FACTORS HINDER SMEs IN ACCESSING CREDITS FROM COMMERCIAL BANKS: A CASE STUDY OF NMB PLC - KARIAKOO BUSINESS CENTRE

By

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A Dissertation Submitted to Mzumbe University, Dar es Salaam Campus College in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration (Corporate Management) of Mzumbe University

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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:**“FactorsThat Hinder SME’s in Accessing Credits from Commercial Banks: A Case Study of NMB Plc - Kariakoo Business Centre.”** In Partial fulfillment of the Requirements for the Award of the Degree of Master of Business Administration (Corporate Management)

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(Major Supervisor)

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I **Andrew Lawrence Millinga,** do hereby declare to Mzumbe University – Tanzania that, this is my own original work and that it has not been presented and will not be presented to any other institutions, other University similar or any other degree award.

Signature: …………………………………

Date: ………………………………………

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DEDICATION

I dedicate this work to my beloved daughter Joyce for her patience in the entire period of my study. My dedication should also be to my lovely parents; my father, Mr. Lawrence C. Millinga and Mom-Mrs. Joyce D. Millinga for taking me to school and their tireless support with a highly valuable sense of patience and encouragement. Last but not least, my dedication should also be to all Millinga`s family members for their moral and material supports during the entire period of my study.

ABBREVIATIONS AND ACRONYMS

ADB	-	Agricultural Development Bank
BEST	-	Business Environment Strengthening for Tanzania
GCB	-	Ghana Commercial Bank
GDP	-	Gross Domestic Product
HIV/AIDS	-	Human Immunodeficiency Virus/Acquire Immunodeficiency Syndrome
IPO	-	Initial Public Offer
LTD	-	Limited
MBA-CM	-	Masters in Business Administration – Corporate Management
MITM	-	Ministry of Industry, Trade and Marketing
NGO’s	-	Non Governmental Organization
NIB	-	National Investment Bank
NICOL	-	National Investment Company Limited
NMB PLC	-	National Microfinance Bank Public Listed Company
SEDIT	-	Social and Economic Development Initiative of Tanzania
SIDO	-	Small Industries Development Organization
SIDP	-	Sustainable Industrial Development Policy
SME	-	Small and Medium Enterprise
TCCIA	-	Tanzania Chamber of Commerce Industry and Agriculture
TZS	-	Tanzania Shillings
UDEC	-	University of Dar es salaam Entrepreneur Center
UNCTAD	-	United Nations Conference on Trade and Development
UNIDO	-	United Nations Industrial Development Organization
URT	-	United Republic of Tanzania
VICOBA	-	Village Community Bank

ABSTRACT

Small Business Entrepreneurship has been seen as a hub in generating income for the majority in urban dwellers with no formal paid employment. In Tanzania, entry into small and medium entrepreneurship is usually not seen as a problem. One can start small business at any time and in any place. The overall objective of this study was to identify, measure as well examine the most factors which hinders SME's in accessing credit from Commercial Banks particularly NMB Plc. On top of that, the study also offers recommendations on what should be done to counteract those factors in order to foster credit access to SME's.

The study was conducted at NMB Kariakoo Business Centre, Dar es Salaam. The place was selected due to its role where it deals particularly with SME customers only.

The sample involved 58 respondents; 8 NMB employees at the Kariakoo Business Centre and 50 NMB customers both existing and prospective borrowers who came at banking hall. Data obtained from questionnaires were inserted to a data entry screen for analysis into frequencies, percentages, charts, and graphs.

TABLE OF CONTENTS

Certification..ii

Declaration and Copyright...…...iii

Acknowledgement...……………………………………………………………...iv

Dedication....…………………………………………………………………….v

Abbreviations and Acronyms...vi

Abstract………………………………………………………………………...vii

Table of Contents........…………………………………………………..…viii

List of Tables.......…………………………………………………………………xi

List of Figures....………………………………………………………………..…xii

CHAPTER ONE:INTRODUCTION……………………………………..……………..1

1.1 Background to the Problem………………………………..…………......1

1.2 Statement to the Problem…………………………………………………3

1.3 Research Questions 5

1.4 Objectives of the Study 6

1.5 Significance of the Study 6

1.6 Scope of the Study 7

1.7 Limitation of the Study 7

1.8 Delimitation of the Study 7

CHAPTER TWO:LITERATURE REVIEW 8

2.1 Introduction.. 8

2.2 Definitions of Key Concepts 8

2.3 Characteristics of SMEs in Tanzania 9

2.4 Efforts of Tanzania Government towards SME Development 10

2.5 Commercial Banks 13

2.6 Theoretical Literature Review 15

2.7 Emperical Literature Review 17

2.8 Research Gap 32

2.9 Conceptual Framework and Research Model 32

CHAPTER THREE:RESEARCH METHODOLOGY .... .35

3.1 Introduction 35

3.2 Research Design .... .35

3.3 Area of Study .... .36

3.4 Sample Size and Sampling Techniques .... .36

3.5 Types and Source of Data 38

3.6 Data Collection Methods 39

3.7 Data Validity and Reliability 41

3.8 Data Analysis Methods .... .42

CHAPTER FOUR:RESEARCH FINDINGS,ANALYSIS AND DISCUSSION…43

4.1 Introduction 43

4.2 Characteristics of the Respondents .... .44

4.3 Business Information 45

4.4 Analysis on Type of Business .... .50

4.5 Analysis on Size of the Firm 51

4.6 Analysis on Bank’s Credit Policies, Terms and Procedures .... .53

4.7 Chapter Summary 56

CHAPTER FIVE:SUMMARY,CONCLUSION AND RECOMMENDATION…59

5.1 Introduction 59

5.2 Summary .... .59

5.3 Conclusion 60

5.4 Policy Implication .... .61

5.5 Areas for Further Research 62

REFERENCES 63

APPENDICES 69

LIST OF TABLES

Table 2.1: Classification of SMEs by Tanzania SME Development Policy

Table 2.2: List of the Current Shareholders of NMB Bank

Table 3.1: Sample Respondents: Sample Size: n=58

Table 4.1: Characteristics of the Respondents

Table 4.2: Business Ownership

Table 4.3: Business Information on the Commencement of the Business

Table 4.4: Number of Employees for the Respondent’s Business

Table 4.5: Research Findings from NMB Staffs

LIST OF FIGURES

Figure 2.1: Conceptual Framework: Problem Modeling

Figure 4.1: Business Life Time

Figure 4.2: Source of Capital to Respondents

Figure 4.3: Type of Business for the Respondents

Figure 4.4: Current Capital for the Respondent's Business

Figure 4.5: Firms Current Working Capital

CHAPTER ONE

INTRODUCTION

1.1 Backgroundto the Problem

Small Business Entrepreneurship has been seen as a hub in generating income for the majority in urban dwellers with no formal paid employment. In Tanzania, entry into small and medium entrepreneurship is usually not seen as a problem. One can start small business at any time and in any place,(Mfaumeand Wilhelm Leonard, 2004).

As an emerging economy, Tanzania has since 2002, hatched a policy on SMEs (Small and Medium Entrepreneurs) and has institutionalized the Small Industries Development Organization (SIDO) to oversee its implementation in all regions of Mainland Tanzania. SMEs in Tanzania can be easily established since their requirements in terms of capital and technology, management and even utilities are not so demanding as large enterprises. They are mostly formalized undertakings engaging between 5 to 49 employees or with capital investment from Tshs.5 million to Tshs.200 million, medium enterprises employee between 50 and 99 people or capital investments from Tshs.200 million to Tshs.800. Large enterprises employ people above 100 and or use capital investment above 800 million, (Rodriguez and Stephanou, 2008).

There is currently a large interest in understanding firms' access to finance and the financing of small and medium-sized enterprises (SMEs) in particular. In general, the SME sector comprises relatively younger, more highly leveraged, and more profitable and faster growing firms. This suggests that a new type of firm is emerging in transition economies that are more market and profit oriented. But at the same time, these firms appear to have financial constraints that impede their access to long-term financing and ability to grow, (Klapper, Allende and Sulla, 2006**).**

The size of the firm is one of the most important variables in research related to access to credit. This was true for both developed and developing countries. Numerous studies have discussed that small and medium enterprises are financially more constrained than large firms. Calomiris& Hubbard (1990) noted that when the company is smaller, the restrictions on credit are greater.

As this study is focused on small and medium sized firms, it does not seem logical to consider size as a determinant of access to finance. However, even among the Small and mediums sized enterprises' category, there is still a large variation in size and there are small SMEs and large SMEs in terms of number of employees. Hence, it turns out that firm size could be an important determinant in this study.

Several studies have mentioned various reasons for SME to fail in access to credit. Firstly, the small firms face with information opacity such as unable to provide financial information (Binks&Ennew, 1996). When the firm is small, most of the time it is owned and operated by the entrepreneur himself/herself and there is no such legal requirement to regularly report financial information and many firms do not maintain audited financial accounts. Second reason is small firms having fewer assets to offer as collateral. In order to mitigate the risk associated with lending, the banks use collateral as one of the instrument. The collateral is an assurance to the bank in case of default and it also plays as a borrower's commitment to the loan repayments.

Berger and Udell (1995) found SME are more likely to face higher cost of financing and they are required to offer collateral. The third reason is smaller the firm, there is high risk involved because small firms have high failure rate compared to large firms. For example, Schiffer and Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender. In contrast, Lopez- Gracia and Aybar Arias (2000) came up with a different explanation stating that the smaller firms may themselves limit their financial structure with the aim of avoiding the need to share control of the business with others.

Despite the hardships faced by SMEs as they attempt to access bank loans of which most time they lead to inaccessibility of the bank loans to them, there still exist some more opportunities for SMEs to access more bank loan. This is possible if the problems are investigated in depth and proposed solutions get to be addressed by the particular stakeholders.

Therefore, this study particular analyse some of the factors which hinder most SMEs in accessing credit from commercial banks, a case study of NMB PLC.

1.2 Statement of the Research Problem

It is sometimes suggested that finance providers are not providing the finance that small businesses need to fund their development and growth and that supply-side failures do exist, particularly relating to certain types of businesses. Commercial banks are traditionally looked upon as powerful catalysts of economic development through resource mobilization and provision of credit to profitable ventures but they do not normally finance small business, (Leonard, 2004).

It is now recognized that SMEs play a vital role in employment creation, income generation and stimulation of growth in both urban and rural areas in Tanzania. It is estimated that about a third of the GDP originates from the SME sector hence SME sector plays a crucial role in the economy. Since SMEs tend to be labor-intensive, they create employment at relatively low levels of investment per job created (Kuzilwa, 2005).

SMEs tend to be more effective in the utilization of local resources using simple and affordable technology. SMEs play a fundamental role in utilizing and adding value to local resources. In addition, development of SMEs facilitates distribution of economic activities within the economy and thus fosters equitable income distribution. Furthermore, SMEs technologies are easier to acquire transfer and adopt and are better positioned to satisfy limited demands brought about by small and localized markets due to their lower overheads and fixed costs,(Daniel, 2007).

Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industries requirements. A strong and productive industrial structure can only be achieved where SMEs and large enterprises not only coexist but also function in a symbiotic relationship. In addition, SMEs serve as a training ground for entrepreneurship and managerial development and enable motivated individuals to find new avenues for investment and expanding their operations. The recognition of SME sector that it has higher potential for employment generation per capital invested attracts key actors to support SME development programmed. Since SME development does contribute significantly to poverty alleviation, resources earmarked for poverty alleviation will also be availed to the SME sector.

Despite the great role of SMEs in the Tanzanian economy, the financial constraints they face in their operations are discouraging and this has had a negative impact on their development and also limited their potential to drive the national economy as expected. This is worrying for a developing economy without the requisite infrastructure and technology to attract big businesses in large numbers.

Most SMEs in the country lack the capacity in terms of qualified personnel to manage their activities. As a result, they are unable to publish the same quality of financial information as those big firms and as such are not able to provide audited financial statement, which is one of the essential requirements in accessing credit from the financial institution. This strengthen by the statement that privately held firms do not publish the same quantity or quality of financial information that publicly held firms are required to produce. As a result, information on their financial condition, earnings, and earnings prospect may be incomplete or inaccurate. Faced with this type of uncertainty, a lender may deny credit, sometimes to the firms that are credit worthy but unable to report their results (Coleman, 2000).

Another issue has to do with the inadequate capital base of most SMEs in the country tomeet the collateral requirement by the banks before credit is given out. In the situation where some SMEs are able to provide collateral, they often end up being inadequate for the amount they needed to embark on their projects as SMEs assets- backed collateral are usually rated at 'carcass value' to ensure that the loan is realistically covered in the case of default due to the uncertainty surrounding the survival and growth of SMEs (Binks et al., 1992).

These are some of the factors already acknowledged by some researchers as blocking most SMEs in accessing credit from the commercial banks in the country.

It is obvious that commercial banks have been extending more and more loans to SMEs every year. Also the Tanzania government has recognized that SME development is crucial to the development of the Tanzanian economy and thus addressed the ministry of industry, trade and marketing (MITM) to take the overall responsibility of coordinating and implementing the SME Development Policy of 2001 which stated that "The Government will promote entrepreneurship development through facilitating improved access of SMEs to financial and non-financial services (MITM, 2002).

1.3 Research Questions

a) What are the credit policies considered by the Commercial Banks to SME's in Tanzania?
b) Does the size of the firm have an effect in accessing credit?
c) How does the type of the business influence the credit accessibility?

1.4 Objective of the Study

1.4.1 General Objective

To assess and analyse the basic factors which impede SME’s inaccess credits from Commercial Banks in Tanzania.

1.4.2 Specific Objectives

a) To analyse thelending policies of Commercial Banks in Tanzania.
b) To assess the size of the firm in related to credit accessibility.
c) To identify the effect of business type as accessing credit from Commercial Banks.

1.5 Significance of the Study

The study is important because it provides several benefits to stakeholders such as;

a) Research findings will contribute to the understanding of the problems encountered by SMEs in accessing credit from Financial Institution in Tanzania.
b) Findings will be used by SMEs as their checklist to bear in mind when they want to access credits from commercial banks.
c) This will provide opportunities to commercial banks to understand their strength and weakness of the product line they are offering to SMEs.
d) The recommendations of the study will be a platform to policy makers such as Government and NGO’s to come up with the conducive policies towards SMEs development.
e) To academician the study will add literature and serve as secondary data for those who wish to make further studies on SMEs issues.
f) Lastly for the researcher it was a partial fulfillment for an award of Master of Business Administration (Corporate Management) of the Mzumbe University.

1.6 Scope of the Study

The study was carried out at NMB Plc specifically at Kariakoo business centre which is centre where SME and large scale firms are meets and obtain all their financial needs including loans.

1.7 Limitations of the Study

The researcherfaced the following difficulties during his study;

i. Time constrain

This study was carried out for a short period of time because the requirement is to do so as to follow the deadline of the academic calendar of the university. Time constraint affected both the quality and quantity of the research study because the researcher had to use fewer respondents and only atKariakoo business centre as a case study.

ii. Financial difficult

The researcher is self-sponsored hence it was not easy to raise enough funds for the research. Due to time constraints and fund, the findings of this study were confined to only NMB PLC at Kariakoo business centre in Dar es Salaam region which may not be a true representative sample.

iii. Lack of enough local empirical data

Local empirical literature on the factors which hinderSMEs in accessing credit from commercial banks is lacking or are not available and enough as a result, the researcher has to use literature from other sources.

1.8 Delimitations of the Study

Researcher scheduled to use holidays and weekends and also to take a local leave in order for him to have ample time to do his study smoothly. A case study design was chosen in Dar es Salaam to overcome financial constraints but also he decided to use some of his salary earning and income from other of his source to overcome that constrain. The researcher distributed additional questionnaire of which he administered in order for him to acquire reliable and enough data.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter has reviewed literature which includes related theoretical definitions and empirical literature on factors which hinder SMEs' on access credits from commercial banks in Tanzania. Moreover in this chapter research gap and conceptual framework of the study have been discussed.

2.2 Definition of Key Concepts

Small and Medium Enterprises

According to Ward (2005) there is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined. For example, in Canada SME is defined as an enterprise that has fewer than 500 employees and small enterprise as one that has less than 100 employees. On the other hand, the World Bank defines SMEs as having no more than 500 employees.

SMEs can be defined in two ways: based on the number of employees in an enterprise and/or the enterprises fixed assets. According to Boon (1989), the size of the enterprisesemployment is the most important criterion used in Ghana. But one must be cautious when defining SMEs based on fixed assets because of the continuous depreciation in the exchange rates, which often makes such definition out-dated.

UNIDO defines SMEs in developing countries based on the number of employees in anenterprise. A small enterprise has between 5 and 19 workers and takes the example of theubiquitous small shops in the cities such as hair dressing saloons and chop bars. A medium enterprise has 20 to 99 workers and these include manufacturing firm and exporting companies.

Despite their differences from various disciplines they all mean the same. The United Republic of Tanzania SMEs development policy (2002) defines a Small and Medium Enterprise (SME) as a firm or venture which is characterized by small capital and employs small number of workers.

The policy recognizes SMEs as formal business undertakings with capital investment of up to Tshs 200.0 Million and a working capital requirement of up to Tshs 50.0 Million. The policy categorizes Tanzanian SMEs in the following taxonomy as indicated in next table 2.1.

Table 2.1: Classification of SMEs by Tanzania SMEs Development Policy.

Category.	Employees.	Capital Investment and Machinery (TZS).	Working Capital/Loan Requirements.
Micro Enterprises	1 – 4	Up to 5 Million	Up to 1 Million
Small Enterprises	5 – 49	Above 5 Million to 200 Million	Up to 10.0 Million
Medium Enterprises	50 – 99	Above 200 Million to 800 Million	Up to 50.0 Million
Large Enterprises	100 +	Above 800 Million	Above 50 Million

Source: SME Policy 2002, Ministry of Industries and Trade.

2.3 Characteristics of SMEs in Tanzania

A distinguishing feature of SMEs from larger firms is that the latter have direct access tointernational and local capital markets whereas the former are excluded because of the higherintermediation costs of smaller projects. In addition, SMEs face the same fixed cost as LargeScale Enterprises in complying with regulations but have limited capacity to market productabroad (Kayanula&Quartey, 2000).

SMEs in Tanzania can be categorised into urban and rural enterprises. The former can be subdividedinto ‘organised’ and ‘unorganised’ enterprises. Organised ones tend to haveemployees with a registered office and are mostly solely owned by an individual whereas theunorganised ones are mainly made up of artisans who work in open spaces, temporarywooden structures or at home and employ little or in some case no salaried workers. Theyrely mostly on family members or apprentices. Rural enterprises are largely made up offamily groups, individual artisans, women engaged in food production from local crops.

Themajor activities within this sector include: soap and detergents, fabrics, clothing and tailoring,textile and leather, village blacksmiths, hardware and building materials, timber and mining, bricks and cement, beverages,food processing, wood furniture, electronic assembly, agro processing, chemical basedproducts and mechanics (Liedholm& Mead, 1987; Osei et al., 1993) as cited by (Kayanula&Quartey, 2000)

This sector is characterised by low levels of education and training of the self employed.

They are mostly family owned businesses and there is little separation of the businessfinances from that of the owners even to the point that the owners or operators personalaccount is the same as that of the business.

2.4 Efforts of Tanzania Government towards SME development

In recognition of the importance of SME sector, the Government has continued to design andimplement a number of policies and programmes supportive to the development of the sector. Some of these policies are;

Tanzania Development Vision 2025seeks to transform from a low productivity agricultural economy to semi-industrialised one lead by modernised and highly productive agricultural activities which arebuttressed by supportive industrial and service activities through actively mobilisation of people andother resources towards the achievement of shared goals. In the *Poverty Reduction Strategy*, theGovernment has decided to promote private sector participation including Small and MediumEnterprises, (Ministry of Industry and Trade, URT, 2003).

The *Sustainable Industrial Development Policy - SIDP* (1996 - 2020) places specific emphasis on promotion of small and medium industries through the following measures: supporting existing and new promotion institutions, simplification of taxation, licensing and registration of SMEs and improveaccess to financial services. In addition, SIDP encourages informal sector businesses to grow and beformalised. Furthermore, the policy identifies measures to enable indigenous entrepreneurs, women,youth and people with disabilities to take part in economic activities (Ministry of Industry and Trade, URT, 2003).

The *National Micro Finance Policy*covers the provision of financial services to small and micro enterprises in rural areas as well as in the urban sector that are engaged in all types of legal economic activities (Ministry of Industry and Trade, URT, 2003).

Agricultural and Livestock Policy is aimed at the development of agricultural andlivestock activities that are performed by both small farmers and livestock keepers. The priority isgiven to resources-based enterprises particularly activities that add value to agricultural products (Ministry of Industry and Trade, URT, 2003).

Nevertheless, agriculture is still the backbone of our economy. It contributes more than 50% of thecountry’s GDP and accounts for about 60% of the country’s foreign earnings.

The *Minerals Policy of Tanzania*identifies the artisanal and small scale mining operations as a majortarget group to be promoted through improved access to finance and availability of tools, equipmentand consumables, supportive extension services, simplified licensing and enhanced marketingopportunities (Ministry of Industry and Trade, URT, 2003).

The *National Employment Policy*recognises that the private sector including SMEs isthe major source of employment in Tanzania and outlines policies that will contribute to the creationof an enabling environment for private sector development (Ministry of Industry and Trade, URT, 2003).

There are also a number of government policies already in place aimed at facilitating growth of theeconomy, which have a bearing on the development of the SME sector. These include: Gender andWomen Development Policy, Cooperative Development Policy, the National Energy Policy and theNational Environmental Policy and Rural Development Strategy. Central to all these policies, is acreation of an enabling environment, building of a robust private sector and articulation of strategiesthat will create a sustainable growth. A number of institutions, both public and private wereestablished to implement and coordinate various programmes arising from these policies.

Furthermore, the government has undertaken various measures aimed at creating an enablingenvironment to enhance enterprise development. These include, among others, maintaining macroeconomic stability; review of tax regime; simplification of licensing procedures; implementing aprogramme on ‘Business Environment Strengthening for Tanzania- BEST’ and implementation of a‘Competition Policy’.

2.5 Commercial Banks

A commercial bank is usually defined as an institution that both accepts deposits and makes loans. There are also financial institutions that provide selected banking services without meeting the legal definition of a bank. Acommercial bankaccepts deposits from customers and in turn makes loans based on those deposits. Some banks (called Banks of issue) issue banknotes as legal tender. Many banks offer ancillary financial services to make additional profit; for example: sellinginsurance products, investment products or stock broking(Edward et al., 1989).

Economic functions of banks include maturity transformation, issue of money, credit intermediation, netting and settlement of payment, credit quality improvement and issue of money, (Ngowi, 2008).

National Microfinance Bank (NMB PLC)

The National Microfinance Bank PLC was established in October 1997 by Act of the Parliament No. 22 of 1997 known as the National Microfinance Bank Act of 1997. The ownership of the bank was under the United Republic of Tanzania 100%. The Government of the United Republic of Tanzania started the privatization process in 2005. The bank become public listed company after its Initial Public Offer (IPO) on 18th August 2008 and the name change from NMB LTD to NMB PLC.

NMB PLC is the largest bank in Tanzania, both when ranked by customer base, profit and branch network.NMB PLC has 134 branches located in Tanzania’s entire districts see appendix 1. This broad branch network distinguishes NMB PLC from other financial institutions in Tanzania. On the side of lending to SMEs, NMB for the period of 12 months from January 2013 to December 2013 managed to provide credits which amounted to TZS 178 billion to 7,373 SMEs, (NMB Reports, 2014).

NMB PLC is committed to sustaining and enhancing branch network in order to provide access to capital to citizens in all areas of Tanzania, including the most remote. The core mission of the NMB PLC is to extend good commercial banking practices to traditionally under-served market niche in rural and urban areas to the people who are engaging in ongoing and bankable productive activities.

Beginning but not ending with micro enterprises, NMB PLC plans to do so by providing financial products and services that are responsive to customer needs, simple and convenient and above all profitable. More importantly here is the need to emphasize that the NMB PLC is commercial Banking Corporation and microfinance is taken to mean an activity as opposed to an institution, as such laws and regulations should focus on the risk profile of banking operations and microfinance services inclusive. (http:/www.nmbtz.com).

Shareholding diversification was one of the aspects of the NMB financial restructuring. The Government of the United Republic of Tanzania started the privatization process in 2005, and sold part of its shareholding (49%) to a consortium led by the CoöperatieveCentraleRaiffeisen-Boerenleen bank B.A. ('Rabobank Group'). Again in 2008 the government sold (21%) out of its (51%) to the general public and remained with only 30%.

Table 2.2: List of the Current Shareholders of the Bank.

S/N.	Shareholder.	Percentage (%) Distribution Of Shares.
1.	Government of United Republic of Tanzania	30.0
2.	Netherlands Rabobank	34.9
3.	General Public	21.0
4.	National Investment Company Limited (NICOL)	6.6
5.	Exim Bank Tanzania	5.8
6.	Tanzania Chambers of Commerce Industries and Agriculture (TCCIA)	1.7
	TOTAL	**100**

Source: http://www.nmbtz.com/about_nmb/shareholder_information.html

NMB PLC mission is to providing financial services to those areas and persons who would not otherwise have access to financial services. It provides savings accounts for small savers, money transfer services for individuals and corporations, payroll services, micro lending to individuals and small business; and foreign currency exchange services.

2.6 Theoretical Literature Review

Finance theorists view of access to credit (referred to as credit rationing) exists due to adverse selection, moral hazard and contract enforcement problems. The adverse selection theory of credit markets originates with the paper by Stiglitz and Weiss (2004) in which they explained why the interest rate could not equate the supply and demand in the credit market. As discussed by Stiglitz and Weiss (2004), borrowers have inside information about the nature of the project they want financed and may reap substantial rewards from talking up their projects. Moreover, while the lender gains if the loan is repaid with interest, it is not a beneficiary of any upside gain in the firm's performance; it is, however, a victim of any downside losses in the case of default.

Lenders like banks therefore face difficulties in discriminating between good and bad credit risks and simply increasing the price of credit to all potential borrowers can lead to adverse selection; rather than driving potential non payers out of the market, there may be systematic reasons why some of the highest risk firms are those willing to pay high interest rates (Pollard, 2003).

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The other problem, moral hazard can arise when lenders are unable to discern borrowers' actions that would affect the distribution of returns from an investment. This means, after a lender has extended finance to a firm they are exposed to moral hazard, the risk that the firm will not perform in a manner sufficient to meet the contract.

Mushinski (1999) argued that credit market imperfections in developing countries derive not only from moral hazard and adverse selection problems but also from costly monitoring and contract enforcement. In contrast, countries characterized by well functioning legal systems, the problems are not as pronounced as in those where the mechanisms for enforcement of contracts, property verification and ownership are weak. Hence, the main reason for the contract enforcement problem is the poor development of property rights. Although this argument is not specifically drawn at SMEs, these problems are more associated with SMEs than large companies.

The above literature review demonstrates that information and enforcement problems inherent in credit transactions can lead to imperfect credit markets. It is also clear from the above arguments that the small firms access to financing may either come from supply side market failure (rejection from the bank's side for reasons not connected with the viability of the proposal or high risk and costs associated with such loans) or demand side market failure (insufficient information in the project proposal, high cost of bank credit).

2.7 Empirical Literature Review

Types of Financing available to SMEs

Boom et al.(1983) and Longenecker et al.(1994), like most writers on the subject of SMEfinancing, describe two basic types of financing, namely debt and equity. Hisrich and Peters(1995) and Anderson and Dunkelberg (1993) describe debt as funds borrowed to be paid at afuture date and a fee, referred to as interest to be paid an at agreed time schedule. Thepayments of interest are supposed to be done regardless of whether the firm makes profit orloss. Equity, on the other hand, is defined as funds contributed by entrepreneurs or investorswho become owners or part owners of the firm and whose returns are primarily based on theprofits. This implies that if a firm fails to make profits its owners do not get any returns.

Generally, equity funds are long-term funds but debt may be short to medium or long-term.

Hisrich and Peters (1995) mention another basic classification of funds: internal and externalfunds. Internally generated funds come from a number of sources within a company and aremore frequently employed. They include operational and investment profits, sales of assets,extended payment terms, reduction in working capital and accounts receivable. Anotherimportant source of internally generated funds is expediting the collection of receivableaccounts. This releases funds that may be locked up with suppliers and distributors for thefirm’s use. Sources that are external to a firm include owners, friends and relatives,commercial banks suppliers and distributors, government and non-government agencies.

Sources of Financing for SMEs

A number of sources of capital exist but many of them may not be accessible to companies ofsmall and medium sizes. The source could be debt or equity.

A. Debt Financing

i. Friends and Relatives

Loans and contributions from friends and relatives are common source of funds, especiallyfor new business since the financial institutions are reluctant to providing funding for start-upbusiness because of the risk involve. This source of funds, however, bears a potentiallydangerous price. Many friends' relatives find it very difficult to stay as passive creditors orinvestors. They usually try to interfere with policy and operational issues (Kuriloff et al.1993; Longenecker et al. 1994). As a remedy to this problem, Kuriloff et al. (1993)recommended the treatment of such loans like bank loans by putting in writing all the termsincluding interest rates and payment schedule.

ii. Commercial Banks

Hisrich and Peters (1995) make an assertion that commercial banks constitute the mostwidely used source of debt financing for small companies. This assertion is also supported bylongenecker et al. (1994). Again Longenecker et al. (1994) claim that commercial banksloans to small companies are mostly short-term loans, though some do offer long-term loansto small and medium size companies. According to Kuriloff et al. (1993), commercial banksusually provide loans for working capital or for the purchase of fixed assets. They demandevidence of a company's ability to pay the interest and principal as scheduled. This evidenceis usually in the form of cash flows statements. They also demand some form of security.Collaterals are the most widely used form of security demanded by commercial banks.Longnecker et al. (1994) classify commercial bank loans as line of credit and term loans. While commercial banks are the major source of loan funds in the market, they focus on providing only short-term financing for their clients. As a consequence, many companies inappropriately use short

–term funds to finance long-term project (Morse et al, 1996). The short–term nature of the loans from the banks does not support the expansion programs of SMEs.

iii. Business Suppliers

Companies can enjoy some form of credit from their business suppliers. This is a veryimportant source of credit, especially for SMEs. The suppliers allow the company some timeto pay for the supplies. The credit periods varies from a few days to several years accordingto Broom et al. (1983). Credit from business suppliers may be trade credit or equipment loansand leases.

- **Trade Credit:** Basically it involves the purchase of goods and services from a supplier oncredit. The purchasing firm is given a few days, usually between 30 and 120 days,to settle the debt (Broom et al. 1983). This type of credit is very important toSMEs for a number of reasons:

  • Broom et al. (1983) and Moyer et al. (1992) assert that suppliers are moreflexible in dealing with SMEs than the banks. Suppliers may only checkthe credit standing of an SME whereas a bank is likely to demand financialstatement and cash flow budgets before extending a credit facility.

  Generally, suppliers are very eager to add to their customers (irrespectiveof the size of firm) and thereby increase their sales hence they are morewilling to assume greater risk.

  • Suppliers are more flexible regarding adherence to terms of credit. Banksrequired strict adherence to loan terms and monitor borrowers more closely that suppliers do.

  • The amount of trade credit granted may be readily increased just as thevolume of a company's purchases increases. It may not take a lot ofnegotiations to make this possible. Banks are less willing to substantiallyincrease the amount of credit they grant to customers, especially small andmedium scale companies, (Peirson et al., 1990).

Trade credit, however is not cost- free. The cost associated with trade credit may not beexplicit as interest on bank loans, for instance. Suppliers incur costs by supplying goods oncredit and they must recover cost. They usually pass the costs on implicitly as part of thepurchase price of the merchandise.

Trade credit may come with an offer of cash discount. A cash discount may be quoted as 3/12net 40. This means that the customer has 40 days to pay the full amount but can enjoy a 3percent discount if payment is done within 12 days. Failing to take cash discount mayconstitute an opportunity cost of trade. In the above quote, for example, failing to utilize suchdiscount implies borrowing the amount for 28 days (i.e. 40-12) days at 3 percent. Therefore itis important to compare the cost of forgoing a trade discount and the cost of other availableshort-term credit facilities before decision is made (Moyer et al., 1992; Brealey et.al, 2001)

- **Equipment Loans and Leases:** Many SMEs find it very difficult to raise funds for outrightpurchase of certain equipments and machinery. They resort to purchasing suchequipment on instalment basis. Longenecker et al. (1994) noted that downpayment of about 25 to 30 percent of the price of the respective equipments areusually made initially. The remainder may be amortized over 3 to 5 years. Thispractice is referred to as equipment loans. An alternative to this is equipmentleasing. This arrangement allows firms greater investment flexibility; and smalleramounts of capital are required by the firm at any given time. However, the totalcost involved in equipment leasing is usually higher than the cost of outrightpurchase. On the other hand, in a situation where continuous specializedmaintenance and protection against obsolescence are required, leasing may bemore suitable (Broom et al.,1983)

B. Equity Financing

i. Personal Resources

Again Longenecker et al. (1994) observe that personal savings of the owners and partners ofbusinesses constitutes an important source of funds, particularly in the formative stages of afirm. Personal contributions also help to raise additional funds from other sources.

Significant financial commitments made by owners of a company tend to build a lot ofconfidence among potential investors. Kuriloff et al. (1993) also note other personalresources apart from personal savings. These include borrowing using one's personal assetssuch as house and bonds as collateral.

ii. Other Individuals (Business Angels)

There is a category of private individuals who invest in business ventures. These individualsare referred to as 'business angels'. Many of such individual investors tend to have someexperience in business and/or are affluent professionals, who may have a lot of money toinvest. Business angels constitute the informal capital source. They are said to represent theinformal capital because there is no formal market place where their investment transactionsare carried out. They are usually contacted through dealmakers such as business associates,accountants and lawyers (Longenecker et al. 1994).

iii. Venture Capital

Venture capital, according to Stevenson et al., (1999), is a pool of equity capital contributedby wealthy individuals, as limited partners, and professionally managed by general partnersfor a fee and a percentage of the gain on investments. Thus venture capital firms areinvestment firms.

Owing to the highly risky nature of the investments they undertake, venture capitalistsdemand very high returns on their investments, with target returns of about 50 percent or 60percents being considered normal (Stenvenson et al. 1999). Tuller (1994) notes that owing totheir high expected returns, venture capital companies usually target companies that haveprospects of rapid growth and above average profitability. The targeted companies must alsohave the prospect of going public in the foreseeable future – usually within five to sevenyears. Venture capital firms aim to capitalize on initial public offerings (IPOs) and cash in ontheir investments if prices are substantially above their initial investments in the respectivecompanies.

Apart from the provision of capital for very promising business ventures, venture capitalfirms also provide useful advice to these young enterprises, having acquired much moreexperience in business. They also provide additional financial assistance in the future if afirm they have invested in runs into financial difficulties. It will not be considered prudent tostand aside and watch their investments go to waste with a firm for lack of cash providedthrowing in more cash will not amount to reckless investment. (Tuller, 1994; Longenecker etal.1994).Tuller (1994) summarizes this as "future availability of funds can be an enormousboost to achieving long-term strategic goals".

SME's Contribution to Economic Development and Growth

"The private sector is the engine of growth of the economy therefore they must be given the necessary tools to increase their growth".(Anyima-Ackah, 2006)

Economic development is a process of economic transition involving the structuraltransformation of an economy through industrialization, rising GNP, and income per head.

Economic growth on the other hand, contributes to the prosperity of the economy and isdesirable because it enables the economy to consume and contribute to more goods andservices by increasing investment, increase in labour force, efficient use of inputs to expand output, and technological progressiveness. Any nation that experiences economicdevelopment and growth will benefit from improvement in the living

standards especially if the Government can assist in growth by implementing complementary and growth-enhancing monetary and fiscal policies (Pass et al. 1993)
The SME sector is considered very important in many economies because they provide job, pay taxes, are innovative and very instrumental in countries participations in the global market. Beck and Kunt (2004) state that SME activity and economic growth are important because of the relatively large share of the SME sector in most developing nations and the substantial international resources from sources like the World Bank group, that have been channelled into the SME sector of these nations.

SMEs account for nearly 93% of the registered businesses in Ghana and therefore play animportant role in economic development by providing employment opportunities, opening up new business opportunities, enhancing entrepreneurship, and fostering creativity among many other things. Kayanula and Quartey (2000) recognize them as the engines through which the growth objectives of developing countries can be achieved and are potential sources of employment and income in many developing countries. Mensah (2005) makes the analogy that SMEs act like sponges by soaking up surplus labour to provide a large share of employment and income in Ghana.

Many researchers have observed that SMEs enhances competition and entrepreneurship therefore they suggest that direct government support can boost economic growth anddevelopment. Also SMEs growth boost employment more than large firm because they are labour intensive and make better use of scarce resources with very small amount of capital.

Hellberg (2000) also states that developing countries should be interested in SMEs because they account for large share of firms and development in these countries. Young (1994) contended that SMEs are not only important because they are a source of employment but also because they are a source of efficiency, growth and economic decentralization.

Finally, they are very important in the fight against poverty as they help in the povertyreduction strategy for most government especially those in the developing countries werepoverty is most severe. Since they employ poor and low income workers and are sometimes the only source of employment in the rural area, their contribution cannot be overlooked.

Importance of Financial Institutions to SME Development

"Finance is the oil for growth. It is indeed the life-blood of the economic system. Thefinancial system is the vessel that carries this life-blood through the economic system. Faultyvessels prevent the life-blood from reaching essential parts of the economic system". (Sowah,2003)Gockel and Akonea (2002) offer a historical account of the banking industry in Ghana. Theywrite that Ghana Commercial Bank (GCB) entered the banking market with the purpose ofproviding credit to large indigenous enterprises since the expatriate banks refused to offerassistance. National Investment Bank (NIB), established in 1963, provided credit facilities formanufacturing and agro-based industries with Agricultural Development Bank (ADB), whichwas established in 1976 with the aim of providing financial assistance for the development ofagricultural and allied industries.

Even though banks were established to cater for all sectors in the economy, financing smallbusinesses was still a problem as a result a Tanzanian government in collaboration with SEDIT (Social and Economical Development Initiative of Tanzania) implemented a tool called Village Community Bank (VICOBA) to mobilize fundsand channel them to SMEs and other informal activities in their localities.

Llewllyn (1997) argues that financial system play a crucial role in development through thereduction of information and transactions cost and its efficiency in reducing those costinfluences savings rates, investment decisions, technological innovation and long run growthrates. Patrick (1966) stated in his work that financial institutions play a major role inpromoting economic growth by ensuring the availability of cash flow cost credit to potentialinvestors. Likewise, King and Levine (1993) agree with the above that countries with betterfinancial systems have superior economic growth while Arestis and Demetriades (1996) addthat this varies across countries. Goldsmith (1969) and Gerschenkron (1962) argued that inthe early stages of economic development suppressed interest rates, credit policies andinstitution building provided the financial impetus necessary for economic development.

It is in the interest of financial institutions to ensure that the economy is growing efficientlyby playing an intermediary role between suppliers and lenders of funds in any economy bygathering surplus funds in the economy and then lending these funds to those who need them.

According to Mishkin (2001), banks are the most important source of external fundsespecially for loans. This suggests that bank play an important role in financing businessactivities especially in developing countries.

Even though banks may be faced with constraints, Aryeetey et al. (1994) suggest that they doactive banking by mobilizing resources and distributing them to needy SMEs. Sowah (2003)further suggest that bank should be urged to take “reasonable risk” in vetting loanapplications from small and medium enterprises, especially for business ventures in newareas and technology.

Factors hindering SMEs in Accessing Credit

Despite the package offactors which affects SMEs growth such as unfavourable legal and regulatory framework, poor physical infrastructure, low entrepreneurship development, lack of business training, limited access to information, poor technology, unreliable marketing, weak institutional framework for SME development, unfriendly environmental consideration, less access of gender and disadvantage groups, effects of HIV-AIDS but access to finance is the key factor which affect mostly SMEs in Tanzania.

For the case of this study, the SMEs credit access to commercial banks has been deeply discussed as reviewed by various studies.

Cuevas et al. (1993) indicates that access to bank credit by SMEs has been an issuerepeatedly raised by numerous studies as a major constraint to industrial growth. A common explanation for the alleged lack of access to bank loan by SMEs is their inability to pledge acceptable collateral.

In their view the current system of land ownership and transfer regulations clearly retards and to some extend limits access to formal credit. First, due to lack of clear title to much usable land in Tanzania, there is a limited amount of real property that can be put up as collateral.

They claimed that the available of collateral plays a significant role in the readiness of banks to meet the demand of the private sector. Collateral provides an incentive to repay and offset losses in case of default. Thus collateral was required of nearly 75 percent of sample firms that need loans under a study, which they conducted on the demand supply of finance for small enterprises.

Nevertheless a large proportion of the firm had their application rejected by banks. For firms that put in loans applications there was almost 2:1 probability that the application would be rejected. Firms receive loans for much less than they requested for. Among firms that had their applications rejected, lack of adequate collateral (usually in the form of landed property) was the main reason given by banks. Aryeetey et al. (1994) suggest that banks can offer alternative to property as collateral such as guarantors, sales contract and liens on equipment financed.

The above was also supported by AnsahOfei (JEL: G21, I30, N27). In his view small and medium enterprises are unable to assess loans because of the conditions attached to the banking methodologies. This he grouped into two:

Formal bank methodologies: These consist of several techniques to pre-screen clients and concentrate on relatively few large transactions. They include; feasibility studies, collateral, track record and minimum deposits.

Informal banking methodologies include: personal relations family connections and knowledge business relations.Also it is contained in Dr. AnsahOfei's Journal that the fear of risk, especially the loss oftheir (SME operators) wealth prevented them from pursuing a loan.

SMEs face more challenges in doing business than large enterprises because of thedifficulties in financing start-up and expansion. Schiffer and Weder (1991) found that small firms tend to experience more difficulties than medium-sized firms, which also experience more difficulties than large firms. In most countries, especially developing nations, lending to small businesses and entrepreneurs remain limited because financial intermediaries are apprehensive about supplying credit to businesses due to their high risk, small portfolios, and high transaction cost.

According to Cuevas et al. (1993) cost of transaction contributes to the inability of the SMEs to access finance. They are of the opinion that "if transaction cost of lending are high the net margin banks expect from loans operation do not compare favourably against safe investment represented by treasury bonds". Aryeetey et al. (1993) also shares the same view that if a lender face information asymmetry, the issue often becomes somewhat persuasive authority he or she holds in ensuring repayment. These push up transaction cost as the probability of default is assumed to be high and has to be contained. Thus lenders may avoid lending to smaller or lesser known clients or impose strict collateral requirements when they do. They may perceive clients in ways that would overcome the latter own perception of the difficulty in obtaining formal finance.

According to the Doing Business and Enterprise Survey conducted by The World Bank, legal system, corruption, taxes, customs and finance (which imply access to finance and cost of finance) could be classified as biggest problems for small and medium-sized enterprises in Croatia. Inadequate sources of finance and difficulties in access to finance are often main problem of SMEs, especially in their start-up or early development phase. Adequate financing of entrepreneurial venture is one of the most important may determine their final success. Though there were some positive changes recently that made access to finance easier, they mainly affected large enterprises, or medium-sized enterprises that are already established on the market and that operate in more favorable environment. Croatian SMEs affront with more difficulties in accessing finance, resulting in its higher cost. They are in much better positions and have fewer difficulties than SMEs (Kolakovic, 2006).

Some experts have argued that the failure of directed credit programmes resulted from the limited role of market forces in determining interest rates and a lack of savings mobilization in the design of the credit programmes. In addition, in the countries that lack active and organized capital markets, experienced intermediaries and a favorable regulatory environment, local SMEs have difficulty raising the medium- and long-term capital. As a result, most SMEs rely on their own capital to start up and sustain their activities. For example, between 59 and 98 per cent of SMEs in African countries use their personal assets to capitalize their enterprises (UNCTAD, 1995).

Studies have revealed that small firms have more difficult in accessing commercial credits than the big firms all over the world. This is due the fact that these small firms lack credit history, or their life span in the market is too short hence does not let the bank assess by means of standard instruments the credit risk in the case of new firms. From a start, the costs of assessing the firm’s credit reliability increase (if the very application is still considered by the creditor). Banks are not interested in financing innovating and newly established firms because the amount applied is less compared to amount applied by big firms moreover procedure and time spent are the same (Warszawa, 2003).

Badillo (1993) argues that lending small firms involves high-risk thus high premium. High premium makes lending rates to be unaffordable by small borrowers (SMEs). In order to help those firms operate and grow special credit management should be put in place. Badillo (IBID) reports further that, some of the problems facing SMEs in Mexico can be attributed to institutional credits, financing, overly bureaucratic fiscal processes and many economic laws and regulations which are set to favor large firms at the expense of small firms. Consequently, small and growing firms fail to compete with large firms and as a result SMEs sector keep on deteriorating in Mexico.

Despite SMEs strong interest in credit, commercial banks profits orientation may deter them from supplying credit to SMEs because of the higher transaction cost and risk involved. First, SMEs loan requirement are small so the cost of processing the loan tend to be high relative to the loan amounts. Second, it is difficult for financial institutions to obtain the information necessary to assess the risk of new unproven ventures especially because of the success of small firms often depends heavily on the ability of the entrepreneur. Third, the probability of failure for new small ventures is considered to be high.

The loan monitoring and contract enforcement suggest that thetransaction cost of SME lending were higher than those for large enterprise per loan though a similar study undertaken in 1992 by Aryeetey and Seini on the transaction cost of lending covering sixty bank branches in Ghana suggested that there was no statistically significant difference in the cost of administering loans to smaller and larger enterprises".

Other studies state that the internal organization of most banks is such that SMEs applying for loans deal with branch staffs that have little say in the decision, whereas major decisions are taken at the head office of official who know little about the enterprise. This arrangement ensures that many potential SME borrowers do not have the chance to interact with the few trained project personnel before applications are made. There is a high probability that many potential good project are turned down because distant credit officers lack enough undocumented information to form an opinion on the projects and especially on entrepreneurs.

According to the recent study undertaken by University of Dar es salaam Entrepreneurship Centre (UDEC) most commercial banks in Tanzania are lacking requisite technical capacity along with understanding of the SME sector operations, this being one of the major reasons for their failure to support them efficiently. Loan processing is being done remotely from bank's headquarters, while lacking of credit rating bureau makes mater worst when it comes to process of credit.(Guardian news paper dated Tuesday November 11, 2008).

Previous studies show that lack of information is major reason for not using credit facilities. A study on the determinants of bank credit access for smallholder farmers in Tanzania also concluded that limited awareness about available credit facilities was one of the important factors keeping smallholder farmers from getting access to credit (Kashuliza and Kydd, 1996).

It has been urged by Ngowo, (2013)an entrepreneur who owns a guesthouse within Tandika area, Dar essalaam that lack of entrepreneurial knowledge is one of the leading factors which led to the collapse of small business. Also reluctance of commercial banks to provide loans to SMEs hindered rapid development of the domestic economy.

It has been urged that SMEs have to constantly engage in activities that would enhance their innovative capacities. This will enable them to match with globalization as the business environment was increasingly becoming competitive. Likewise service providers have to come forth in sponsoring training of entrepreneurs rather than complaining that most SMEs lack bankable ideas. Financial service providers should be more innovative by developing more finance products tailored to the requirement of the SME sector, (Bamwenda, 2007).

Experts have urged that most SMEs are doing business unprofessionally, this deny them loan facility or capital. For many years SMEs failure to survive is because they do not know how to write business plan that can help them to secure loan facilities. (Jonathan John, Business Development Officer at SIDO)

As concluded by the Ministry of Industry and Trade of The United Republic Of Tanzania through its draft ‘Tanzania SME Policy’ of 2003 thatSME sector in Tanzania has limited access to finance due to the following factors: thesector is perceived as a high risk one; inability of the SME operators to fulfil the collateralrequirements; most banks do not operate an SMEs financing window; some of the banksoperate in limited geographical areas; inexperience of Bank Staff in issues related to Microfinance;lack of a guarantee scheme to back up banks financing SMEs; high cost ofscreening and administering small loans spread over big areas and inabilities of borrowersto prepare and present applications that meet bank's requirements.

2.8 Research Gap

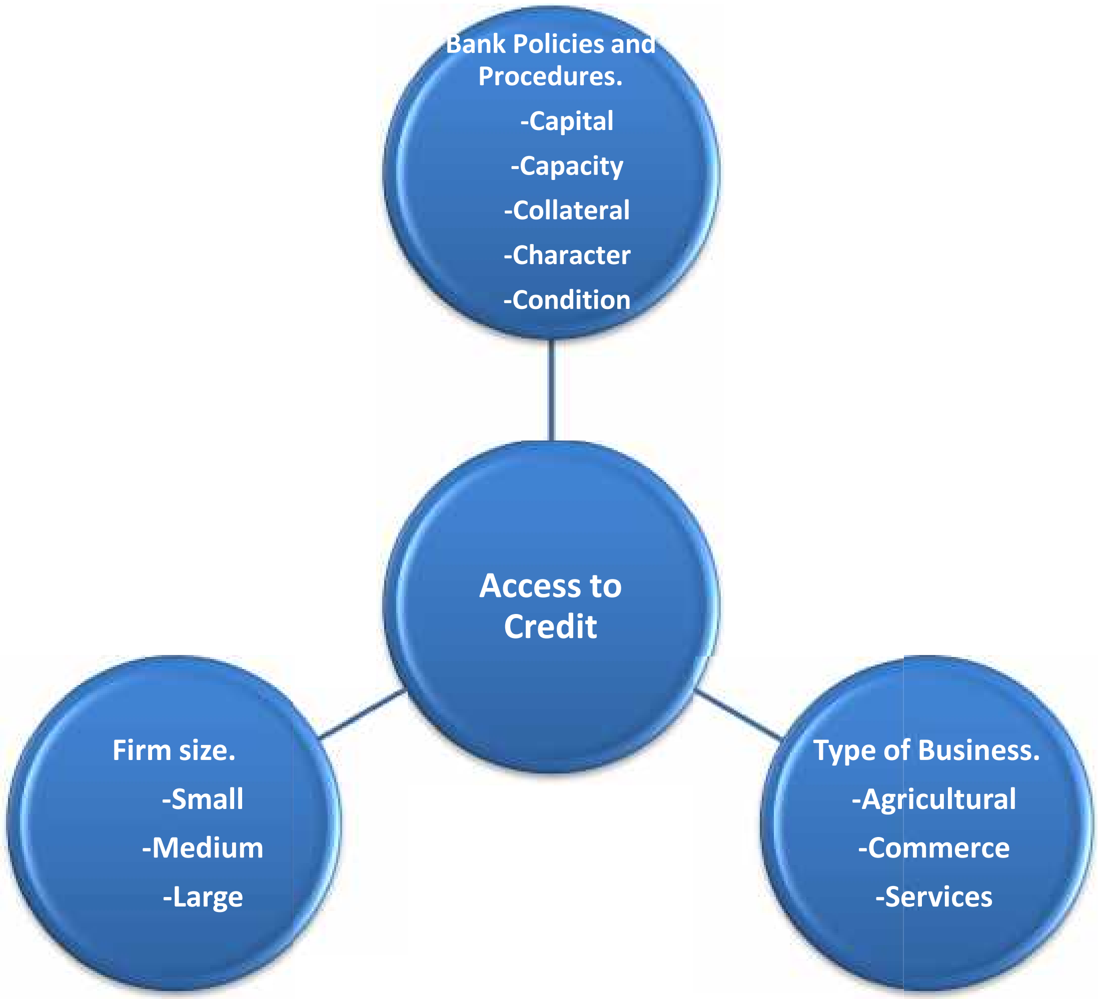
Many researches which has been done on factors hindering access to credit for SME, fail or pay little attention on quality and capabilities of management level which is the one of the vital factor considered by commercial banks on their appraisal and decision whether to lend or not to lend a credit to SMEs therefore this continuing to be a gap which need to be fill by other researchers who will be interest on the study of factors hindering SME to access credits from commercial banks.

2.9 Conceptual Framework and Research Model

As defined by Miles and Huberman (1994), ‘a conceptual framework explains, either graphically or in narrative form, the main thing to be studied – the key factors, constructs or variables – and the presumed relationship among them’’. In the conceptual framework, the study is forced to be selective to decide which variables are most important, which relationship are likely to be most meaningful and as a consequence, what information should be collected and analyzed.

The underlying assumption in the study is that credit accessibility to SMEs is determined by firm size, type of business they operates and credit policies of the commercial banks. This implies that credit accessibility is a function of Firm size, type of business and credit policies.

Figure 2.1: Conceptual Framework: Problem Modeling.



Source: Author from literature review.

Figure 2.1 shows that Credit accessibility is the function of firm size, type of business plus policies and procedures where credit accessibility is the dependent variable**.**

Credit accessibility is directly related to the firm size. The access to credit increases as the size of the firm increases. Firm size is one of the most important variables in research related to access to credit. This was true for both developed as well as developing countries. Numerous studies have discussed that small and medium enterprises are financially more constrained than large firms. Calomiris& Hubbard (1990) noted that when the company is smaller, the restrictions on credit are greater.

Previous studies have mentioned several reasons for small firms to have less access to credit. Firstly, the small firms face with information opacity such as unable to provide financial information (Binks and Ennew, 1996). When the firm is small, most of the time it is owned and operated by the entrepreneur himself/herself and there is no such legal requirement to regularly report financial information and many firms do not maintain audited financial accounts. Second reason is smaller firms having fewer assets to offer as collateral. In order to reduce the anticipated risk and moral hazard associated with lending, the banks use collateral as one of the instrument. The collateral is an assurance to the bank in case of default and it also ensures the borrowers commitment to the loan repayments.

Credit accessibility depends on the type of business. Financial institutions are more willing to offer credit to firms engaged in commerce rather than agriculture activities and services provider. In general terms the current loan product requires regular monthly installments. If the business is of a type, that does not have a cash flow each month; it will be difficult for the borrower to meet required monthly installments. With more experience the bank will consider repayments tailored to the cash flow of different kinds of businesses. (SME Credit Procedures Manual NMB Operating Manual Volume V-A)

Credit accessibility depends on the credit policies, the more flexible the loan policies they are the more accessibility to credit. Here commercial banks refers to 5 Cs' these are collateral, conditions, character, capacity and capital which taken as a key policies taken into consideration before any credit analysis and appraisal.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

According to Kothari (1990) research methodology is a systematic way applied to solve a research problem. This chapter deals with the methods which have been applied in data collection. It indicated the various activities which involved in carrying out the study and tries to give a review of all the methods, tools and techniques which was used by researcher to obtainthe data from the field. Furthermore it explained how the obtained data have been systematically analyzed.

3.2 Research Design

Research Design is the plan for conducting research, Kothari (2004). It is the arrangement of condition for collecting and analyzing data in the manner that combine the relevance to the research purposes. This research used the case study which is NMB Bank. Number of reasons leads this to be so, including: A researcher is an employee of NMB Bank, as loan officer, hence due to his nature of work he intends to go in deep on factors that hinder SMEs' to access credit from commercial banks to find out more of it and since he is insider he will ensure quality and timely data availability. Also due to limited time the researcher decided to use case study methodology.

The choice of a case study design was attributed by the relative advantages that case study strategies have over other designs such as experimental, exploratory, cross sectional and the like. Saunders, Lewis and Thornhill (2007:111). A simple, well constructed case study enabled the researcher to challenge an existing theory and also provide source new hypotheses. Case study designs facilitated ease with which data was collected, they were easy to administer and compare between research variables as well as to minimize generalizations. According to Kothari (2004) a case study can be used in conjunction with other designs. The results were used with caution to generate about other similar cases and that it accommodated almost all research instruments such as questionnaire, interview, observation and documentary source. Case study has advantage over other design according to the words of Charles Horton Cooley, “case study deepens our perception and give a clear insight into life. It get a behavior directly and not by an indirect and abstract approach.”

3.3 Area of Study

The study took place at NMB PLC Kariakoo business centre in Dar es Salaam. Kariakoo business centre selected due to its nature of operations since is the centre which deals with all transactions of SME’s and large firms such deposits, loans, withdrawals as well as advisory also Kariakoo is area where it characterized with a large number of SMEs’ hence it was a right place for researcher to acquire reliable and enough information he needs for his study.

3.4 Sample Size and Sampling Techniques

3.4.1 Sample Size

The Sample size of the study comprises 58 respondents chosen randomly of which 8 were bank staff from credit department of kariakoo business centre and branch operation while the rest 50wereindividual customers of NMB Bank who chosen randomly from the banking hall.The below table summarize the sample size.

Table 3.1:Sample respondents: sample size: n=58.

Category.	Number of Respondent.	Percentage (%) of the total sample (n).
Bank Officials	8	14
Bank customers	50	86
Total	**58**	**100**

Source: The researcher data 2014.

In the words of Kothari (2001) a good sample size may serve to achieve the objectives of the researcher. It should be optimum sample. An optimum sample size is one that fulfils the requirements of efficiency, representativeness, reliability and flexibility.
A sample of 50 bank customers and 8 bank officials which selected for this study was sufficient to provide viable information required.

3.4.2 Sampling Techniques

The researcher has useda non-probability purposive sampling technique due to the nature of the study, the dynamic bank environment in general, as well as the easy convenience with which purposive sampling applies. Non-probability sampling technique is subjective in nature and involves selection of sample based on judgment and knowledge. A non-probability sampling technique was used to draw sample size of respondents from NMB Bank staffs and customers. The selection of the first category of respondents, bank staffs was involve a business centre manager, 5 loan officers and 2 branch operation officers who involved in loan appraisal while the second category was picked at convenience from those customers who have come to get service at Kariakoo business centre. This method providethe researcher an opportunity to conduct informal interviews and observing respondents at the same time while interacting with them on his daily routine responsibilities since he worked as loan officer at kariakoo business centre.

3.5 Types and Source of Data

The types of data which have been used in study are primary data and secondary data which collected purposely for the completion of this study.

The use of a both types allowed the methods to be backed up, increasing the validity and reliability of the collected data. Powell (1991) observed that, exclusive reliance on one method may bias or distorts the researcher's picture of the particular reality she or he is investigating.

3.5.1 Primary Data

Kothari (2004) defines primary data simply as first hand information collected from the field. Primary data is collected specifically for the research project being undertaken.Primary data has been initiated through administering of questionnaires to the selected sample, unstructured interview with the respondents as well as participant observation.

3.5.2 Secondary Data

Secondary data as defined by Kothari (2001) is second hand information collected for some other purpose. Secondary data allows comparison of information with primary data enabling a more generalized triangulation of the findings. Kervin (1999) argues that the criteria for accessing secondary data are comparison of the costs of acquiring them with the benefit they will bring. Cost includes both time and financial resources that you need to devote to obtain the data.

Secondary data has been collected through literature reviewed, journals, NMB brochures, manuals and financial reports of the bank.

3.6 Data Collection Methods

These are the methods which have been used to collect data and information from the correspondents.

3.6.1 Interview

According to Kahn and Cannell (1957), an interview is a purposeful discussion between two or more people. Interview may be highly formalized and structured, using standardized questions for each respondent or they may be informal and unstructured conversations. Interviews may be categorized as structural interviews, semi structural interviews and unstructured interviews. (Saunders, Lewis and Thornhill 2007:264). Unstructured interviews were conducted with NMB PLC Credit officials and customers according to the sample taken from the population to obtain a wide scope of information. The reason for using unstructured interviews is that they are informal and can be used to explore in depth a general area of interest.

The researcher used face to face interview questions with the respondents to obtain their opinions on the factors which hinder SMEs to access credit from commercial banks. 20 customers, 2 loan officers and a centre manager were interviewed. This gave a researcher a great chance to obtain ready hand and clear information from the respondents since they could clarify on the information they gave out when it was not well understood.

3.6.2 Documentary review

The researcherspent some late hour and his holidays at NMB business centre inKariakoo to peruse and collect information from various documents and reports of the banks. The information included line of financial services offered such as overdraft, advances, letter of credits, performance guaranteeand term loan as well as business advisories. Moreover, information likes minimum qualifications needed by bank for SMEs' when they access credits such as adequate collateral, age of the business, legality of the business, size of the business as well as viability and feasibility of the business were also obtained.

3.6.3 Observation

Observation involves the systematic observation, recording, description, analysis and interpretation of people's behavior. In this type of strategy both participatory and non-participatory observation was applied. According to (Gill and Johnson, 1997:113) In participatory observation the researcher attempted fully in the lives and activities of the subject and thus becomes member of the NMB PLC in credit department. According to Delbridge and Kirpatrick (1994) data collected through observation was categorized as primary and secondary.

Researcher is the loan officer at NMBKariakoo business centre, so he is a full participatory of the whole process of credit management from application, appraisal, analysis, recommendations, disbursements, follow up and recovery. That gave a researcher a good opportunity to observe by experienced the various factors which hinder many SMEs' toacquire credits from bank.

3.6.4 Questionnaire

Questionnaire is data collection instrument that includes all techniques in which each person is asked to respond to the same set of questions in a predetermined order (Saunders, Lewis and Thornhill2007: 300-301). The choice of questionnaire data collection instrument was influenced by the fact that questionnaires are flexible, easy to apply and less expensive. In this study questionnaire was designed and developed which includes both closed questions and open ended questions. Open ended questions allowed the respondents to answer question using their own ways while closed ended questions provide a number of alternative answers from which the respondents were directed to choose (Robson, 2002).

Questionnaires guides was designed in Swahili language due to the fact most of the SMEs preferred Swahili questionnaires where they were more capable to give their responds comfortably. The questionnaires were arranged in parts A, B, and C. Part A containedrespondent's general details, part B had questions to business information and access to credit from commercial banks and part C comprised questions related to credit policy. The questionnaires were distributed to two categories of respondents i.e. bank officers and bank customers.

3.7 Data Validity and Reliability

3.7.1 Data Validity

Validity refers to the extent to which a test measures what was actually intended to be measured (Zikmund, 2006). In measuring the content of validity, in this study some questionnaires were distribute to a group of experts carefully selected during the pilot study to judge how well the instrument met the standards. The group managed to gave insights on the questions that were asked and in the light of the decisions and feedback; the questionnaires were modified and then distributed to the respondents. This process waspractice to ensure validity of the instruments.

3.7.2 Data Reliability

Data reliability is the extent to which a measure will produce consistent results. It checks how similar results are if the research is repeated using different forms. Careful selection of sample and sampling procedures as well as the use of different methods of data collection were treated as mechanisms to improve data reliability.

3.8 Data Analysis Methods

According to Saunders, et al. (2004), data analysis is defined as the act of transforming raw data, with the aim of extracting useful information and facilitating conclusion. This was done with computer packages, whereby the Social Package for Social Sciences (SPSS) was used to analysis the collected data.

The data collected were analyzed using both qualitative and quantitative methods. Data were processed, interpreted and analyzed by means of categorizing and then summarizing them so to bring the clear picture of answers obtained from our questionnaires.

After the questionnaires returned, they were edited to ensure legibility and then the data were inserted to a data entry screen using Epi-Info, where data were entered. To ensure that the data entered are free of errors, the database was cleaned before the data are transferred to Social Package for Social Sciences (SPSS) descriptive methods for analysis into frequencies, percentages, pie chartsand bar graphs.

CHAPTER FOUR

RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents the research results in the light of the predetermined research questions and objectives. The chapter analyzedfactors which hinders SMEs in accessing credit from Commercial Banks. Primary data presented in this chapter was collected through in-depth interview, questionnaire and observation. Secondary data were collected through review of existing documents from NMB Plc and other available source.

4.2 Characteristics of the Respondents (Bank Customers)

Table 4.1: Characteristics of the Respondents (Bank Customers): sample sizen=50

Variable.	Category.	Number of respondents.	Percentage (%) of the total sample (n).
Gender	Male	32	64
	Female	18	36
Age (in years)	Less than 20	0	0
	20 to 30	7	14
	31 to 40	26	52
	41 to 50	12	24
	Over 50	5	10
Education attainment	Noformal Education	0	0
	Primary	6	12
	"O" Level Sec.	25	50
	"A" Level Sec.	11	22
	Post Secondary	8	16

Source: Research field data, 2014.

Table 4.1presents characteristics of the respondents who responded to the questionnaire. The results indicates that 32(64%) of the respondents were males and 18(36%) were females. This implies that most of the business are dominated by men as shown in table 4.1, 32(64%) while 18(36%) were owned by female. From the results there was no respondent below 20 years of age;7(14%) of the respondents were aged between 20 and 30 years; 26(52%) were aged between 31 and 40 years; 12(24%) were aged between 41 and 50 years and5(10%) were aged above 50 years of age. From the results portray the middle age respondents owned more business than the other age group.

Moreover, the results shows that all respondents attended formal education where 6(12%) of the respondents attended Primary School, 25(50%) attended Ordinary Secondary School, 11(22%) attended Advanced Secondary School and 8(16%) had Post-Secondary Education. The formal education facilitates them to generate simple account records. All respondents who participated in this study maintained account with NMB PLC which is the one of pre-requisite condition for loan applicants.

In additional through interview it was revealed that some of the female who own business got the capital from their husbands. Amongst the reasons for this include issues such as inadequate personal assets and sexual stereotyping among the society that female have not capital to possess their own business. Also evidence from several studies suggests that women may have more difficulties obtaining financial support than men, and therefore dependent on so called “angel money” – person savings and loans from friends and relatives to meet needs for capital (Aronson, 1991: Buttner& Rosen, 1989; Fay and Williams, 1993).

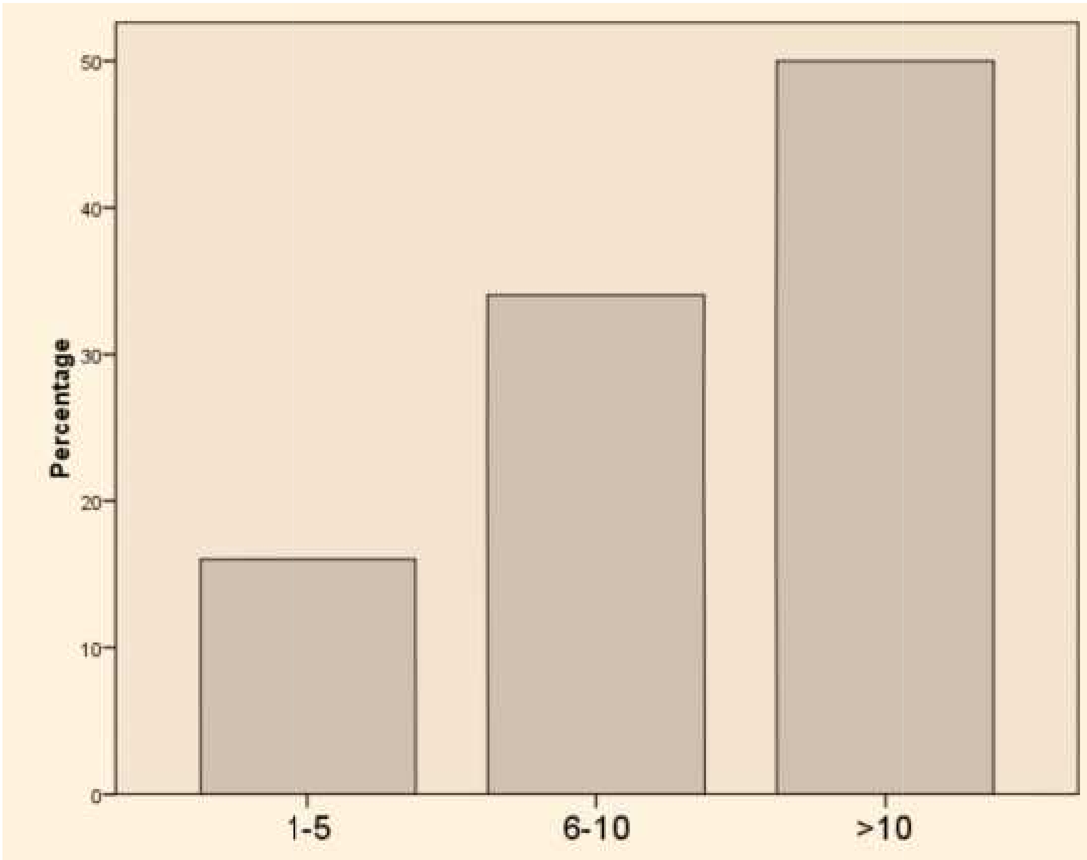
4.3 Business Information

4.3.1 Business Life Time

Figure 4.1 shows that all participants in this study own business which have life time more than a year. Business with life time between 1 and 5 years were 8(16%), 6 to 10 years were 17(34%) and businesses operating more than 10 years were 25(50%). Since NMB do not financing the start-up business therefore existence of the business with a minimum of 3 years life is essential when deciding whether to finance an enterprise. Also it is necessary to provide the security or collateral support, which is the most difficult for enterprises in their start-up or the earliest development phases, because such enterprises usually do not posses assets worth at least as required amount of finance. In order to finance an enterprise, NMB PLC requires wide range of financial information and reports of the enterprise. This includes income statement, balance sheets and cash flow projections together with cash flow projections for the period of the debt.

This implies new business has difficulties in accessing credit from NMB PLC compare to those which have been in operation for long time. The longer the enterprise is in operation and has some assets that can be used as a security, easier is to obtain larger amounts of finance at lower interest rates. The SME sector comprises relatively younger, more profitable and faster growing firms. The findings show that these firms appear to have financial constraints that impede their access to long-term financing and ability to grow, (Klapper, Allende and Sulla, 2002**).**

Figure 4.1: Business Life Time.



Source: Research field data, 2014.

4.3.2 Business Ownership

Table 4.2 indicates the business ownership information on the commencement of the business. Most of the business 42(84%) were owned by sole proprietor that is operated under private individuals, 5(10%) were operated under partnership while only 3(6%) were under company ownership. Thisimplies that private sector or private individual are fundamental factor in economic growth and employment creation of the country.

Table 4.2: Business Ownership.

Variables.		Frequency.	Percentage (%) of the total sample (n).
Business ownership	Sole proprietor	42	84
	Partnership	5	10
	Company	3	6
TOTAL		**50**	**100**

Source: Research field data, 2014.

Moreover thestudydepicts most business, that is 43(86%) started with initial capital more than 5 million Tanzania shillings, 5(10%) started the business with initial capital less than 5 million Tanzania Shillings, where only 2(4%) began their business with a capital of Tanzania Shillings above 200 million. There was no business which commenced with a capital above 800 million Tanzania Shillings.

In initial working capital, most of the business 30(60%) operated their business with a working capital between 10 million TZS and 50 million TZS, 2(4%) business had initial working capital below 1 million TZS while 16(32%) business had initial working capital less than 10 million TZS and only 2(4%) operated their business with a working capital above 50 million TZS.

As indicated in Table 4.3, majority of the business 34(68%) were managed to employed a number of staffs below 5 while others 16(32%) had employees between 5 and 49 and there was no business had initial number of employees more than 50. These findings have revealed that most business started as micro and small enterprises.

Table 4.3: Business Information on the Commencement of the Business

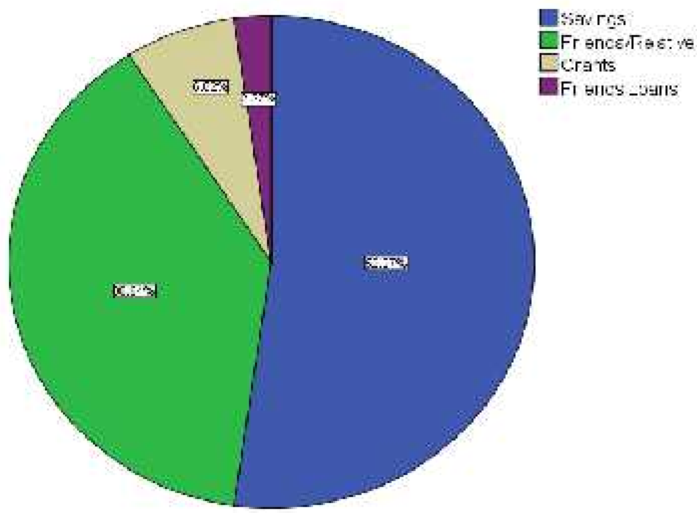
Variable.	Category.	Number of respondents.	Percentage (%) of the total sample (n).
Initial Capital in million TShs.	Less than 5	5	10
	Above 5 to 200	43	86
	Above 200 to 800	2	4
	Above 800	0	0
TOTAL		**50**	**100**
Initial Working Capital in million TShs.	Less than 1	2	4
	Above 1 to 10	16	32
	Above 10 to 50	30	60
	Above 50	2	4
TOTAL		**50**	**100**
Initial Staffs	Less than 5	34	68
	Above 5 to 49	16	32
	Above 49 to 99	0	0
	Above 99	0	0
TOTAL		**50**	**100**

Source: Research field data, 2014.

4.3.3 Source of Capital to the Respondents

Figure 4.2 indicates that source of capital for most of the business 23(46%) was from entrepreneur own savings, 17(34%) business obtained their capital from relatives and friends, 1(2%) business got capital through borrowing from friends, 3(6%) got capital through grants while 6(12%) were facilitated by SACCOS. There was no business which got initial capital from Banks this implies that NMB PLC does not offer credit for starting up a new business. Formal financial intermediaries in developing countries, especially commercial banks, usually do not serve micro- and small enterprises because of the high cost of small transactions, lack of traditional collateral, lack of basic requirements for financing and geographic isolation. These enterprises therefore rely on their own savings capacities, relatives and friends. Otherwise, they must rely on the flexible but exorbitant terms offered by moneylenders and traders. In yet other cases they seek out local credit unions, co-operatives or non-profit organizations providing limited financial services. CGAP (2002).

Figure 4.2: Source of Capital to Respondents

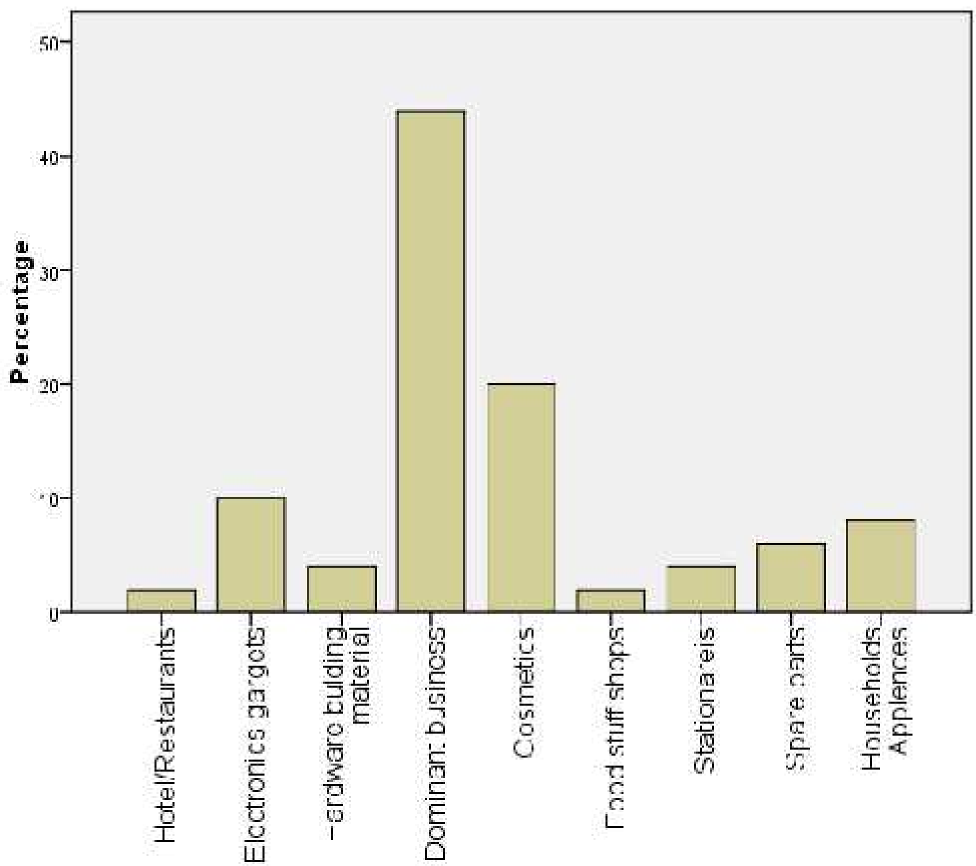


Source: Research field data, 2014.

4.4 Analysis on Type of Business

Figure 4.3shows garments is the dominant business 22(44%) which followed by electronics 5(10%), households appliances 4(8%), motor vehicle/cycle spare parts 3(6%), stationeries 2(4%), hardware and building materials 2(4%) while hotel and restaurants together with food stuff shops were 1(2%) respectively. Hence based on sample taken depicts commerce and service sectors dominated the business environment of the area compared to other sectors like industry,agriculture, mining, manufacturingetc.

Figure 4.3: Type of Business for the Respondents



Source: Research field data, 2014.

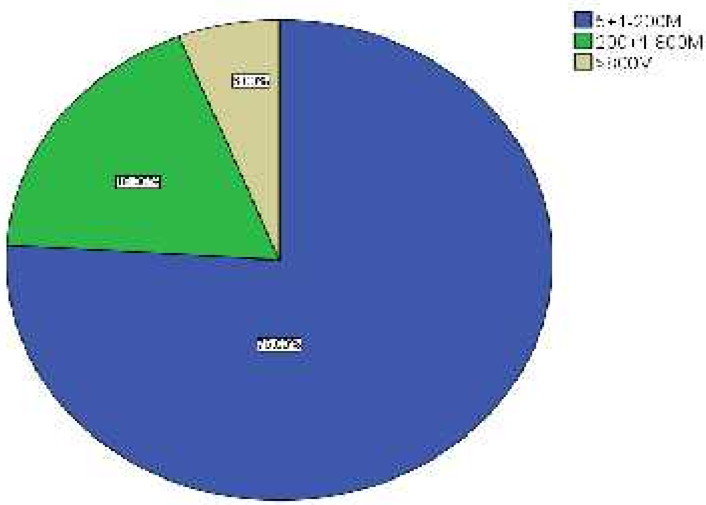
From the above findings prove that Commercial Banks are more comfortable to lend to commerce and service sector like it revealed on table that garments, cosmetics, electronics, household’s appliances etc characterized the dominated business in lending due to its nature of business circulation where covered the whole season which provides comfort to banks that its funds could be remitted unlikely to other business sector like agricultural, mining or construction which it have seasonality business that many Commercial Banks find it unpleasant to lend.

4.5 Analysis on Firm Size

4.5.1 Firm Size Analysis Measured by Capital

The information presented on Figure 4.4 indicates that there is no business with capital below 5 million TZS, majority of the business 34(76%) had capital between 5 million TZS and 200 million TZS,8(18%) had capital between 200 million TZS and 800 million TZS and only 3(6%) of the total sample taken had a capital above 800 million TZS currently. The study implies that majority of the business (94%) operating under small scale basis.

Figure 4.4: Current Capital for the Respondents Business

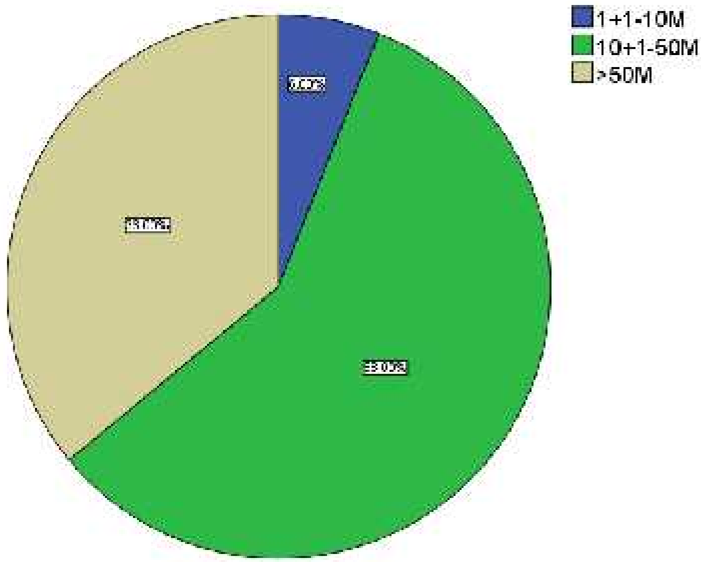


Source: Research field data, 2014

4.5.2 Firm Size Analysis Measured by Working Capital

Figure 4.5 shows that no business currently operating under working capital below 1 million TZS whereas only 3(6%) of the sample taken of the business have a working capital below 10 million TZS, many of the business 26(58%) have a working capital above 10 million TZS to 50 million TZS while few of business 16(38%) had working capital above above 50 million TZS. From the findings based on working capital, it unveil that more than a half, 62% of the respondents are running small and medium businesses with a few number of 38% operating in large scale enterprises.

Figure 4.5: Firms Current Working Capital



Source: Research field data, 2014.

4.5.3 Firm Size Analysis Measured by Number of Employees

The results in Table 4.4indicates that 34(68%) of the business had less than 5 employees, 16(32%) had number of employees between 5 and 49 and there was no business with number of employees more than 50. Analysis of the firms using number of employees shows that micro and small enterprises dominated the all business environment of the area taken as a sample.

Table4.4: Number of Employees for the Respondent's Business

Variable.	Category.	Frequency.	Percentage (%) of the total sample (n).
Number of Employees	Less than 5	34	68
	Between 5 – 49	16	32
	Between 50 – 99	0	0
	Above 100	0	0
TOTAL		**50**	**100**

Source: Research field data, 2014.

From the findings on analysis of firm size based on capital, working capital and number employees it shows that the size of the business have a contribution in accessing credit from Commercial Banks because firms with small size as considered on above variables have taken as much riskier since they have weak working capital and cash flow to support the daily operations of the business, little capital to ensuring the existing and continuation of the firm also few human power and weak management to support the operations and succession of the business hence have no or minimal chance to acquire credit compared to other firm size where Commercial Banks put much confidence and comfortable with them in consideration with the above variables.

4.6 Analysis on Bank's Credit Policies, Terms and Procedures

The information in Table 4.5 revealed that small households or small business they do not have ability to save since what they earn is from hand to mount. They are difficulty to be identified since they do not have permanent address (business area) and they do not have official ID and things like mail box. They do not keep proper book of accountsof their business and they do not prepared detailed business plan which making it difficult for the financial institution to analyze their credit worthiness. They have high credit risk due to inherent nature of the business and they borrow small and uneconomical amount with a longer processing time compared to large loan amount.

All respondents from NMB member of staff 8(100%) agreed with the above information. SMEs are considered by commercial banks as a “special client segment”, the main reason being that they are seen as inherently risky. The risk derives from the fact that SMEs are rarely able to offer strong collaterals. In additional to this, is a relatively higher degree of uncertainty as to their capacity to generate revenues and growth.

Furthermore the information in Table 4.5 revealed that NMB Plc regard SME lending as costly since they borrow small and uneconomical sum. The target markets for NMB Plc credit facility are Micro Enterprises, Small and Medium Enterprises and Corporate customers. NMB Plc has tailored credit facility to cater for each group and individuals. Small enterprises are given small amount of loan, 500,000 TZS to 15,000,000 TZS,in relation to the size and performance of business, interest rate is high (24%) compared to large Enterprises and Corporate customers, above 1 billion with negotiable interest. SMEs customers are given large credit facility, above 15 million to 900 million with interest rate (19%).

Table 4.5: Research Findings from NMB Staffs Questionnaire

Most Commercial Banks regards Low income house hold or small business as…

Perception.	Yes /No.	Number of respondents.	Percentage (%) of the total sample (n).
Too poor to save	Yes No	8 0	100% 0%
Difficulty to be identified	Yes No	8 0	100% 0%
Do not have business plan	Yes No	8 0	100% 0%
Do not keep written accounts	Yes No	8 0	100% 0%
High credit risk	Yes No	8 0	100% 0%
Borrow uneconomical sum	Yes No	8 0	100% 0%

Source: Research field data, 2014.

4.6.1 Terms and Conditions for SMEs Loans

In order to be eligible for the loan the findings have revealed the following:-

- The client must be in business at least for three years.
- Must have business license
- Must have Tax Identification Number.
- The client must have a business plan.
- Applicant should submit contract of lent the shop frame.
- Client must prepare a financial statement of his/her business for past 3 consecutive years.

- Client must prepare interim management account up to subject month of the requested loan.
- Client must prepare after loan cash flow projection for the whole period of the loan.
- The client must maintain bank account with NMB Plc at least for twoyears and should produce a bank statement for the past one year.
- Adequate property stand as security to cover at least 125% of the loan amount requested.
- The money should be used for working capital only in the business in which the client requested the loan for.
- Loan facility is only for 12 months tenure.
- No grace period to SMEs loans. Due to the fact that SME is only for working capital with 12 months repayment period. Grace period is available only to investment loans with 3 months period only.

4.6.2 Loan Approval

The Loan officers jointly with branch Manager approve SME loans up to 30 million Tanzania Shillings. Above 30 million TZS the approval has to be done at Head office. The turnaround time within branch level for processing the loan from loan appraisal up to book the loan into borrower account takes 14 working days for fresh application and 7 working days for repeats loans. For the loan to be approved at Head office it takes about 2 to 2.5 months for it to be book into borrower account.

4.6.3 Findings from the Interview

Findings from Interview held with NMB Plc Bank Officials revealed that NMB Plc has been offering credit to SMEs customers for about ten years. The Bank started pilot on SME loans to customers in 2004 but in 2005 it officially began to issue SME loans. An intensive training to staff who selected to become SME loan officer is conducted. After the end of each training the participants must sit for test to assess their eligibility and only passed candidates were appointed as SME loan officers.Up to August 2014, all NMB Plc branches spread all around the country were offering SME loans.

In exclusive interview with business manager revealed that there is a number of SMEs loans application rejected. The loan rejection rates were estimated to be in the range between 30-40% largely due the gap in banking requirements Vs ground level realities. These includes conservative policy towards SMEs , unclear business plan or financial projections, lack of financial strength, poor financial management and reporting system, insufficient reinvestment of profits or diversion of their funds into non-core activities.The findings revealed that accurate financial statements were difficult to get from SMEs and in rare cases, recovering money / assets was a complex and time consuming process.

Therejected applicants are advised either to go to correct the area with discrepancies or to apply for micro loans of which most of them qualify or some are rejected in both SME and micro loans.

From the analysis finding that bank' policies and procedures have an effects on accessing credit since other have less than three years in operation contrary to bank policy which require minimum 3 years operations, others have no bank account or have poor account operations which is not suitably to banks to lend them, others conduct their business without business license and/or Taxpayer Identification Number (TIN) which is contrary not only to banks but also to Country's business regulations, others do not have clear and proper record keeping and plan of their business as a matter of facts find them very difficult to be analyzed by banks as a result banks failed to undertake a thorough analysis on lendingthem, also cost of borrowing (interest rate) of the banks impede firms to access credits particular to small size firms which have little capital with tiny market but operating in same stiff competitive market with large firms hence they won't manage to increase their cash flow to meet the business obligations including loan interest, others have no access to land and do not own landed property as a Banks requirements to secure the loan and others failed to access credit due to bureaucracy of the bank in loan approval where it took so long period of time for a credit to be analyzed, approved and disbursed which in fact delayed the business because borrower receive credit off-season or out of his/her demanding time.

4.7 Chapter Summary

This Chapter presented analysis and findings on factors hinder SME in accessing credit from Commercial Banks.The size of the firm, Type of business and Bank's Policies, Procedures, Terms and Conditions for credit facility to SME have been presented and discussed. The findings were obtained from NMB Plc as a case study. Questionnaires, interview and observations were used to obtained information from the bank's customers and staffstogether with the review of existing NMB documentations.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The overall objective of this study was to identify, measure as well examining the factor that hinder SME in access credit from Commercial Banks particularly NMB Plc. The sample involved 58 respondents who are the workers of NMB at the loan department, operations department and bank customers. Data from questionnaires were inserted to a data entry screen and then transferred to Social Package for Social Science (SPSS) descriptive methods for analysis into frequencies, percentages, pie charts, and bar graphs.

5.2 Summary

5.2.1 Research Problem

It has been noted earlier that SMEs play a crucial role in employment creation, income generation and stimulation of growth in both rural and urban areas in Tanzania. Despite of this fact, still there are number of small and micro enterprises in Tanzania failed to access credit facilities from Commercial Banks in order to support their operations.

The results shows that major setback facing SMEs in accessing credit from Commercial Banks are poor collateral and/or unsurveyed area of the collateral, high screening costs and high administering costs which lead to high interest rate. Also inability of the borrowers to prepare business plan and business financial reports that meet banks requirements. The findings indicates that small firms lack credit history and/or their life time in operations is too short which does not comfort bank to extend its money to them due to high degree of vulnerability.

5.2.2 Research Questions and Objectives

The research questions were answered in the course of conducting this study. Variables that affect credit accessibility which are firm's size, type of business and Bank's credit policies and procedures have been analyzed. The results revealed that credit accessibility is related to the firm size, the large the firm size the large amount of credit a firm can access. According to NMB Policy SMEs can access credit from 500,000 TZS to 900 million TZS. Also interest rate and mode of repayment is varied based on the type of credit facility depending on inherent risk of the sector and high cost of screening and administering the loans. The research questions tried to find out whether the type of business has impact on credit accessibility, here the findings shows that the commerce and service sectors is favored compare to other sectors like mining, factory, agricultural and construction.

Policies and procedures related to SMEs have been presented in chapter four. These are crucial to both Banks and SME's. The policies and procedures includes loan eligibility criteria, collateral and authorization level. Policies and procedures are important to mitigate credit risk. These enable the Bank to assess credit worthiness and administering of the credit facility as well as not burden the clients. The study reveals that credit policies and procedures played a role in credit accessibility by hinders others in terms of eligibility of the business, legality of the business, life time of the business, poor financial management of the firms, unfavorable banking culture of the firms and bureaucracy of the bank's credit approval process.

5.3 Conclusion

NMB Plc which had started 17 years back has occupied a prestigious place in Tanzania and it is one among the top commercial banks of the country, also it is the 1st among the commercial banks of Tanzania. It is providing excellent services to its depositors, shareholders, borrowers through its wide spread branches almost in each Tanzanian district. It is highly appreciative that the bank has reached this position within the period. Overall the bank is found to be one of the pioneers among the urban commercial banks and has become instrumental in the economic development of its members.

The researcher took NMB Plc as a case study to the problem ‘‘factors hindering SME in access credit from Commercial Banks’’. After thorough analysis, the complexity of the lending policies and procedures of NMB Plc, Type of business and Size of the firm are described to be among the factorswhich obstruct SME’s in accessing credits from NMB Plc.

Therefore it is a duty for all stakeholders i.e. Commercial Banks NMB Plc in particular, SME operators and Tanzania Government to come up with the good strategies and policies in order to create a favorable platform for Tanzanian SME in access credits from Commercial Banks.

5.4 Policy Implication

Based on research objectives and the conclusion reached from the study, the researcher comes up with the following recommendations:-

i. NMB should try revising their SME lending policies and procedures in order to soften the conditions which often seems a deadlock to SMEs to access credits from them.
ii. Tanzania Government through its Ministry of Industry and Trade and its organization SIDO should put more effort on supporting SME sector in providing frequently training on SME management such as management skills, record keeping, credit management, business report writing etc.
iii. Tanzania Government through its Ministry of Land and Settlement should put more effort in surveying and formalizing the land because by doing that many SME owners will have an official access to land which will help them to be accepted by Commercial Banks for credit facility.

iv. SME operators should struggle to seek available information on SME management also to attend SME's training in order for them to be more awareness and to acquire entrepreneur knowledge so as to do their business professionally.

v. Tanzania government through its Central Bank should monitoring the lending base rate of the Commercial Banks so as to make a close control in interest rates charged by Commercial Banks to its borrowers to be within acceptable and directive rate.

5.5 Areas for Further Research

Since SME is the sector which growing fast in Tanzania and involved many people hence it took as a fuel for Nation's economic growth therefore there is a need for more comprehensive study to be carry out on this topic so as to explore more factors that prohibit SMEs in access credit from Commercial Banks and Financial institutions in general.

This study based only to one NMB branch of Kariakoo hence only SMEs found around Kariakoolocality were involved therefore further study should involve other SMEs from other localities and other different Commercial Banks all over the country to explore their difficulties they have faced when trying access credits because SME and Commercial Banks are spread all over the country hence based only to Kariakoo SMEs is to denies opinions of those who are in other regions.

Also the study typically based on only three factors; Type of the business, Size of the firm and Bank policies and procedures, on how they impede SME's in accessing credits from Commercial Banks hence other studies could be undertaken to other variables like the Quality of the firm management and Government role towards credit accessibility.

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Web Source

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APPENDICES

Appendix I: NMB PLC Branches

DAR ES SALAAM ZONE		CENTRAL ZONE	
Number	**Branch Name.**		
1	**Bank House**	75	**Babati**
2	**Chakechake**	76	**Katesh**
3	**Ilala**	77	**Simanjiro**
4	**Kariakoo**	78	**Mbulu**
5	**Magomeni**	79	**Kibaya**
6	**Morogoro Road**	80	**Kondoa**
7	**Temeke**	81	**Kongwa**
8	**University**	82	**Mpwapwa**
9	**Muhimbili**	83	**Dodoma**
10	**Mwenge**	84	**Kiomboi**
11	**NMB House**	85	**Manyoni**
12	**Mbagala**	86	**Singida**
13	**Mlimani City**	87	**Mazengo**
14	**Msasani**	88	**Itigi**
15	**Zanzibar**	89	**Bahi**
16	**Airport**	**NORTHERN ZONE**	
17	**Mbezi Beach**	90	**Hai**
18	**Tegeta**	91	**Mwanga**
19	**Kurasini**	92	**Nelson Mandela**
20	**Congo**	93	**Rombo**
21	**Ubungo**	94	**Same**
22	**Sinza**	95	**Tarakea**

EASTERN ZONE		96	**Clock Tower**
23	**Bagamoyo**	97	**Karatu**
24	**Chalinze**	98	**Loliondo**
25	**Kibaha**	99	**Monduli**
26	**Kibiti**	100	**Handeni**
27	**Kisarawe**	101	**Korogwe**
28	**Mafia**	102	**Lushoto**
29	**Ifakara**	103	**Madaraka**
30	**Kilombero**	104	**Mombo**
31	**Kilosa**	105	**Muheza**
32	**Mahenge**	106	**Pangani**
33	**Turiani**	107	**Ngarenaro**
34	**Wami**	108	**Mawenzi**
35	**Mkuranga**	109	**Mkwakwani**
36	**Mt. Uluguru**	110	**Namanga**
37	**Mvomero**	111	**Himo**
LAKE ZONE		112	**Arusha Market**
38	**Bunda**	113	**USA River**
39	**Mugumu**	114	**Kilindi**
40	**Musoma**	**HIGHLAND ZONE**	
41	**Tarime**	115	**Ludewa**
42	**Geita**	116	**Mafinga**
43	**Kenyatta Road**	117	**Makambako**
44	**Magu**	118	**Makete**
45	**Misungwi**	119	**Mkwawa**
46	**Nansio**	120	**Njombe**
47	**Ngudu**	121	**Chunya**
48	**Sengerema**	122	**Ileje**

49	**Biharamulo**	123	**Kyela**
50	**Bukoba**	124	**Mbalizi Road**
51	**Kayanga**	125	**Mbarali**
52	**Muleba**	126	**Mbozi**
53	**Ngara**	127	**Mwanjelwa**
54	**Reginal Drive**	128	**Tukuyu**
55	**PPF Mwanza**	129	**Tunduma**
56	**Chato**	130	**Mpanda**
57	**Misenyi**	131	**Nkasi**
58	**Rorya**	132	**Sumbawanga**
59	**Buzuruga**	133	**Mount Loleza**
WESTERN ZONE		134	**Usongwe**
60	**Bariadi**	135	**Kilolo**
61	**Kahama**	**SOUTHERN ZONE**	
62	**Manonga**	136	**Litembo**
63	**Maswa**	137	**Mbinga**
64	**Mwanhuzi**	138	**Songea**
65	**Mwadui**	139	**KilwaMasoko**
66	**Igunga**	140	**Lindi**
67	**Mihayo**	141	**Liwale**
68	**Nzega**	142	**Nachingwea**
69	**Sikonge**	143	**Masasi**
70	**Urambo**	144	**Mtwara**
71	**Kasulu**	145	**Ndanda**
72	**Kibondo**	146	**Newala**
73	**Kigoma**	147	**Tunduru**
74	**Bukombe**	148	**Tandahimba**

Appendix II.Credit Accessibility

Variable.	Category.	Number of respondents.	Percentage (%) of the total sample (n).
Access to loan	Yes	45	90
	No	5	10
TOTAL		**50**	**100**
Amount Requested	Full	38	84
	On reduced balance	7	16
TOTAL		**45**	**100**
Difficulties in accessing Loan	Yes	6	13
	No	39	87
TOTAL		**45**	**100**
What are the difficulties	Lack of Collateral.		
	Business Registration.		
	Business Life (Short).		
	A/C with NMB.		
	Poor account turnover.		
Problems during loan Repayment	Yes	14	31
	No	31	69
TOTAL		**45**	**100**
What are the Problems	Poor Business Circulation	4	29
	Delayed in cleared goods at Dar es Salaam Port	7	50
	Stolen of Stocks	3	21
TOTAL		**14**	**100**

Source: Research field data, 2014

Appendix III.DodosokwaWateja (Binafsi).

Utangulizi.

Mwanachuowa Chuo KikuuMzumbe, ShuleyaBiashara Dar es Salaam anafanyautafitikuhusuvizuizivinavyowakabiliwaendeshamiradimidogonayakati (SME) katikakupatamikopokutokabenkizakibiashara Tanzania (MfanoBenkiya NMB PLC). Mwanachuoanafanyautafitihuuikiwanisehemuyakukamilishakutununikiwashahadayapili yamasomoyabiasharaya Chuo Kikuu Mzumbe. Tafadhaliunaombwauwehurukujibumaswaliyaliopokwenyedodosohiikwanihutajulikana, najinalakohalihitajiki. Unaombwakujazamajibukwenyenafasiiliyotolewa, ikiwanafasihaitoshiunawezakuandikanyumayakaratasi.

Taarifazoteutakazotoazitatunzwakwasirinazitatumikakwalengolililokusudiwatu. Natangulizashukranizadhati.

TaarifaBinafsi.

1. Jinsia

Mme	( )	0
Mke	( )	1

2. Umri

Chiniyamiaka 20	( )	0
20 – 30	( )	1
31 – 40	( )	2
41 – 50	( )	3
Zaidiya 50	( )	4

3. Kiwango cha elimu

Sijaendashule ( ) 0

Elimuyamsingi ( ) 1

Sekondarikidato cha nne ( ) 2

Sekondarikidato cha sita ( ) 3

Zaidiyakidato cha sita ( ) 4

Vinginevyoelezea ……………………….

TaarifayaBiashara

4. Umefanyabiasharahiikwamudagani?

Chiniyamwaka 1 ( ) 0

1 hadi 5 ( ) 1

6 hadi 10 ( ) 2

Zaidiyamiaka 10 ( ) 3

5. Umilikiwabiasharayakoniwaainagani?

Binafsi ( ) 0

Ubia ( ) 1

Kampuni ( ) 2

6. Mtajiwakuanziabiasharaulikuwashilingingapi?

Chiniyamilioni 5 ( ) 0

5,000,001 hadi 200,000,000 ( ) 1

200,000,001 hadi 800,000,000 ( ) 2

Zaidiya 800,000,000 ( ) 3

7. Fedhazauendeshajizilikuwashilingingapi?

Chiniya 1,000,000 ( ) 0

1,000,001 hadi 10,000,000 ( ) 1

10,000,001 hadi 50,000,000 ( ) 2

Zaidiya 50,000,000 ( ) 3

8. Idadiyawafanyakaziulioanzanao

Chiniya 5 ( ) 0

5 hadi 49 ( ) 1

50 hadi 99 ( ) 2

Zaidiya 100 ( ) 3

9. Chanzo cha mtaji

Nilijiwekeaakiba( ) 0

Ndugu/Marafiki( ) 1

Msaada( ) 2

Kukopakutokakwamarafiki( ) 3

Mashirikayakukopeshayasiyoyaserikali( ) 4

Taasisizaserikali( ) 5

Vyamavyakuwekanakukopa( ) 6

Bank ( ) 7

10. Ainayabiashara

Useremala/Mbao ( ) 0

Duka la Vitabu ( ) 1

Duka la NguonaMavazi ( ) 2

Hotel/Mgahawa ( ) 3

Duka la MadawaBaridi ( ) 4

Duka la bidhaazaUrembo ( ) 5

Duka la vyombovyaNyumbani ( ) 6

UsusinaUtengenezajiNywele ( ) 7

Duka la vifaavyaumeme ( ) 8

Duka la bidhaazaVyakula ( ) 9

Vinginevyo (elezea) ……………………………..

11. Uhalaliwabiashara

Halali ( ) 0

Si halali( ) 1

12. Biasharayakoinaleseni

Ndiyo ( ) 0

Hapana ( ) 1

13. Biasharayakoimesajiliwa

Ndiyo ( ) 0

Hapana ( ) 1

14. Majinayakondiyoyanayoonekanakwenyeleseniyabiasharayako

Ndiyo ( ) 0

Hapana ( ) 1

15. Umefanyabiasharahiikwamudagani?

…………………………………………………………

16. Niniuzoefuwakokatikaeneounalofanyiabiashara

…………………………………………….……………

17. (a) Unamkopo NMB

Ndiyo ( ) 0

Hapana ( ) 1

(b) Kama hapananiwapiumechukuamkopo ……………………….

(kwawalioombamkopotu)

Kama ndiyojibumaswaliyafuatayo

18. (a) Kiasi cha mkopoulioombaTshs…........…………….…………….

(b) Kiasi cha mkopouliopataTshs………......................……………

19. (a) Ulipataúsumbufukatikakupatamkopo

Ndiyo ( ) 0

Hapana ( ) 1

(b) Kama ndiyotajausumbufuulioupata

…………………………………………………………………………………

20. (a) Ulipatamatatizoyoyotewakatiwakurejeshamkopo

Ndiyo ( ) 0

Hapana ( ) 1

(b) Kama ndiyo,tajahayomatatizonayalisababishwananini

…………………………………………………………………………………

21. Mtajiwakokwasasanishilingingapi?

Chiniyamilioni 5 ( ) 0

5,000,001 hadi 200,000,000 ( ) 1

200,000,001hadi 800,000,000 ( ) 2

Zaidiya 800,000,000 ( ) 3

22. Mtajiwakowauendeshajikwasasanishillingingapi?

Chiniya 1,000,000 ( ) 0

1,000,001 hadi 10,000,000 ( ) 1

10,000,001 hadi 50,000,000 ( ) 2

Zaidiya 50, 000,00 ( ) 3

23. Mashartiganiuliyopewawakatiunaombamkopo

…………………………………………………………………………………

24. Ni dhamanaganiuliyowekailiupatemkopo?

……………………………………………………………….………………

25. Kufuatiaswali la 17 (b), elezeasababuzakutoombamkopo NMB

………………………………………………………………………………………….

Asante sanakwaushirikianonamudawako.

Appendix IV.Bank Staff Questionnaire

Introduction

This research project is being carried out to find the challenges facing Small and Medium Enterprises (SMEs) in accessing credit from Commercial Banks in Tanzania case of NMB PLC. The researcher is a student of Mzumbe University Dar es Salaam Business School, who is doing a research as the partial fulfillment of the requirements for the award of Masters in Business Administration – Corporate Management(MBA–CM) of Mzumbe University. Please answer the questions freely in the space provided.

You cannot be identified by information you provide as your name is not required. All the information you provide will be treated in the strict confidence and will be used sorely for academic purpose only.

Information related to Bank credit Policies.

Please put a tick √ in appropriate answer in the space provided (brackets)

Most Commercial Banks regards Low income household or small business as:-

i. They are too poor to save

Yes ( ) 0

No ( ) 1

ii. They are Difficulty to be identified

Yes ( ) 0

No ( ) 1

iii. They do not have business plan

Yes ( ) 0

No ( ) 1

iv. They do not keep written accounts

Yes ( ) 0

No ( ) 1

v. They have high credit risk

Yes ( ) 0

No ( ) 1

vi. They borrow small amount and uneconomical sum

Yes ( ) 0

No ( ) 1

For the following Questions kindly fill your answer in the space provided
If the space is not sufficient please write on the attached papers.

vii. What are your target markets

…………………………………………………………………………………

viii. What are the terms and conditions for SMEs Loans

…………………………..………………………………………………………

ix. What are the criteria for pricing/interest rate?

…………………………..……………………………………………………………

x. What are the eligibility criteria for SME loan applicant?

…………………………..……………………………………………………………

xi. Do you offer grace period to your customers?

Yes ( ) 0

No ( ) 1

If no go to question number xiii

xii. How long is the grace period? What conditions for it

……………………………….……………………………………………………………

xiii. Please explain reasons for not giving grace period to your SME customers

……………………………….……………………………………………………………

Thanks in advance for your time and contributions.

Appendix V.Interview Guide

Dear respondents,

I have a pleasure to conduct this interview with you as part of data collection to examine “Difficulties experienced by SMEs in accessing Credit from NMB PLC”. The interviewer is the student who is conducting a research as part of his dissertation submitted in the partial fulfillment of the requirements to fulfill completion for the degree of Masters of Business Administration (Corporate Management) of the Mzumbe University.

Please feel free to contribute your information as everything collected here will be strictly kept confidential and solely for academic purpose only. Hence your correct responses will enable the researcher achieve his intended objective.

a. How long have you been giving loans to SME customers in NMB PLC?

....

b. On average out of 10 applicants how many are failed to get SME loans

………………………………………………………………………………………

c. Please explain reasons for unsuccessful SME Loan application

………………………………………………………………………………………

d. For those who do not qualify how do help or advise?

………………………………………………………………………………………

e. Does your staff attend regular training on SMEs?

………………………………………………………………………………………

Thanks for your time and Cooperation.