reasons.

Most of the reasons were;

i) They don't have enough education on how to use those loans, so they don't want to take loans and use it on other things or misuse it
ii) Others business owners were sufficient with their own money
iii) And others said the interest rate is very high

In order to know which source of finance is strong in mixing his/her capital, and which one is weak, seven questions were asked to determine the mixture used by the small traders, i.e. how someone financed his/her capital. Respondents were requested to rate each item using five point scales (1= very little, 2= little, 3= average, 4= much, 5= very much) and the descriptive statistics of their responses are as shown on table 4.6 below:

Table 4.6: Descriptive Statistics on Sources of Finance

Source	N	Mean	Std. Deviation
Bank Loan	52	3.10	1.13
Personal Serving	77	2.74	1.01
Micro Finance	41	2.63	1.22
Retained Profit	43	2.47	1.26
Other Sources	22	2.27	.83
Family & Friends	49	1.94	.92
Money Lenders	22	1.41	.73

Source: Study findings (2014)

Results in Table 4-6 above indicate that traders used a combination of sources of capital to finance their businesses. Specifically, it is clear from the results that bank loans (M = 3.10, SD = 1.13), Personal Servings (M = 2.74, SD = 1.01), and from Microfinance (M = 2.26, SD = 1.22) formed a larger portion of the capital combination. While, sources like retained earnings (M = 2.47, SD = 1.27) from family and friends (M = 1.94, SD = 0.92) and other sources (M = 2.27, SD = 0.83) formed a smaller portion of their capital mix, and the same results indicate that there is a negligible use of capital from local money lenders (M = 1.41, SD = 0.73).

4.4 Perceived Barriers to Sources of Finance (mainly on loaned capital i.e. bank and micro-finance)

The table below indicates how small traders perceive on using loan as one of the source of finance and instead they prefer to use their personal serving as table 4.6 indicates. The findings reveals that almost all variables which are; high interest rates (M = 4.51, SD= 1.06), short repayment time (M= 3.66, SD = 1.25), lack of collateral (M = 3.49, SD = 1.34),no / short grace period (M = 3.30, SD = 1.59), lack of business premises (M = 3.28, SD = 1.30), large family (M = 3.23, SD = 1.48), small amount provided (M = 3.16, SD = 1.22), uncomfortable mode of payment (M = 3.05, SD = 1.20), inadequate record keeping (M = 2.80, SD = 1.50) and bad credit history (M = 2.79, SD = 1.44) are the reasons of not preferring taking the loan as source of income, but we shall see later the effects of these barriers on each source of finance.

Table 4.7: Perceived Barriers to Sources of Finance

Barriers	N	Mean	Std. Deviation
High interest rate	79	4.51	1.06
Short repayment time	71	3.66	1.25
Lack of collateral	69	3.49	1.34
No/ short grace period	67	3.30	1.59
No business premises	75	3.28	1.30
Large family	75	3.23	1.48
Small amount provided	70	3.16	1.22
Uncomfortable mode of payment	64	3.05	1.20
Inadequate record keeping	69	2.80	1.50
Bad credit history	43	2.79	1.44

Source: study findings (2014)

4.5 Relationship between Different Sources of Finance and the Perceived Barriers

A correlation analysis was run in order to establish the relationship between different sources of finance and the barriers to finance. The sources of finance in this regard were personal savings, from friend and family, bank loans, money lenders, micro-finances, retained profits, and others sources. The results (as shown in appendix no 1) are explained below:

i) Personal Savings

The use of personal savings to finance own business had a significant but negative relationship with amount of loan provided ($r = -0.71$, $p < 0.01$) and large family ($r = -0.66$, $p < 0.01$). This indicates that personal savings is significant affected by the size (or small amount) that banks offer and size of the family (big family) which make a small trader to use his / her personal savings.

ii) Using Funds from Family and Friends

Further, there is a significant positive relationship between using finances from family and friends with banks giving no or short grace period ($r = 0.88$, $p < 0.01$) ; small amount of loan provided by banks ($r = 0.69$, $p < 0.01$); short repayment time ($r = 0.99$, p

< 0.01); lack of collateral (r = 0.88 , p< 0.01); large family (r = 0.73, p <0.01) ; and bad credit history(r = 0.98, p < 0.01). This indicates that small traders are more likely to use funds from family and friend because of those perceived barriers.

Figure 4.1: A young man owns a small boutique using Funds from Family and Friends



Source: Photo taken at Morogoro town by the author (21st March 2014)

iii) Bank Loans

Again, there is a significant positive relationship between using bank loans with those banks giving short or not at all grace period (r = 0.88, p < 0.01); small amount provided by banks (r = 0.87, p < 0.01); short repayment time (r = 0.67, p < 0.01);inadequate

record keeping (r= 0.76, $p < 0.01$);and large family (r = 0.98. $p < 0.01$). This study implies that if a small trader decides or wants to use external source, he/she must think of those factors before he/she makes a decision.

Figure 4.2: A hair dresser giving services to an author. She owns a salon using funds from personal savings and bank loan



Source: Photo taken at Joan salon in Morogoro town (13rd April 2014)

iv) Microfinance

The use of micro finance has significant positive relationship with how banks gives no or short grace period (r = 0.97, $p < 0.01$); small amount of fund given by banks (r = 0.73, $p < 0.01$); short time of repayment of those funds (r = 0.96, $p < 0.01$); inadequate record

keeping ($r = 0.68$, $p < 0.01$); lack of collateral ($r = 0.83$, $p < 0.01$); large family ($r = 0.83$, $p < 0.01$) and bad credit history ($r = 0.98$, $p < 0.01$).

v) Retained Profits

The use of internal source of finance of retained profits has significant positive relationship with the grace period given by banks ($r = 0.97$, $p < 0.01$); small amount provided by the banks ($r = 0.86$, $p < 0.01$); short time of repayment ($r = 0.86$, $p < 0.01$); inadequate record keeping ($r = 0.77$, $p < 0.01$); lack of collateral ($r = 0.69$, $p < 0.01$); the large size of family ($r = 0.97$, $p < 0.01$) and bad credit history of a small trader ($r = 0.85$, $p < 0.01$).

vi) Money Lenders

On the other hand, there is significant negative relationship between funds from money lenders and high interest rates ($r = -0.84$, $p < 0.01$), which implies that a small trader may prefer external funds from money lenders to avoid high interest rates from other external sources like banks.

vii) Other Sources

Lastly but not least, is funds from other sources which has significant negative relationship with uncomfortable mode of payment ($r = -1.00$, $p < 0.01$); inadequate record keeping ($r = -0.82$, $p < 0.01$); and lack of collateral ($r = -0.92$, $p < 0.01$).

4.6 Effect of Perceived Barriers of Finance on Choice of Source of Finance

The study also checked the influence of perceived barriers on sources of finance to small traders. The major sources of finance used include personal savings, bank loans, family and friends, microfinance, retained profit, money lenders and other sources while perceived barriers were measured using no/short grace period, high interest rate, small amount provided, uncomfortable mode of payment, short repayment time.

Table 4.8: Resorting to Personal Savings

Model	Unstandardized Coefficients		Standardized Coefficients	T	sig.
	B	Std. Error	Beta		
No/short grace period	.41	.083	.64	4.91	**.000**
High interest rate	-.08	.12	-.08	-.67	.507
Small amount provided	-.17	.10	-.20	-1.69	.096
Uncomfortable mode of payment	.24	.12	.29	1.99	**.051**
Short repayment time	-.410	.108	-.511	-3.78	**.000**

a. Dependant Variable: personal savings

Source: study findings (2014)

The results on table … shows that, personal saving is significantly influenced by no or short grace period given by banks (B = 0.41, p <0.001) and uncomfortable mode of payment (B = 0.24, p < 0.05). However, personal savings was negatively affected by short repayment time (B = -0.41. p < 0.001). This implies that a trader may prefer to use other sources of funds to finance his/her business than using his/her personal savings.

Table 4.9: Resorting to Family and Friends

Model	Unstandardized Coefficients		Standardized Coefficients	t.	sig.
	B	Std. Error	beta		
No/short grace period	.087	.090	.149	.96	.342
High interest rate	.165	.116	.190	1.43	.162
Small amount provided	-.246	.106	-.327	-2.32	**.027**
Uncomfortable mode of payment	.433	.131	.564	3.31	**.002**
Short repayment time	.091	.118	.124	.77	.444

a. Dependant Variable: family and friends

Source: study findings (2014)

The results on table … show that, funds from family and friends is significantly influenced by uncomfortable modes of paying the debts (B= 0.43, p< 0.01), at the same time it is negatively affected by small amount provided by them (B= -0.25, p < 0.01) which implies that, this method of finance can make a small traders to choose other sources apart from family and friends as their strategies to finance their businesses.

Table 4.10: Resorting to Bank Loans

Mode	Unstandardized Coefficients		Standardized Coefficients	t.	Sig.
	B	Std. Error	beta		
No/short grace period	.596	.063	.840	9.46	**.000**
High interest rates	-.534	.081	-.503	-6.59	**.000**
Small amount provided	.646	.074	.702	8.67	**.000**
Uncomfortable mode of payment	-.565	.092	-.603	-6.15	**.000**
Short repayment time	-.048	.083	-.053	-.58	.567

a. Dependant Variable: bank loans

Source: study findings (2014)

The results on table … indicates that, using bank loans is significantly influenced by no/short grace period (B= 0.60, p <0.01), small amount provided (B=0.65, p < 0.01), while the same source (bank loan) is negatively affected by high interest rates (B= -0.53, p < 0.01), and uncomfortable mode of payment (B= -0.57, p < 0.01) which implies that a small traders would prefer using other sources of finance other than bank loans.

Table 4.11: Resorting to Micro Finance

Mode	Unstandardized Coefficients		Standardized Coefficients	t.	Sig.
	B	Std. Error	beta		
No/short grace period	.292	.108	.380	2.70	**.011**
High interest rates	-.406	.139	-.353	-2.92	**.006**
Small amount provided	.486	.128	.488	3.80	**.001**
Uncomfortable mode of payment	-.249	.158	-.245	-1.58	.124
Short repayment time	.424	.142	.436	2.99	**.005**

a. Dependant variable: micro finance

Source: study findings (2014)

The results on table 4-11 shows that, using funds from micro finances is significantly influenced by no or short grace period (B = 0.29, p < 0.01), small amount provided (B = 0.49, p < 0.01), and short repayment time (B = 0.42, p< 0.01), given by those authorities

issued those funds. However it is negatively affected by high interest rates (B = -0.41, p < 0.01) and uncomfortable mode of payment (B = -0.2.5, p < 0.01).

Table 4.12: Resorting to Retained Profits

Mode	Unstandardized Coefficients		Standardized coefficients	t.	Sig.
	B	Std. Error	Beta		
No/ short grace period	-.275	.046	-.347	-5.93	**.000**
High interest rates	-.743	.060	-.626	-12.4	**.000**
Small amount provided	.292	.055	.284	5.32	**.000**
Uncomfortable mode of payment	-.293	.068	-.279	-4.33	**.000**
Short repayment time	.921	.061	.916	15.13	**.000**

a. Dependant Variable: retained profits

Source: study findings (2014)

Results on table 4-12 shows that, using funds from retained profit significantly influenced by all perceived barriers of finance are, i.e. no or short grace period (B = -0.28, p < 0.01), high interest rates (B = -0.74, p <0.01), small amount provided by banks and micro finances (B = -0.29, p < 0.01), uncomfortable mode of payment (B = -0.29, p < 0.01), short period of repayment (B = 0.92, p < 0.01).

4.7 Efficiency on Sources of Finance in Issuing Loans to Small Traders

The external sources was used much as one of the sources of finance by many small traders as it has been shown on table 4-6 of analysis of capital mix. The results shows that, by mixing internal source and external source, the business can grow faster than mixing internal sources only or external sources only.

Seeing the importance of the external sources of finance to small traders, a questionnaire of nine questions were prepared and filled by sources if finance promoted small traders in Morogoro Region in order to capture the adequate efficiency of those sources of finance (as shown on appendix 1). The results show that there are important common things which these financial institutions are looking for before promoting the funds. The

factors in questions were gender, age, business groups, education, business experience and membership. Most important factor needed by banks as institutions which promote loans to small traders is the business experience. Therefore, many small traders who are beginners (startups) cannot be able to seek loans from banks as external sources, but can use other source like family and friends and Money Lenders.

Figure 4.3: MU SACCOS located at Mzumbe University areas



Source: Photo taken at Mzumbe University SACCOS (26th March 2014)

On the other hand, Savings and Credits Cooperatives (SACCOs) have their own considerations on promoting their loans to small traders. Mzumbe SACCOs depends on membership, and also how much a member has contributed. The more a member contributes, the higher the amount will be offered, and vice versa. This makes an issue of being a startup (beginner) not easy to obtain the higher loans.

Village Community Banks (VICOBA) now they are all over the country, not only villages but also in towns. These community banks offer their loans to members only, and the important factor to be considered in order to get the loan is how much a member has contributed.

4.8 Conclusion

This chapter has presented empirical findings from the study. Various items within the questionnaire enabled the researcher to achieve the objectives of the study. Each question has described a particular objective that a researcher wished to work on it. Apparently, some factors that explain the small business finance from different sources of finance could not be explained separately because they are related. But the overall model fit is good and all variables simultaneously have significant contribution on choice of sources of finance.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS, SUMMARY AND CONCLUSION

5.1 Introduction

This study aimed at assessing the impact of perceptions of financing barriers in choosing sources of finances. It highlights the overview of the whole process and explores each of the research objective. The main question was asked, '*what are the strategies and perceived accessibility of sources of finances among small traders?* This question was broken into four sub questions which later became the basis for chapters 2, 3 and 4.

This chapter discusses the overall study of the findings done by the author, summary and the conclusion Also it discusses the relationship between the findings and the previous research. And lastly, it discusses the conclusion of the study.

5.2 An Overview of the Process and the Study Findings

The study assessed the growth of small traders businesses and how they are struggling to grow their businesses. The study found that there are some small traders who are growing very fast and others who are growing either very slow or not growing at all. The growing or not growing of their businesses depends on how they finance them, i.e. capital mix. Others finance it by using two or more sources of finance, while others finance their businesses by using only single source of finance. This didn't end up there, but it continued to find types of sources of finances available in Morogoro that small traders can use to finance their businesses. Usually the internal source of finance (i.e. personal savings, retained profits) depends on the individual him/herself, but external sources of finance (i.e. bank/ micro finance loans, family and friends and money lenders) depends from places to places. So, it depends to one to decide whether to use both of them, or using only single source on mixing up his/her source of finance.

5.3 Summary of the main Findings

Practically, this study explores several reasons that brings ups or downs their businesses. It used descriptive statistics in order to assess their capital mix. It is here thought that the investigation of small trader's perceptions and intentions would help to and increase their capital and improve their businesses, as shown on table 4-6 and 4-7. However, the study showed that for those who were more successful were those who didn't fear their perceptions, but took an action of using much funds from outside sources i.e. loans. On the other hand, those who were using the inside sources (N = 77, Std. = 1.01) seemed to be many than those who were using outside sources, as table 4-6 shows, but their growth was not as much as those who were using outside financial sources (N =52, Std. = 1.13).

5.4 Relationship between the Findings and the Previous Researches

In this study, the main objective was to assess the financing strategies and perceived accessibility of the sources of finance among small traders in Morogoro. The study found that both two kinds of sources of finances (internal and external sources) are available. From internal sources; Personal Savings, Retained Profits and, while from external sources are Bank Loans, Family and Friends, Microfinances and Money lenders.

On the link between perceived barriers and sources of finance the study found that, small traders wish to use loans as their source of finance, but the limitations of the barriers keep them away from using it as one of external source of finance, as it have been noted that as a simplest way of improving their capital.

Moon J, (2009/2010) reveals that small business owners have historically relied on personal assets as an important source of support for their businesses but they were economically challenged that affected their life together with their families.

Also this study found that many small traders did not keep records for their businesses, which make them difficult to know how much is the value of their businesses and if they want to increase their capital how much they will be required. This is caused by level of their education which makes them to perceive wrong when it comes to the issue of using external sources of finance. It is not necessary to go through formal education, but learning takes place in many ways, and those who succeed in business without much education are very effective learners. As other small traders couldn't use loan as source of finance simply because they are not educated the importance of using it, seems to be like those financial institutions have a lot to do with that kind of people. The author Mwasha J D (n. d) argued that, many studies report a significant positive relationship between level of education of the owner of the business and the growth of the enterprise founded by him/her. Though on the other side he reveals that there are some evidence which shows that worldwide there are some successful business people who do not have much education. In this case the whole thing about education here means the development of different kinds of attributes which enhance the capacity to face the challenges of survival, development and prosperity.

5.5 Conclusion

The overall objective of this study was to describe financing strategies and the perceived barriers to sources of finances. To maintain a healthy small business is an important element to the society because of their considerably contribution to the overall economy, as it is a source of employment apart from paying taxes. Recognizing their importance, the financing institutions would arrange programs to increase access to credit and to encourage small business economic activities such as joining into social groups.

This study reveals that, not only the owner's ability to obtain the necessary resources like finance from banks or other sources but also proper education on how to use the resources, when and how to use the resources will lead to the success of his/her business.

5.6 Area for further studies

This study identify the perceived barriers mainly on external sources of finances as it has been crack the authors mind as a major obstacle in developing small traders in Morogoro. There is a need for further research on other factors limiting the growth of small businesses as it is source of employment since formal employment seems to be difficult.

The researcher reveals that the look on internal sources as source of finance must be observed on its own way, since many small traders appear to use personal savings as a major source of finance.

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APPENDICES

Appendix 1: Questionnaire

AN ASSESSMENT OF THE LINK BETWEEN PERCEPTION ON FINANCING BARRIERS AND SOURCES OF FINANCE

CHUO KIKUU MZUMBE

PART I

SECTION 1

PERSONAL INFORMATION

1) Sex: Male ( ) Female ( )
2) Age: (a) Below 25 ( ), (b) 26-35( ), (c) 36-45( ), (d) 46-60 ( ), (e) Above 60 ( )
3) Level of Education: (a) Primary School ( ), (b) Secondary School ( ), (c) Certificate / Diploma ( ), (d) Undergraduate ( ), (e) Postgraduate ( ), (f) PhD ( )
4) Experience in the business: (a) Less than 1 year ( ), (b) 1-3 years ( ), (c) 4-6 years ( ), (d) more than 7 years ( )
5) Location of your business: (a) Morogoro Town Centre ( ), (b) Outside Morogoro ( ) (c) Mvomero District ( )
6) Have you ever taken a loan for your business? (a) YES ( ) (b)NO ( )
7) If the answer above is NO, why? .....

SECTION 2

Rate the statement bellow according to your capital mix. (1=very little, 2= little, 3= equal, 4= much, 5= very much).

Factors	**1**	**2**	**3**	**4**	**5**
Personal Serving	1	2	3	4	5
Family and Friends	1	2	3	4	5
Bank Loans	1	2	3	4	5
Micro Finance Institutions	1	2	3	4	5
Retained Profits	1	2	3	4	5
Money Lenders	1	2	3	4	5
Other Sources ……	1	2	3	4	5

SECTION 3

Rate the statement according to what you think is a barrier to sources of finance. (1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree).

Factors	**1**	**2**	**3**	**4**	**5**
No grace period or very short	1	2	3	4	5
Interest rates limit the accessibility of fund	1	2	3	4	5
The amount provided to small traders is small	1	2	3	4	5
Flexibility and mode of payment is not comfortable	1	2	3	4	5
Conditions imposed by source of finance	1	2	3	4	5
Repayment time is usually short	1	2	3	4	5

SECTION 4

PROBLEMS FACING SMALL TRADERS IN RAISING FUNDS

Rate the statements which you see as problems when raising fund for your business.

(1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree).

Factors	**1**	**2**	**3**	**4**	**5**
In adequate record keeping	1	2	3	4	5
Lack of verifiable business premises	1	2	3	4	5
Lack of collateral/ securities	1	2	3	4	5
Large family depending on the trader's assistance	1	2	3	4	5
Bad credit history	1	2	3	4	5

Any comments:

…….

…….

…….

……..

Thank you for your support

PART II

EFFICIENCY OF SOURCES OF FINANCE IN ISSUING LOANS TO SMALL TRADERS

The following statements are used to capture the adequate efficiency of Sources of Finance in promoting Small Traders in Morogoro Region.

1) Group: Financial Institution ( ) Bank ( )
2) Name of the Financing Institution/ Bank

   ……..
3) Do you have any other services offered to small traders other than loan?

   Yes ( ) No ( )
4) If the answer above is YES, what are they?

   ……

   ……
5) What are the factors do you consider in issuing loan to a small trader?

(a) Gender ( ), (b) Age ( ), (c) Solidarity Groups ( ), (d) Education ( ), (e) Business experience (), (f)Stakeholder( ), (g)others( )……

6) How many small traders have loan in this institution/ bank?
7) What can you say about the number of small traders in 6 above

   (a) Few ( ) (b) Average ( ), (c) Many ( )
8) What do you think is the reason of the above answer?

   ……..
9) What are the problems are you facing in giving loans to small traders?

   ……

   ……
10) Any comments;

   ……..

Thank you very much for your support

TATHMINI KATI YA VINAVYODHANIWA KUWA VIKWAZO VYA UPATIKANAJI WA MIKOPO NA VYOMBO VYA UTOAJI WA MIKOPO

CHUO KIKUU MZUMBE

SEHEMU YA I

KIPENGELE CHA 1

MAELEZO BINAFSI

1) Jinsia: ME ( ) KE ( )
2) Umri: (a) Chini ya miaka 25( ), (b) 26-35( ), (c) 36-45( ), (d) 46-60 ( ), Juu ya miaka 60 ( )
3) Elimu (a) ya msingi ( ), (b) ya sekondari ( ), Cheti/stashahada ( ), (c) digirii ya kwanza ( ), (d) digirii ya pili ( ), uzamivu ( )
4) Uzoefu katika biashara (a) chini ya mwaka 1( ), (b) 1-3 ( ), (c) 4-6 ( ), 7 na kuendelea ( )
5) Mahali ilipo biashara (a) Morogoro mjini ( ), (b) nje ya manispaa ya Morogoro ( ), wilaya ya Mvomero ( )
6) Je, umewahi kuwa na mkopo wa biashara? (a) NDIYO ( ), (b) HAPANA ( )
7) Kama jibu ni HAPANA, elezea ni kwa nini?

   ……

   ……

KIPENGELE CHA 2

Panga maelezo kutokana na muundo uliotumia kutengeneza mtaji wako. (1= kidogo sana, 2= kidogo, 3= wastani, 4=nyingi, 5= nyingi sana)

Muundo	**1**	**2**	**3**	**4**	**5**
Pesa yako binafsi	1	2	3	4	5
Familia na rafiki	1	2	3	4	5
Mkopo wa benki	1	2	3	4	5
Vyama vya Ushirika	1	2	3	4	5
Faida itokanayo na biashara	1	2	3	4	5
Wakopeshaji	1	2	3	4	5
Chanzo kingine ……	1	2	3	4	5

KIPENGELE CHA 3

Panga maelezo yafuatayo kutokana na unavyofikiri ni kikwazo kinachofanya usichukue mkopo. (1= sikubaliani kabisa, 2= sikubaliani, 3= wastani, 4= nakuabaliana, 5= nakubaliana kabisa)

Sababu	**1**	**2**	**3**	**4**	**5**	
Hakuna/ kipindi kifupi cha neema	1	2	3	4	5	
Riba kubwa inazuia uombaji wa mkopo		1	2	3	4	5
Fedha zinazo kopeshwa ni kidogo sana		1	2	3	4	5
Mfumo wa ulipaji wa mkopo sio mzuri		1	2	3	4	5
Muda wa marejesho ni mfupi	1	2	3	4	5	

KIPENGELE CHA 4

MATATIZO YANAYOWAPATA WAFANYA BIASHARA WADOGO KATIKA KUKUZA MITAJI

Panga sababu kutokana na uzito wa linalokupata katika kukuza mtaji. (1= sikubaliani kabisa, 2= sikubaliani, 3= wastani, 4= nakubaliana, 5= nakubaliana kabisa)

Sababu	**1**	**2**	**3**	**4**	**5**
Kukosa hesabu za biashara	1	2	3	4	5
Kukosa eneo la biashara	1	2	3	4	5
Kukosa dhamana	1	2	3	4	5
Familia kubwa inakutegemea	1	2	3	4	5
Historia mbaya ya mkopo	1	2	3	4	5

Wazo lolote

…….

…….

…….

Asante sana kwa ushirikiano wako

SEHEMU YA 2

TATHMINI YA UBORA WA VYOMBO VYA UTOAJI MIKOPO KWA WAFANYA BIASHARA WADOGO

Maelezo ya fuatayo yametumika kutambua ubora wa huduma za utoaji wa mikopo kwa wafanyabiashara wadogo zitolewazo na vyombo mbalimbali vya utoaji mikopo.

1) Kundi: Chama cha Ushirika ( ), Benki ( )
2) Jina la chombo husika

   ……

3) Je, mnatoa huduma nyingine mbali na mikopo kwa wafanyabiashara wadogo?

   NDIYO ( ) HAPANA ( )

4) Kama jibu ni ndiyo, ni zipi?

   ……

   ……

5) Ni vitu gani mnavipa kipaumbele katika kutoa mikopo kwa wafanyabiashara wadogo?

   (a) Jinsia ( ), (b) Umri ( ), (c) vikundi vya ushirika ( ), (d) Elimu ( ), (e) uzoefu wa biashara ( ), (f) udau ( ), (g) nyinginezo ( )

6) Je wafanyabiashara wadogo ni wengi/ wachache katika kuchukua mikopo hapa kwenu?
7) Je, unafikiri ni kwa nini?

   ……

   ……

8) Kuna matatizo gani mnayoyapa takatika kutoa mikopo kwa wafanyabiashara wadogo?

   .....

9) Wazo lolote ……..

Asante sana kwa ushirikiano wako

Appendix. II: Correlations

Correlations

	personal saving	family and friend	bank loan	micro finance	retained profit	money lenders	other sources	no/short grace period	high interest rates	small amount provided	uncomfortable mode of payment	short repayment time	inadequate record keeping	no business premises	lack of collateral	large family	bad credit history
personal saving	1																
family and friend	-.531*	1															
bank loan	-.594*	.610*	1														
micro finance	-.539*	.968**	.756**	1													
retained profit	-.606*	.830**	.945**	.929**	1												
money lenders	.243	.026	.179	.203	.203	1											
other sources	-.234	-.612*	-.299	-.565*	-.452	.064	1										
no/short grace period	-.513	.875**	.854**	.968**	.968**	.367	-.481	1									
high interest rates	-.107	.176	-.421	-.068	-.273	-.841**	-.216	-.308	1								
small amount provided	-.710**	.690**	.873**	.726**	.858**	-.300	-.397	.716**	.063	1							
uncomfortable mode of payment	.234	.612*	.299	.565*	.452	-.064	-1.000**	.481	.216	.397	1						
short repayment time	-.601*	.986**	.674**	.955**	.859**	-.090	-.604*	.863**	.213	.794**	.604*	1					
inadequate record keeping	-.065	.601*	.758**	.678**	.769**	.069	-.815**	.712**	-.187	.719**	.815**	.645**	1				
no business premises	-.626*	.367	-.179	.203	.000	-.423	.257	.026	.647**	.113	-.257	.362	-.454	1			
lack of collateral	-.122	.875**	.488	.830**	.692**	-.026	-.919**	.732**	.220	.588*	.919**	.863**	.800**	.026	1		
large family	-.661**	.732**	.976**	.830**	.968**	.026	-.394	.875**	-.220	.946**	.394	.801**	.776**	-.026	.607*	1	
bad credit history	-.461	.975**	.631*	.984**	.849**	.246	-.580*	.929**	-.014	.603*	.580*	.936**	.598*	.263	.843**	.716**	1

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).
c. Listwise N=15