DETERMINANT FACTORS AFFECTING SMALL BUSINESS HOLDERS IN MICROCREDIT ACCESS IN TANZANIA

A CASE OF NATIONAL MICROFINANCE BANK IN MOROGORO MUNICIPAL

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By

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A Dissertation Submitted in partial fulfillment of the requirements for the Award of Masters Degree in Business Administration (MBA) of Mzumbe University

2013

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled Assessment of determinant factors affecting small business holders in accessing microcredit in Tanzania. A case of National Microfinance Bank in Morogoro municipal, in partial fulfillment of the requirements for award of the degree of Master of Business Administration of Mzumbe University.

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

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My friends, their love, support and constant patience have taught me so much about sacrifice, discipline and compromise even if there were times when they said “We told you so”.

Finally, I wish to thank my family, who have always believed in me and helped me reach my goals. Their support forged my desire to achieve all that I could in life. I owe them everything and wish I could show them just how much I love and appreciate them.

DEDICATION

Dedicated with love to my family

ABBREVIATIONS

MFI	Microfinance Financial Institutions
MSE	Micro and Small Enterprises
SME	Small and Medium Enterprises
URT	United Republic of Tanzania
NMB	National Microfinance Bank
CREDCO	Credit Committee
FINCA	Foundation for International Community Assistance
PRIDE	Promotion of Rural Initiative Development Enterprise
GDP	Gross Domestic Product
SPSS	Statistical Package for Social Sciences
TZS	Tanzanian shillings
CIDA	Canadian International Development Agency
PSPF	Public Service Pension Fund

ABSTRACT

The study focused on determinant factors affecting small business in microcredit accessing in Tanzania conducted in Morogoro Municipal using National Microfinance Bank as a case study. Specific objectives of the study were to determine various types of micro-credit services offered by NMB bank and its accessibility procedures, to investigate the contribution of micro-credit in promoting business development in the study area and to investigate the significant of demographic factors in microcredit access. The research was guided by the questions what kind of micro-credits is offered by NMB? What is the relationship between credit delivery and business development and how does demographic factor affect the access of credit? Simple random sampling and purposive sampling techniques were used to get a total of 204 study respondents which were customers of NMB and loan officers. Data were collected through questionnaires, interviews, observations and documentary reviews. Data analysis was based on descriptive and inferential statistics and presented in tables, frequencies, and percentages.

Study findings show that high interest rate, legal and regulatory procedure, complicated and bureaucratic loan application procedures, age, income level and education of the respondents affects small business holders in access bank loans. In addition, factors that hinder microcredit access are such as lack of verifiable business premises, culture of non repayment, over insistence on collateral rather than business potential and inadequate record keeping. The study recommends that, regulation governing micro-financing are to be revised in order to improve and accommodate financing to those business with less than one year old and flexibility in financing those with no working capital. The repayment time and interest rates should be reflected to match the reality of life. The small business holders are suffering from high interest rates and short repayment duration. This eliminates the ability of these small business holders to plan well their growth, and sustainability. Therefore the study recommends changes in this area by

lowering interest rate per annum and increasing duration of payment of the loan, this will enable small business holder to participate in the economy profitably. In order to accelerate business growth, other services should also be provided; such as training, counseling, information services and also appropriate emphasis on Business Ethics should be given in different levels of education

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CHAPTER ONE

1.0 Introduction

This chapter sets the context for which the study is motivated. It looks at background of the problem, statement of the problem, research objectives, research questions and significance of the study.

1.1Background of the problem

The small and micro enterprises (SMEs) play an important role in the Tanzania Economy. According to Tanzania Chamber of Commerce, Industry and Agriculture (2012), the sector contributes to 12% and 34% of rural and urban employment respectively as well as up to 32% of the Gross Domestic Product (GDP). (Wangwe and Semboja 1997: Toroka and Wenga 1997)

Credit throughout the period has been considered as an important determinant of growth and rising incomes to SMEs thus, play a crucial role in employment creation and poverty reduction (Olomi, 2009). The credit system to the poor has however been evolving with the emerging economic reforms which has a market-economy drive.

Failed to access institutional microfinance most poor households would continue to rely on inadequate self-finance or informal sources of microfinance, which limits their ability to actively participate and benefit from development opportunities (Chijoriga, 2000).

In Tanzania, the full range potential of the SME sector has yet to be tapped due to the existence of number of constraints hampering the development of the sector. Abor and Quartey, (2010) emphasized that SME development is largely constrained by a number of factors, such as access to appropriate technology, limited access to international markets, the existence of laws and regulations, lack of management skills and most importantly lack of funds.

Although Olomi (2009) argues that, many governments provide finance to support expansion, research and development, training initiative and acquisition or upgrade business assets. The increased participation and contribution of SMEs has led to an increased need for financial services.

Despite the above difficult situation, the government of Tanzania has made considerable efforts to revive major production and service sectors much faster. Recognizing the importance of financial services to SMEs, in the year 2000 the government of Tanzania developed the national microfinance policy in line with the overall financial reforms initiated in 1999. National microfinance policy (2000) aimed at enabling low income earners to access financial services.

Although the Tanzania economy has undergone drastic changes during the past two decades, which is associated with globalization, economic reforms and privatization of parastatal organization, the changes has not benefit the poor (Chijoriga, 2000).

Chijoriga, (2000) continues to argue that although financial reform seems to help good number of people especially youth, SMEs are facing different challenges. Many business owners are facing capital problem for establishment and development. The most known financial lenders in Tanzania are banks but due to the ongoing banking revolution it seems to be hard for small business people to access loans from banks.

1.2 Statement of the Problem

The problem of raising funds from banks is more pronounced for small business (Berger and Udell. 2007).This has led to increased interest by policy makers, regulators and researchers about the function of the financial institution in financing small business (Javis,2000).

According to Finscope (2009) about 11% of Tanzanians have bank account in various commercial banks in Tanzania, of which 16% in urban areas and 4% in rural areas. Access to credit by small business is extremely low as 89% of Tanzanians do not have

bank account and thus missed credits from bank in the year 2009. While only 4% of those who claim to borrow money, have had bank account with the bank they transact with.

Despite the effort made by the government of Tanzania and other stakeholders to ensure easy access and availability of microcredit to small business, various factors such as lacking of bank account in a respective Bank and lack of collateral to support bank credit became hindrance factor in accessing the loan. Due to this, small business compete to get the available credit services that are operated by small credit scheme, which are limited in scope and have special target groups (Chijoriga,2000)

As Rutashobya and Olomi (1999) observed, growth of micro and small enterprises in Tanzania requires substantial support and economic growth that substantially marked in poverty reduction. And such support should be in the form of credit. Microfinance institutions are increasingly and becoming key players in providing loans to the micro- and small enterprises in Tanzania. Therefore this study aimed to investigate determinant factors affecting small business in accessing microcredit from banking industry in Morogoro Municipal

1.3 Research Objectives.

1.3.1 Main objective

The main purpose of this study is to assess determinant factors that constraining small business owners accessing micro-credits from banking industry especially NMB bank in Morogoro Municipal.

1.3.2Specific Objective

i. To determine various types of micro-credit services offered by NMB bank and its accessibility procedures.
ii. To investigate the contribution of micro-credit in promoting business development in the study area.

iii. To determine the significant of demographic factors in microcredit access

1.3.3 Research Questions

i. What kind of micro-credits is offered by NMB?
ii. What is the relationship between credit delivery and business development?
iii. How does a demographic factor affect the access of credit?

1.4 Significance of the study

This study is expected to contribute significantly to MFIs (especially NMB), Policy makers, MSEs, and the community at large. The study explores and recommends potential area that need to put more effort when delivering their services. On the other hand, policy maker will also benefit in the sense that, the findings provide informed suggestion on how policy can be improved and implemented, moreover MSEs and the community at large will be able to access and benefit from the services of MFIs.

1.4.1 To the researchers

This study is expected to meet partial fulfillment of the requirement of the postgraduate degree (MBA –Corporate Management) at Mzumbe University. The finding has enriched the researcher's knowledge of microfinance credit.

1.4.2 To Non-Profit Organization

The study is focused on ensuring that policy suits MSEs and are well prepared for effective controls in order for MFIs to serve people better. As matter of fact the study will pursue the ongoing SMEs policy on their respective areas and hence gives the suggestion on suitability.

1.4.3 To policy maker

It is important for policy makers to understand whether, the policy set on SMEs are being followed by the MFIs or there is a need to modify the existing policy on financing

procedures and requirements so as to ensure the effectiveness of lending procedures and requirements in MFIs.

1.4.4 To Tanzanian society

The society is the one of the served by MFIs; they also need to know how MFIs operations are being performed especially in lending requirements and eligibility to credit. This will enable more SMEs and community at large to access and benefit from the service of MFIs. As most these stakeholders will be provided with factual information for improving mutual understanding and access of credit.

1.4.5 To other researchers

The findings and the data obtained from this study may be highly regarded to other researchers who will be conducting the research studies which relates to this research topic. The findings give the foundation to their studies when conducting research.

1.4.6 To Mzumbe University

The research will be used as part of materials to the university and as the reference by the students. Moreover the University will have basis in advising MFIs on effectiveness of lending and its impact to SMEs

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter, review and present literature related to the study. The chapter discloses the theoretical literature review, empirical study done by different authors on matters related to the problem being investigated and conceptual models.

2.1 Definitions of terms

2.1.1 Bank

Srivastava (1996) defined bank as a business that provides financial services usually for profit. Traditional banking services including receiving deposits of money, lending money and processing transactions.A commercial Bank is usually defined as an institution that both accept deposits and makes loans; there are also financial institutions that provide selected banking services without meeting the legal definition of bank. A commercial bank accepts deposit from customers in turn makes loans based on those deposits. Many banks offer ancillary financial services to make additional profit; for example selling insurance, investments products or stock broking (Srivastava, 1996).

2.1.2 Microcredit

According to the American Bankers' Association (Booklet 21), Credit is small amount of borrowed money that you can use to purchase goods and services when you need them. You get credit from a credit grantor, whom you agree to pay back the amount you spent, plus applicable finance charges, at an agreed-upon time. Installment credit is where a creditor loans a person a specific amount of money, and agree to repay the money and interest in regular installments of a fixed amount over a set period of time.

2.1.3 Small business

Small businesses are common in many countries depending on the economic system in the operation (Berger and Udell, 2007) .There is no single definition of a small business that applies across policy areas (Keefe *et al.*, 2005). In most cases one would refer to small business when talking about a one-man business owner utilizing mainly family labour and one or two employees (Olomi, 2009).

According to Bolton report as sited by Stokes (2002), small business has three essential characteristics as follow: Small business is managed by the owners in a personalized way, It has a relatively small share of the market economic terms and is independent in the sense that does not form part of large enterprise and its ownership is relatively free from outside control in its principle decisions.

In Tanzania Micro enterprises are most formalized businesses engaged between 1 to 4 employees or with capital investments of up to 5,000,000 TZS (URT,2002) Other categories of small and medium enterprises are described below:-

Figure : 1.1 Business categories

Category	**Employees**	**Capital Investment (TZS)**
Micro Enterprises	1-4	Up to 5 million
Small Enterprises	5-49	Above 5 million to 200 million
Medium Enterprises	50-99	200 million to 800 million
Large Enterprises	More than 100	More than 800 million

Source: SME 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.

2.2 Loan terms and conditions

NMB lending policy (2008) provides that loan terms and conditions are basically the lending principles or the standard of good lending but drawn in a way to accommodate the bank's lending policy and the environment in which it operates.NMB customers tend to apply for micro credits facility and the bank considers loan applications from qualified businessman and women for expansion of their businesses and working capital. The applicants will have to comply with the following requirements:

2.2.1 Eligibility Conditions

NMB lending policy (2010) clarifies that the applicant must be at least 18 years of age, the applicant must have sufficient experience in the field and have been open a business account for the past 12 months.

The enterprise must be located in one of the largest areas and its distance should not be more than twenty kilometers from the respective branch. The loan product requires payment of monthly installments depending on the amount agreed. Hence, the enterprise must be which has steady cash flow. The borrower must have business license, copy of registration, copy of tax payment and board resolution to borrow money from the bank. If the applicant has a current loan from another lender she/he will be required to provide his/her loan history.NMB bank shall only lend to such applicants whose loans shows a good repayment record and if the financial analysis shows the enterprise will be able to repay both loans and remain profitable. The applicant being the owner-operator of the business must be proficient in what she/he does, skilled craftsperson, efficient producer or able sales person. The applicant must have a good reputation in the community, be honest, hardworking and financially reliable. Family members living in the same household are eligible for no more than one loan at any given time. Exception will be considers where the business of the individual loan applicant are different, but only in

case where the degree of risk is visibly and substantially less in one of the business in order to rescue the bank's risk exposure.

2.2.2 Loan size

NMB lending policy (2008) elaborates that the first loan for any micro enterprise will be from a minimum of TZS 50,000/= to 1,000.000/= Actual size of each loan will depend on the size of the business and the borrower's debt service capacity as evaluated by loan officer. A second loan to a borrower who has proved to be reliable in payment of loan installments may be up to 2 times of the first loan, but still a maximum of TZS 2,000,000. Third loans for 12 months shall be increased up to 1.5 times the value of the second loan and for 12 months two times. The actual size of the repeat loan will depend on the loan officer's evaluation of the business prospects of the enterprise, but will also include assessment of retained earnings in the business from the first loan.

The set general credit range of SMEs is from TZS 7,500,000 to TZS 1,000,000,000 depending on the size, nature and viability of the enterprise to be financed. The actual size of any credit limit will depend on the Loan Officer / Business Banker's evaluation of the viability of that enterprise, but will also include assessment of growth potential.

2.2.3 Purpose

NMB lending policy (2010) clarifies that clients can use the loan funds for working capital and purchase of inventory, light materials, equipment and other expenses associated with operating a micro enterprise. The loans are not for the purpose of purchasing fixed assets which requires a long payback period; however equipment that will quickly begin to produce stream of return immediately after installation shall be considered.

Clients will be cautioned on the risk of diversion, which could result in failure of the business. When the borrower has repaid the loan and applied a new loan, the loan officer will check on whether the enterprise achieved the projected increase in activity and if profits were retained in the enterprise.

2.2.4 Loan Repayment

The initial loan term will be six months. After the borrower has successfully repay two six months loans, a loan term of 12 months may be considered. The third loan and afterwards loans for purchase of major equipment or business premises improvements shall be considered as branches gain experience in the new lending method. All micro enterprise loans will be paid regular installment. The installments will be due to once per month on the same date or by the previous business day of that date (NMB Lending policy,2010)

Initially, no grace period will be offered for working capital. Micro enterprises generally differ from large enterprises in that most equipment bought by existing micro enterprises will be put into operation immediately and begin to produce a return from which to repay loan installments immediately. If there are special circumstances in which the return from investment will be delayed, granting a grace period may be considered.

2.2.5 Margin

Interest rates on micro loans and overdraft are set by CREDCO, at the moment the rates are 18% and 19% per annum respectively and they are based on declining basis. It is possible that a borrowing business with lower risk profile and large credit exposure (exceeding TZS100, 000, 000) receives a discount. This must be approved by CREDCO at Head Office where the application is to be decided on. (NMB lending policy 2010)

2.2.6 Fees and Charges

Facility fees will be charged as per product standard, at present the charge is 1.5% flat. No other fees apply unless specified by CREDCO and communicated by circulars. Applicants whose credits are approved will meet legal costs, levies, stamp fees, collateral registration costs and documentation fees where appropriate.

2.2.7 Collateral

A security agreement of an equal or greater value to the loan amount will all secure the loans. However, the bank aims at having collateral values that are 150% of the loan amount where possible and if the value of collateral is below 150% of the loan then the bank might demand another security or it can reduce the loan amount. The bank accepts the following form of collateral such as guarantees backed by tangible assets, chattel mortgages, liens on bank balances and life policies. In spite of the fact that bank's ability to realize such as collateral may be limited due to involved costs, still collateral , will be required to reduce the bank's risk exposure and also demonstrate the borrower's good faith(NMB Lending policy:2010)

2.2.8 High initial Deposit

According to NMB lending policy (2008) Banks request high initial deposit usually twenty percent for the amount requested of which limit majority of small businessman and woman to get loans from NMB

2.2.9 Demographic factors

According to Ngaliga (2008) Socioeconomic characteristics of population expressed statistically, such as age, sex, education level, income level, marital status, occupation, religion, birth rate, death rate, average size of the family and average age at marriage. In order to get loan from the bank one must be aged from 18 and above and of sound mind. (NMB lending policy, 2010). Different kinds of microcredit have different criteria thus loan are given to those who are eligible. Example salaried workers loan is only given to those who are employed in Government institution only with the agreement between the employer, employee and the Bank.

2.2.10 Business Development

Business development/ growth refer to a business that generates significant positive cash flows or earnings, which increase at significantly faster rates than the overall economy.

In measuring business growth or development, indicators such as sales volume, capital, profit and number of employees must be considered.

2.3 Theoretical framework

The theoretical framework adopted in this study involved the bank capital channel and capital constraint model. Also adopted in this work is the life cycle approach, Pecking – order and the agency framework hypothesis that attempts to explain small-firm financial structure.

2.3.1Bank Capital Channel Model

This model considers the lending behaviors of bank to small business to be affected by a capital adequacy requirement. Obamuyi (2007) argues that the bank capital channel views a change in interest rate as affecting lending through bank capital, particularly when banks' lending is constrained by a capital adequacy requirement. Thus,an increase in interest rates will raise the cost of bank external funding, but reduce banks' profit and capital. The tendency is of the bank to reduce their supply of loans if the capital constraint becomes binding. However, banks could also become more willing to lend during certain periods because of an improvement in their underlying financial condition.

This condition as supposed by this model, is clearly seen in the relationship between banks and small business as the small business suffer through a lack of financial assistance as a result of this situation.

2.3.2The Life Cycle Approach

The lifecycle approach, as described by Weston and Brigham (1981), was conceived on the premise of rapid growth and lack of access to the capital market. Small firms were seen as starting out by using only the owner's resources. If these firms survived, the dangers of undercapitalization would soon appear, and they would then be likely to make use of other sources of funds, such as trade credit and short-term loans from banks.

Rapid growth could lead to the problem of illiquidity. Weston and Brigham (1981) contends that the dynamic small firm would therefore have to choose between reducing its growth to keep rate with its internally generated funds, acquire a costly stock market quotation, or seek that most indescribable form of finance – venture capital.

This theory is relevant to this study as it enables to explain the growing trend of lack of finance in small business and that expanding small firms are likely to experience rising short-term debt and use little or no long-term debt.

2.3.3 Agency Theory

This theory places emphasis on transaction cost, contracting analysis following the work of (Coase, 1937).The work of these writer all point to the challenges that surround ownership, contractual agreements, management interrelationship, credit rationing etc. between small business and external providers of finance, thereby subjecting firms to the risk of a small business substitution which in practice means a change in the firm's business structure. For very small and micro-enterprises this small business substitution may well take place between the enterprise and the owner's household.

The theory is relevant to my study as it helps understand challenges that surround ownership, contractual agreements, management interrelationship, credit rationing between small business and external providers of financial such as banks and other financial institutions.

2.4 Factors affecting microcredit access from financial institutions

2.4.1Information and Risks

Small enterprises have been seen to experience high failure rates. Hence, lenders need to be selective. It is difficult, however, to assess the viability of a small enterprise, the ability of the entrepreneur, and the likelihood that the clients will repay which are the most important criteria of creditworthiness applied by the Banks. Banks have to depend

heavily on an entrepreneur's track record of which few small businesses in Tanzania do keep records (UDEC, 2007).

2.4.2 Collateral

Banks consistently require collateral to enforce repayment, to offset losses in case of default, and to help screen the application. In Tanzania most of the small businesses do not own assets worth to be pledged as collateral in the banks. For those few who owned property, the constraints of proving legal, enforceable title to land may render it unacceptable to banks as collateral (Olomi and Issack, 2003).

2.4.3 Costs

Because small firms often lack good financial accounts and may have difficulty filling out bank forms correctly, the cost of processing and monitoring small loans exceeds that of loan to large enterprises on a per-loan basis. Bank estimated that it took an average of 24 staffs per day to gather information and process an application for a small enterprise as against 16 days for a large-scale firm (Aryeetey*et al*., 1994) historically; most commercial banks in Tanzania had little incentive to try to overcome these constraints and increase lending to local small enterprises. Their orientation has been mainly towards short-term commercial transaction in part because their deposit base is primarily short-term (Chijoriga, 2000).

2.4.4 Domestic Markets

The diminished role of the state in productive activity and renewed private investment has created new opportunity for SMEs. However, limited access to public contract and subcontracts, often because of weighty bidding procedures and /or lack of information, inhibit participation in these markets. Furthermore, inefficient distribution channels and their control by larger firms pose important access for SMEs

In a study by Chowdhury (2002), it was argued that local market competition among MFIs in Bangladesh is driven by credit terms especially in terms of loan amounts, interest rates and repayment time and that some borrowers and MFIs opt for a package of low interest rates tied with low amount of loan disbursed and some other borrowers and MFIs settle for a package of high interest rates tied with high amount of loan disbursed.

However, when assessing comparatively small and straightforward business credit applications, MFIs may largely rely on standardized credit scoring techniques (quantifying such things as the characteristics, assets, and cash flows of businesses/owners). This coupled with the terms and conditions that are perceived to protect their loans at times appear as burdens to the borrowers and because they, (SMEs) do not have adequate or no collateral their performance ends up being affected. (Katto , 2008).

2.4.5 Taxation and Tariffs

Complicated and inefficient tax codes that include cascading sales taxes and stamp duties are least favorable for SMEs and artificially promote larger-scale firms. At the same time, the tariff and non-tariff barriers which favor larger firms that play a role in policy making are often biased against SMEs.

The fundamental purpose of taxation is to raise revenue effectively, through measures that suit each country's circumstances and administrative capacity. In fulfilling the revenue function, a well-designed tax system should be efficient in minimizing the impact on resource allocation, and equitable in its impact on different groups in society (Bolnick, 2004). It is important that the country's situation is properly analyzed before employing any tax policy in order to have a properly working tax system.

For the purposes of protect and control the operation of SMEs in Tanzania, Government of Tanzania imposes several types of taxes which aim in protecting home/infant industries (protectionism)and ensure fair competition among SMEs. High tax rates and

tax complicity discourage the growth of SMEs (Oludele and Emilie, 2012). This has the economic impact to the growth of the economy in the given country. From economic point of view, taxes increase production cost of goods and services which would eventually leads to higher price of goods/services to the final consumers. On the other hand, the revenue collected from taxes represents the major funding source for governmental expenditures (Baurer, 2005).

2.3.1 Legal

High start-up cost for firms, including licensing and registration requirements can impose excessive and unnecessary burden on SMEs. The high cost of settling legal claims and excessive delays in court proceedings adversely affects SME operations. The absence of antitrust legislation favors' larger firms, while the lack of protection for property rights limits SMEs access to foreign technology (Bolnick, 2004).

2.5 Empirical Literature Review

Abdallah (2009) did a study on the role of IMF loans on poverty alleviation in urban areas. The findings showed that all respondents had secured loans from MFIs, which were of beneficial to them in the fight against poverty. The findings also revealed a number of challenges hindering the MFI scheme such as inadequate loans and poor business environment. However the study did not seek to assess the operational procedures and performance of existing formal credit sources, therefore, our study intended to bridge that gap.

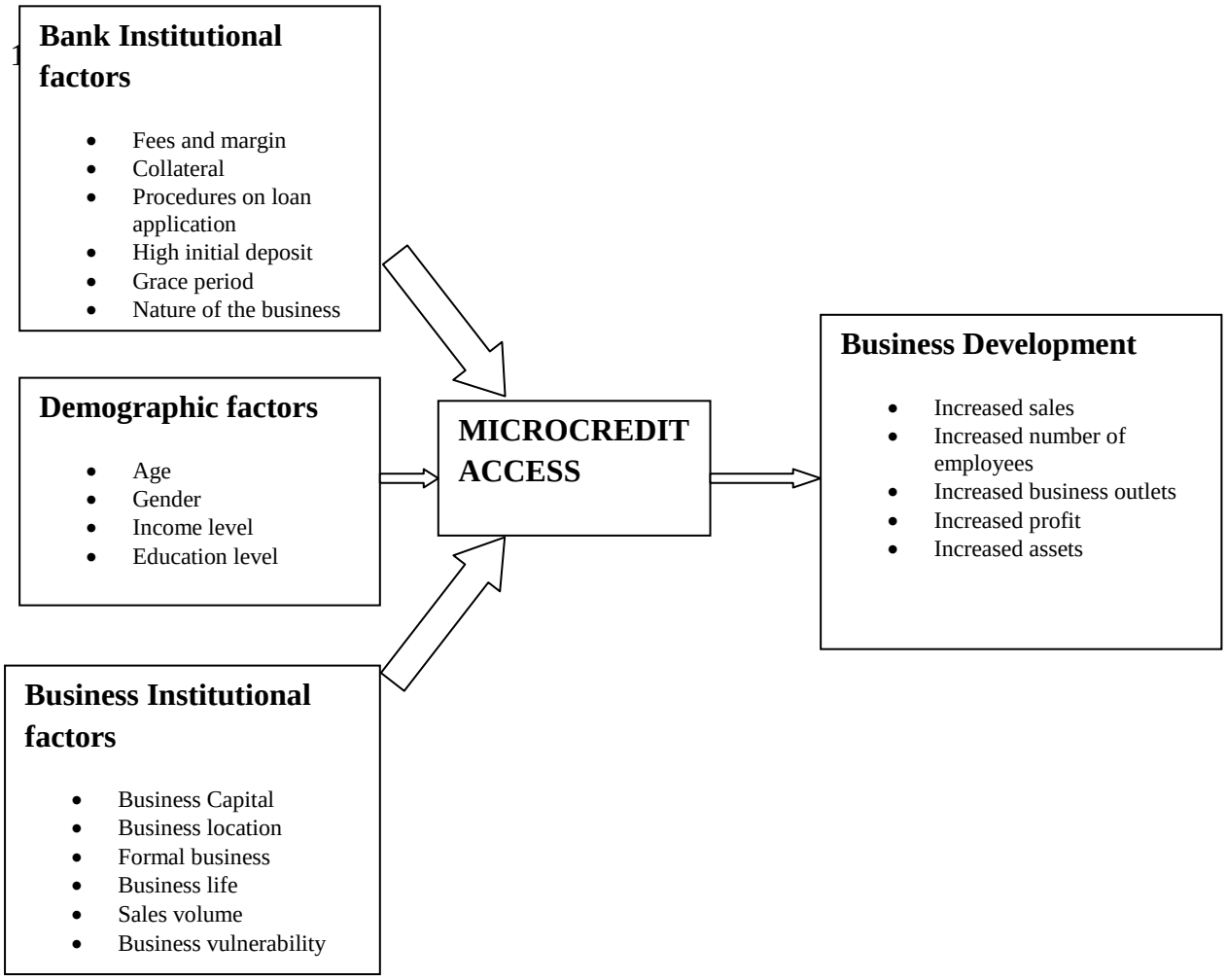
Sungusia (2007) conducted a study on the assessment of microcredit performance on poverty reduction in Tanzania. From this study, findings revealed that Microfinance Institutions lack policy and regulatory environment, have insufficient access to information and weak human and institutional capacity. However the study did not consider the impact of credit accessibility on demographic factors such as age, gender, educational background and economic level, therefore our study intended to bridge that gap.

Obamuyi (2007) conducted an exploratory study of loan delinquency among small business owners and. The study findings revealed a poor lending practice of banks towards the SMEs due to several factors principal of which are poor credit worthiness, lack of collateral security and the constraint Imposed on banks' capital by regulation. This study was conducted in Nigeria involving SMEs but my study intended to investigate the same behavior in small business in Tanzania. Though Tanzania and Nigeria are all African countries, they do differ in culture and entrepreneurial orientation.

2.6 Conceptual Framework

The following framework is developed after a critical review of the literature. It attempts to explain determinant factors affecting small business owners from accessing credit from the bank guided by different theories.

Figure 1.2: Conceptual Model



Source: Researcher (2013)

Figure 1.2 shows that, In order for small business access to credit from the NMB there are credit terms and conditions attached to them. The specific credit terms are collateral (securities), loan period, loan repayment schedules (Grace period), interest rates and initial deposit while demographic factors such as age, and gender, income level and education are being considered

In addition a person is supposed to have a formal business that is having a business license with working capital, and located within the area and a business life of more than one year. If small business holders adhere to these credit terms and conditions could affect the cash levels of the business, which may subsequently affect the performance in terms of increased sales, increased number of employees, increased number of business premises and hence higher profit.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter describes the research approach which includes study area, research design, targeted population, sampling techniques that were used for data collection and data analysis procedures.

3.1 Area of the study

The study conducted at NMB Morogoro Municipal, aimed to access determinant factors affecting small business holders in accessing Microcredit from banking industry in the area. Researcher believed that, NMB branches in Morogoro provided all the necessary information needed.

3.2 Research design

The study employed case study design and NMB in Morogoro Municipal was selected. The study selects case study design because the case study collects and presents detailed information about a particular participant or small group, frequently including the accounts of subjects themselves (Stokes: 2002). The study chooses the case study to look intensely at small participant pool, drawing conclusions only about that participant or group and only in that specific context. In this case the study concentrates on micro enterprises to diagnose the constraints phenomenon in a new context basing on what is happening with NMB.

3.3Targeted population and Unity of Inquiry

The population in this study was 500 small business holders who are customers of NMB around Morogoro Municipal and 20 loan officers. Therefore targeted population of this

particular study is 520 units. However the study selected such Municipal because small business holders are easily accessible.

3.4 Sample size and Sampling Techniques

3.4.1 Sample Size

To determine the optimal sample size for this study Kothari (2004) was used. According to him sample size can be determined by the following formula:

$$n_0 = \frac{NeZ^2\ pq}{(N-1)e^2 + Z^2pq}$$

Where:

n_o = Sample size

N = Total number of targeted population

Z = Confidence level at 95% (Statistical value 1.96)

P = Probability of the problem to occur

q = Probability of the problem not to occur (i.e q= 1-P)

e = Margin of error (0.05)

It constitutes of both 500 small business owners and 20 loan officers and therefore targeted population (N) =520. Therefore, the estimated optimal sample size was:

$$n_0 = \frac{520x1.96^2x0.5x0.5}{(520-1)0.05^2x1.96^2x0.5x0.5} = 221.18251 \approx 221$$

$$n_0 = 221$$

The estimated sample size to be used in this study is 221 respondents. The proportional allocation of respondents (small business owners and loan officers) as sample size (n_o) was estimated as follows:

$n_k = \frac{N_k}{N} \; x \; n_0 \; ;$ Where 'K' = 1, 2

Where:

n_k= Sample size of stratum k (study unit k)

N_k = Population of stratum k (study unit k)

K stands for study unit number (i.e 1, 2)

Proportional sample size of small business owners (n_1) = $\frac{500}{520} \; x \; 221$ = 213

Proportional sample size of loan officers ($n_{2)} = \frac{500}{20} \; x \; 221$ = 8

Total number of respondents is 213+ 8= 204 respondents

Despite the estimated sample size being 221, the study interviewed only 204 respondents (190 small business owners and 14 loan officers).This was because of non response rate and budget constraints.

Moreover, according to Barley (1994) a sample size of 100 respondents is sufficient for most of researches. And a sample size of less than 500 is also sufficient (Musa et al; 2012)

3.4.2 Sampling techniques

The study employed both purposive/ judgmental sampling and simple random sampling technique in data collection

3.4.1.1 Purposive Sampling Technique

The study purposively selects small business owners and loan officers because of their position in the study and their knowledge about microcredit. According to Kothari (2004) purposive sample, also commonly called a judgmental sample is one that is

selected based on the knowledge of the respondents in particular aspects. The subjects are selected because of different characteristics.

3.4.1.2 Simple random sampling

The study used simple random technique in the selection of small business owner and thus obtained the required number of respondents from the long list of NMB customers**.** Each individual is chosen randomly and entirely by chance, such that each individual has the same probability of being chosen at any stage during the sampling process (Kothari: 2004).

3.5 Nature of Data and data collection technique

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

3.5.1 Primary Data

Primary data in this study have been obtained from both current owner managers running micro enterprises and loan officers working at NMB. These are those data collected afresh and for the first time and thus happen to be original in character (Kothari, 2004). In addition, primary data can be expressed as the first information collected through various methods such observation and interviews.

3.5.2 Secondary Data

The study used generated secondary data from financial institution like records, files report documents published data such as various reports, magazines, newspapers, different survey research papers, business brochures and academic journals. Secondary data are those data, which have been collected by someone else, and have already passed through statistical process (Kothari, 2004).

3.6.3 Data Collection Methods

In this particular study, both qualitative and quantitative data collection techniques were used in order to counter balance shortcoming from each technique. The decision to use multiple instruments in collecting data (triangulation) has ensure validity of data as one instrument complement each other (Ledgerwood, 2000; Thornill, *et al. 2005*).

3.5.3.1 Interview

Direct interview method was used where the study employed interview guide to ask customers of the NMB questions and discuss with them concerning the problems they encountered in accessing fund from financial the particular bank. Unstructured interviews have been conducted with NMB staff from loan departments, divisions and sections according to the relevant sample. This gave every individual among the bank customers an equal chance of being selected.

3.5.3.2 Questionnaire

Kothari, (2004) argues that questionnaires consist of a number of questions printed in a definite order on a forms or set of forms. Questionnaires were distributed to small business owners and loan officers. Every individual had enough time to answer question comfortably and freely. The study employed Swahili language in questionnaire for small business since majority of small business people use Swahili as a means of communication while English language was used for loan officers.

3.6 Data Analysis techniques

Data analysis is a process of bringing order, structure and meaning to the mass of information collected from respondents (Kothari, 1990). Data collected were edited and coded to facilitate data entry in the computer. Descriptive and inferential statistics were employed to determine statistical relationship between variables.

3.6.1 Descriptive statistics

In analyzing various types of microcredit offered by NMB, contribution of microcredit in promoting small business growth as well as sample characteristics the descriptive statistic analysis was employed and results were presented by using percentages and frequencies.

3.6.2 Inferential statistics

In analyzing the significant of demographic factors in improving microcredit access, the study employed regression methods. In such model, the dependent variable is "microcredit access" while independent variables are age, gender, education level and income. Distribution specification of the regression model is as follows:

$Y_i = b_o + b_1 X_1 + \ldots + b_n X_n + e$

$X_1 =$ Age of respondents

$X_2 =$ Gender of respondents

$X_3 =$ Education level

$X_4 =$ Income

$Y_{i=}$ Microcredit access (Dependent variable)

$b_{o=}$ Intercept

b_n= Coefficient of determinants

e = Standard error

Here, the study assumed that age, gender, education and income distribution are the only variables (predictors) influencing microcredit access by small business owners in this study. Moreover, the study holds constant all other things in this assumption. This

means, Microcredit access is influenced by age, gender, education and income distribution of small business owners.

3.6.3. Multicollinearity Assumption

The study measure also the assumption of multicollinearity to check fitness of the model in the prediction of outcome especially by looking if there were correlation between independent variables using tolerance value and variance inflation factor.

CHAPTER FOUR

RESULTS AND DISCUSSION OF THE FINDINGS

4.1 Introduction

This chapter is divided into five sub-sections. Sub section one is the introduction of the chapter, while sub-section two provides general characteristics of the respondents. Also sub-section three shows factors affecting microcredit access. Sub-section four shows types of microcredit services offered by NMB, while subsection five provided assessment of microcredit in promoting business development. Lastly is subsection six which provides investigation of the effect of demographic factors (age, gender, educational background and income level) on credit accessibility.

4.2. General characteristics of respondents

In general characteristics of the respondents, information such as gender, age, education and business experience were captured in order to give the full overview of the respondents.

Table 4.1 General characteristic of the respondents

Characteristics of the respondents	Frequency	Percentage (%)
Gender distribution (Dummy)		
Female	80	42.1
Male	110	57.9
Total	**190**	**100**
Age distribution (Years)		
18-40 (Youth group)	70	36.8
41-55 (Adult group)	82	43.2
56 and above (Old group)	38	20.0
Total	**190**	**100**
Business experience (Years)		
1-3	40	21.1
4-6	111	58.4
7 and above	39	20.5
Total	**190**	**100**
Education distribution (Years in School)		
No formal schooling	19	10
Primary Education	47	24.7
Secondary school education	73	38.4
College education	22	11.6
Tertiary education	29	15.3
Total	**190**	**100**

Source: Field data (2013)

4.2.1 Gender profile

Table 4.2.1 shows that 190 respondents participated of which 42.1% of respondents were female and 57.9% of the respondents were male. This implies that there is somehow gender balance of the respondents, which made this study capture opinions of both male and female without gender violation. It also gives out a new theme that women are now engage in business as well as acquiring loans.

4.2.2 Age distribution of the Respondents

None of respondents were aged below 18. Therefore 36.8% of the respondents surveyed were aged between 18 to 40 years. Then, 43.2% of the respondents were aged between 41 to 55 years and 20 % of the respondents surveyed were aged 56 years and above. This implies that there is participation of all age group in the business. Also it shows that majority of the respondents were in the productive age as about 43.2% of the respondents were between 41-55 years. However, they are life's experienced people.

4.2.3 Experience in the Business

Table 4.2.1 shows that's, 21.1% of the respondents surveyed had experience of running their small business between 1-3 years while, 58.4% of the respondents had an experience between 4-6 years. Also, 20.5% of the respondents surveyed had an experience of 7 years and above of running small business. This signifies that out of 190 NMB bank customers surveyed, majority are in business for more than 4 years. This implies that they had sufficient knowledge and experience to manage their business operations and hence they were able to identify which season of the year to borrow money. Those who had their business less than one year did not qualify to apply bank loan as per loan condition from NMB Bank.

4.2.3 Education distribution of the respondents

Table 4.2.1 shows that, about 38.4% of the respondents surveyed got secondary school education. This implied that, though they have sufficient knowledge about business

environment, they lack entrepreneurial and managerial skills which will enhance record keeping and ability to write a viable business plan.

4.2.4 Attitude on micro-credit services access hardship

The study aimed at tracing if microcredit services provided by NMB are easily accessible whenever needed by the clients as per pre-analysis of factors affecting credit access. Table 4.2.1 shows that majority of people 58.4% who applied for micro credit service experienced it easy to access whenever needed subject to fulfillment of credit conditions. While the rest who are 41.6% of the respondent experienced not easily accessible. This implies that, clients can easily access micro-credit from NMB Bank only when terms and conditions are met by microcredit applicants. For others who said no, it means they do not meet some conditions to secure loans.

Table 4.2 Attitude assessment about microcredit access hardship

Application status	**Response rate**			
Term and Conditions on Microcredit services are very hard for most small business	**YES**		**NO**	
	Frequency	Percentage	Frequency	Percentage
	111	**58.4**	**79**	**41.6**

Source: Field data (2013)

4.3 Analysis of factors affecting small business holders in access microcredit services

The study aimed at analyzing determinant factors affecting small business holders in accessing microcredit. Responses from respondents surveyed were shown in the table below:

Table 4.3 Factors affecting microcredit access

Factors affecting microcredit access	Frequency	Percentage	Level of importance
Grace period	106	55.8	4
Required initial deposit	155	81.6	1
Rules and regulations	134	70.5	3
Corruption from loan officers	146	76.8	2(a)
Bureaucracy of loan officers	146	76.8	2(b)
Long distance from home to the Bnak	71	37.4	5
Initial amount provided	63	33.2	6

Source: Field data (2013)

4.3.1 Grace period

Table 4.3 shows that, about 55.8% of the respondents surveyed were complaining that time given by the bank to start loan repayment are not sufficient for small business. The implication of shorter grace period is that, small business may sunken in defaulters as

well as affecting future business performance because of interest outstanding or accrued as a result of defaulting.

Long grace period is advantageous to small business. This is because it helps business owner to utilize the loan effectively before repayment. If the financial institutions do not provide enough grace period then it follows that the finance is not sustainable and suitable as an entrepreneur will not be in a position to start repayment.

4.3.2 Required initial deposit

Table 4.3 shows that, 81.6% of the respondents surveyed complained about the required initial deposit by the bank in order to access bank credits. Such amount is very high for majority of small business owners. Thus, most small business owners failed to access bank. The implication of fail to access bank credit is that, there is slow growth of small business.

4.3.3 Rule and regulations

Table 4.3 shows that, about 70.5 % of the respondents surveyed complained about rules and regulations imposed by the bank to small business lenders. Rules such as an operating business license of more than one year, business registration and financial records threat small business from access to finance from the bank as many of the small business operators were not able to meet those conditions.

4.3.4 Initial amount provided

Table 4.3 shows that, 33.2% of the respondents surveyed argued about the initial amount provide by the bank to finance small business to be not enough to them. Since initial amount provided depends much on the nature of the business, location and steady cash flow, this implies that, the loan amount provided depend on loan officer's evaluation of the business prospects as well as assessment of the retained earnings from the business.

4.3.5 Bureaucracy of loan officer

Table 4.3 shows that, 76.8% of the respondents surveyed explained that loan application procedures are complicated and bureaucratic. This implies that loan officers provides very cumbersome loan application procedure and bureaucratic in the sense that one perceive that banks are not doing business of providing loans to customers rather, offering favor to customers. This also shows that customer experience high transaction cost, hence affecting business performance.

4.3.6 Long distance between the bank and the customer.

The findings in table 4.3 show that, 37.4% of the respondents surveyed complained that bank branches were too far hence following up became difficult. This implies that distance from home to the bank affects the ability of small business in accessing credit from banks. Long distance from home to the bank increases transportation costs, leading to increase of cost an entrepreneur calculate in accessing credit from bank. If the cost of following up is higher than the amount the entrepreneur is going to receive from the bank, then an entrepreneur will stop the process of accessing credit from the bank. However majority of the respondents are residing near the bank branches thus transportation cost is negligible.

4.3.7 Corruption from loan officers

The findings in table 4.3 show that, 76.8% of the respondents surveyed complained that loan officers who lack integrity with their work usually prepare a corrupt environment. This lead to some loan officers to request favors so that their loan application can be processed faster than other customers.

This implies that preparation of corrupt environment by loan officers affect credit accessibility. The corrupt environment favors few customers who have ability economically to offer those bribes to loan officers.

4.4 Microcredit Services offered in NMB Bank

The study aimed at determining various types of micro-credit services offered by NMB bank and its accessibility procedures.NMB bank offers commercial banking, microfinance services and products to its customers Such products and services observed were presented and discussed below:

Table 4.4: Types of microcredit services offered by NMB bank

Type of microcredit	Frequency	Percentage	Level of importance
Corporate loans	92	48.4	3
Salaried worker's loans	133	70	2
Sugar Outgrowers loans	17	8.9	6
Business loans	156	82.1	1
Pensioner's loans	49	25.8	4
House loans	77	40.5	5

Source: Field data (2013)

4.4.1 Corporate loan

Table 4.4 shows that, 48.4% of the respondent surveyed are aware of corporate loan offered by NMB. These are loan given to large corporate in Tanzania and microfinance institutions such as FINCA

4.4.2 Sugar Outgrower's loan

Table 4.4 shows that, 8.6% of the respondents surveyed are aware of sugar outgrower's loan which is specific loans to the farmers linked to their expected production. The objective of the loan is to enable the outgrowers to purchase inputs of sugar cane and farm maintenance

4.4.3 Pensioner's loan

Table 4.4 shows that, 25.8% of the respondents surveyed are aware of pensioner's loans which are loans to assist pensioners to access more funds than available from their pension payments, to offset financial limitation in respect of subsistence, personal and family commitment.

4.4.4 House loan

Table 4.4 shows that, 40.5% of the respondents surveyed are aware of house loans offered by NMB to civil servant in collaboration with Public Service Pension Fund(PSPF).

4.4.5 Salaried workers' loan

From table 4.4 above it shows that, 70% of the respondents surveyed are aware of salaried worker's loans offered by the bank. These are individual loans issued to employees of businesses which have contracts with the bank and government entities. The target beneficiaries are employees of stable and viable companies

4.4.6 Business loan

According to table 4.4 the results shows that, 82.1% of the respondents surveyed have knowledge about Business loans offered by NMB. This microfinance product focuses on the financial needs of micro and small entrepreneurs with short term needs up to two years. The design of this helps borrowers to gradually learn how to obtain and repay the loan, whereby the amount that they are allowed to borrow increases each time a previous loan has successfully re-paid.

However, since this study focus on to assess factors affecting small business owners accessing micro-credits from banking industry especially NMB then the study focused specifically on business loan whereby it accessing procedure is as follows:

The following documents form part of the application from potential borrower:

i. Application Letter from Government official showing the age and photograph of the applicant.

ii. Detailed Business Plan

iii. Bank Statements for at least recent six months with satisfactory turnover and steady cash flow to facilitate monthly repayment.

iv. Copy of Business License for specific sector example guest house together with Tax Identity Number (TIN)

v. List and certified copies of security/ collateral documents that may be pledged to the bank if the credit is granted.

4.5 Assessment of microcredit contribution in promoting business development

This study also aimed at accessing the contribution of microcredit in promoting business development especially in the study area. The following were the finding:

4.5.1 Changes in business capital (TZS)

Table 4.5 shows that majority of small business owners (81.1%) surveyed received Bank loan of less than TZS 2,000,000.While only 17.4% of respondents interviewed received TZS 2,000,001 - 5,000,000 bank loan. Also 1.5% of the respondent surveyed are having loan of more than 5,000,000 TZS

Table 4.5 Business capital before accessing loan (TZS)

Business Capital (TZS)	Frequency	Percent
Less than 2,000,000	154	81.1
2,000,001 - 5,000,000	33	17.4
5,000,001 - and above	3	1.5
Total	**190**	**100**

Source: Field data (2013)

Table 4.6 below shows that, about 93.2% of the respondents' surveyed experienced growth in capital from less than TZS 2,000,000 up to TZS 5,000,000 after accessing microcredit from the bank. While 5.2% of the respondents has more than 5,000,000 TZS

Table 4.6 Change in business capital after accessing loan (TZS)

Business Capital (TZS)	Frequency	Percent
Less than 2,000,000	3	1.6
2,000,001 - 5,000,000	177	93.2
5,000,001 - and above	10	5.2
Total	**190**	**100**

Source: Field Data (2013)

This implies that NMB micro credit is used to promote and stimulate the growth of business capital of small business. Thus, small business owners argued that microcredit throughout the period have been considered as an important determinant of growth and rising capital.

4.5.2 Changes in business outlet/premises

Table 4.7 shows that, 24.8% of the respondents' surveyed claim that their outlet/premises remain the same as before accessing NMB micro credit. While majority of the respondents surveyed about 73.1% shows that, their outlet/premises increased. This implies that business loan stimulates the establishment of other economic activities like opening another new business and construction of new premises. However, those said their outlets decreased after having loan was due to poor loan allocation as well as loan management.

Table 4.7: Changes in business outlet/premises

Business Outlet (TZS)	Frequency	Percent
Increased	**139**	**73.1**
Remain the same	**47**	**24.8**
Decreased	**4**	**2.1**
Total	**190**	**100**

Source: Field Data (2013)

4.5.3 Change in business profit (TZS)

Table 4.8 shows that, 81.1% of the respondent's surveyed state that their business profit before loan was less than TZS 100,000 per month. While 17.4% of the respondent, had profit between TZS 100,000 and TZS 500,000 per month. And also 1.5% had profit of more than TZS 500,000 per month.

Table 4.8 Business profit before accessing loan (TZS)

Profit per month (TZS)	Frequency	Percent
Less than 100,000	154	81.1
100,001 - 500,000	33	17.4
500,001 - and above	3	1.5
Total	**190**	**100**

Source: Field Data (2013)

Table 4.9 below shows that 93.2% of the respondents surveyed experience an increase in profit after acquiring NMB micro credit which is between TZS 500,001 and 500,000 after accessing bank loan. The findings also show that 1.6 % state that the profit is less than TZS 100,000 after accessing NMB micro credit. While 5.2% state that their business profit is more than TZS 500,000 per month as they access NMB micro credit.

Table 4.9 Business profit after accessing loan (TZS)

Profit per month (TZS)	Frequency	Percent
Less than 100,000	3	1.6
100,001 - 500,000	177	93.2
500,001 - and above	10	5.2
Total	**190**	**100**

Source: Field Data (2013)

This implies that NMB micro credit is used to promote and stimulate the growth of business by increasing profit to small business. An increase in profit enables enterprises

owner to develop their micro and small enterprises as well as enhancing their income earning capacity and therefore improved living standard.

4.5.3 Change in sales volume per day (TZS)

In assessing business growth, one of the most important indicators is the changes in sales volume per day. Table 4.10 shows that, majority of small business owners about 76.8% surveyed received average sales volume of less than TZS 100,000 per day. While 17.4% had more than TZS 100,000 average sales volume per day

Table 4.10: Average sales volume per day before accessing loan (TZS)

Sales volume (TZS)	Frequency	Percent
Less than 100,000	146	76.8
100,001 - 500,000	33	17.4
500,001 – 1,000,000	11	5.8
Total	**190**	**100**

Source: Field Data (2013)

Table 4.11 below shows that, 77.9% of the respondents surveyed experience an increase in sales volume per day after acquiring NMB micro credit. The findings also show that 17.9 % state that average sales volume per day is more than TZS 500,000 after accessing NMB micro credit.

Table 4.11: Average sales volume per day after accessing loan (TZS)

Sales volume (TZS)	Frequency	Percent
100,001 - 500,000	148	77.9
500,001 - 1,000,000	34	17.9
1,000,000 and above	8	4.2
Total	**190**	**100**

Source: Field Data (2013)

This indicate that NMB micro credit can enable small business increase sales volume which in turn increase profit hence, enable them smooth consumption, manage their business risk better, gradually build asset and develop their micro enterprises, which enhance their income earning capacity and enjoy an improved quality life.

4.5.4 Changes in number of employees

According to table 4.12 results shows that, 86.3% state that they had one employee before access NMB micro credit. The findings also show that 11.6% state that they had 2 to 3 employees before accessing NMB micro credit while 2.1% state that they had more than 4 employees before access NMB micro credit.

Table 4.12: Number of employee before accessing loan

Number of emplyees	Frequency	Percent
1 employee	164	86.3
2-3 employees	22	11.6
4 and above employees	4	2.1
Total	**190**	**100**

Source: Field Data (2013)

There is a percentage change in number of employees in business which had 2 – 3 employees from 11.6% before accessing micro-credit to 65.3% after accessing NMB micro-credit .Also there is a percentage change in number of employees in business which had more than 4 employees from 2.1% before accessing micro-credit to 21% after accessing NMB micro-credit. This is shown in table 4.4.8 below

Table 4.13: Number of employee after accessing loan

	Frequency	Percent
2 - 3 employees	124	65.3
4-5 employees	40	21.0
6 and above	26	13.7
Total	**190**	**100**

Source: Field Data (2013)

This implies that NMB micro credit is used to promote and stimulate the growth of business by creating employment opportunity as majority of the respondents show that number of employee increased after receiving loan as many of the respondent's business sales and outlets have increased. Also it encourages all type of employment, including self-employment, as a strategy for improving the lives of the poor. A well established and sustainable micro and small enterprises in many societies contributes to the growth of the national income, more employment opportunities, better standard of living by make use of available local resources and thus poverty reduction.

4.6 Analysis of demographic factors influence on microcredit access.

The study aimed at analyzing demographic factors that influencing microcredit access in the study area. The study used regression model to analyze such demographic factors which are age, gender, education and income distribution of the respondents.

Multiple regression analysis was conducted to examine the relationship between microcredit access and various potential predictors such as age, gender, income and education.

Table 4.14: Regression model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.990[a]	.980	.980	.06975	1.993

a. Predictors: (Constant), Education, Age, Gender, Income

b. Dependent Variable: Microcredit access

A standard multiple regression analysis was conducted to evaluate how well age, gender, income and education predicted microcredit access. The linear combination of

independent variables were significantly related to microcredit access, F (4,199) = 2.498, p < .001. The multiple correlation coefficient was .99, indicating that approximately 98% of the variance of microcredit access can be accounted for by the linear combination age, gender, income and education of the respondents.

Table 4.15 Analysis of variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	48.615	4	12.154	2.498E3	.000[a]
	Residual	.968	199	.005		
	Total	49.583	203			

a. Predictors: (Constant), Education, Age, Gender, Income

b. Dependent Variable: Microcredit access

Table 4.15 summarizes the descriptive statistics and analysis results. As can be seen each of the predictor is positively and significantly correlated with the criterion, indicating that predictors with higher values tend to have higher influence on the dependent variable.

Table 4.16 Coefficient summary

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(CONSTANT)	.020	.023		.848	.397
	AGE	.022	.015	.033	1.454	.148
	GENDER	.961	.017	.962	57.213	.000
	INCOME	.001	.012	.001	.056	.956
	EDUCATION	.002	.004	.005	.453	.651

a. Dependent Variable: Microcredit access

Table 4.16 shows that age, education and income level positively affects microcredit access by small business owners. Results shows that, education background affects small business owners as they fail to write a viable business plan. As well as keeping record of their day to day activities of the business. Income level also affects microcredit access in the sense that most small business owners were not able to pay transaction (initial deposit) related to loan processing.

However, Gender, in the Coefficients Table 4.16 shows we find a significance (Sig.) score. The significance score of .000 indicates that chance is an unlikely explanation within a data set. This implies that relationship between gender and microcredit access is positive and significant at a critical value of 57.213, at significant level 1%. While age, income and education are significant in influencing microcredit access.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study findings, conclusion and recommendations of the study and areas for further research.

5.2 Summary

The findings show that, small amount provided to small business holder, complicated and bureaucratic loan application procedure, and tough conditions imposed by the bank are the operational issue that affect small business holder in accessing microcredit from bank and financial institutions and hence affect the performance of these institutions. In addition, factors that hinder small business holder in accessing microcredit from banks were investigated to be missing business license, over insistence on collateral rather than business potential, loan limit and slow graduation to higher amounts and lack of integrity. Furthermore, demographic factors such as education backgrounds, age and income were investigated and the results show the effect on microcredit accessibility.

5.3 Conclusion

The overall objective of this study was to assess the determinant factors affecting small business holders in accessing micro-credits from the banking industry a case of Morogoro municipal. Specific objectives of the study were to determine various types of micro-credit services offered by NMB and its accessibility procedures, to assess the contribution of micro-credit in promoting business growth and to investigate the effect of demographic factors (such as age, gender, education background, income level) on microcredit accessibility

The findings reveal that small amount provided to small business holder, complicated and bureaucratic loan application procedure, and tough conditions imposed the bank are the operational issues that affect small business holder in accessing microcredit from banks and financial institutions.

These findings are consistent with studies done Coase (1937), Jensen and Meckling (1976), Styiglitz and Weiss (1981) and Obamuyi (2007) who argues that change in interest rate as affecting lending through bank's capital particularly when banks' lending is constrained by capital adequacy requirement and market-and regulator imposed capital requirements. Therefore, financial institutions are constrained by capital and number of small business in the country and therefore lead to inability to offer them suitable and sustainable finance to finance their business. Lastly, the capital they have is inadequate to suit all potential small – scale enterprises. Secondly, the interest rate charge is very high making small business holder run away.

The findings are consistency with the study done by Obumuyi, (2009), Sungusia, (2007) and Abdallah, (2009) who reported that sources of finance failed to offer enough fincancial services to small business due poor credit worthiness, lack of collateral, lack of formal business and constraints imposed by the banks' capital regulation. In addition, lack of policy and regulatory environment and insufficient access to information about loans were reported

It was found that education background affect the way entrepreneurs communicate their business to financiers through business plans. Level of income was also found to impact on accessibility of micro-credit from banks as small business holder owners were not able to pay for transaction cost related to loan processing and sometime to bribe loan officers. Who keeps creating corruption environment to small business holder.

5.4 Policy Implications and Recommendations

5.4.1 Policy Implication

The policy makers will find the gap available to their organization and take the required measures to set a policy to regulate the business environment so that entrepreneur will be able to obtain higher returns, and putting some environment of lowering interest rates and softening conditions of accessing finance from various sources of finance. Specifically policy makers from BOT – The Bank of Tanzania will have to set a clear policy to set a ceiling interest rate of which banks are not allowed to charge more than that, say 20% per annum. Commercial and Non commercial banks should set a policy to help small business holder in accessing finance by a putting a special desk that will tackle issues concerning small business holder and their related problems.

The result of the findings shows that finance provided by the financial institutions has positive impact on the small business holders' growth. In order to accelerate the growth, other services should also be provided; such services are training, counseling, information services and social network.

5.4.2 Recommendation

There were many obstacles which hinders small business holders to access microcredit from the Bank. Therefore, it is recommended that

1. Proper investigation should be made by financial institutions so that the appropriate financial needs will be given to small business holders are properly analyzed. Government measures to promote SMEs should be careful focused, aimed at making markets work efficiently and providing incentives for the sector to assume an active role in finance. Where necessary, banking systems should be reformed in line with market based principles.

2. Governments should also act improve awareness among entrepreneur of the range of financial options available to them from officials, private investors and

Banks. Microcredit and micro finance schemes play an important role in developing countries and efforts should be made to boost their effectiveness and diffusion. Any provision of official funding should respect the principle of risk sharing, so official funds should only be committed in partnership with funds from entrepreneurs, banks, or business.

3. The study also recommends that these financial institutions such as NMB should make sure that they reduce or eliminate administrative related problems like cumbersome procedures by eliminating unnecessary procedures during loan processing like organizing into groups for guarantee purposes and undergoing pre – loan training in spite of one's knowledge in loan management and administration.

4. The repayment time and interest rates should be reflected to match the reality of life. The small business holders are suffering from high interest rates and short repayment duration. This eliminates the ability of these small business holders to plan well their growth, and sustainability. Therefore the study recommends changes in this area by lowering interest rate per annum and increasing duration of payment of the loan, this will enable small business holder to participate in the economy profitably.

5. Business education should be given at all levels of education: from primary schools and colleges to small entrepreneurs and government agencies. Appropriate emphasis on Business Ethics should be given in the respective syllabi.

5.5 Areas for further research and Limitations of the study

5.5.1 Areas for further research

The researcher recommends the following area to be researched. Effectiveness of Government initiatives for overcoming access to finance by small business holder in

Tanzania, the economics of micro and small business holder finance in enhancing business performance and Microfinance institutions and their efficiency in providing service to small business holder. These areas are highly interested by small business holder operators and they will appreciate other researchers who will be interested in solving these problems

The study focused on assessment of determinant factors affecting small business holders in accessing micro-credits from the banking industry the case study of Morogoro Municipal. However, the study did not take into consideration the fact that women and men have different influence in accessing finance: therefore, the researcher call a study to be undertaken in such area.

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APPENDIX 1

DETERMINANT FACTORS AFFECTING SMALL BUSINESS HOLDERS IN ACCESSING MICROCREDIT IN TANZANIA

CASE OF NATIONAL MICROFINANCE BANK IN MOROGORO MUNICIPAL

Dear Respondent,

This questionnaire aims to collect data for partial fulfillment of the requirements for the award of Master Degree of Business Administration awarded by Mzumbe University. The researcher intends to assess determinant factors affecting small business holders in accessing micro-credit from the banking industry especially at NMB in Morogoro Municipal.

Therefore the researcher declares that, this research is for academic purpose only. You are kindly invited to complete this questionnaire as directed for a purpose of facilitating the study. Information from this document will be confidential and in no way will it be communicated to any person. Thank you in advance.

PLEASE NOTE: Your name should not appear anywhere in this document.

Part I: General Information

Circle the correct answer

Gender:

a) Male b) Female

Age: a) 18-40 b) 41-55 c) 56 and above

Education background

a. No formal schooling

b. Primary education
c. Secondary education
d. College education
e. Tertiary Education

Part II: Information on microcredit offered by NMB

1. Do you own a small business?

a. Yes
b. No

2. If the answer is YES, for how long have you owned that business?

a. 1 – 3 years
b. 4 – 6 years
c. 7 and above

3. Do you know that NMB provides micro – credit services for small businesses?

a. Yes
b. No

4. If the answer is YES, what micro – credit services do you know?

a. _____
b. _____
c. _____

5. Have you ever taken a loan from NMB?

a. Yes
b. No

6. What were the uses of a loan?

a. Capital for business
b. Education for children
c. Housing
d. Agricultural activities
e. Others (mention) _____

7. Is micro – credit services offered by NMB easily accessible whenever needed?

a. Yes

b. No

8. How do you see the procedures of accessing micro – credit services of NMB?

a. Excellent

b. Very good

c. Good

d. Neutral

9. Do you manage to repay the loans taken from NMB on time?

a. Yes

b. No

10. Do you see interest rates charged on NMB loans to be a reasonable for the growth of your business?

a. Yes

b. No

11. In your own opinion, what should be done to make NMB credits an important tool for development of small businesses in your area?

……

……

……

……

Part III: Microcredit contribution in promoting business development

12. What was the business capital before getting loan from NMB?

i. Less than 200,000TZS

ii. 2,000,001 to 5,000,000, TZS

iii. 500 0,001 and above

What was the business capital after getting loan from NMB?

i. Less than 200,000TZS
ii. 2,000,001 to 5,000,000, TZS
iii. 500 0,001 and above

13. What was the average sales volume per day before getting loan from NMB?

iv. Less than 100,000TZS
v. 100,001 to 500,000, TZS
vi. 500,001 to 1,000,000,

What was average sales volume per day after getting loan from NMB?

vii. 100,000 to 500,000,TZS
viii. 500,001 to 1,000,000, TZS
ix. 1,000,001 and above

14. What was the profit before getting loan from NMB?

i. Less than 100,000,TZS
ii. 100,001 to 500,000 TZS
iii. 500,001 and above

What was the profit after getting loan from NMB?

i. Less than 100,000,
ii. 100,001 to 5,00,000
iii. 5,00,001 and above

15. Is there any changes are your business outlets? How?

a. Increased

b. Remain the same

c. Decrease

Instructions

Below are statements related to NMB micro-credit? Read each statement carefully and put tick (√) in the appropriate box which you agree with according to the key.

Note: Each statement should have only one tick

		Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
17	NMB micro – credit is the best way of ensuring growth of small businesses					
18	NMB micro – credit has played an important role in elevating status of your enterprise					
19	NMB provides loans on time when needed by the clients					
20	NMB credits comes with affordable interest rates					
21	Are you satisfied with the initial deposit required by the bank?					
22	NMB over insist on collateral rather than business potential					
23	Varieties of NMB microcredit provides enough room to shelter the needs of all types of small business owners					
24	Legal conditions hinders small business owners from microcredit access					

The following statements are used to capture the effects of demographic factors (such as age, sex, education background and the level of economy) on credit accessibility. Rate the statement in the likert scale according to your preference.(1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= strongly agree)

		Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
26	Education background affects me as I cannot write a viable business plan					
27	Payment of consultancy fees is very expensive					
28	The branch is too far hence follow up became difficult					
29	Usually loan officers are biased to certain type of sex in offering loans					
30	Usually loan officers prepares corruption environment					

THANK YOU FOR YOUR CORPORATION

APPENDIX 2

QUESTIONNAIRE TO LOAN OFFICERS

Dear Respondent,

This questionnaire aims to collect data for partial fulfillment of the requirements for the award of Master Degree of Business Administration awarded by Mzumbe University. The researcher intends to assess determinant factors affecting small business holders in accessing microcredit from NMB bank Morogoro Municipal

Therefore the researcher declares that, this research is for academic purpose only. You are kindly invited to complete this questionnaire as directed for a purpose of facilitating the study. Information from this document will be confidential and in no way will it be communicated to any person. Thank you in advance.

PLEASE NOTE: Your name should not appear anywhere in this document.

Part I: General Information

Circle the correct answer

Gender:

b) Male b) Female

Age:

Age: a) 18-40 b) 41-55 c) 56 and above

The following are the critical elements to the existence of successful micro – credit scheme (Please circle the numbers according to your level of agreement or disagreement with the statements below 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= strongly agree)

1	NMB has a healthy relationship with small business owners	1	2	3	4	5
2	There is a sufficient number of employees in micro – credit department		2	3	4	5
3	There are enough facilities and equipment necessary for better performance of services to the clients	1	2	3	4	5
4	There is stable and reliable management	1	2	3	4	5
5	Competent staff	1	2	3	4	5

The following are the possible factors that affect provision of micro – credit services from your department. (Please circle the numbers according to your level of agreement or disagreement with the statements below 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= strongly agree)

1	Large number of clients vs. fewer loan officers	1	2	3	4	5
2	Lack of sufficient funds to accommodate all the clients	1	2	3	4	5
3	High interest rates	1	2	3	4	5
4	Prolonged processing time	1	2	3	4	5
5	Corruption	1	2	3	4	5

Interview guide to Loan officers

1. Why small business holders face difficulties in accessing microcredit from NMB

   ……

   ……..

2. Why the bank over insist on collateral rather than business potential

   ……

   ……..

3. What can you say about business integrity of loan officers at NMB

   ……..

   ……..

4. Why are there tough rules and regulations imposed to small business owners

   ……

   ……

THANK YOU FOR YOUR COOPERATION