THE EFFECT OF NMB FINANCING ON PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMES) THE CASE OF LINDI MUNICIPAL

By

Adam Medson Ntoga

A Dissertation Submitted in Partial/Fulfillment of the Requirements for Award of the Degree of Master of Science in Accounting and Finance (MSc A&F) of Mzumbe University

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **The Effect of NMB Financing on Performance of Small and Medium-Sized Enterprises (SMEs): The Case of Lindi Municipal,** in partial/fulfillment of the requirements for award of the degree of Master of Science in Accounting and Finance of Mzumbe University.

____

PROFESSOR SHRINIVAS MADISHETTI/ Major Supervisor

____

Internal Examiner

Accepted for the Board of……………………………….

____

DEAN, SCHOOL OF BUSINESS

DECLARATION

AND

COPYRIGHT

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

Signature ____________________________

Date__________________________________

ACKNOWLEDGEMENT

I would like to express my sincere thanks to the management and staff of National Micro-finance Bank (NMB) Lindi Branch and Lindi TRA Regional office for allowing me to use their documents and office in conducting research and makes this research successful. This study would have not been successful without the support of various individuals who in one way or another helped its accomplishment. It is however not easy to mention all the names of individuals who contributed much to the success of this study, Therefore few of them will be mentioned. First I would like to thank my supervisor Professor Srinivas Madishetti, for his advice, guidance and suggestions that are incorporated in this report. Special thanks go to all Small and Medium-Sized Enterprises from Lindi Municipal who participated fully in this study through completing my questionnaires and interview.

Finally I would like to appreciate the moral, financial and material support during my study from my loved wife Nyamuza, our children Levina and Alex. May God bless them all.

DEDICATION

I dedicate this work to my family, My Best Friends: Nsesheye Nkota, David Mugendi, and Rose Mutale. My Lecturers in the course of Master of Science in Accounting and Finance at Mzumbe University who gave me support when I was preparing this report.

LIST OF ABBREVIATIONS AND ACRONYMS

BOT	Bank of Tanzania
CRDB	Cooperative Rural and Development Bank
DSE	Dar es salaam Stock Exchange
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
KCBL	Kilimanjaro Cooperative Bank Limited
MFIs	Micro-Finance Institutions
MSE	Micro and Small Enterprises
MSMEs	Micro, Small and Medium-sized Enterprises
NBC	National Bank of Commerce
NEDF	National Entrepreneurial Development Fund
NMB	National Microfinance Bank
OECD	Organization for Economic Co-operation and Development
REPOA	Research on Poverty Alleviation
SEDOM	Small Enterprises Development Organization of Malawi
SIDO	Small Industries Development Organisation
SMEs	Small and medium-sized enterprises
SPSS	Statistical package for social science
TRA	Tanzania Revenue Authority
TZS	Tanzanian Shillings
UK	United Kingdom
URT	United Republic of Tanzania
USA	United States of America
VAT	Value Added Tax
WB	World Bank

ABSTRACT

The financing of Small and medium-sized enterprises (SMEs) have been a topic of great interest among both policy-makers and researchers because of the role they play. Objective of the study was to assess the effect of NMB financing on the performance of SMEs in Lindi municipal. It was observed that several studies have been conducted on the importance of SMEs for economic growth, but no specific study has been conducted on the effect of NMB financing on performance of SMEs in Lindi and their effects of financing were not known.

Simple random sampling technique was employed in selecting the 100 SMEs from the population of 400 Smes that constituted the sample size of the research. Structured questionnaires was designed and distributed to facilitate the acquisition of relevant data. Descriptive statistics in spss and excel were used as analytical tools. Pearson correlation was used to test the relationship between the NMB financing and the Smes performance, chi-square test also was used test the null and alternative hypotheses.

The findings of the study revealed that, the majority of the SMEs acknowledge positive contributions of loans towards their businesses and improved standard of living among family members.

Tax Policy implication in this study:

The tax regime in Tanzania is unfavorable for SMEs development; the present tax regime imposes a major burden on SMEs performance. The tax rates and compliance costs are the same for both the SMEs and large enterprises. Government should review the legal, tax structure and regulatory framework.

Future research

The study was focused on SMEs that operates in Lindi Municipal; the findings may not relevant in rural areas. Therefore, future research may be conducted in rural areas. The current research was on the effect of NMB financing on performance of SMEs, the future research may be conducted on the effect of commercial banks financing on performance of SMEs in all municipals in a country to broaden the scope in order to give a better picture.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

CHAPTER ONE

1.0. INTRODUCTION

1.1. Background

Small and medium-sized enterprises (SMEs) are the backbone of all economies by serving as a key source of economic growth, dynamism and flexibility in advanced industrialised countries, as well as in emerging and developing economies (Christen,1997). SMEs constitute the dominant form of business organisation, accounting for over 95% and up to 99% of enterprises depending on the country. They are responsible for between 60-70% net job creations in Organization for Economic Cooperation and Development (OECD) countries. Small businesses are particularly important for bringing innovative products or techniques to the market. Most large companies usually start as small enterprises, so the ability of SMEs to develop and invest becomes crucial to any economy wishing to prosper. For example, Microsoft may be a software giant today, but it started off in typical SME fashion, as a dream developed by a young student with the help of family and friends. For example, when Bill Gates and his colleagues had a saleable product were they able to take it to the marketplace and look for investment from more traditional sources (OECD, 2006).

Financing has been identified in many studies as the most important factor determining the survival and growth of small and medium-sized enterprises (SMEs) in both developing and developed countries(Ayyagari et al,2007; Iwodu,2010; Pietro et al ; 2012). Access to financing allows SMEs to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole. Poorly functioning financial systems can seriously undermine the microeconomic fundamentals of a country, resulting in lower growth of income and employment (OECD, 2006). Like other countries of the world, SMEs in Tanzania have the tendency to serve as sources of livelihood to the poor, create employment opportunities (contribution to job creation), generate income, and contribute to economic growth and social development (poverty alleviation).

SMEs have been recognized by several governments of developing countries to be the industry of supplying the resources to the extent that they now include them in their development plans. Despite increasing its roles, these enterprises are facing numerous obstacles that limit their performance, growth and development. Among the difficulties faced by SMEs, the access to finance is often reported as a major obstacle to the deployment and expansion of their activity. From theoretical point of view we have a number of financing models to the SMEs. Examples of these financing models includes: equity financing as external source, debt financing, corporate bond, venture capital and many other financing. The possibilities of SMEs for using equity financing are limited since the majority of these SMEs are privately managed. SMEs tend to be heavily reliant on commercial banks as a source of debt financing (Berry et al., 2002). Therefore from the above fact, my study was concentrated only on debt financing which are bank loans. The objective of this work was to assess the effect of NMB financing to SMEs performance which was not known.

1.2. Background of the study

The concept of the effect of financing SMEs for their operational performance in Africa and in the rest of the world is increasing from time to time. In Tanzania, the SME sector is an outcome of structural adjustment policy rather than design. In Socialism framework, the private business sector was actively discouraged in favour of public enterprises, which were government owned, community based, or cooperative owned ventures (Rugumamu and Mutagwaba 1999).To insist that, different regulations were introduced to restrict civil servants, government officials and political leaders to engage in business activities. Since almost all educated people were members of the civil service at that time, it is obvious that business activities were left to people who had no education at all. The reliance on government discretion in decision-making has resulted in a culture of dependency on government among most Tanzanian people to date (Rugumamu and Mutagwaba, 1999). In fact, this approach has contributed to the stifling of the development of entrepreneurial values such as the need for achievement, personal initiatives, creativity, willingness to take risks and related behaviours (Olomi, 2009). In 1967 after Arusha declaration, was followed by mass Nationalization i.e. all privately business entities were taken over by the government and all services became centrally provided by the government itself. However, nationalization of the private sector led to a poor economy marked by a number of macro-economic imbalances, and consequently, an economic crisis that lasted for over a decade (Kanaan, 2000). This crisis also led to the erosion of purchasing power among salaried people (Olomi, 2009). Thus, Tanzanian people were forced to establish small businesses (petty business) to supplement their meager incomes. Succumbing to pressure from the World Bank, the Tanzanian government changed its policy from a state-led economy to a market-driven economy. In fact, the final reform took place in 1991, leading to privatization of most public enterprises (Rutashobya and Olomi, 1999). The privatization of state enterprises and the disengagement of the government from some activities resulted in the retrenchment of salaried employed workers from the public sector and, as a result, most of these workers turned to micro enterprises for survival (Bagachwa and Maliyamkono, 1990; Olomi 2009). From the above experience, the SMEs sector nowadays has become a very significant topic in the Tanzanian economy.

"Finance is the oil for growth for SMEs. It is indeed the life-blood of the economic system. The financial system is the vessel that carries this life-blood through the economic system. Faulty vessels prevent the life-blood from reaching essential parts of the economic system". (Sowah N.K., 2003). According to the Informal Sector Survey of 1991, micro enterprises operating in the informal sector alone consisted of more than 1.7 million businesses engaging about 3 million persons that were about 20% of the Tanzanian labour force, and it was estimated that about one- third of the gross domestic product (GDP) originates from the SME sector. At present, unemployment is a significant problem that Tanzania has to deal with. Estimates show that there are about 700,000 new entrants into the labour force every year.

About 500,000 of these are school leavers with few marketable skills. The public sector employs only about 40,000 of the new entrants into the labour market, leaving about 660,000 to join the unemployed or the underemployed reserve. Most of these persons end up in the SME sector, and especially in the informal sector. Given that situation and the fact that Tanzania is characterised by low rate of capital formation, SMEs are the best option to address this problem- United Republic of Tanzania (URT, 2002). Other study revealed that, SMEs in Tanzania are estimated to contribute 30–35% of GDP and about 20–30% of the labour force (Mittah, 2009). There are approximately two million seven hundred (2.7m) Micro, small and medium-sized enterprises (MSMEs) in Tanzania; sixty percent of these are located in urban areas. Most (98%) of MSMEs are micro enterprises employing less than 5 people (Kashangaki, 2005). As shown in 1991 survey, SMEs contribution to GDP was about 33 % and in 2006 the GDP was 35 % which makes the difference of 2 % for fifteen (15) years with an average increase of 0.133 % per year. Also as reported that, every year there are about 700,000 new entrants into the labour force out of which 40,000 are employed in the public sector and 660,000 unemployed which represents 5.7 % and 94.3 % respectively.

Previous studies have highlighted the limited access to financial resources available to small enterprises compared to large organizations and the consequences for their growth and development (Levy, 1993). Empirical findings by Beck et al (2002) indicated that firms that reported being constrained by the need for special connections with banks have significantly lower rates of growth. Increasing access to financial services especially by the poor is an important for poverty reduction. Provision of micro-finance in the form of loans to the self-employed poor gives recipients a chance to start up small businesses and build them into enduring sources of steady income**.** In Tanzanian, SMEs have consistently cited the problem of finance as principal constraint on their development and growth. In survey of 136 small firms in Tanzania (Satta, 2003) found that 63% of them consider difficulties in accessing finance from financial institutions as the major constraint to their development.

From the background of this study, it motivates me to focus on the effect of the NMB financing on the performance of SMEs in Lindi.

1.3. Statement of the problem

It is observed from the background that inadequacy in financing is the major problem coming in the way of development of SMES in Tanzania in spite of number of financial institutions including commercial banks channelizing their funds to SME sector. It gives rise to two important issues one inadequacy in financing and other is whether the financing helping the SMEs in improving their performance. The first issue was addressed by many researchers but second issue is yet to be tapped adequately. The following aspects necessitated to take up this study:

It was understood through literature review banks and financial institutions do not prefer to lend to SMEs sector due high risk involved and uncertainty of recovery of funds. The interest cost is excelling the returns and failed to repay the loans keeping SMEs viability at stake. In the area of inadequacy of financing many studies were there and some of which are quoted in background of the problem but with regard to impact of financing on the performance peripheral studies are observed which motivated me to take up this study.

These aspects call for a separate study to enquire the impact of financing on the performance of SMEs based on some case study. For this purpose the case of NMB financing to SMEs in Lindi region and its effect on financial performance is taken up for this study. The bank and the region chosen for this study due to following unique features:

- Lindi region is one of the remote areas with poor infrastructure among all the regions in Tanzania.
- NMB bank as pointed out that, it is the largest bank in Tanzania, and it has one hundred forty three (143) branches over the country. While CRDB bank Ltd and NBC bank Ltd have eighty five (85) and fifty three (53) branches respectively.
- Even in Lindi NMB bank have more customers as compared to other commercial banks.

It was observed that several studies have been conducted on the importance of SMEs for economic growth in various countries, but no specific study has been conducted on the effect of NMB financing on performance of SMEs in Lindi and their effects of financing are not known. The similar studies which have been done in Tanzania includes: Kessy& Urio (2006), Contribution of microfinance Institutions to poverty alleviation to SMEs. The findings were that, there was a positive change in the standard of living of SMEs. But what other parameters like profit, sales, new employment, and investment, economy effect. Other study was conducted by Kuzilwa (2005). The role of credit for small business success: A study of the National entrepreneurship development. The findings was that, increased firm output. What particular kind of output was not mentioned? The study was therefore set to bridge this knowledge gap. The variables set under this study were: income/profit, sales, investment, employment, economy effect, socio-economic effect of the owners.

1.4.0. Objectives of the study

1.4.1 General objectives

The general objective of this study was to assess the effect of Bank Financing on Performance of Small and Medium-Sized Enterprises (SMEs) before and after financing which was conducted in Lindi Municipal.

1.4.2 Specific objectives

(i) To study and analyse the effects of NMB financing to SME's operational performance

(ii) To study the effects of NMB financing on socio- economic status of the borrowers (SMEs owners)

(iii) To assess the challenges that SMEs are facing on the availability of funds from NMB.

1.5. Research question

A research question is a concise, interrogative statement. In qualitative a research question leads in the direction of gaining a deeper understanding of the phenomenon under study (Brink, 2001:90, Shank, 2002:99). The research questions were designed to guide the study. Therefore, the research questions which were designed are as follows:

(i) What are the effects of NMB financing on SME's operational performances?

(ii) What are the effects NMB financing on socio- economic status of the borrowers?

(iii) What are the challenges that facing SMEs on the availability of funds from NMB?

1.6. Significant of the study

The research findings in future may be relevant with respect to the following facts:

1. The study may generate new knowledge to the researcher, other researchers and may add value to the business community as a whole.
2. The research may help to identify SMEs key risk areas and suggest ways to minimise in the future.
3. The expected results may help in solving the problem of SMEs performance with regard to access to financial services.
4. The research may assist the government to effectively implement the SMEs policy.
5. The study may help to bridge the research gap.
6. This study help or be used as reference to similar topics in future.
7. This dissertation is partial of the fulfilment of the award of Master Degree in Accounting and Finance of Mzumbe University.

1.7. Scope of the research

The study sought to find out the effect of NMB financing on performance of SMEs. The study was conducted in Lindi municipal and the study findings relate to the period between 2010 and 2011. The researcher made the contact to the following sections:

1. Head of NMB: to meet with Branch manager for familiarization of the branch activities.

2. The Finance department: to meet with Branch Accountant and
3. Staff officers(Loan officers) who were responsible for receiving and processing the application for loan

1.8: Organization of the Study

The study is divided into six chapters namely:

- Chapter one is the general introduction and backgrounds. It explains on the setup of small and medium-sized enterprises (SMEs) and it focuses on the effects of loans on SMEs performance and presents problems identified. It also presents the research objectives, research questions, scope of the research and significant of the study.
- Chapter two reviews literature related to the problem under study. It mainly reviews literature on Small and medium enterprises and access to finance.
- Chapter three elaborate about data collections and how and the data was analysed and interpreted with an assistance of SPSS
- Chapter Four: Presentation of the findings
  Focuses on the presentation of the data and analysis of the data collected.
- Chapter five: Discussions of the findings
- Chapter six: Summary, conclusions, and policy implications.

CHAPTER TWO

2.0. LITERATURE REVIEW

2.1: Introduction

In this chapter, the researcher presents the literature related to the interest of the study and how about the other authors and researchers have said; it covered the literatures on bank financing on performance of SMEs, conceptual definitions of various terms which are crucial in literature, critical theories of related subject which clearly shows related references of the subject, empirical studies which was considered various reports of related subject conceptual framework and hypotheses.

2.2. The profile of NMB bank Ltd

In, 1997 the National Microfinance Bank LTD incorporation Act established the National Microfinance Bank. NMB is the largest bank in Tanzania, both when ranked by customer base and branch network. With over 143 branches which are located in more than 80% of Tanzania's districts. This broad branch network distinguishes NMB from other financial institutions in Tanzania. NMB bank Ltd registered for Dar es Salaam Stock Exchange (DSE) on 6/11/2008. They are committed to sustaining and enhancing their branch networks in order to provide access to capital to citizens in all areas of Tanzania, including the most remote. The bank offers a wide range of microfinance and related services which are affordable to SMEs. Those services include:

- Micro and Small Enterprises (MSE) Loans

These are small loans to Micro and Small Entrepreneurs to expand small and sustainable business. Applicant can borrow from TZS 100,000 to a maximum of TZS 7,500,000

- Small and Medium Enterprises (SMEs) Loans

These are small and medium financing from TZS seven million five hundred thousand to TZS one billion depending on the size, nature and viability of the enterprise to be financed. The credit tenor / term depend on repayment capacity, anticipated cash flows, credit amount and credit purpose.

2.3. Conceptual Definitions

2.3.1 SMEs

The SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services. There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. SMEs are widely defined in terms of their characteristics, which include the size of the capital investment, the number of employees, the turnover, the management style, the location, and the market share (Louis et al, 2003). But in the context of Tanzania, SMEs are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million. (Tanzania SMEs policy, 2002)

2.3.2 SME's performance

It is also important to know the definition of the word performance so that one can know what it is and how it can be used.

According to Brown (1996), performance measures must focus attention on what makes, identifies and communicates the drives of success, support organization learning and provides a basis for assessment and rewards. On the other hand (West and Fair, 1996), define performance as a function of an organization's ability to meet its goals and objectives by exploiting the available resources in an efficient and effective way. (Stoner, 1989) adds that performance entrails effectiveness which refers to the firm's ability to serve and produce what the market requires at a particular time and efficiency, which means achieving the objectives at the lowest cost possible with highest possible benefits. (Balunywa, 1989) looked at performance in terms of competitive performance, financial performance, and quality of service, flexibility, resource utilization and innovation. Studies by (Whyte, 1991) show that performance can be measured at both organization and individual levels and this measurement is sometimes referred to as performance appraisal. He urges that organizations have desired potentials in terms of capacity attraction, market share and financial strength and that performance is the difference between those potentials and what has been achieved. For the purpose of this study, the researcher did not knew whether bank financing contribute to SMES performance or not. The researcher was wanted to find out the effect of the SMEs performance after bank financing.

2.4: Theoretical review of the study.

Various literatures from different authors and other scholars are being tried to explain the impact of financing to SMEs for their performance. In most developing countries, micro enterprises and small-scale enterprises account for the majority of firms and a large share of the employment. The relative importance of small business varies significantly across countries and within a given country, across stages of development over time. A comparative study of manufacturing firms by (Snadgross & Briggs, 1996) shows common pattern in the transformation of the size distribution of firms as industrialization by concluding that small-scale enterprises play a declining role as countries develop. (Sanda et al, 2006) comparing large and small firms' ability to create employment observed that small firms are relatively better at creation of employment opportunities. A crucial element in the development of SMEs sector is to access to financing, particularly to bank financing. SMES in developing countries contribute an average of sixty per cent of total formal employment in manufacturing sector. For African economies, the contribution of SMEs sector to job opportunities is even more important, taking into account the contribution of informal sector, SMEs account for about three-quarter of total employment in manufacturing: (Ayyagari et al, 2007, Pietro et al, 2012).

Financial and development assistance designed for SMEs in Bangladesh is a new and upcoming trend. In Bangladesh, both micro-finance institutions and banks were begun to realize the potential for SMEs designed new financial product for it. With the aim of generating employment opportunities through SME growth, Brac Bank launched a special SME lending scheme in 2002 in Bangladesh. Brac Bank in Bangladesh started providing credit to SMEs in recognition their special needs for their contribution in fostering growth, sustaining global economy recovery, generating employment and reducing poverty: (OECD, 2004, Mehnaz &Munshi, 2007). Employment generations by SMEs in Bangladesh after taking loans from Brac Bank are growing as indicated below:

Table: 2. 1. Employment status from 1985-2000 in Bangladesh

Year	1985-86	1990-91	1995-96	1999-2000
Employment (in thousands)	30561	50159	54597	58066

Source: Bangladesh Bureau Statistics, Labour Force Survey (2002)

The World Bank (2007), however, estimated that the SME contribution to employment generation was 39% in South Africa. China's SME sector contributed 78% to its total employment. However a recent study conducted by Abor and Quartey (2010) estimates that 91% of the formal business entities in South Africa are SMEs and that these SMEs contribute between 52 to 57% to GDP and account for approximately 61% of employment.

Table: 2.2. SME participation and contribution to the economy (selected countries)

Country name	SMEs	SMEs employment(% total)
Brazil	4,903,268	67.0
China	8,000,000	78.0
Egypt	1,649,794	73.5
UK	4,415,260	39.6
Ghana	25,679	66.0
India	295,098	66.9
Mexico	2,891300	71.9
Malawi	747,396	38.0
Russia Federation	6,891,300	50.5
United States	5,868,737	50.9
South Africa	900,683	39.0

Source: World Bank (2007).

The main argument for favouring SMEs in developing countries is that they are increasingly playing a strategic role in economic growth and development through their contribution in the creation of wealth, employment, and income generation. In more developed economies, the dynamic arguments for the existence of SMEs have been stressed in terms of their being more innovative and constituting a seedbed for the development of new firms. For example in Uganda, SMEs are increasingly taking the role of the primary vehicles for the creation of employment and income generation through self-employment, and therefore, have been tools for poverty alleviation. SMEs also provide the economy with a continuous supply of ideas, skills and innovation necessary to promote competition and the efficient allocation of scarce resources (Kasende & Opondo, 2003).

The SMEs have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potentials at low capital cost. The labour intensity of the SME constitutes over 90% of total enterprises in most of the economies and is credited with generating the highest rate of employment growth and account for major share of industrial production and exports (Government of India, 2007), and the rapid expansion of small enterprises in economies of developed countries in the 1980s and 1990s has created a widespread conviction that small, new ventures are the most important source of entrepreneurship and as a dynamic and innovative factor, they contribute directly to economic growth. However, the SMEs sector is faced with many constraints. Among them is the most pressing one known to be financing (Idowu. F. Christopher, 2010).

Small and Medium Sized Enterprises are the most common employers across the world. In 48 out of 76 nations covered in Ayyagari, Beck and Demirgüç-Kunt (2007), SMEs employed more than 50% of the formal workforce. In addition, (Ayyagari, Demirgüç-Kunt and Vojislav, 2011) find that small firms and mature firms have the highest levels of total employment and small firms and young firms have the highest rates of job creation. SMEs are a fundamental part of a dynamic and healthy economy.

Consequently, it is important to understand the different factors that can help or hinder SME creation and development (Veselin *et al.*, 2012).

Small businesses are started in developing countries at a considerably high rate as they make contribution to economic development.(Malcolm Harper, 1984) is of the opinion that income is the outcome of employment, employment generation, therefore, is the main goal of poor countries. The small business, according to Harper, has displayed a remarkable capacity to absorb unemployed. Traditional microeconomic theory treats finance as a corporate factor of production. Irrespective of firm size and age, finance is normally required for three standard uses, that is for capital investment (start up or expansion) in machinery and acquisition of premises (building), financing working capital during start- up or while expanding and purchase of operating materials. Implementation of entrepreneurial activity can only happen when these factors are in place; otherwise the activity has to be aborted. Financing factors of production can be undertaken from own savings (in the case of start ups), or external funds (for start ups and on-going businesses). Credit becomes important when internal sources of finance are inadequate for an envisaged entrepreneurial activity (Kristiansen, 2001). This role is particularly critical in the national efforts to eradicate poverty. SMEs also serve as a training ground for emerging entrepreneurs as well as forming the backbone of the indigenous private sector. Finance has been observed to be one of the important determinants of the small business success. Credit is an important source of finance for the businesses start or growth. For example, a number of support institutions have mushroomed in Tanzania since the onset of economic reforms in mid 1980, extending credit to SMEs, thus filling the gap left by commercial banks to large firm financing. Despite the relatively long experience with funding micro and small enterprises in Tanzania, little research has been conducted to assess the effect of such funding on the businesses(SMEs Development policy,2002). Lack of access to credit has been identified as one of the major constraints hindering the development of small businesses, and therefore the supply of entrepreneurial activities not just Tanzania, but in other developing countries (Bagachwa et al. 1993). Commercial banks have traditionally concentrated on lending mainly to large formal enterprises which posses collateral and, therefore, though to be risky.

Women World Bank (1995) estimated that worldwide, less than 2 % of low-income entrepreneurs have access to financial services. Despite the above starting statistics on the low rate of access to credit, there are some concerns that the role and importance of (institutional) credit in the dynamics of business growth may be overrated (Tomeck, 1998). Important questions are to what extent is lack or inadequacy of credit contributing to the low level or failure of entrepreneurial activities in Tanzania? Are enterprises that have not received credit within a given setting? What is the effect of credit on entrepreneurial activities and how can it be measured? These are both theoretical and empirical questions. Although the role of credit as a determinant for successful entrepreneurial activity may look obvious when using a partial analysis, the dynamics in the entrepreneurial process makes this role less obvious. The analysis of an entrepreneurial activity shows that finance does not in itself create economic opportunities. Rather it is entrepreneurial people who see ways in which they can generate income from situations, skills or contact or other push factors (Christen, 1997). It is in this context that the role of credit should be seen that financing enhances the ability of entrepreneurs to take advantage of these opportunities, thereby leading to success. Lack of it could lead to business failure. Entrepreneurial success could be defined in a conventional sense in terms of a profit's generation and growth in terms of employment, output, sales, etc over time. Through growth a firm can graduate from one size to a higher one. In addition, firms that are also realizing results like increased employment of family members, increased household welfare (increased access to education, health, better housing) and those that are able to survive under intense competition are also included.

2.5: Challenges Faced By SMEs in Tanzania

Despite the role played by SMEs in employment creation, income generation and poverty alleviation, and government effort to develop the sector, SMEs in Tanzania are currently faced with many serious challenges which act as a barrier to their emergency and growth. These barriers or challenges to the SMEs include: perception to risk, high interest rates, inadequate business skills, collateral, tax policy and transaction cost. These challenges are explained below:

1. **Risk perception**.

The enterprises are perceived as risky, in most cases, the death of the owner leads to the death of the business. This is because the majority of owners and the business are the same. Also another challenge for banks is to acquire information about the credit risk of the borrower, as borrowers have more information than the lender about the projects (Myers & Majluf, 1984). Existing contract theory argues that banks are not interested in offering credit to SMEs because it is particularly difficult to overcome information asymmetries and resulting screening, monitoring, and enforcement problems. Under asymmetric information conditions banks are uncertain about the future behaviour of the borrower in terms of repaying the loan.

Asymmetric information problem are more likely to occur when banks deal with SMEs due to higher opacity of these firms (Berger *et al.* 2001; Beck *et al.* 2004; Hyytinen and Pajarinen, 2008; Cole, 2004). Information asymmetry between SME borrowers and the banks is reflected in inability of the majority SMEs to provide up to date reliable financial information and realistic business plans, which increases the cost of lending that banks incur while dealing with these SMEs. Consequently limits the ability of banks to assess the creditworthiness of the individual SME borrowers. The argument of information asymmetry is supported by (Olomi, 2009) who emphasised that poorly compiled records and financial account coupled with inability of SMEs to properly express their knowledge about business opportunities aggregates the lack of adequate information in bank-SME credit transactions in Tanzania. Temu (1998) affirm that financial institutions in Tanzania are reluctant to finance small and medium firms for fear of default risk due to unreliable financial plans and records. (Satta ,2003; 2006) amplify this argument by pointing out the lack of adequate and reliable collateral, lack of appropriate instrument to manage risk, not being familiar with complicated information about SMEs and perceived risk make banks in Tanzania become unwilling to provide the much-needed finance to SMEs. Under these circumstances, literature shows that were information asymmetry exist banks will ration the supply of credit and in addition will tighten requirements such as collateral in order to protect themselves from likely opportunistic behaviour of dishonest borrowers.

2. Borrowing interest rate

Interest rate represents the cost of borrowing or the cost of obtaining money from the borrower's point of view. Those who are able to access credit are faced with high interest rates and short repayment periods making it very difficult to embark on any development or expansion projects. Interest rates tend to remove some of profits that are made in business that make loans to operate. From theoretical point of view it is expected that demand for credit is positively related to low interest rates charges. This is because if borrowers are charged lower it is easier for them to access and repay because will be having a low burden compared to high interest rate which motivates default and inability to run the business. There are several schools of thought regarding the interest rates like (Berger & Udell, 1996).

3. Business management skills

Managerial competencies are sets of knowledge, skills, behaviours and attitudes that contribute to personal effectiveness (Hellriegel et al, 2008). Managerial competencies are very important to the survival and growth of new SMEs. (Martin & Staines, 2008) found that lack of managerial experience and skills are the main reasons why new firms fail. The ability of managers to perform has a very important bearing on the performance of business. The sources of many managerial problems in SMEs are lack of education and professional training. SMEs generally lack of managerial adequacy and competence as most of them are controlled by managers who lack modern management techniques required by ever-changing markets and increasing intensity of competition. Today, owners/managers of small firms must be familiar with many aspects of management such as finance, personnel, production etc. Many studies indicated that entrepreneurs perform poorly in many areas of management such as bookkeeping i.e. poor and unreliable financial records which makes financial review difficult, marketing, costing, stock control, warehousing, production scheduling and quality control (Temtime & Pansiri, 2000).

4. Collateral

Cuevas et al (1993) indicates that access to bank credit by SMEs has been an issue repeatedly 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. Collateral requirement has been identified by many literatures like: (Aryeetey et al, 1994, Abor & Biekpe, 2006) the experience from Ghana as a factor affecting the demand for credit in SMEs. Most of the SME's lack sufficient collateral requirements compared to large firms. When businesses commence, there is hardly any collateral to present for obtaining financial aid. Lending without collateral to SMEs is extremely risky from the lender's viewpoint. In such 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).

5. Tax policy and transaction costs

According to Tomlin (2008), economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment, facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. Also high start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. Most SMEs feel they lack capacity to deal with governments in general. Costs of compliance are high and are seen as a threat to SMEs development. SMEs loan requirement are small so the cost of processing the loan tend to be high relative to the loan amounts. According to Cuevas et al. (1993) cost of transaction contributes to the inability of the SMEs to access finance.

From this study it revealed that, NMB Financing to SMEs has positive effect for new employments (job creations), more profit generations and sales (increase of tax base) and investment level. The findings therefore, conform to the data quoted from Bangladesh Bureau Statistics (1985-2000) and World Bank data (2007).

2.6 Empirical Review

2.6.1 Empirical Analysis of Relevant Studies Done Inside Tanzania

Kuzilwa (2005) conducted study on the role of credit for small business success in Tanzania. The main objective was to study the effect of special credit to small and micro enterprises on entrepreneurial activities. The research design used was ex-post facto research, in which it is systematic empirical inquiry in which the researcher cannot have direct control of variables because their manifestations have already occurred or because they are inherently not manipulated. This is involves of testing theories, hypotheses, identify behavioral phenomena and study conditions under which a phenomenon occurs. From this study the independent variables was identified as education, gender, size of the loan, while the dependent variable was small business performance.

The findings reveal that the output of enterprises increased following the access to the credit. It was further observed that the enterprises whose owners received business training and advice, performed better than those who did not receive training. He was recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily be accessed by SMEs. A knowledge gap is that the study was relating to special credit small and micro enterprises on entrepreneurial activities funded under National Entrepreneurial Development Fund (NEDF) in Tanzania through SIDO loan, but this study relate to the effect of bank (NMB) financing on performance of small and medium-sized enterprises (SMES) in Lindi. However the study employed both case studies and survey but this study employs case study (exploratory) design. My observation to the researcher is that, although the independent variables have been shown as contributors to SMEs success, but there is no proper analysis as to what extent to each variable has the effect in terms of performance. For example loan, the researcher said contributed good small business success. He did not analyse how much loan was applied for, how much was granted and what was the gap of the loan. Apart from knowledge gap stated above, part of the theory together with citation it is still relevant to this study and other studies.

Kessy &Urio (2006) conducted study on the contribution of microfinance Institutions (MFIs) to poverty reduction in Tanzania. The general objective was to find out the extent to which the microfinance Institutions contributes to poverty reductions in Tanzania and whether they meet the objectives of the policies that led to their establishment. The study was employing both primary and secondary data. The study covered four regions of Tanzania that have a high concentration of MFIs. These regions include Dar es Salaam, Zanzibar (Urban West Region), Arusha and Mwanza. In these four regions the study covered a total number of 352 SMEs supported by the selected MFIs and the SMEs were selected by random sampling. From the study, the findings were revealed that, to a large extent MFIs operation in Tanzania has brought positive changes in the standard of living of clients who received loans services because it reduce poverty through increased income and standards of living; empower women; develop the business sector through growth potentials. 83.1% of the surveyed micro and small enterprises revealed that their profits have increased after receiving the loan. My observation regarding the study is that, the coverage of the study was on the effect of the contribution of MFLs to poverty reduction in Tanzania, while my study was based on the effect of bank financing on SMEs performance in Lindi. Both studies stress the importance of equitable, sustainable individual economy, national economy growth and improvement of the people's welfare.

Mwinyimvua (2002) conducted study on Policy issues and SMEs development in Africa. It is recognized that the private sector plays a development role as a key engine of growth and that growth is the most powerful weapon in fighting poverty. SMEs are important in providing goods and services and opportunities for employment for unemployed and the second source of income for formal sector employees. It is estimated that SMEs employ over 20 per cent of the adult population in developing countries (Kayanula & Quartey, 2000). To be able to apply new methods and expand, firms need finance or capital. Lack of access to capital is one of the major constraints in SMEs development; this is because of poor domestic SME's policy and regulatory environment. Although capital may not by itself solve all the key problems of SMEs, most developing country entrepreneurs, especially those in Africa, say it is their number one need (World Bank 2001; Batra et al 2002). In Tanzania, for example a survey of SMEs in the furniture industry found that lack of access to finance is a binding constraint for all SMEs. Not only is informal financing limited for the small firms even firms of adequate size and experience have difficulty borrowing from banks, and if they do borrow, have difficult relations with their lenders (Levy, 1993).

The difficulty of accessing finance by business enterprises was also noted in a year 2000 survey of 248 manufacturing establishments in Tanzania (Mbelle, 2001). The survey found SMEs to be more disadvantaged than large-scale enterprises in accessing finance, with 80.6 per cent of SMEs indicating that they find it difficult to access finance compared with 61.5 per cent for large-scale enterprises. Increased SME growth has direct effect on GDP growth to increased output, value add and profits. As growth proceeds, private sector employment becomes the major source of economic support for the majority of workers and their families. One of the best ways to build the private sector is from the bottom up, focusing on small-scale enterprises, which hold the promise of providing a base for the emergence of dynamic and efficient large-scale firms and consequently a more flexible and competitive domestic economy. This means listening to their concern, identifying their biggest obstacles, and helping them compete in an increasingly global economy (World Bank, 2001). The researcher recommended that, Government should provide stable business environment, improving the legal and regulatory system, reducing bureaucratic procedures, dismantling trade barriers and reforming the tax system.

According to research which was conducted by Massawe (ILO, 2002), it was revealed that the small and medium-enterprises (SMEs) sector is one of the leading employers (next only to peasant agriculture) in Tanzania. It is estimated that there are over one million enterprises in this sector, employing between 3 and 4 million people or 20-30 per cent of the total labour force. The SMEs sector is considered to have the brightest potential for making the highest contribution to employment growth and increased at 10 per cent per annum. Operators are able to generate between 2.5 and 10 times the minimum earnings of civil servants. The SMEs have also shown great potential for creation wealth. Their aggregate contribution to national income is estimated at 35 and 40 per cent of GDP (Finseth, 1998). SMEs are generally regarded as the driving force of economic growth, jobs creation, and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved (Harris & Gibson, 2002, Sauser, 2005).

In accordance with the research which was conducted by Makombe, Iddi (2004) on the case study of Women micro and small Entrepreneurs. Entrepreneurship development should be empowered through financing, in this case, micro and enterprises can serve vital development functions in Africa countries (including Tanzania). His findings were supported by Levitsky (1993) through the following functions: to help generate employment by using more labour in relation to capital invested, to act as seedbeds for entrepreneurial talent, to operate in less than populated rural areas with limited markets and poor infrastructure, to be able to start up with very limited resources, to provide 'hands on' training facilities for people of varying levels of education in both management and technical skills, to supply both low-cost items for poor and, in certain circumstances, high cost quality products for the rich and for export. Their flexibility enables them to weather recession, material shortage and market changes. When translate into reality, it is found that the economic functions of micro and small enterprises support an increasingly large proportion of the population of many countries of the south.

Asanterabi (2009) conducted research on the role of Kilimanjaro Cooperative Bank Limited (KCBL) in the Growth of Micro, Small and medium Enterprises. Data were collected from staff and clients of Kilimanjaro Cooperative Bank through questionnaires, interviews and documentary review methods. The total sample size was 100 respondents from Moshi Municipality. Statistical package for social science (SPSS) software was used in the data analysis. Results show that all financial indicators (sales, investment and employment level) grew, though finance from KCBL had significant effect on employment level. The findings also shows that most of the respondents who participated in the study were male (57%), the remaining of 43% were female and that majority (54%) of SMEs who obtained finance from KCBL was doing retail businesses.

2.6.2 Empirical Analysis of Relevant Studies Done Outside Tanzania

Trisha (2011) conducted a study in Ghana. The general objective of his study was to investigate the contribution of loans to SMEs performance. The bank financing is tremendously attractive and seems to be realistic and a more reliable source to SMEs. Mensah (2004) stated that recently, as banks and other financial institutions have sought to broaden their loan portfolio, SMEs have become an increasingly attractive customer group. Thus, it is necessary to examine the impact of these loans on the performance of SMEs. Are they having negative or positive impact on their performance? Traditionally, however, financial institutions in Ghana have been cautions with lending to SMEs groups because of high default rates and risks associated with the sector. Few banks have therefore developed an explicit policy for SMEs target groups taking the particular requirements and needs into consideration, an example in the development of customized financial products and appropriate credit management system. Inferring from the above, SMEs serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute to economic growth at the individual level as well as national level.

It should be noted that, the largest companies over the world usually started as small enterprises, so, the ability of SMEs to develop and invest becomes crucial to any economy wishing to prosper. However data was collected from both primary and secondary data. The secondary data was collected from Stanbic bank. A total of 100 SMES were sampled during the research work for analysis. The SMEs were randomly and equal selected to represent the population. The result of findings was that, ninety per cent (90%) of customers have access bank loan while ten per cent (10%) do not. Furthermore, 96.3 % of the respondents indicate that, the loan have improved the overall performance of SMEs while 3.7 % did not improved the performance. The knowledge gap is that the study was conducted in Ghana and the research covered the whole SME industry in Ghana since one SME was picked randomly from each sector. Thus, the study was representative of the whole

Ghanaian industrial sector while this study will be conducted in Tanzania and will focus only in one regional which is, Lindi Municipal.

From the above analysis it can be said that 10 % of the respondents did not access the bank loan, the reason may be the conditionality of collateral/guarantee. But the researcher did not disclose this observation. Also 3.7 % of the respondents indicate that, after bank loan they did not improve the performance of SMEs. Here two possible reasons can be deduced, one may be the respondents are lacking business skills (knowledge of the business) as well as managerial skills. Second, loan secured may be was diverted to other use such as to finance other project contrary to the contract entered. Again the researcher did not disclose such possibilities.

Idowu (2010) conducted study in Nigeria on the impact of microfinance on SMEs. The objective of the study was to assess the impact of Microfinance on Small and Medium Enterprises (SMEs) in Nigeria. Simple random sampling technique was employed in selecting the 100 SMEs that constituted the sample size of the research. The study utilized primary sources of data in which structured questionnaires were extensively used. Structured questionnaire was used to facilitate the availability of relevant data which was used for analysis. Descriptive statistics which involves simple percentage graphical charts and illustrations was applied in data presentations and analysis. It was found that 92% of the total respondents claimed that they able to access to microfinance loans and achieved their goals between 70%-100%. The findings of the study reveal that significant number of the SMEs benefitted from the MFIs loans even though only few of them were capable enough to secure the required amount needed.

Interestingly, majority of the SMEs acknowledge positive contributions of MFIs loans towards promoting their market share, product innovation achieving market excellence and the overall economic company competitive advantage. Other than tax incentives and financial supports, was recommended that Government should try to provide sufficient infrastructural facilities such as electricity, good road network and training institutions to support SMEs in Nigeria.

The research which conducted by Kanyugi, I. Ndegwa (2010) based on the impact of Micro-Finance Credit on the Financial Performance of SMEs in Kenya. The objective of the research was aimed at investigating the impact of micro-finance credit on the financial performance of SMEs in Kenya. From the study findings, it was concluded that, access of credit by SMEs from Micro-Finance Institutions (MFIs) greatly influences their performance. The conclusion is supported by the results from the various descriptive statistics. The descriptive statistics on net profit indicate that the net profit after access of credit from MFIs was more than the net profit before access of credit.

According to a research conducted by Stokes (1997), it was revealed the importance of financing to SMEs in USA and UK for individual economic growth as well as national economy. He linked his research with the Bolton Report (1971), in view of the actual and potential contribution of small firms to the overall health of the economy that was created a small division under a Ministry for small Firms. This was implemented by the establishment of the Small Firms Service within the Department of Industry in UK. The particular concern of the report was that Government policies should encourage and support the sector, not accelerate its decline through an unfair burden of regulations, paper work and taxes.

We believe that the health of the economy requires the birth of new enterprises in the substantial numbers and the growth of some to a position from which they are able to challenge and supplant the existing leaders of the industry. This seedbed function, therefore, appears to be a vital contribution of the small firms sector to the long-run health of the economy. The growth in employment in the USA between the mid 1960s and mid 1980s was phenomena, Bolton report (1971).

The World Bank has undertaken studies of small-scale enterprises (SSE) that they financed, attempting to measure the performance of such projects. Focus has been mainly on enterprise investment but not additionality attributable to the loan (Levitsky 1988). Bolnick and Nelson (1990) have attempted to use survey data of more than 1,500 enterprises in Indonesia collected between 1979 and 1982 and looked at the changes in these enterprises. The study used a restricted domain and simply shows what happened to a narrowly defined group of enterprises financed by special credit programme in Indonesia called KIK/KMKP. They focused on assessing the effect of credit on investment (value added) income and employment. Their findings were that credit does lead to an increase in investment.

Ryan (1993) adopted Bolnick and Nelson's (1990) approach and conducted an ex post evaluation of one financial source for small businesses, Small Enterprises Development Organization of Malawi (SEDOM). He used a survey method (covering 50 firms) to assess the impact firms that have received term loans from SEDOM. In assessing the impact Ryan, in addition to other effects, looked at whether or not the enterprises achieved the objectives listed as objectives of the schemes. The variables used reflecting the objectives of SEDOM were employment generation, technology employed and linkages. The results of the study showed that the scheme as a whole created about 1,873 jobs at a relatively low cost of Malawian Kwacha 1,000 per job. The study also found out that significant backward linkages to the agricultural sector were created as a result of manufacturing firms receiving loans.

Table 2. 3: Summary of variables from other studies

Author	Focus of the study	Variables	Methodology	Findings
Joseph. Kuzilwa, 2005	The role of credit for small business success: A study of the National entrepreneurship development	Education, size of the loan, gender,	The study was involved both the case study and survey with total population of 1032. Sample of 250 clients was randomly selected from three regions with the cluster of twenty regions	Two key results: 1.Access to credit had increased firm output 2.Enterpreses whose owners received business training perform better than those who did not trained
Kessy & Urio, 2006	Contribution of microfinance Institutions to poverty reduction		The survey employs both primary and secondary data. It covered four regions 352 SMEs which was selected at randomly	Positive changes in the standard of life of the clients who received loans. 81.3% of the surveyed SMEs revealed that, their profit has increased after receiving the loans.
Trisha, Kweenua Quianoo, 2011	Examining the impact of loans on SMEs in Ghana	Loan, sales, returns, profits, stock levels	Population of 303 comprised all SMEs who keep accounts with bank. Simple random sampling techniques was employed in selecting the 100 SMEs	96.3% of the total respondents indicated that the loans improved the overall performance of their firms includes: sales, returns, profits and stock levels.
Idowu, F. Christopher, 2010	Impact of microfinance on SMEs in Nigeria	Loans, sales, market share, profit	The study utilizes primary sources of data in which structured questionnaire were extensively used. To constitute sample size out of the population of the study, simple random sampling technique was used to select 100 SMEs operators in Nigeria.	Significant number of the SMEs benefitted from the MFIs loans even though only few of them were capable enough to secure the required amount needed. Interestingly, majority of the SMEs acknowledge positive contributions of MFIs loans towards promoting their market share, product innovation achieving market excellence and the overall economic company competitive advantage.

Source: extracted by researcher, 2012

2.7.0. Conceptual Frame Work Model

2.7.1 Conceptual framework model

The conceptual framework of the study is the system of concepts, assumptions, expectations, beliefs, and theories that supports and informs your research. Miles and

Huberman (1994) state that a conceptual framework “explains, either graphically or in narrative form, the main things to be studied the key factors, concepts, or variables—and the presumed relationships among them” (p. 18). Thus, the conceptual framework is a formulation of what you think is going on with the phenomena of this study. In this study we developed a conceptual framework on the effect of NMB financing on performance of SMEs from various SME’s performance theory. The focus of this conceptual frame work is to examine the relationship between the independent variable, in this case was NMB financing and dependent variables in this case the SMEs performance.

The performance of SMEs depends on NMB loan. The results of such performance are income/profit, sales, investment, employment, economic effect, owner’s development, and social affairs. To achieve positive results there must be intermediate variables such as adequate amount of the loan, timely availability of the loan, proper management of the loan (utilization of loan), reasonable interest rate, fewer requirements of collateral and bureaucracy.

2.7.2. Variables of the study

Independent variables

An independent variable is the variable researcher has control over, what researcher can choose and manipulate. It is usually what researcher think will affect the dependent variable. In some cases, researcher may not be able to manipulate the independent variable. It may be something that is already there and is fixed, something researcher would like to evaluate with respect to how it affects something else, the dependent variable (Patton, 1990).

Dependent variables

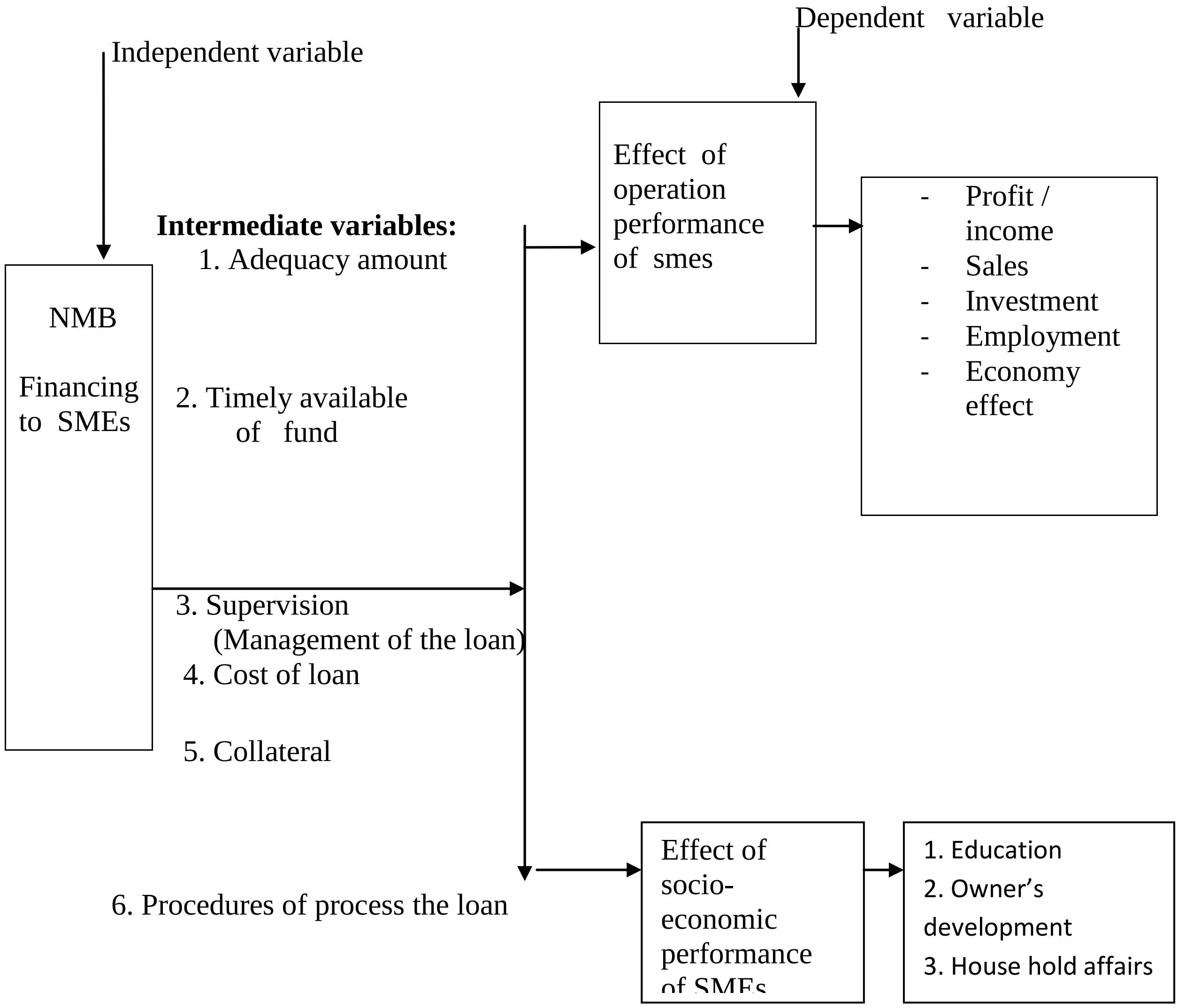
A dependent variable is what researcher measure in the study and what is affected during the study. The dependent variable responds to the independent variable. It is called dependent because it depends on the independent variable (Patton, 1990). In this study the performance of SMEs will be considered as dependent variable.

On the other hand the following are the dependant variables:

1. Effects of operation performance of SMEs, further, the effects of operation performance are divided into: profits, sales, investment, employment and economic effect.
2. Effect of social performance which includes: education, health care and family household affairs

Figure: 2.1: Conceptual Frame Work Model:

The effect of NMB financing on performance of SMEs



Source: Designed by researcher, 2012

Conceptual framework designed acts as the road map of this study.

The key concepts which are applied through out of the study are NMB financing and SMEs performance.

(a): Effects of operation performance of SMEs, further, the effects of operation performance are divided into: profits, sales, investment, employment and economic effect.

The above effects of operation performance of the SMEs are narrated as follows:

- **Profit/income generation**

Profitability is the universally recognised as a measure of business success. Business profit is considered as one of the key performance indicators which facilitate entrepreneurial success by providing for the nourishment of competencies such as innovativeness and ability to acquire resources. These competencies are regarded as imperatives to success in many entrepreneurial ventures. Given that entrepreneurship has been defined as the creation of rents through innovation (Steward, 1991), where rents are defined as above average earnings relative to competitors (Norton, 2002), then profitability measures particularly appealing. Therefore under this study therefore the researcher was examined and assessed whether or not the bank financing has influenced the SMEs profit generation or not after utilization of loan.

- **Sales**

In order to enlarge business though working capital, the SMEs need to request bank loan. Sales data are usually readily available and business owners themselves attach high importance to sales as an indicator of business performance. In addition, sales growth is also easier to measure compared with some other indices and is much more likely to be recorded. Sales are a good indicator of size and growth. Sales may also be considered a precise indicator of how a firm is competing relative to their market (Barringer *et al.*, 2005). Under this study, the researcher was investigated the sales volume before and after the bank loan.

- **Investment**

The consideration was focused on the level of investment attained. Addition of investment may include start of new business which is different from what an entrepreneur is doing or open branch or purchase of new machines or working tools for the purpose of efficient running or furtherance of the business. The researcher investigated on whether there was addition or expansion of investment after utilization of NMB loan.

- **Employment**

One of the most important functions small and medium-sized enterprises (SMEs) perform in economy is their ability to create new jobs. Conditions of SME growth became one of the focal interests of both researchers and the government's policy aimed to support this sector in creation of new employment among family and non-family members. For this study the researcher was examined whether there were new recruitment employees or shop assistant after the utilization of bank loan. That is to say, number of workers employed by the business before and after utilization of the bank loan.

- **Economic effect**

SMEs are vital for economic growth and development in both industrialised and developing countries, by playing a key role in creating new jobs. Financing is necessary to help them set up and expand their operations, develop new products, and invest in new staff or production facilities. As we have noted from the theoretical point of view that, if SMEs are adequately financed by NMB bank, they are able to generate new business, new employments and generate profits. Growth of SMEs increases the tax base by paying various taxes to Tanzania Revenue Authority (TRA) like individual taxes; corporate taxes value added tax (VAT) and employment taxes. Through the increase of tax base enables the government to finance labour market programmes and provide basic social services, in particular health and education, which give the poor a better chance of increasing their productivity and income earning capacity. By so doing, that they can raise the economy of a country as well as GDP. Under this study therefore, the researcher was interested to investigate whether the NMB financing has positive effects as explained above or not.

(b): Effect of socio-economic performance

The role of SMEs is to improve the standard of living of the populace and transforming the economy of a nation at large. It aims at improving people's lives by promoting social changes. Social services or non-financial services that focus on advancing the welfare of SMEs and this includes, Enhancing SMEs through financing can enable to solve some of the social problems (Mair and Marti, 2006, p.36). The social service which was considered under this study includes: education, health care and family household affairs. The researcher examined and assessed before and after bank loan, was there any improvement or not? Do they able to afford social services costs? E.g. like payment of school fees, medical expenses, improvement quality of life of family members, for instance building a modern family house from business profit. However, in order the above variables to work properly there must be control variables, for example supervision of the loan, timely availability of the loan, adequate amount of the loan and cost of production

2.7.3. Hypothesis

A hypothesis is a speculation about one or more variables that can be tested to see if it holds true. Hypothesis is a possible answer to the research question. Hypothesis comes from the theoretical propositions and management strategy and tactics. The idea is to seek answers only to questions or assumptions that managers are making or will make. Hypothesis states what we are looking for and it is a proposition which can be put to a test to determine its validity .One research question may generate several hypothesis; they are not consistent with each other. Variables which will be developed under this study are to seek the relationship between effect NMB financing and the SMEs performance. In this case the independent variable will be NMB financing to SMEs while the dependent variable will be effects of operation performance of SMEs which in turn will produce profit, sales, investment, employment, economic effect, technology, social affairs including education, health care etc. Under this study, the researcher developed two types of hypothesis which are null hypothesis and alternative hypothesis. A null hypothesis (Ho) is the one which seeks to reject the results of finding. An alternative hypothesis (Ha) is the one which seek to accept the results of findings.

1. Hypothesis I

H_a: NMB financing have positive effect on the operation performance of SMES.

H_o: NMB financing have no positive effect on the operation performance of SMEs.

2. Hypothesis II

H_a: There are positive effects NMB financing on social economic status of the borrowers.

H_o: There are positive no effects NMB financing on social economic status of the borrowers

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

Research methodology is a way to systematically of solving the research problem. It may be understood as a science of studying that how research should it be done. The purpose of this chapter is to discuss the methodology that will be used to collect data and analyze .It is also shows the area of the study, research design, population and sampling methods. The research was descriptive in nature and was employed the survey method in assessing the impact of bank financing on SMEs development in Lindi Municipal. In order to effectively conduct a valid analysis in the presentation and analysis of the data, the data was collected on the research field. The study was utilised both primary sources of data and secondary data. The purpose was to generate data about the opinion and perceptions of SMEs owners in relation to the effectiveness of bank loans to the performance of their businesses. Thus, in addition provides means of analyzing the likely impact of Microfinance loans on SMEs. To constitute sample size out of the population of the study, simple random sampling technique was used to select 100 Small and Medium Enterprises operators in Lindi and three (3) NMB staffs to make a total of 103. All the SMEs were served with questionnaires together with those of NMB but with different questionnaires. The concept of simple random procedure allows unbiased sampling and accords the research work more scientific feature, thereby concretizing the validity of the research findings.

3.2 Research design

The research design is the conceptual structure within which research is to be conducted; it constitutes the blueprint for the collection, measurement and analysis of data. Research design stands for advance planning of the methods to be adopted for collecting the relevant data and the techniques to be used in their analysis, keeping in view the objective of the research. The design helps the researcher to organize his ideas in a form whereby, it was possible for him to look for flaws and inadequacies.

Such a design can even be given to others for their comments and critical evaluation. In the absence of such a course of action, it will be difficult for the critic to provide a comprehensive review of the proposed study (Kothari, 2004). The research design was prepared to facilitate study at NMB-LINDI, being the study. The survey design was involved the collection and analysis of data, and finding out the answers concerning the current status of the study. This was comprises observation of facts, collection and classification of data, interpretation of data, application of facts and predictions.

- **Population**

Polit and Hungler (1999:43) define population as the totality of the all subjects that confirm to a set of specifications, comprising the entire group of persons that is of interest of the researcher and to whom the research results can be generalized. In this study, the population of Lindi municipal was 400 SMES those with NMB term loans.

- **Sample**

A sample is a finite part of a statistical population whose properties are studied to gain information about the whole (Webster, 1985). When dealing with people, it can be defined as a set of respondents (people) selected from a larger population for the purpose of a survey. Under this study the researcher was employed simple random sample in which each unit in the population has been an equal chance of being selected. In this study, therefore the sample is 100 SMES drawn from the population (25 per cent of 400 SMEs) and a sample of 3 drawn from NMB staffs. The focus however was on SME clients with loan facilities, since the objective of the study was to investigate the effect of loans on SMEs performance. Although sample selection was randomly but researcher was tried to make it gender sound, where by population of male and female interviewee was considered. Interview in this research was not considered marital status, nationalism and age but will consider business of interviewee.

Table 3.1: Composition of the sample

Name of the ward/NMB	Number of SMES as population	Sample
Mwenge	100	25
Town centre	240	60
Mpilipili	60	15
NMB Brach manager	-	1
Two NMB loan officers	-	2
Total	400	103

Source: Extracted by researcher, 2012

3.3. Sources of data required

During the field work, both primary and secondary data was used by the researcher. Primary data are those data which are collected a fresh from the respondents and for the first time and thus happened to be original in character (C.R.Kothari, 2004). Therefore Primary data are original works of research or raw data without interpretation or pronouncements that present on official opinion or position. These can either Interview, or Questionnaire.

Secondary data these are data already in existence and were obtained through Annual reports from organization’s documents. But for facilitating the exercise the data under this category was those from the list of loan applicants.

3.4 Questionnaire

A questionnaire was the major instrument which was used in collecting of the data. The researcher was prepared set of questionnaires in order to get a standard form of answers or response. The researcher was sent the questionnaires to the person concerned with request to answer the questions and return back to him. This is because it is free from the bias of the interviewer; answers are in respondent’s own words. Respondents have adequate time to give well thought out answers. Quite often questionnaires are considered as the heart of a survey operation (Kothari, 2004). A questionnaire should be structured into different modules, each covering a certain topic. The less sensitive topics should be placed at the beginning, usually we begin with the demographic info and the most difficult questions should be raised about 15 to 20 minutes into the interview (Mapesa, 2012). Hence it should be very carefully constructed. If it is not properly set up, then the survey is bound to fail. This fact requires us to study the main aspects of a questionnaire i.e. the general form, question sequence and question formulation and wording. The researcher used the following approaches: open-ended questionnaire which gave respondent the chance and freedom to express his /her view the way he/she want, closed ended questionnaires which requires a “yes” or ” no” answers only, multiple choice questions and dichotomous questions

- **Questionnaire Design**

The questionnaire design was based on the Effects of NMB financing on the performance SMEs. Questionnaires are standardized form for collecting data from respondents for the purpose of Measurement. It contains questions that were asked in the same way to all respondents, with answers usually being recorded as numbers using standardized sets of response categories. Questionnaires designs are more of an art than a science. The phrasing of a question determines whether the researcher and the respondent interpret the meaning of the question in the same way. The questionnaire consisted of closed items, which aided understanding and simplified the analysis of data. The questionnaire items which these researchers used were standardized, and hence were valid and reliable enough to address issues of NMB financing on the performance SMEs in Lindi municipal.

- **Interview method**

Interview involves presentation of oral-verbal stimulus and in terms of oral-verbal responses. A structured questions schedule was developed to generate the required data. Structured interview involve the use of a set predetermined questions and highly standardized techniques of recording. The method will be used through personal interviews. The Interview was developed in Kiswahili, a Tanzanian national language which is commonly spoken by nearly everybody in the country and later was translated into English. The purpose of this type interviews was to identify a wide range of interviewee concerns and interests.

3.5 Data Processing and Analysis

Data and all the information that was collected was organized in manageable and meaningful forms through data cleaning, simple editing, coding, checking and comparing the information to have the relevant information that was used to draw valid conclusions (Kothari, 2004).

Editing

Editing of data is a process of examining the collected raw data (especially in surveys) to detect errors and omissions and to correct these when possible. Editing was done and entered in spss to assure that the data were accurate, consistent with other facts gathered, uniformly entered, as completed as possible and have been well arranged to facilitate coding and tabulation.(Kothari, 2004).

Coding

Coding refers to the process of assigning numerals or other symbols to answers so that responses can be put into a limited number of categories or classes (or assigning a code, usually a number, to each possible response to each question.. Coding was necessary for efficient analysis and through it the several replies was reduced to a small number of classes which contain the critical information required for analysis. The questionnaires collected was coded in spss that enabled the researcher to run the analysis.(Kothari, 2004).

Classification

Most research studies result in a large volume of raw data which must be reduced into homogeneous groups if we are to get meaningful relationships. This fact necessitates classification of data which happens to be the process of arranging data in groups or classes on the basis of common characteristics. Data having a common characteristic are placed in one class and in this way the entire data get divided into a number of groups or classes (Kothari, 2004).

Tabulation

When a mass of data has been assembled, it becomes necessary for the researcher to arrange the same in some kind of concise and logical order. This procedure is referred to as tabulation. Thus, tabulation is the process of summarising raw data and displaying the same in compact form (i.e., in the form of statistical tables) for further analysis. In a broader sense, tabulation is an orderly arrangement of data in columns and rows. The researcher was used both qualitative and quantitative techniques in this area of the study.(Kothari, 2004).

3.6 Quantitative data analysis technique

- **Qualitative and quantitative data analysis**

Quantitative data is collective data that can be measured by numbers .The quantitative data was used to enable the researcher to concentrate on measuring phenomena which was involved in collecting numerical data and analyzing through statistical tools.

Qualitative data refers to all non-numeric data or data that have not been quantified and can be a product of all research strategies (Mark Saunders et al, 2009). Basing on the computation which was available from quantitative analysis, the researcher was used qualitative techniques in order to analyze the data collected so as to give the required meaning, picture and feeling by using proper interpretation.

3.7 Measurements of variables of the Study

Measurement means assigning numbers or other symbols to characteristics of objects according to certain pre-specified rules.(Kothari, 2004). The researcher was assisted by Statistical Package for social science (SPSS) software and Microsoft Excel for all the analysis of the data. The researcher has chosen SPSS because it can take data from almost any type of file and use them to generate tabulated reports, charts, perform descriptive statistics and conduct complex statistical analyses. The data analysis was employed various techniques of measurements scale variables such as nominal, ordinal, interval and ratio:

(a) Nominal scale: Nominal scale is simply a system of assigning number symbols to events in order to label them. There is no generally used measure of dispersion for nominal scales. Chi-square test is the most common test of statistical significance that can be utilized, and for the measures of correlation. Nominal scale is the least powerful level of measurement. It indicates no order or distance relationship and has no arithmetic origin. A nominal scale simply describes differences between things by assigning them to categories (Kothari, 2004).

(b) Ordinal scale: The lowest level of the ordered scale that is commonly used is the ordinal scale. The ordinal scale places events in order, but there is no attempt to make the intervals of the scale equal in terms of some rule. Thus, the use of an ordinal scale implies a statement of 'greater than' or 'less than' (an equality statement is also acceptable) without our being able to state how much greater or less (Kothari, 2004).

(c) Interval scale: In the case of interval scale, the intervals are adjusted in terms of some rule that has been established as a basis for making the units equal. The units are equal only in so far as one accepts the assumptions on which the rule is based. Interval scales can have an arbitrary zero, but it is not possible to determine for them what may be called an absolute zero or the unique origin. Interval scales provide more powerful measurement than ordinal scales for interval scale also incorporates the concept of equality of interval. As such more powerful statistical measures can be used with interval scales. Mean is the appropriate measure of central tendency, while standard deviation is the most widely used measure of dispersion. Product moment correlation techniques are appropriate and the generally used tests for statistical significance.(Kothari, 2004).

(d) Ratio scale: Ratio scales have an absolute or true zero of measurement. The term 'absolute zero' is not as precise as it was once believed to be. We can conceive of an absolute zero of length and similarly we can conceive of an absolute zero of time. Ratio scale represents the actual amounts of variables. Generally, all statistical techniques are usable with ratio scales and all manipulations that one can carry out with real numbers can also be carried out with ratio scale values. Multiplication and division can be used with this scale but not with other scales mentioned above. Geometric and harmonic means can be used as measures of central tendency and coefficients of variation may also be calculated.(Kothari, 2004).

Data was obtained from the interview, questionnaires as well as these from the organization in question. The nature of the variables permits, the researcher to use the scale that provides the most precise description

Table 3.2: Variables and their measurements in the SPSS

Variable	Measurement scale
NMB Financing in SMEs: • Profit • Sales • Investment • Employment • Economic effect • Technology	Ordinal scale
Social performance: • Education • Health care • Family household affairs	Interval scale
Amount of the loan • Cost of production	Interval scale
Others: • Supervision/management of the loan. • Adequate amount • Timely of the loan	Nominal scale

Source: extracted by researcher, 2012

From the above explanation therefore the analytical tools which were used in analysing the data were spss which includes: Pearson’s correlation, chi-square test and excel.

CHAPTER FOUR

PRESENTATION OF THE FINDINGS

4.0. INTRODUCTION

This chapter presents the analysis of the findings from data collected through interviews, observations and questionnaires. This chapter looks at the analysis of the responses from respondents on the survey questionnaires administered and data collected through interviews, following the research methodology outlined in the previous chapter. It also aims at examining the understanding of the contribution and impact of loans on SMEs performance. Population of the study were four hundred (400) Lindi Municipal SMEs with NMB loans. A total of 100 SMEs were sampled and 3 respondents from NMB bank during the research work for the analysis and the selection was randomly. All 100 SMEs and 3 NMB staffs were served with questionnaires in which 14 SMEs respondents did not manage to fill and return the questionnaires for various reasons. 89 questionnaires including from NMB staffs were returned(89% response rate), out of which 85 questionnaires were correctly filled and which were used in the statistical analysis and four(4) returned questionnaires from SMEs contained missing vital information(not correctly filled), but they have no effect for the analysis. The analysis of the findings has grouped into two parts: the first part looks at the analysis of data from the SMEs respondents (82) and it is illustrated in the statistical representation by using simple per cent ages, table, pie charts, histogram and figures. The second part of the analysis looks at the respondents (3) from NMB officers, also the analysis are presented by tables and figures.

The SMEs respondents (82) questionnaires are also further divided into three major sections: section one contain the general information about the respondent, section two contain information about SMEs performance before bank loans and section three contain information about the SMEs performance after bank loan, challenges that can threaten the SMEs growth and challenges that SMEs are facing when they need bank loans.

Below are the tables and figures that show responses questionnaires administered to SMEs respondents**.**

4.1.0. General information of the respondent

- **Gender of the respondents**

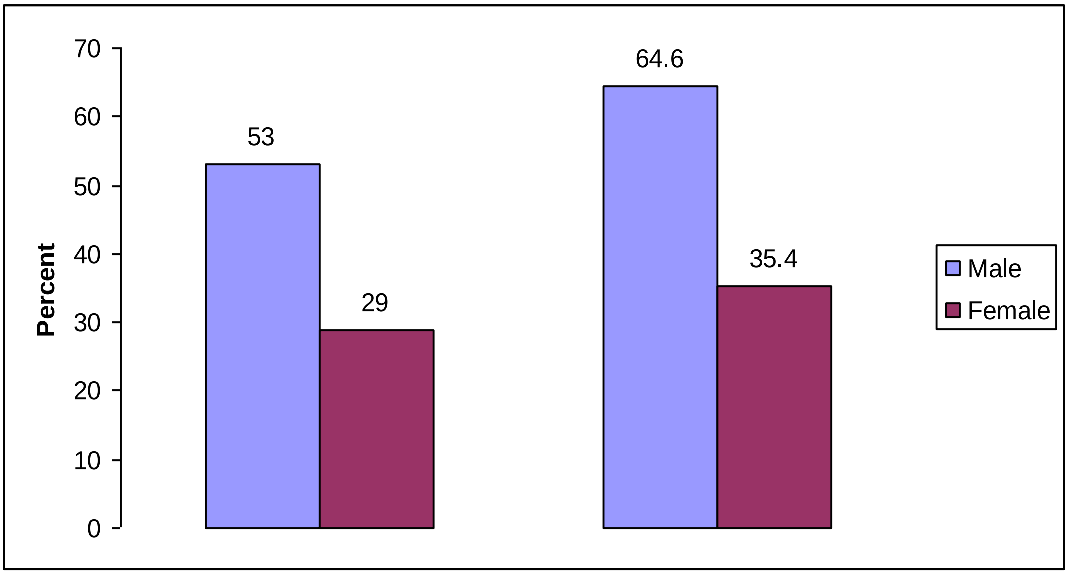
Table 4.1 and Figure 4.1 show the gender of the respondents who are conducting the small and medium-sized enterprises.

Table. 4.1: The gender of the respondent

Gender	Frequency	Percent
Male	53	64.6
Female	29	35.4
Total	82	100.0

Source: Field survey data, 2012

Figure 4.1: The gender of the respondent



Source: Field survey data, 2012

From the above table and figure it shows that, 53(65%) were male and 29(35%) were female. From the data collected it indicates that the majority of the SMEs are owned by the male.

- **Marital status of the respondent**

Table 4.2 below show marital status of the SMEs from the study:

Table 4.2: Marital status of the respondent

Marital status	Frequency	Percent
Single	13	15.9
Married	65	79.3
Widow	4	4.9
Total	82	100.0

Source: Field survey data, 2012

From the above table it shows that, 65(79%) of the respondents were married, 13(16%) were single, 4(5%) were widow and no divorce. From the data collected it indicates that the majority of the respondents are married.

- **Age of the respondent**

Table 4.3 and figure 4.2 below shows the age of the respondents from the study;

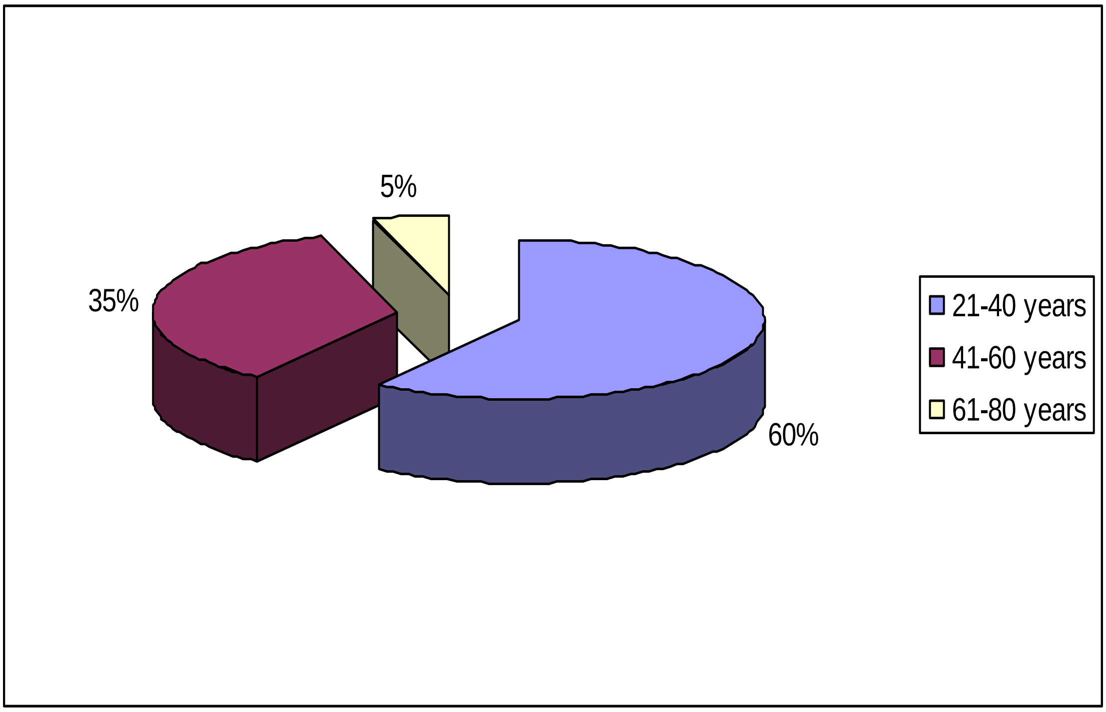
Table 4.3: Age of the respondent

Age of the respondent	Frequency	Percent
21-40 years	49	59.8
41-60 years	29	35.4
61-80 years	4	4.9
Total	82	100.0

Source: Field survey data, 2012

From the table and figure it indicates the age of the respondents, 49(60%) of the age lies between 21-40 years, 29(35%) of the age lies between 41-60 years, 4(5%) of the age lies between 61-80 years old and there was no age of above 80 years old. From the data collected it shows that the majority of the age of the respondents lies between 21-40 years old.

Figure 4.2: Age of the respondent



Source: Field survey data, 2012

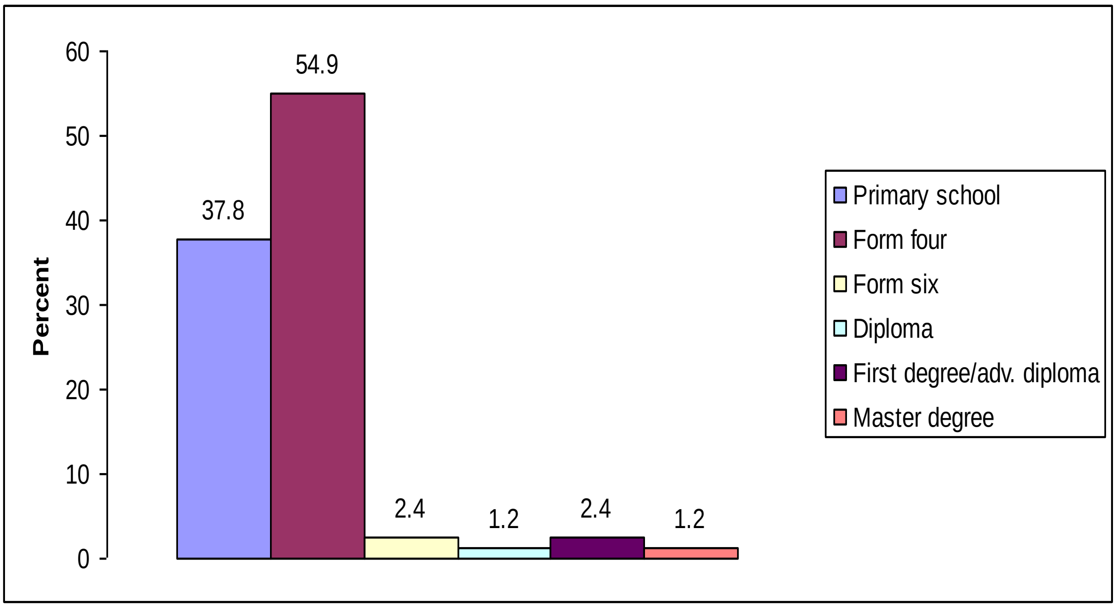
- **Education background of the respondents**

Table 4.4: The education background of the respondent

Level of education	Frequency	Percent
primary school	31	37.8
form four	45	54.9
form six	2	2.4
Diploma	1	1.2
first degree/adv. Diploma	2	2.4
master degree	1	1.2
Total	82	100.0

Source: Field survey data, 2012

Figure 4.3: The education background of the respondent



Source: Field survey data, 2012

From the above table and figure it shows that, form four 45(55%), primary school 31(38%), form six 2(3%), first degree/advanced diploma 2(2%), ordinary diploma 1(1%), master degree 1(1%) and no PhD holder. The majority of the respondents their highest levels of educations are form four.

- **Categories of the business**

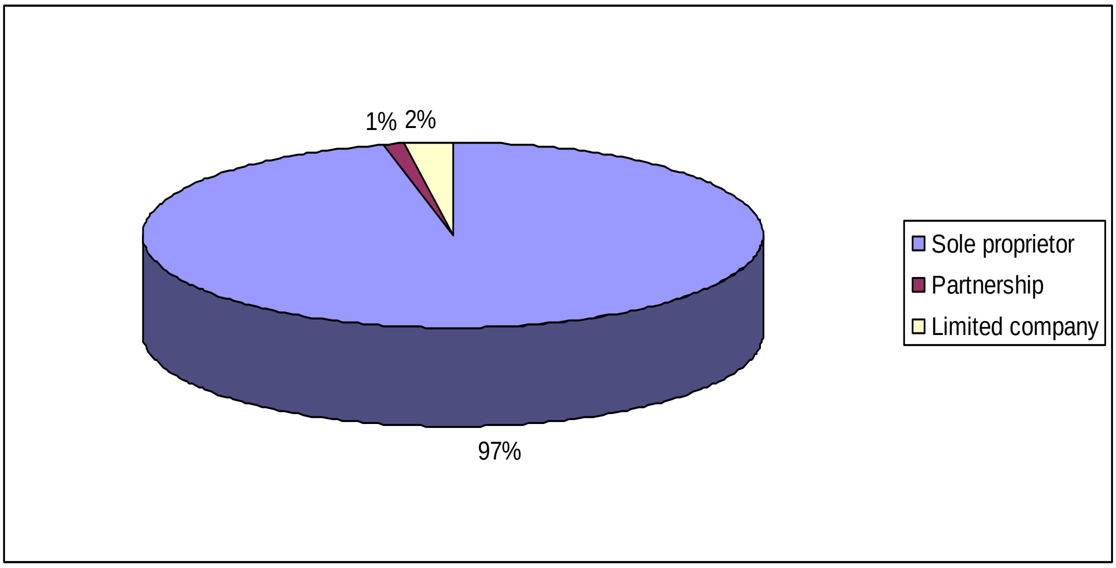
Table 4.5 and Figure 4.5|: Categories of the business

Indicated below are the categories of the business

Table 4.5: Categories of the business of the respondent

Business categories	Frequency	Percent
sole proprietor	79	96.3
Partnership	1	1.2
limited company	2	2.4
Total	82	100.0

Figure 4.4: Categories of the business of the respondent



Source: Field survey data, 2012

From the above table and figure it shows that, 79(96.3%) of the respondents are sole proprietorship, 2(2.4%) of the respondents are limited companies and 1(1.2%) of the respondent is a partnership. From the data presented it indicates that the majority of the respondents are the sole proprietorship.

- **Source of funds for start-up of the business**

Table 4.6 below shows the sources of capital for start-up of the business

Table 4.6: The source of funds for start-up of the business

Table 4.6: Source of funds for start-up of the business

Source of funds	Frequency	Percent
from my savings	55	67.1
from my family	20	24.4
from friends	1	1.2
from bank	5	6.1
other source(specify)	1	1.2
Total	82	100.0

Source: Field survey data, 2012

From the data presented above it indicates that, 55(67.1%) of the respondents get funds to start up business from their savings, 20(24.4%) from family, 1(1.2%) from friends, 5(6.1%) from bank and 1(1.2%) from other source which was actually from pension. The majority of the respondents got capital to start up their businesses from their own savings, from family and very few from banks.

- **Purpose of the loan**

Table 4.7 below shows the response regarding the purpose the loan

Table 4.7: Purpose of the loan

Purpose of the loan	Frequency	Percent
start-up business	3	3.7
increase working capital	50	61.0
expansion of the existing business	29	35.4
Total	82	100.0

Source: Field survey data, 2012

The data presented above shows what was actually the purpose of the loan. 3(3.7%) of the respondent indicate they wanted to start up business, 50(61%) of the respondent wanted to increase their working capital, 29(35.4%) wanted t expand of their existing businesses.

4.1.1. Business experience of the respondent.

Data presented in the table 4.8 below shows business experience of the respondent.

Table 4.8: Business experience of the respondent

Business experience	Frequency	Percent
less than 4 years	16	19.5
5-10 years	39	47.6
11-15 years	15	18.3
16-20 years	8	9.8
more than 20 years	4	4.9
Total	82	100.0

Source: Field survey data, 2012

From the above table it shows that, 16(19.5%) of the respondent have the business experiences of less than four years, 39(47.6%) of the respondent have business experiences that ranges between 5-10 years, 15(18.3%) of the respondent have business experiences that ranges between 11-15 years, 8(9.8%) of the respondents have business experiences that ranges between 16-20 years and 4(4.9%) of the respondent have business experience of more than 20 years old. It was observed that the majority of the respondents have business experience of the range between 5-10 years.

4.2. SMEs performance before taking bank loan
Introduction

This part presents the data about the effect of SMEs performance before taking bank loans.

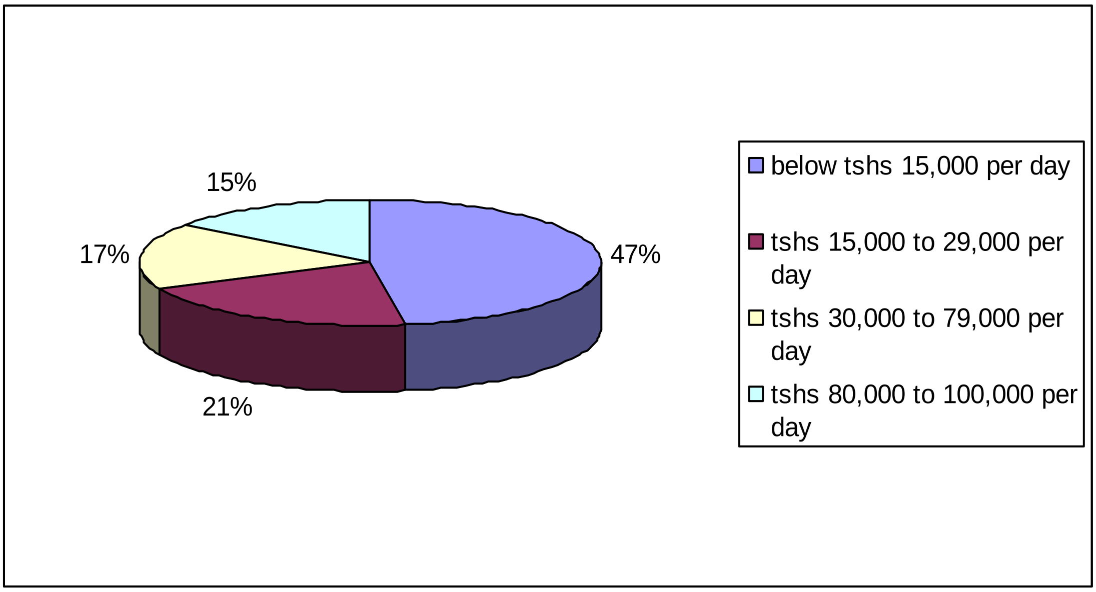
4.2.1 Average sale per day of the respondent before loan

Table 4.9 below shows the Average sale per day of the respondent before loan

Table 4.9: Average sales per day before taking loan

Average sales per day	Frequency	Percent
below tshs 15,000 per day	39	47.6
tshs 15,000 to 29,000 per day	17	20.7
tshs 30,000 to 79,000 per day	14	17.1
tshs 80,000 to 100,000 per day	12	14.6
Total	82	100.0

Figure 4.5: Average sales per day before taking loan



Source: Field survey data, 2012

The data presented above revealed the respondent's sale per day before loan. That 39(47.6%) of the respondent said, their sale were below tshs 15,000 which are marked as sales level one(I), 17(20.7%) of the respondent said their sales were ranging from tshs 15,000 to tshs 29,000 which represents sales level two(II), 14(17.1%) of the respondent said their sales were ranging from tshs 30,000 to tshs 79,000 which represents sales level three(III), 12(14.6%) of the respondents said their sales were ranging from 80,000 to 100,000 which represents sales level four(IV) and there were no respondent who said their sales was above tshs 200,000 per day which were sales level four(V). From these data it indicates that the majority of the respondent their sale were below tshs 15,000(Sales level one)

4.2.2. The average profit of the respondent before loan

Table 4.10 below shows the average profit of the respondent before loan

Table 4.10: Average profit before loan

Average profit before loan	Frequency	Percent
there was no profit	5	6.1
there was very small profit about 3%	73	89.0
I do not know	4	4.9
Total	82	100.0

Source: Field survey data, 2012

From the data presented above, it revealed that 5(6.1%) of respondent said they were not getting business profit, 73(89%) of the respondent said they were getting very small profit about 3% before loan, 4(4.9%) of the respondent said they do not know. The data indicates that the majority (89%) of the respondent were getting profit although was very small.

4.2.3. Employment status before bank loan

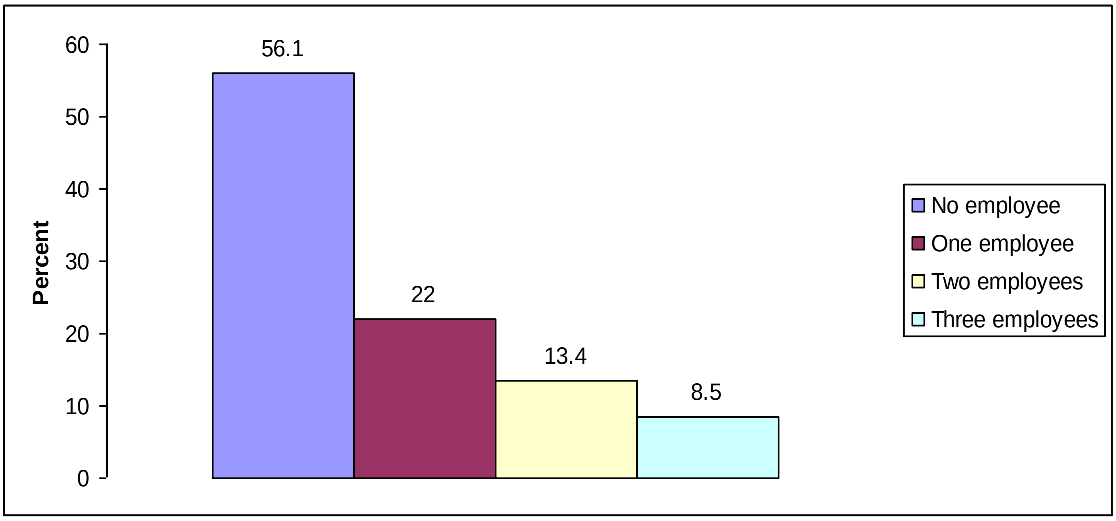
Table 4.11 bellow demonstrate Employment status of the SMEs drown from the study

Table 4.11: Employment status before bank loan

Employment before loan	Frequency	Percent
no employee	46	56.1
one employee	18	22.0
two employees	11	13.4
three employees	7	8.5
Total	82	100.0

Source: Field survey data, 2012

Figure 4.6: Employment status before bank loan



Source: Field survey data, 2012

From the data presented above, it revealed that 46(56.1%) no employee employed, 18(22%) of the respondent said that they employ just one employee, 11(13.4%) of the respondent said that they employ two employees, 7(8.5%) of the respondent said they employ three employees. Data indicates that the majority of the respondent did not employ before loan.

4.2.4. Level of investment before loan

Table 4.12 bellow demonstrate the level of investment before loan

Table 4.12 Level of investment before loan

investment before loan	Frequency	Percent
Low	46	56.1
very low	29	35.4
Satisfactory	7	8.5
Total	82	100.0

Source: Field survey data, 2012

From the above table, 46(56.1%) of the respondent said that before loan the level of investment was low, 29(35.4%) of the respondent said level of investment was very low, 7(8.5%) said the level of investment was satisfactory. In general most of the respondent said the level of investment was low followed by very low.

4.2.5. Training of the respondent before taking bank loan

Table 4.13 below indicate training for the respondent before loan

Table 4.13: Training of the respondent before taking bank loan

Training before loan	Frequency	Percent
Yes	57	69.5
No	25	30.5
Total	82	100.0

Source: Field survey data, 2012

From the data presented above it revealed that, 57(69.5%) of the respondent said they were trained before loan, 25(30.5%) said they did not trained.

4.2.6: Average household expenditure of family members before loan

Table 4.14 below indicate household for the respondent before loan

Table 4.14: Household expenditure before loan

expenditure before loan	Frequency	Percent
income was not adequate to meet expenditure of social services of my family members	38	46.3
income was adequate to meet standard of living	14	17.1
standard of living was normal	30	36.6
Total	82	100.0

Source: Field survey data, 2012

Data presented above shows that 38(46.3%) of the respondent said, their income was not adequate to meet expenditure of social services of family members such as education, medical care , insurance services etc, 14(17.1%) of the respondent said their income was adequate to meet standard of living and 30(36.6%) said standard of living was normal. The majority of the respondent said income was not adequate.

4.3.0. SMEs performance after taking bank loan

Introduction

This part presents the data about the effect of SMEs performance after taking bank loans.

4.3.1. Average sales per day of the respondent after loan

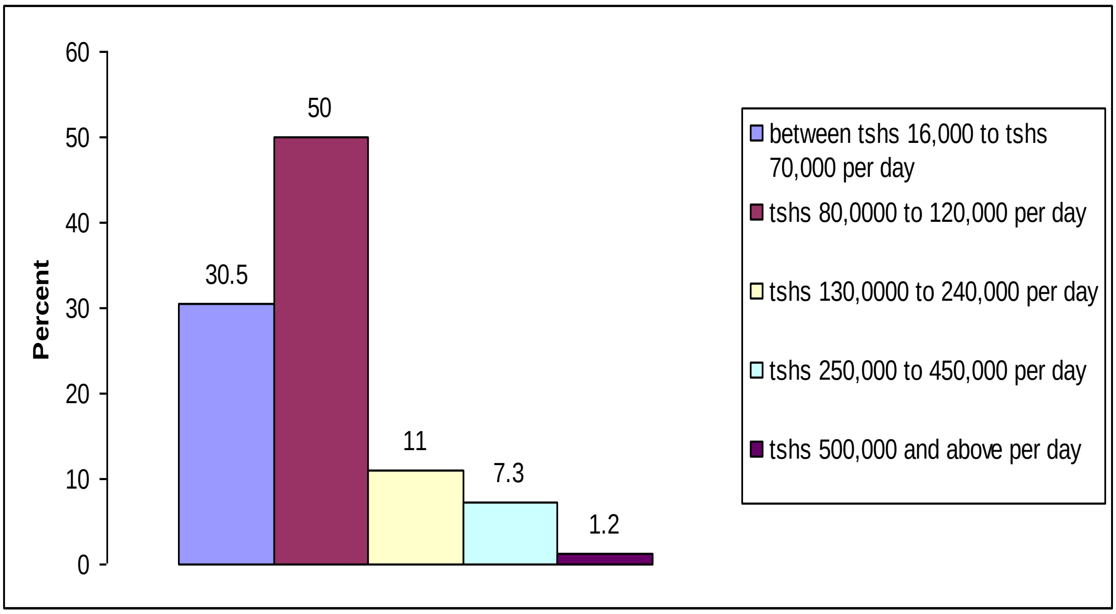
Table 4.15 below shows the Average sale per day of the respondent after loan

Table 4.15: Average sales per day of the respondent after loan

Average sale per day after loan	Frequency	Percent
between Tshs 16,000 to Tshs 70,000 per day	25	30.5
Tshs 80,0000 to 120,000 per day	41	50.0
Tshs 130,0000 to 240,000 per day	9	11.0
Tshs 250,000 to 450,000 per day	6	7.3
Tshs 500,000 and above per day	1	1.2
Total	82	100.0

Source: Field survey data, 2012

Figure 4.7: Average sales per day of the respondent after loan



Source: Field survey data, 2012

The data presented above revealed the respondent's sale per day after loan. That, 25(30.5%) of the respondent said, their sales were ranging from 16,000 to tshs 70,000 which are marked as sales level one (I), 41(50 %) of the respondent said, their sales were ranging from tshs 80,000 to tshs 120, 000 which represents sales level two (II), 9(11 %) of the respondent said their sales were ranging from tshs 130,000 to tshs 240,000 which represents sales level three (III), 6(7.3%) of the respondent said their sales were ranging from tshs 250,000 to tshs 450,000 which represents sales level four (IV) and 1(1.2%) of the respondent said their sales were tshs 500,000 and above per day which represents sales level five(V). From these data it indicates that the majority of the respondent said their sales were ranging from tshs 80,000 tshs 120,000(Sales level two).

4.3.2. Average business profit after taking bank loan

Table 4.16 below shows the Average sale per day of the respondent after loan

Table 4.16: Average business profit after taking bank loan.

Profit after loan	Frequency	Percent
increase in profit from 3% to 10%	53	64.6
profit was satisfactory	24	29.3
there was decrease in profit from 3% to 1%	5	6.1
Total	82	100.0

Source: Field survey data, 2012

The data presented above indicates that, 53(64.6%) of the respondent said that after taking loan increase in profit was from 3% to 10%, 24(29.3%) of the respondent said profit was satisfactory and 5(6.1%) of the respondent said there was decrease in profit from 3% to 1 % after taking loan. The majority of the respondent said increase in profit was good after bank loan.

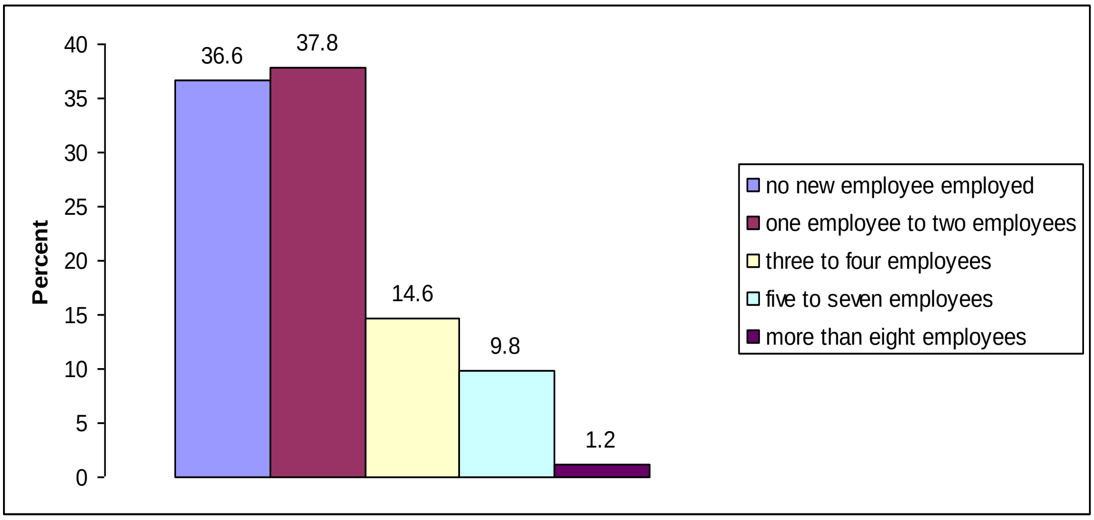
4.3.3: Employment status after bank loan

Table 4.17: Employment status after taking bank loan

Employment after loan	Frequency	Percent
no new employee employed	30	36.6
one employee to two employees	31	37.8
three to four employees	12	14.6
five to seven employees	8	9.8
more than eight employees	1	1.2
Total	82	100.0

Source: field survey data, 2012

Figure 4.8: Employment status after taking bank loan



Source: Field survey data, 2012

The data presented above indicates that, 30(36.6%) of the respondent said no new employee employed, 31(37.8%) of the respondent said one to two new employees was employed, 12(14.6%) of the respondent said three to four new employees was employed,8(9.8%) of the respondent said five to seven new employees was employed and 1(1.2%) of the respondent said more than eight new employees was employed.

4.3.4: Level of investment after taking bank loan

Table 4.18: Average investment after taking bank loan

Average investment	Frequency	Percent
increase of investment was good	42	51.2
Increase of investment was satisfactory	34	41.5
no increase in investment	6	7.3
Total	82	100.0

Source: Field survey data, 2012

The data presented above indicates that, 42(51.2%) of the respondent said increase of investment was good, 34(41.5%) of the respondent said increase of investment was satisfactory, 6(7.3%) of the respondent said there was no increase in investment and there was no respondent who said increase of investment was very good.

4.3.5: Contribution of the business to the region after bank loan.

Table 4.19 (a): SMEs contribution to the region

Business contribution after loan	Frequency	Percent
I am contributing to social activities	7	8.5
I registered my business to relevant authorities and i am paying tax	75	91.5
I am contributing to social activities	7	8.5
Total	82	100.0

Source: Field survey data, 2012

Table 4.19(b): Contribution of SMEs to the Lindi region through payment of taxes.

Description	Payment of taxes before loan	Payment of taxes after loan
Individual taxes	17,493,772	44,716,811
Corporate tax	1,362,000	3,138,500
VAT	15,210,038	26,860,800
EMPLOY. TAXES	4,926,663	11,030,768
TOTAL	**38,992,473**	**85,746,879**

Source: Extracted from TRA Lindi regional office. (Assessments and collections register-2010-2011)

The data presented in table 4.19(a) above indicates that, 7(8.5%) of the respondent said, they contribute to social activities, 75(91.5%) of the respondent said they registered their businesses to the relevant authority and they are paying taxes and no respondent who said he /she contribute nothing. The majority of the respondent said, they registered their businesses to the relevant authority and they pay taxes as indicated in table 4.19(b).

4.3.6: The effect of business performance after training

Table 4.20: The effect of business performance after training

performance after training	Frequency	Percent
I am doing very well on my business	11	13.4
I am doing well on my business	39	47.6
no changes, I still doing as before training	7	8.5
others(specify	25	30.5
Total	**82**	**100.0**

Source: Field survey data, 2012

The data presented above indicates that, 11(13.4%) of the respondents said they are doing very well their businesses after getting training. 39(47.6%) of the respondent said they are doing well their businesses after training, 7(8.5%) of the respondent said they no changes, they still doing business as before training and 25(30.5%) they did not attend training.

4.3.7: Average household expenditure of family members after loan

Table 4.21: The average expenditure of family members after loan

Expenditure after loan	Frequency	Percent
income is adequate to meet expenses of social services of my family members(education, medical care ,insurance services)	18	22.0
standard of living has improved	44	53.7
no changes in standard of living	20	24.4
Total	**82**	**100.0**

Source: Field survey data, 2012

The data presented above indicates that, 18(22%) of the respondent said after bank loan their income is adequate to meet expenses of social services of my family members (education, medical care, insurance services), 44(53.7%) of the respondent said after bank loan standard of living has improved and 20(24.4%) of the respondent said no changes in standard of living after loan.

4.3.8: Development made after taking bank loan

Table 4.22: Development made after bank loan

Development after loan	Frequency	Percent
I built modern family house	6	7.3
I paid school fees/college to my children/relatives	51	62.2
I bought family transport	3	3.7
I started/added another business	22	26.8
Total	82	100.0

Source: Field survey data, 2012

The data presented above indicates that, 6(7.3%) of the respondent said they managed to build modern family house, 51(62.2%) of the respondent they managed to pay school fees/colleges to their children/relatives, 3(3.7%) of the respondent said they I bought family transport, 22(26.8%) of the respondent said they started/added other businesses.

4.3.9: Increase/decrease of business performance after taking bank loan?

The data presented below indicates that, 10(12.2%) of the respondent said there was decrease of their businesses after taking bank loan, 72(87.8%) of the respondent said there was no decrease of their businesses.

Table 4.23: Business performance after taking bank loan

performance after loan	Frequency	Percent
Yes	10	12.2
No	72	87.8
Total	82	100.0

Source: Field survey data, 2012

4.3.10: Utilisation of the bank loan

Most of SMEs use loans as working capital to source raw materials for production/sales. For instance for the season of cash nut and rice they apply for bank loan with the intention to buy large quantity and stock for future sale. Only two respondents said after get loan, they use to settle other debts.

Table 4.24: firm utilised the bank loan

Utilisation of loan	Frequency	Percent
settlement of other debts	2	2.4
to increase working capital	80	97.6
Total	82	100.0

Source: Field survey data, 2012

4.3.11: Major challenges that can threaten the business growth

Table 4.25: The major challenges that can threaten your business growth

challenges that threaten business growth	Frequency	Percent
Stiff competition of similar business	38	46.3
High business operating costs	14	17.1
Difficulty availability of the market/customers to my commodity/services	4	4.9
Creditors not paying on time	7	8.5
Multiplicity of taxes both TRA and Municipal	19	23.2
Total	82	100.0

Source: Field survey data, 2012

The data presented above indicates that, 38(46.3%) of the respondent said stiff competition of similar business threatening of their business growth, 14(17.1%) of the respondent said high business operating costs threatening their business growth,4(4.9%) of the respondent said difficulty availability of the market/customers to their commodity/services, 7(8.5%) of the respondent said Creditors are not paying on time, 19(23.2%) of the respondent said multiplicity of taxes which are administered both by TRA and Municipal can threatening of their businesses. The majority of the respondent said the stiff competitions of similar business are the most threatening factor to their business growth.

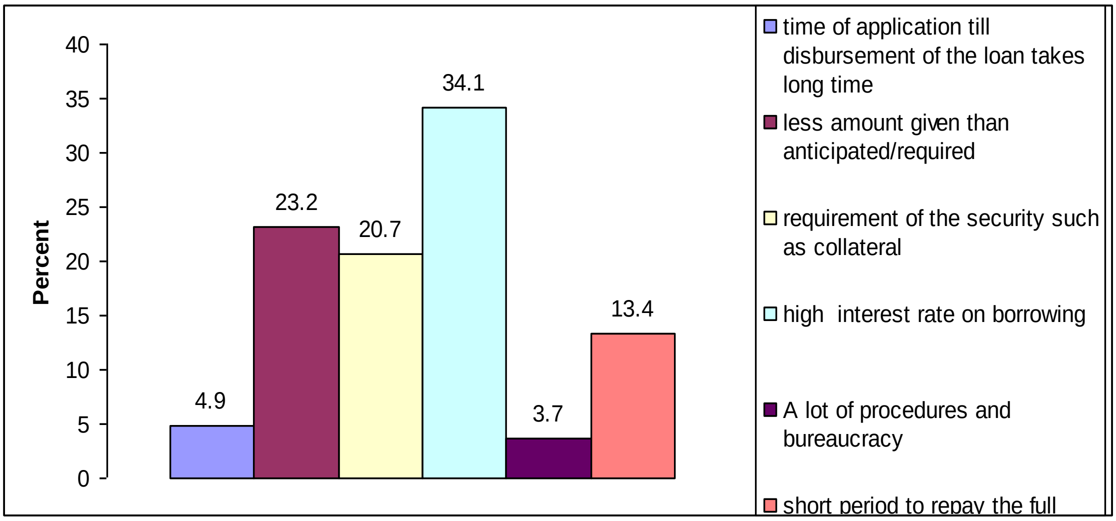
4.3.12: Major challenges facing SMEs when requesting bank loan

Table 4.26: Challenges facing SMEs when requesting bank loan

Challenges SMEs facing for loan	Frequency	Percent
time of application till disbursement of the loan takes long time	4	4.9
less amount given than anticipated/required	19	23.2
requirement of the security such as collateral	17	20.7
high interest rate on borrowing	28	34.1
A lot of procedures and bureaucracy	3	3.7
short period to repay the full amount of the loan	11	13.4
Total	82	100.0

Source: Field survey data, 2012

Figure 4.9: Challenges facing SMEs when requesting bank loan



Source: Field survey data, 2012

The data presented above indicates that, 4(4.9%) of the respondents said from the time of application to disbursement of the loan takes long time, 19(23.2%0 of the respondent said they are given less amount of the loan than anticipated/required, 17(20.7%) of the respondents said they are required to offer security such as collateral, 28(34.1%) , there are high interest rate on borrowing 3(3.7%) of the respondents said there a lot of a lot of procedures and bureaucracy,11(13.4%) of the respondents said they given short period to repay the full amount of the loan.

The second part of the analysis from NMB bank

Presented below ate the data collected from NMB through questionnaires. The questionnaires which served to NMB were differently from these of the SMEs. The questionnaires were served to three (3) key personnel including Branch manager and two loan officers.

4.3.13: Application of the loan by SMEs as per population

From the data presented it shows that the applications, amount applied, amount advanced and amount not qualified are increasing as per population. The reason given from top officers of NMB bank was that, lack of collateral value which is equivalent or more to the amount of loan applied for, no good repayment records to the previous loan and account turnover inadequate.

Below is a table that shows responses questionnaires administered to NMB respondents.

Table 4.27(a): Application of the loan by SMEs as per population

Year	Application received	Amount applied	Amount advanced	Amount rejected
2010	355	750,000,000	725,000,000	25,000,000
2011	402	810,000,000	770,000,000	40,000,000
TOTAL	757	1,560,000,000	1,495,000,000	65,000,000

Source: Extracted from NMB data by researcher, 2012

4.3.14: Application of the loan by SMEs as per sample

The data extracted from NMB bank indicates that the amount which was rejected is Tshs 85,200,000 which is equivalent to 38.38% in the sample.

Table 4.27(b): Application of the loan by SMEs as per sample

Year	Amount applied	Amount issued	Amount rejected	Performance rate
2010 to 2011	Tshs 222,000,000	Tshs 136,800,000	Tshs 85,200,000	61.62 %

Source: Extracted from NMB data by researcher, 2012

4.3.15: Recovery rate of the loan

From the data presented it shows that, the rate of default by SMEs is just five (5) per cent. This rate is approximately the same as that of the amount not qualified for loan from the population.

Table 4.28: Recovery rate of the loan

Year	Amount advanced	Amount recovered	Recovery rate
2010	725,000,000	690,000,000	95%
2011	770,000,000	770,000,000	100%
TOTAL	2,395,000,000	2,360,000,000	98.54%

Source: Extracted from NMB data by researcher, 2012

4.3.16: Borrowing interest rate vs. lending interest rate

The data presented shows the comparison between the borrowing interest rate on the side of the borrower and on the other side lending interest rate to someone who to invest in the bank.

Table 4.29: Borrowing interest rate vs. Lending interest rate

Year	Borrowing interest rate	Lending interest rate	Difference
2010	18%	3%	15%
2011	18%	3%	15%

Source: Extracted from NMB data by researcher, 2012

4.3.17: Total bank charges to borrower

The data presented shows the total charges charged to the borrower. The total charges include the borrowing interest, bank charges and risk premium.

Table 4.30: Total bank charges to borrower

Year	Borrowing interest rate	Bank charges	Risk premium	Total charges
2010	18%	1.5%	2.0%	21.5%
2011	18%	1.5%	2.0%	21.5%

Source: Extracted from NMB data by researcher, 2012

Table 4.31: Relationship between NMB financing and SMEs performance

Correlations		NMB financing	SMEs performance
NMB financing	Pearson Correlation	1	.605**
	Sig. (2-tailed)		.000
	N	82	82
SMEs performance	Pearson Correlation	.605**	1
	Sig. (2-tailed)	.000	
	N	82	82

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Statistical package for social science (SPSS) output.

From the above, the result revealed that the correlation is 0.605 which it is strong at the 0.01 level (2-tailed). Thus, it interpreted that, the relationship between the NMB financing and the SMEs performance is statistically significance, as NMB (loan) financing increases to SMEs, the SMEs performance also increases.

4.4. Hypothesis test through use of chi-square

1. Hypothesis I

H_a: NMB financing have positive effect on the operation performance of SMES

H_o: NMB financing have no impact on the operation performance of SMEs

The hypothesis test was on whether NMB financing have positive effect on the operation performance of SMES or not.

(a) The tested variable was average sales per day before securing loan from NMB against average sales per day after securing loan from the bank.

Table 4.32: Chi-Square test on average sales before and after loan

Chi-square test	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	94.969[a]	12	.000
Likelihood Ratio	88.540	12	.000
Linear-by-Linear Association	46.008	1	.000
N of Valid Cases	82		

a. 14 cells (70.0%) have expected count less than 5. The minimum expected count is .15.

Source: Spss output, 2013

The main interested value from the output in this aspect was the Pearson chi-square value which denoted by $\chi 2$. Results in table (4.32) show that the probability (p) of chi-square test statistic ($\chi 2$ =94.97) was 0.000. To accept the null hypothesis, the calculated $\chi 2$ value needs to be greater than (table value) 0.05 otherwise be rejected (Pallant, 2006). In this case the value of 0. 000 is smaller than the alpha value of 0.05 as indicated in the table. From this result the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore it can be concluded that loan from the bank have positive effect on the operation performance of SMEs.

(b) The tested variable was average profit before securing loan from NMB against profit after securing loan from the bank.

Table 4.33: Chi-square test on average profit before and after loan

Chi-square test	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.520[a]	4	.014
Likelihood Ratio	8.608	4	.072
Linear-by-Linear Association	6.245	1	.012
N of Valid Cases	82		

a. 7 cells (77.8%) have expected count less than 5. The minimum expected count is .10.

Source: Spss output, 2013

Results in table (4.33) show that the probability (p) of chi-square test statistic ($\chi 2$ =12.52) was 0. 014 and was less than the alpha level of significance of 0.05. From this result the null hypothesis is also rejected and the alternative hypothesis is accepted. Therefore it can be concluded that loan from the bank have positive effect on the operation performance of SMEs

(c) The tested variable was the number of employees employed before bank loan and after bank loan.

Table 4.34:Chi-square test on employment before and after loan

Chi-square test	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	74.079[a]	12	.000
Likelihood Ratio	61.062	12	.000
Linear-by-Linear Association	36.086	1	.000
N of Valid Cases	82		

a. 15 cells (75.0%) have expected count less than 5. The minimum expected count is .09.

Source: Spss output, 2013

Results in table (4.34) shows that the probability (p) of chi-square test statistic ($\chi 2$ =74.079) was 0. 000 and was less than the alpha level of significance of 0.05. From this result the null hypothesis is rejected and the alternative hypothesis is accepted.

Therefore it can be concluded that loan from bank have positive effect on the operation performance of SMEs

2. Hypothesis II

Hypothesis II

H_a: There are positive effects of NMB financing on social economic status of the borrowers.

H_o: There are no effects NMB financing on social economic status of the borrowers

(a) The tested variable was borrower's socio-economic development before and after bank loan.

Table 4.35 Chi-square test on owner's development before and after loan

Chi-square test	Value	Df	Asymp. Sig (2-sided)
person chi- square	19.326[a]	6	.004
likelihood ratio	13.088	6	.042
Linear-by linear Association	1.043	1	.307
N of valid cases	82		

Source: Spss output, 2013

Results in table (4.35) show that the probability (p) of chi-square test statistic ($\chi 2$ =19.326) was 0.004 and was less than the alpha level of significance of 0.05. From this result the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore it can be concluded that there are positive effects of NMB financing on social economic status of the borrowers.

4.5 Conclusion of the chapter

As explained above the objective of the chapter was to analyse the data presented and to examine the impact of loans on SMEs performance. Based on the descriptive statistics presented above, we observed that SMEs performance depends on the NMB financing. The effects of bank financing to SME's operational performance, as most of the SMEs have increased their sales, profits, increased the number of employees; boost the government revenue through taxation (economic effect). Socio-economic status of the owners has improved standard of living and able to make business competition. The positive performance of the SMEs sector is closely associated with the performance of the nation. Thus we would say that all things being equal, the NMB loan are more efficient for poverty reduction for the majority of the poor people, specifically for low-income countries (developing countries). However, there are some challenges that SMEs facing on the availability of funds from NMB. These challenges according to their weights includes: high borrowing interest rates, less amount given than anticipated/applied, requirement of collateral as security, short period given to repay the amount of the loan, it takes long time from the date of application of the loan to the date of disbursement of the loan and there are a lot of procedures and bureaucracy.

CHAPTER FIVE

5.0. DISCUSSION OF THE FINDINGS

5.1. Introductions

The objective of this study was to evaluate the effect of NMB financing on performance of small and medium-sized enterprises before and after utilization of bank loan. This chapter deals with the discussion of the findings constituent with the research objectives in chapter one. Also in this chapter we tried to link our findings and other studies, what other researchers said. The data presented and analysed are drawn from the answers of the respondents on whom the questionnaires were administered. Population of the study were four hundred (400) in Lindi Municipal SMEs with NMB loans. As pointed out in chapter three and four that there were a total of 100 SMEs which were sampled and three (3) respondents from NMB bank during the research work for the analysis and the selection was randomly. All 100 SMEs were served with questionnaires in which 14 respondents did not manage to fill and return the questionnaires for unknown reasons. 89 questionnaires were returned(89 % response rate), out of which 85 questionnaires were correctly filled and which were used in the statistical analysis and four(4) returned questionnaires from SMEs were contained missing vital information(not correctly filled), but they have no effect for the analysis as sample still sufficient. However questionnaires were served to the top management of NMB bank including loan officers. Questionnaires which served to the NMB bank were differently from these which were served to SMEs. The analytical tools which used in this study were spss which includes: Pearson correlation, chi-square test and excel. Below is the discussion of the findings:

5.2. General background of information

Under general background of information of SMEs the discussion were made based on the finding as follows:

5.2.1: Gender and marital status of the respondents

The study revealed that 53(64.6%) of the respondents were male and 29(35.4%) were female. The majority of the businesses are owned by men. This kind of gender is supported by the fact that women are constrained by education/training, business experience, discriminations, socialization/networking and unwillingness to take risk (Coleman, 2002; Fielden et al, 2003 and Nchimbi, 2002). Also the existing legal system of Tanzania has been discriminating women. For example, statutory law had derived from the colonial legacy, customary law which was codified soon after independence in 1963 and religious laws notably Islamic and Hindu Laws. Customary law and Islamic law operate side by side in many facet of life (C. Mark and Magdalena Rwebangira, 2004).

With respect to marital status, 13(15.9%) of the respondents are single, 65(79.3%) of the respondents are married, 4(4.9%) are widows and there was no respondent who was divorced. The majority of the respondents are married. The married couples are more likely to have more commitments, to avoid dangerous disease like HIV and stable income than single. This is supported by the work of (Blank, 1997; Furstenberg, 1990; Garfinkel & McLanahan, 1986; U.S. Bureau of the Census, 2001; White & Rogers, 2000), they said, Marriage has a large effect on reducing the risk of poverty. A number of studies have indicated that unmarried individuals and single-parent families are more likely to live in poverty than their married counterparts.

5.2.2: Education and age of the respondents

The level of education and age of the respondents varies significantly. The study revealed that, 31(37.8%) of the respondent had primary school, 45(54.9%) of the respondent had attained form four as the highest level of education, 2(2.4%) had attained form six (high school), 1(1.2%) attained ordinary diploma, 2(2.4%) attained advanced diploma/first degree, 1(1.2%) attained master degree and no respondent who attained PhD. The study indicated that the majority of the respondents had attained form four. This is the same findings as cited by (Lena and Wong, 2003) but contradicted the work of Kuzilwa (2005), he said the majority of entrepreneurs had primary school certificate.

From the data collected from questionnaires and interviews, it was observed that, the respondents with the primary education are lacking basic skills such as record keeping, managerial competence, pricing, business plans, marketing, lack of awareness through education of the products offered, terms and conditions of NMB loans and access to technology as compared to respondents of four educations and above. By virtue of the above findings it was also observed that those with at least form four educations and above are doing better than those of primary education. The results are supported by findings of (Kuzilwa, 2005; Robinson & Malach, 2004; Ying, 2008).

With respect of the age, 49(60%) of the respondent their age lies between 21-40 years, 29(35%) of the respondent their age lies between 41-60 years, 4(5%) of the respondent their age lies between 61-80 years old and there was no age of above 80 years old. From the data collected it shows that the majority of the age of the respondents lies between 21-40 years old. This shows that most SMEs are established by young individuals who are still energetic, open new ideas and have cleared studies, but due to high unemployment end up to self employment.

5.2.3: Source of fund to start-up of the business

The study revealed that, 55(67.1%) of the respondents get funds to start up business from their savings, 20(24.4%) from family, 1(1.2%) from friends, 5(6.1%) from bank and 1(1.2%) from other source which was actually from pension. The majority of the respondents got capital to start up their businesses from their own savings and followed by friends. This finding is similar with previous studies which were done by (Janssen & Wtterwuldghe, 1997 and Hutchinson & Xavier, 2006). Furthermore, a researcher argues that, when new businesses (SMEs) starts it is difficult to be trusted by banks or even friends. The data collected revealed that only one respondent out of eighty two (82) was given a loan from friend and five(5) respondents out of eighty (

82) were advanced the loans from bank. The new businesses (SMEs) are considered as highly risk due to the existence of asymmetry information. Start-up of business seemed to have been funded from own sources. This findings are similar to the findings which was done by (Cole, 2004, Beck et al, 2004, Berger et al, 2001, Myers &Majluf, 1984)

5.2.4: The purpose of the loan

The data presented above shows what was actually the purpose of the loan, 3(3.7%) of the respondent indicated that they need to start up business, 50(61%) of the respondent said that they need to increase their working capital, 29(35.4%) wanted to expand of their existing businesses and no respondent who applied a loan for other purpose. The majority of the respondent requested loan to increase their working capital.

5.2.5: Business experience of the respondent

The study revealed that, 16(19.5%) of the respondent have the business experiences of less than four years, 39(47.6%) of the respondent have business experience that ranges between 5 to 10 years old, 15(18.3%) of the respondent have business experiences that ranges between 11 to 15 years old, 8(9.8%) of the respondents have business experience that ranges between 16 to 20 years old and 4(4.9%) of the respondent have business experience of more than 20 years old. It is observed that the majority of the respondents have business experience which ranges between 5 to 10 years old. From the data presented, it was observed that the respondents with long business experience are more advantageous than those with less business experience. The benefits of respondents with long business experience against those with less business experience include: competition- firm with long experience can able to adjust price up and down, because price is a basic tool for competition, marketing strategy- how to market goods and services so that can attract potential customers and also it is easier to access to bank facilities. Young firms are not trusted with bank because they are considered as risky.

5.3 SMEs performance before and after bank loan

This part presents the analysis of data by comparing the effect of SMEs performance before and after taking bank loans.

5.3.1 Average sale per day of the respondent before and after loan

The average sales per day are known, and then it is easier to establish sales per month and eventually sales per annum as the parameters are known.

(i) **Average sales per day of the respondent before loan**

The data presented revealed that, 39(47.6%) of the respondent said, their sales were below tshs 15,000 per day which represents as sales level one(I) , 17(20.7%) of the respondent said, their sales were ranging between tshs 15,000 to tshs 29, 000 which represents sales level two(II), 14(17.1%) of the respondents said their sales were ranging from tshs 30,000 to 79,000 which represents sales level three(III), 12(14.6%) of the respondent said their sales were ranging between tshs 80,000 to tshs 100,000 which represents sales level three(IV) and there was no respondent who said their sales was above tshs 200,000 per day which represents sales level four(V).

(ii) **Average sales per day of the respondent after loan**

The data presented here revealed that, 25(30.5%) of the respondent said, their sales ranges from 16,000 to tshs 70,000 which represents as sales level one (I), 41(50 %) of the respondent said, their sales were ranging from tshs 80,000 to tshs 120, 000 which represents sales level two (II), 9(11 %) of the respondent said their sales were ranging from tshs 130,000 to tshs 240,000 which represents sales level four (III), 6(7.3%) of the respondent said their sales were ranging from tshs 250,000 to tshs 450,000 which represents sales level four (IV) and 1(1.2%) of the respondent said their sales were tshs 500,000 and above per day which represents sales level five(V). The findings revealed that, sales after taking loans was relative higher than sales before taking bank loans in all levels. After bank loans sales have been increased due to the fact that, the owners have expanded their business operations including increase the level of stock, identify and selling fast moving items which meets the customer needs. From this analysis it shows that the bank loans have positive effect on the SMEs performance. The findings are similar to the work of (Idowu, 2010; Martins, 1991; Kuzilwa, 2005, Peter, 2001, Trisha, 2011).

5.3.2 The average profit of the respondent before and after loan

(i)Average profit before loan

The data presented revealed that 5(6.1%) of respondent said they were not getting business profit, 73(89%) of the respondent said they were getting very small profit about 3% before loan, 4(4.9%) of the respondent said they do not know. From the interview conducted regarding respondents who were not getting profit they argued they are facing with high operating costs which erode small profits they get and also some items they were selling was out of date which was sold at cost to avoid further loss. The majority (89%) of the respondent were getting profit although was very small they argued that, the income level of small scale enterprises was not all that encouraging. What they normally got from their daily sales was very small. This would not help them to take a step to expand their enterprises. Because of the low income of these enterprises, they were not able to compete with their competitors.

(ii) **Average profit after loan**

The data presented revealed that, 53(64.6%) of the respondent said that after taking loan increase in profit from 3% to 10%, 24(29.3%) of the respondent said profit was satisfactory and 5(6.1%) of the respondent said there was decrease in profit after taking loan. Five (5) respondents said their profits has decreased from 3% to 1% after loan, their argument was that, one respondent said the motor vehicle which was carried his merchandise was involved in the major accident and all goods was destroyed. Others said high borrowing interest charged to them was eroded their profits. The majority (64.6%) of the respondent said increase in profit was good after bank loan. The increase in profit was due to the increase of sales after the owners expanding their business operations, buying and selling fast moving items which meet customer needs (creating value for targeted customers). Therefore bank financing has positive effect on the SMEs performance because majority of the businesses has increased their profits. The findings are similar to the work of (Kessy&Urio, 2006; Kuzilwa, 2005, Martins, 1991; Mwangi .P.Wangu, 2011, Peter, 2001).

5.3.3. Employees employed by the respondent before and after loan

(i) **Employment status before bank loan**

The data presented revealed that 46(56.1%) of the respondent said there was no employee employed, 18(22%) of the respondent each said that they employ just one employee, 11(13.4%) of the respondent each said that they employ two employees, 7(8.5%) of the respondent each said they employ three employees. Data indicates that the majority 46(56.1%) of the respondents did not employ before loan. However in total there were sixty one (61) employees who employed before taking bank loans. Mathematically this shown as follow : 18 respondents each employ one employee which makes eighteen, second ,11 respondents each employ two employees which makes twenty two(22), third , 7 respondents each employ three employees which makes twenty one(21), hence makes the total of sixty one(61) employees.

(ii) **Employment status after bank loan**

The data presented indicates that, 30(36.6%) of the respondent each said there was no new employee employed, 31(37.8%) of the respondents each said, they employ one to two new employees, 12(14.6%) of the respondent each said three to four new employees was employed, 8(9.8%) of the respondent each said five to seven new employees was employed and 1(1.2%) of the respondent said more than eight new employees was employed. The majority of the respondents employ between one to four employees if we combine 31 respondents and 12 respondents who employ from one to two and three to four respectively. This is similar to the work of (John Kashangaki, 2005) and also similar to the definition of SMEs in the Tanzania context (Tanzania SMEs policy; 2002) in which SMEs employ less than five people. Furthermore the data analysis shows that in total there were one hundred seventy four (174) new employees employed after taking the bank loans. Again mathematically this shown as follow: 31 respondents each employ two employees (take the maximum number) which makes sixty two(62) employees, second, 12 respondents each employ four employees which makes forty eight (48),third, 8 respondents each employ seven employees which makes fifty six(56) and one respondent employ 8 employees, hence makes the total of 174 employees. From the data analysed above by comparing the employment status before and after loan there is net increase of one hundred thirteen (113) employees who contributed employment taxes (net) of tshs 6,104,105. This result is supported by secondary data collected from Lindi TRA Regional office with reference to table 4.19(b). The findings revealed that NMB financing have the positive effect on the SMEs performance. This is due to the fact that business operations have increased which eventually leads into increase in profits and sales volume. The findings are similar to the work of (Ayyagari et al, 2007, Bangladesh Bureau of Statistics survey, 2002, Kuzilwa 2005; Mehnaz & Munshi 2007; Mwangi .P.Wangu 2011; Ryan1993; World Bank;2007).

5.3.4: Level of investment before and after loan

(i) **Level of investment before loan**

The data presented revealed that, 46(56.1%) of the respondent said that before loan the level of investment was low, 29(35.4%) of the respondent said level of investment was very low, 7(8.5%) said the level of investment was satisfactory. In general most of the respondent said the level of investment was low followed by very low.

(ii) **Level of investment after loan**

The data presented indicates that, 42(51.2%) of the respondent said increase of investment was good, 34(41.5%) of the respondent said increase of investment was satisfactory, 6(7.3%) of the respondent said there was no increase in investment and there was no respondent who said increase of investment was very good. For these who argued there was no increase in investment they said their creditors are not paying on time, it takes three months or more to be paid. The majority of the respondent said the level of investment was good. The increases of investment enable the owners of the business to buy new equipments that facilitate to meet the unsatisfied demand of customers both in short term and long run. The findings are similar to the findings of (Bolnick and Nelson, 1990).

5.3.5: Training of the respondent before taking bank loan

(i) Training of the respondent before taking bank loan

The data presented revealed that, 57(69.5%) of the respondents said they were trained before loan, 25(30.5%) said they did not trained. This suggested that majority of the respondents had trained before granted loan. They said the areas which covered on the training include: business ethics, how to record business and private transactions, marketing and customer service/care.

(ii) The effect of business performance after training

The data presented indicates that, 11(13.4%) of the respondents said they are doing very well their businesses after training. 39(47.6%) of the respondent said they are doing well their businesses after training, 7(8.5%) of the respondent said no changes, they still doing business as before training and 25(30.5%) they did not attend training. The data indicates that the majority of the respondents have trained and they are doing well on their businesses. The results are supported by findings which was done by (Kuzilwa, 2005, Kessy, S and Temu, S. S. 2010, Robinson & Malach, 2004; Ying, 2008).

5.3.6: Household expenditure before and after loan

The aim of this part is to assess the social effect of the owners of the business before and after bank NMB loan.

(i) **Household expenditure before loan**

Data presented here shows that 38(46.3%) of the respondents said, their income was not adequate to meet expenditure of social services of family members such as education, medical care , insurance services etc, 14(17.1%) of the respondents said their income was adequate to meet standard of living and 30(36.6%) said standard of living was normal. The majority of the respondents said income was not adequate to meet their basic needs. This findings is supported from the data presented in 5.3.2(i) above, 89% of the respondents were getting only three (3%) per cent as business profit. The amount was real insufficient to meet family member's expenditure.

(ii) **Household expenditure after loan**

The data presented indicates that, 18(22%) of the respondents said after bank loan their income is adequate to meet expenses of social services of their family members (education, medical care, insurance services), 44(53.7%) of the respondents said after bank loan standard of living has improved and 20(24.4%) of the respondent said no changes in standard of living after loan. Although 20 of the respondents said there were no changes in standard of living, but the majority of the respondents have improved their standard of living and they were able to pay on time their children school fees, electricity bills, water bills and medical expenses. The data tell us that the standard of living has improved on the following grounds, due to increase the level of investments, many people have employed and they earn monthly salaries which assist to solve some of the family member's problems. Also since the business profits had increased, it helps the owners to grow more and can serve better the society. The argument is supported by the findings in 5.3.2(ii) above. Bank loans have positive changes in the standard of life of the clients (Kessy & Urio, 2006).

5.3.7: Contribution of the business to the region after bank loan.

The data presented indicates that, 7(8.5%) of the respondents said, they contribute to social activities, 75(91.5%) of the respondents said they registered their businesses to the relevant authority and they are paying taxes and no respondent who said he /she contribute nothing. After bank loans the business grows up and generate enough profits which enable respondents 7 (8.5%) to contribute to social activities. They said that the activities which they contribute to social activities includes: voluntary contributions to orphans, HIV/AIDS affected members of the society, building ward secondary schools, building churches and mosques so that people worship for peace of the country(political stability), employers make payments to National social security funds(NSSF) as the contribution to their employees. On the other hand the majority of the respondent said, they registered their businesses to the relevant authority and they pay taxes. From the data presented it has observed that there was an increase in sales, profits, and employments. These variables in turn enable the owners of the business to pay various taxes such as individual taxes, corporate taxes, VAT and employment taxes. The argument is supported by the data collected from Lindi TRA regional office as per table 4.19(b) in this report. Collections of these taxes enable the government deliver public goods and services smoothly as the responsibility of the government to its people is to provide effective services (Musgrave, et.al. (1989:212). Thus, the NMB financing to SMEs have positive effect on the operation performance.

5.3.8: Development made after bank loan

The aim of this part was to assess the social effect of the owners of the business after bank NMB loan. The data presented indicates that, 6(7.3%) of the respondents said they managed to build modern family house, 51(62.2%) of the respondents they managed to pay school fees/colleges to their children/relatives, 3(3.7%) of the respondents said they bought family transport, 22(26.8%) of the respondents said they started/added other businesses. NMB financing has the direct effect on the growth of SMEs, as the majority of the respondents are managed to pay school/college fees due to increase their profits from investments. Data indicates that the respondents who decided to invest in education are on the right truck because education is definitely important for everyone. In order to live in a civilized, spiritualistic and ethical society, someone needs to be educated, being equipped with good ethics is a part of the education, and education is absolutely beneficial for society on the whole. From increase in profits other managed to add (expand) other line of businesses.

5.3.9: Increase/decrease of business performance after taking bank loan

The data presented indicates that, 10(12.2%) of the respondents said there was decrease of their businesses after taking bank loan, 72(87.8%) of the respondents said there was no decrease of their businesses. For these who said their businesses decreased, one of the respondent said the motor vehicle which was carried his merchandise was involved in the major accident and all goods was destroyed. Others said high borrowing interest charged to them and high operating costs which eroded their profits and lack of business management skills which includes: finance, marketing, basic costing, stock control and financial records.

5.3.10: Firm utilization of the bank loan

From the data presented the respondents were asked: how did your firm utilised the bank loan? 80(97.6%) of the respondents said they utilise to increase their working capital. But in surprise only two (2.4%) point blankly admitted that most of the loan they take from the bank are used for settling other debts. This is a non-starter for most banks. Because they expect the loans to be invested into ventures that has a potential of meeting the requirement for loan repayments. That is investing into projects that will easily be able to allow the borrower to repay the loans in the near future easily.

5.3.11: The major challenges that can threaten the business growth

The respondents were asked about, what do you think can be the major challenges that threaten your business growth? They were requested to assign/rank by numbers according to their priorities, assign number one being the most challenge, followed by two, etc to the last number and the researcher decided to take only these challenges which were assign/ranked number one as the most threat. The data presented indicates that, 38(46.3%) of the respondents assign stiff competition of similar business threatening of their business growth as their challenge number one. The respondents argued that the firm with large capital tends to lower the selling prices as a result customers shift to firms with low selling prices. From this argument it appears that the competitors (large firm) use one the five competitive forces that was designed by(Michael E.Porter,1979) that shape the competition i.e. Bargaining power of customers (buyers)- the ability of customers to put the firm under pressure, this also affects the customer's sensitivity to price changes. 14(17.1%) of the respondents assign high business operating costs threatening their business growth as their challenge number one. Under this group they argued that the high operating costs are caused by high electricity bills, rent charges for their business as most of them have no premises to run their businesses, transport charges due to poor infrusture of Lindi regional and suppliers charge them high prices. This is bargain power of suppliers i.e. reducing selling prices and increase purchase prices by (Michael E.Porter, 1979). 4(4.9%) of the respondent assign difficulty availability of the market/customers to their commodity/services as their challenge number one. 7(8.5%) of the respondents assign creditors not paying them on time as their challenge number one. Most of this group is trading with government institutions which comprising district councils, primary and secondary schools and government hospitals. The results may be interpreted with caution as there is no evidence on the impact on creditors on the owner's business growth. May be there are other factors such as inflation, interest rates, political events, natural hazard. 19(23.2%) of the respondents assign multiplicity of taxes which are administered both by TRA and Municipal threatening of their businesses as their challenge number one. Multiplicity of taxes means paying similar taxes on the same or substantially similar tax base. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises (Vasak, 2008)**.** The majority of the respondents said the stiff competitions of similar business are the most threatening factor to their business growth.

5.3.12: Challenges facing SMEs when requesting bank loan

The aim of this section was to assess the challenges facing SMEs when requesting bank loans. The criteria of assessments were based on the education and experience of the respondents. The respondents were asked about, what challenges are you getting when requesting bank loans? They were requested to assign numbers according to their priorities, assign number one being the most challenge, followed by two, etc to the last number and the researcher decided to take only these challenges which were assign/ranked number one as the most challenge.

(i) Time of application to disbursement of the loan takes long time

The data presented indicates that, 4(4.9%) of the respondents said from the time of application to disbursement of the loan takes long time. From these respondents, one (25%) out of 4 of the respondents, his level of education was primary school with the business experience of 5-10 years and the remaining three (75%) their education was form four with business experience of 16 – 20 years. From these data, one of the respondent said it takes three months to get a loan and the remaining said it takes one to two months. On the other side the same information collected from NMB loan officer said it takes one week to three weeks and the maximum is one month but not more than two months. From the evidence available it was true to say, it takes long time to issue loans to the applicant. The delay actually distorts all the plans of the respondents to achieve their goals. For example, time value of money may be distorted, i.e. today's shilling is more value than tomorrow's shilling.

(ii) Less amount of the loan given than anticipated/applied

The data presented shows that, 19(23.2%) of the respondents said they are given less amount of the loan than anticipated/applied. 8(42%) out of 19 of the respondents, their level of education was primary school with the business experience of less than four years, 9(47%) out of 19 of the respondents their level of education was form four with business experience of 5-10 years and the remaining two (11%) out of 19 of the respondents, one was form six and other was first degree with experience 16-20 years old.

Interpretation of the data shows that only 61.62 % of the total applied loan was issued (see table 4.27(b), the 38.38% was rejected. The reasons for the rejection was cited as lack of adequate and registered collateral, poor daily business account turn over. The business account turn over means the owner of the business must deposit collections frequently in his /her bank account. For these who applied for the loan of more than ten million shillings, the account turn over should reflect at least eighty (80 %) per cent of deposit to qualify for the entire amount, if below the requirement, the applicant get less amount. The rejection rate under this study is high as compared to the previous studies. For example Krasniqi (2010) shows that all of SMEs in the sample that applied for loan in Kosovo 17.4 % were rejected. Hash and Tocsi (2010) showed that from the sample of applicants, only 6.5 % was rejected in Southern Eastern Europe countries. Levenson and Willard (2000) show that, in U.S only 2.14 per cent of small firms did not obtain funding for which they applied in 1987-1988. From the comparative of data presented it can be concluded that, the rejection rate in developing countries are much higher than those of the developed countries.

(iii) Requirement of security such as collateral

The data presented shows that, 17(20.7%) of the respondents said they are required to offer security such as collateral in order to get full amount of the loan applied. From the data 7(41%) out of 17 of the respondents their level of education was primary school with business experience of 11-15 years old, 9(53%) out of 17 of the respondents their level of education was form four with business experience of 5-10 years old and the 1 (6%) out of 17 was a holder of master degree with a business experience of above twenty years old. From the data presented it agrees with many research findings that mention collateral as one of the factors that limiting the growth of the SMEs. It is also evidenced from the respondents who received less amount of the loan due to lack of collateral. Most of the SMEs they know the importance of pledging the assets as collateral against the loan taken from bank, but they lack sufficient collateral requirements as compared to large firms (Aryeetey et al, 1994; Abor and Biekpe, 2006; Boughea et al,2005; Coco, 2000).

(iv). High interest rate on borrowing

The data presented shows that, 28(34.1%) of the respondent said, there are high interest rates on borrowing. 10(36%) out of 28 of the respondents their level of education was primary school with business experience of 11-15 years old, 16(57%) out of 28 of the respondents their level of education was form four with business experience of 5-10 years old,1(3.5%) out of 28 was form six with business experience of 16-20 years old and 1(3.5%) out of 28 was a holder of first degree with business experience of less than 4 years old. The majority of the respondents (34.1 %) cited high interest rate as their big challenge. The interest rate which SMEs charged by the NMB bank were 18 % and 19 % for year 2010 and 2011 respectively while profit (10%) earned by SMEs was smaller than borrowing interest rates. The data tell us that profits earned are eroded by high borrowing interest rates and borrowers are remained with nothing.

(V) A lot of procedures and bureaucracy

The data presented shows that, 3(3.7%) of the respondents said there are a lot of procedures and bureaucracy. 2(67%) out of 3 of the respondents their level of education was form four with business experience of less than four years, 1(33%) out of 3 their level of education was a ordinary diploma holder with also a business experience less than four years.

They pointed out that, loans procedures are so long and is a problem for some of clients especially those who are coming far from Lindi town. They mention twelve procedures which application loans must be signed: chairperson from the area which you are living, village executive officer, word executive officer, Land officer, court, business plan, valuation report done by a professional valuer for assets with title deed, loan insurance, audited financial statements for the past three years, business insurance, registration of your title deed (if any) from zonal land officer and tax clearance from TRA. They mentioned the issue of bribe although was not directly requested by the staff but the way they behave it may imply they need sort of corruption for them to process the loan application. Although there is no evidence of such situation but the indicators are seen. These observations are similar to the findings of Beck et al (2005) who used firm level data from World Business Environment Survey (WEBS) in 1999, the survey shows that firms rank the bank corruption as greater obstacle of accessing external finance. Olomi (2009) notes that SMEs operators and some of bank officials acknowledge that corruption exists in the banking sector and some bank officers deliberately delay processes until they are promised something.

(vi): Short period to repay the full amount of the loan

The data presented shows that, 11(13.4%) of the respondents said they given short period to repay the full amount of the loan which is twelve months. 5(45%) out of 11 of the respondents their level of education was primary school with business experience of less than four years and 6(55%) out of 11of the respondents their education was form four with business experience of 5-10years old. The first installment is normally paid within a month immediately after receiving the loan, for example if loan was received on 7 of January, the first installment must be repaid at the end of January. They suggested that the first installment payment be extended to two months after receiving the loan and the maximum repayment period for the full amount be extended to twenty four (24) months. They are getting problems to pay their installment on due dates, as borrowing interest rates are high sometimes they delay or even to default the payments.

Conclusion, from the above findings it revealed that, the majority of disadvantage group are these with the level of form four education and primary school with business experience of less than four years, 5-10 years and 11-15 years old.

5.3.13: Application of the loan by SMEs to the NMB Bank.

From the data presented it shows that the applications, amount applied, amount advanced and amount not qualified are increasing. The reason given from top officers of NMB bank was that for the amount rejected, the reasons which advanced was lack of collateral value which is equivalent or more to the amount of loan applied for, no good repayment records from the previous loan and inadequate account turnover.

5.3.14: Recovery rate of the loan

From the data presented it shows that, the rate of default by SMEs is just five (5 %) per cent. This rate is approximately the same as that of the amount not qualified for loan in table 4.28. In order to minimise the default rate, it is the responsibility of the loan officer to ensure that loan is fully recovered. He/she has to remind the customer in advance before the due date. When the customer did not respond, a reminder letter is normally served; if those efforts fails, the bank normally seize the collateral pledged as loan security. When no payment made within 21 days from the date the collateral seized, collateral handled over to the bank auctioneers for auction. According to data revealed to me by loan officer, for year 2010 to 2011 there were four houses sold while other 12 houses was on the way to be auctioned, but owners paid the loan on late hours before the auctioneer take action.

5.3.15: Borrowing interest rate vs. Lending interest rate

The data presented shows the comparison between the borrowing interest rate on the side of the borrower and on the other side lending interest rate to someone who want to invest in the bank (see table 4.29). The borrowing interest rate which charged to SMEs is higher than those of lending (investing) on savings accounts. If you need to borrow some money from bank, you will be charged an annual interest of 18 % to 19 %, and if you have your idle cash you want to deposit/ invest to the bank, they will award you a gain of 3 % to 5 %. From this analysis there is no any proportional between borrowing and lending interest rates. From these findings it is therefore supported by the majority of the respondents who claimed that they charged high interest compare to actual profits they are getting.

5.3.16: Total bank charges to borrower

The data presented shows the total charges charged to the borrower. Table 4.30 in this report indicates that apart from borrowing interest charges, there are also extra charges which charged to the borrower, these charges include: bank charges of 1.5 % and risk premium of two per cent (2 %).

5.4. Conclusion of the chapter

The objective of the chapter was to evaluate the impact of NMB financing on the performance of SMEs. Based on the above findings and empirical evidence demonstrated from the previous studies, we conclude that the NMB financing have the positive effect on the performance of SMEs. The findings therefore exhibit significant relationship between the NMB loans and SMEs performance; hence, as more loans will be issued to SMEs, the more SMEs will grow. Apart from positive effect of NMB financing to SMEs growth, there are weaknesses on the side of NMB loan officers. There were complaints raised by some of the respondents that, there are double standards on requirements of collateral as securities. These who know loan officers are given full amount of the loan without consideration of collateral while others are not. This is a double standard of the treatment of the loan applicants. These respondents they went further by saying that there are indicators of demanding corruption among of NMB loan officers.

CHAPTER SIX

6.0 SUMMARY, CONCLUTIONS AND POLICY IMPLICATIONS

6.1. Introduction

The objective of this chapter is to summarise the findings, draws conclusions based on the findings on chapter four and five and make some recommendations and suggests areas for further research.

6.2: Summary of the findings.

The general objective of this study was to assess the effect of NMB Financing on Performance of Small and Medium-Sized Enterprises (SMEs) before and after financing which was conducted in Lindi Municipal. Based on the findings the study aims at providing recommendations on what should be done to ensure that SMEs are growing and can assist to lower the level of poverty. The literature review was made to get what other authors have done and recommendations they made on the similar topic. From the background information it was observed that the majority of businesses are owned by men for the ratio of 64.6 % against 35.4 % of women. Also, the majority of the respondents had attained form four as the highest level of education with the average of 21 to 40 years old. Further, the majority of the respondents had the business experience between 5 to 10 years old and they got capital to start up business from their own savings and from friends.

In the light of the above discussions on the empirical literature review on the effect of the bank financing on the performance of SMEs, the data analysis and discussions of the findings in this chapter were focused on the research objectives. The following research objectives were formulated to guide the study:

(i) The effects of NMB financing on SME's operation performances
(ii) The effects of NMB financing on socio- economic status of the borrowers
(iii)The challenges that facing SMEs on the availability of funds from NMB

To achieve these research objectives, the primary data was collected from the borrowers (SMEs) and secondary data on other hand was also collected from NMB bank. The findings of the study was linked between independent variable which was NMB financing to SMEs and the dependent variables being the effects of operational and socio-economic performance of SMEs. The output effects of operational and socio-economic performance under the study includes: income/profit, sales, investment, employment, economic effect, education, social effects. These outputs were assessed individually to examine their effects to SMEs performance. The conclusions emerged out of this study are presented here under objective wise:

The effect of NMB financing on SME's operational performances:

The dependent variable which was subjected to investigation under this research objective was: level of sales, income/profit, level of investment, employment status and economic effect. From the analysis it was revealed that the level of sales was increased after loan due to the fact that, the owners expanded the business operations and increased level of merchandise stock. Before taking loans the majority of the respondents their sales per day was below tshs 15,000 and after loan the sales per day was at the average of tshs 80,000 to tshs 120,00,000 and above. Sales after taking loans were relative higher than sales before taking loan. From the study it also shown that the profit had increased, because profits depends on sales keeping on assumption that operating cost should be kept at minimal. Although the majority of the respondents said the profits had increased but five (5) and ten(10) respondents said their profits and business in general had decreased respectively, the reasons of decreased was explained in chapter five. In connection with the level of investment, the data shows that 42 of the respondents said the increase of investment was good and 34 of the respondents said increase of investment was satisfactory. Since the level of sales, investment and profits have increased and basing on the evidence generated under this study, the level of employment also has increased. Before taking bank loans, the SMEs employ only 61 employees but after receiving bank loan the employment was increased to 174 with an increase of 113 new employees who contributed employment taxes (net) of tshs 6,104,105(see table 4.19(b). For economic effects, adequate financing to SMEs normally enables them to generate new business, new employment as mentioned and generate profits, and hence increase tax base. The increase of tax base through paying individual taxes, corporate tax, VAT and employment taxes enable the government to have the capacity to finance its expenditure and provide basic goods and social services, in particularly health, education, infrastructure which give the poor a better chance of increasing their productivity and income earning capacity. Increase in production, new businesses, and new employment and through paying taxes, raise the economy of a country as well as GDP. Refer to table 4.19(b) to see various taxes paid after positive effect of NMB financing to SMEs.

The effect of NMB financing on socio- economic status of the borrowers

The dependent variables which subjected to investigation under the research objective were: education, household expenditure, owner's development, employee's development and contribution to social activities. 51 of the respondents out of 82 said after bank loan they managed to pay school fees and training expenses to their children/relatives who undergo training, but before loan it was difficult to meet such expenses. House hold expenditure, after bank loan most of the respondents said the standard of living was improved and their income were adequately to meet basic needs of their family members including, insurance services, and health care and from the analysis of data presented in chapter five it shows that after the bank loan, the owner's of the business managed to build the modern family house and purchased family transport. Employee's development: the monthly earned salaries assisted to progress themselves and they assist members of the family and the owners of the business contribute to social activities which include voluntary contributions to orphans, HIV affected members of the community, donations to churches, mosques and secondary schools.

Challenges that facing SMEs on the availability of funds from NMB

The challenges facing SMEs when requesting loan include high borrowing interest rates, less amount of the loan given than that which was actually applied, requirement of collateral, short period required to repay the full amount of the loan; time of application to the disbursement of the loan takes long time and a lot of procedures and bureaucracy. From the data presented above, high borrowing interest rates was assigned more weight by the majority of the respondents as the major challenge to them (34.1%). The high borrowing interest together with other charges such as bank charges and risk premium increases the operating costs to the owners of the business which eventually erode the profits. The next challenge which assigned more weight was less amount of the loan given than that which was actually applied (23.2%). This challenge has negative effect on the SMEs growth and development. They cannot achieve what they have already planned due to fewer amounts. Lack of adequate security was also assigned more weight of 20.7%. Short period required to repay the full amount of the loan was also challenges as cited by respondents by assigning weight of 11.4%. The respondents fail or delay to pay the loan instalments as scheduled because of the short period. The following also cited as the challenges but with less weights: From time of application to the disbursement of the loan takes long time (4.9%), takes from one month to three months and a lot of procedures and bureaucracy (3.7%). Delaying processing the loan not only distorts the activities planned but also business may lose contracts. For example, in Lindi municipal there are cash nut and rice as season businesses which normally take the maximum of three to four months.

6.3 Conclusion of the study

The purpose of the study was to assess the effect of NMB Financing on Performance of Small and Medium-Sized Enterprises (SMEs) before and after financing. The conclusions drawn from this study was based on the findings which were emanating from the research objectives. From the findings, the study revealed that the NMB loans have positive effect on the performance of SMEs in Lindi municipal. After bank loan the majority of SMEs increased level of income/profits, sales, investments, assets, creation of new jobs and improve standard of livings, however few of the respondents claimed that their businesses was decreased after taking bank loans as explained in the previous chapter. There is a general consensus that the performances of small and medium enterprises are important for both economic and social development of developing countries (Abor &Quartey, 2010; Idowu, 2010; Kuzilwa, 2005; Trisha, 2011). Since small and medium enterprises are labour intensive as pointed out in the literature review, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. The researcher concludes that, if SMES are provided with adequate funds on time, it enable them to grow and hence can assist the government to fulfil its responsibility to her citizens. Performance of the SME sector is closely associated with the performance of the nation.

6.4. Recommendations

From the empirical evidence, we have seen that SMEs are the key source of economic growth, income and employment generation for development of Tanzania. They need therefore be supported by the government so that they can operate consistently and become sustainable in the long run. This study provides the following recommendations to the challenges faced SMEs in accessing finances from financial institutions and their growth:

Inordinate delay between time of application and the time of disbursement of the loan

NMB bank should reduce unnecessary bureaucracy to process the application loans. Bureaucracy may be interpreted in different perceptions such as demand corruption indirectly. Bank officials should not encourage bureaucracy and they must serve their customers promptly. It is recommended that the loan should be given at an appropriate time so that it can be used for the intended purpose/objectives.

Collateral

Requirement of security such as collateral has been a problem to some of the SMEs to access to financial institutions. Lack of sufficient collateral frustrates the SME’s performance, because they are given fewer amounts than anticipated. By virtue of this SMEs are unable to achieve their goals. In this regard the government has to come to the rescue of the SMEs. Further it is recommended that traditional lease of the land be accepted as collateral.

High borrowing interest rate

SMEs are the engine of growth for developing economies like in Tanzania. Bank loans are usually one of the fastest means of acquiring credit for SMEs. This credit is what helps them in boosting their business and in effect economy growing as a result. Thus the cost of such loans should be reviewed downwards to enable smooth repayment and increase in the demand for loans by SMEs to enable growth in their business which will in effect affect the economy as a whole positively.

Short period to repay the full amount of the loan

Majority of the respondents cited that bank provide short period to recover the amount of the loan as a problem. The recovery period of twelve months is very short that cause business fail or delay to pay the instalment as agreed or default. The failure or delay is actually attributed by high borrowing interest rate and economic activities in Lindi which has poor cash flows. We recommend that the repayment period should include the grace period and to recover the full amount be extended from the current twelve months to twenty four months.

6.5: Policy implication

In Tanzania, government policies and regulations designed are in place but they are coming in the survival and progress of SMEs. From this study therefore, we recommend the following to be reviewed so that SMEs can develop:

1. Land Policy Reforms:

The current constitutional provisions have no proper guidance on how tradition land/farm lease can be accommodated as collateral in commercial banks. The next new constitutional should provide guidance on land usage and to streamline land/farm ownership so that SMEs can easily access the commercial loans.

2. Borrowing and lending interest rate

Currently there is wide gap between borrowing interest rate and lending interest rate. When you need to borrow money from NMB bank, they will charge at the rate of 19%, meanwhile if you need to deposit/invest your money for a certain period of time, they provide you 3 % to 5% as interest earned. The government should review these two types of interest. It is recommended that the borrowing interest rate should be lowered downs and lending rate be reviewed upwards. This however, should be done with caution by considering the impact of lowering the borrowing interest rate as may cause the financial institutions to operate at losses.

3. Tax policy and transaction costs

Small taxpayers under the regular system of taxation are not discriminated, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. As a result most of informal enterprises have failed to formalise and micro enterprises have been unable to grow and graduate into Small and Medium Enterprises. The tax regime in Tanzania is unfavorable for SMEs development. Taxes are many, rather than high and collected by various authorities including Tanzania Revenue Authority and the Local Government Authorities. Furthermore, entrepreneurs are ignorant of tax matters and the cost of complying with tax regulations is considered high. Whereas taxation of businesses is a necessity for national economic development**,** the present tax regime imposes a major burden on SMEs. It is therefore recommended that the government should review the legal, tax structure and regulatory framework to ensure that it encourages the development of SMEs.

6.6. Limitations of the study

Constraints are expected to occur in any research work. First, even though it was explained to respondents that the study was purely for academic purpose, but still some of the respondents(both SMEs and NMB staff) was not willing to disclose some basic information during the interviews because they regard some of the questions were sensitive to them. Some of the respondents (SMEs) thought that the researcher sent by management of the bank and tax officers to spy their businesses.

However this group was regarded to be small and I assumed that they could not affect the overall results and conclusions.

For the case of NMB bank, they reluctant to be interviewed they believe that the research was about comparison between them and their competitors, even after clarifying the objective of the study.

Second, limitation may be the fact that a single researcher collected and analyzed the data, because of this; some explanations may be skewed towards personal interpretations to distort the meaning of the results.

Third, financial and time

Time constraint, this study was carried out in a short period of time because the timeframe requirement was to meet the deadline of the academic calendar of Mzumbe University (two years data are not enough to reveal the actual picture of the performance of SMEs).

Financial limitation, Lack of adequate finances may affect the quality and quantity of data collection during the study.

Fourth, the study was focused only on NMB financing while other providers of funds such as cooperative rural development bank (CRDB), National bank of commerce (NBC), and Postal bank, Other commercial banks and government agencies was not investigated. These constraints limited the scope and coverage of the study, because it was the researcher's belief that a broader scope would give a better picture.

6.7. Areas for future studies

In this study the researcher assessed the effect of NMB financing on the performance of SMEs in Lindi municipal. The research work was specifically focused to address SMEs which operate in Lindi municipal. Thus, findings in this study may not apply to SMEs in rural areas. Therefore, the future research may be conducted in SMEs which operates in rural areas. Future research should mainly focus on the current limitations since the present findings cannot be generalized based only on the NMB financing other than other commercial banks such as CBDB bank, NBC bank, postal bank which was not investigated. It is suggested that the future research be conducted on the effect of commercial banks financing on the performance of SMEs in all municipals in the country to have a broader scope that will give a better picture.

REFERENCES

Aryeetey, Abor and Biekpe (2006). Supply and Demand for Finance of Small Scale Enterprises in Ghana, World Bank Discussion Paper No.251.

Asanterabi,J.Msigomba(2009), The Role of Kilimanjaro cooperative Bank Limited in the growth of SMEs, Master Dissertation Submitted to the University of Dar es salaam, November

Ayyagari and Pietro (2012). Bank financing to SMEs in East Africa countries-Africa Development Bank, working paper no 46 of 2012.

Bagachwa and Maliyamkono (1990). The Second economy in Tanzania, London and Athens. James Currey and Ohio University Press.

Balunywa, J, W, (1989); Entrepreneurship and Small Business Enterprise Growth in Uganda; A Paper presented at the Symposium on modalities for Financing

Berger, Beck, Hyytinen and Pajarinen and Cole (2004). The ability of bank to lend to informational opaque small business. *Journal of banking and finance* 25, 2127- 67.

Berry (2002). Reliance of SMEs on bank debt as a source of financing. https://www.google.co.tz/search?q=Berry.A+(2002),+reliance+of+smes+on+bank+bebt+as+a+source+of+financing.Accessed on 2/11/2013

Bolt, J.E. (1971). Report of the committee of Inquiry of Small Firms-London, H.M.S.O

C. Mark and Magdalena Rwebangira (2004), Tanzania Strategic Country Gender Assessment. Available at (http://siteresources.worldbank.org/EXTAFRREGTOPGENDER/Resources/ Tanzania SCGA .pd. accessed 28/12/2012

Chijoriga, Marcelina, M. and Danny Cassimo (1999). Micro Enterprises Financing: Is there a Best Model? In African Entrepreneurship and Small Business Development, Dar e s salaam University Press.

Harper, Malcolm (1995) Consultancy for Small Business, Southampton Row, Cranfied University-London.

Idowu, F. Christopher, (2010). Impact of Microfinance on Small and Medium-Sized Enterprises in Nigeria, The 7th International Conference on Innovation and Management ,Wuhan University- China

Kanaan,(2000); Tanzania's Experience with Trade Liberalization. Quarterly magazine of IMF, Volume 37, number 2

Kashangaki, J. (2005), Tanzania MSME Access to Finance Assessment funded by International Finance Corporation. Accessed on 25/11/2012

Kasende &Opondo (2003) - Financing Small and Medium-scale Enterprises (SMEs): Uganda's Experience.

Kessy, S and Temu, S. S (2010), The Impact of Training on Performance of Micro and Small Enterprises Served by Microfinance Institutions in Tanzania Research Journal of Business Management 4 (2): pp 103-111

Kessy &Urio (2006). The Contribution of Microfinance Institutions to Poverty Reduction in Tanzania (REPOA).

Kothari, C.R. (2004). Research Methodology: Methods &Techniques, second Edition-New Delhi.

Kuzilwa, J. A. (2005). The Role of Credit for Small Business Success: A Study of the National Entrepreneurship Development Fund in Tanzania *Journal of Entrepreneurship September 2005 14: pp 131-161.*

Kuzilwa, J.A and Mushi, E.K. (1997). Credit needs for Small Business in Tanzania Banker's journal. Issue number 9 pp 13-16, June

Levy, B (1993); Obstacles to Development Indigenous Small and Medium Enterprises: An Empirical Assessment, World Bank Economic Review 7(1), pp 65-83

Makombe, Idd, A. M. (2004) Women's Business Performance and Empowerment, The case of Women Micro and Small entrepreneurs for Poverty Alleviation, Arusha Region(REPOA)

Mbelle, A.V.Y. (2001). The Imminent Challenges of Globalizing: Small and medium manufacturing enterprises in Tanzania', Tanzania Economic Trend, vol. 14 no.1.pp 25-33

Mehnaz and Munshi (2007). Financing SMEs and its effects on employment generation in Bangladesh.

Mittah, H. (2009). Tanzania Revenue Authority mid Year Review Meeting. Accessed 3/1/2013

Mwangi P. Wangu (2011), Access to Finance and Performance of Small and MediumEnterprises.http://cees.mak.ac.ug/sites/default/files/publications/mwangi_wangu.pdf. accessed 28/2/2013

Mwinyimvua, Hamisi, H. (2002). Policy Issues and Small and Medium Enterprises Development in Africa, University of Dar es salaam.

National land policy,(1997) in Tanzania

OECD, (2006).Financing Small and Medium-sized Enterprises (SMEs) and Entrepreneurs [http://www.oecd.org/cfe/37704120.pdf] (accessed 12/9/2012).

OECD, (2004). Promoting Entrepreneurship and Innovative SMEs in a Global Economy: Towards A More responsible and Inclusive Globalization. Accessed 12/9/2012

Olomi, R (2009), African Entrepreneurship and Small Business Development.Otme Company Ltd Dar es salaam

Rugumamu, S.M & Mutagwaba, B.B (1999), Evolution of entrepreneurial motivation: The Transition from economic necessity to Entrepreneurship.

Rutashobya, L. K & Olomi, D.R (1999), African Entrepreneurship and small business Development: Dar es salaam University press (DUP)

Sanda (2006), Small and Medium Scale Enterprises and Employment Generation in Nigeria- The Role of Finance
[http://www.arabianjbmr.com/pdfs/KD_VOL_1_9/4.pdf](Accessed 13/10/2012).

Satta, T.A. (2003). Enterprise characteristics and constraints in developing countries evidence from a sample of Tanzania micro and small scale enterprises. International journal of entrepreneurship and innovation 4 (3): pp 175-184.

Sowah. N.K,(2003);Comments on Golden Age of Business: The Role of Banking sector ,CEPA Research Working Paper

Stokes, David (1997). Small Business Management, Great Britain

Stoner, C, R (1989); Distinctive Competence and Competitive Advantage, journal of Small Business management 25: pp 33-39

Temu, S. (1998). The impact of financial Institutions Reforms on small and micro Enterprises Financing in Tanzania, Business Management Review 5(2): 56-78

Trisha Kweenua Quianoo, (2011). Examining the impact of loans on SMEs in Ghana.[http://dspace.knust.edu.gh:8080/jspui/bitstream/123456789/4460/1/TRISHA%20QUAINOO.pdf] (accessed 11/9/2012).

URT, (2002). United Republic of Tanzania, Small and Medium Enterprises Policy (2002).

Veselin, (2012). What have we learned from the Enterprise Surveys regarding access to finance by SMEs?

Women's World Bank (1995). The Missing Links*:* Financial Systems that Work for the Majority [*www.cgap.org] (accessed 15/10/2012).*

World Bank Report, (2001). SMEs: World Bank review Group Review of Small Business Activities, Entrepreneurship research and development in Africa: achievements, challenges and future prospects

Temtime, Z. T. and Pansiri, J. (2000). Why SMEs Fail? A Question of Sustainability and Competitiveness, 6th International Conference on African Entrepreneurship and Small Business Development, 23th-26th September, 2000, White Sands Hotel-Dar Es Salaam, Tanzania[http://www.htbotswana.com/bezab.biz_OLD/temtime/conference.htm](Accessed 17/9/2012).

APPENDICES

Appendix 1: Questionnaires for financing for SMEs

The questionnaires are divided into two parts.

Part I of the questionnaires was distributed to SMEs community traders and part II of the questionnaires was distributed to NMB Bank Ltd.

PART I

Dear Respondent

My name is Adam M. Ntoga, I am pursuing Master of Science Degree programme in Accounting and Finance (MSc A& F) at Mzumbe University. I am conducting academic study on the effect of bank Financing on performance of Small and Medium-sized Enterprises (SMEs) in Lindi.' Will you please assist my study by filling and answering all the questionnaires? I assure you that your answers will be kept confidential and your names shall not be disclosed except for this study.

Please tick the appropriate answers or fill the space provided. Thank you in advance for your assistance.

Section A: General information (100)

1. Name..

Business name (if any)..

Address ....……………………………

Telephone number..

2. Gender: Male (..........................), Female (.....................)

3. Marital Status: Single (..................), married (...............), widow (.......................), divorced (....................................)

4. Which of the following categories describe your age?

Below 20 years(..........), 21- 40 years(.........), 41-60 years(........), 61-80 years(.........),

Above 80 years (..............................)

5. What is your highest education level?

Primary school (…….….)Form four (…….), form six (……), Diploma(................), 1st Degree/Advanced Diploma(…..…), Master degree(………..), Others (specify)…………………..

6 (a). Which of the following categories describes your business? (Select only one)

Sole proprietor (………) Partnership (…………) Limited company (……………)

Others (specify) ……..

(b) What is the nature of your business?

....
....

7. What was the source of fund for the start-up capital of your business?

From my savings (……….), from my family (…………), from friends (……..), from Bank (………), others (specify)……………………………………………..

8. (a) Have you applied any loan from NMB bank?

Yes (……........................), no (..................................)

(b)If yes, what was the purpose for the loan?

Start-up business (…………), Increase working capital (………), Expansion of the existing business (……….), others (specify)…………………………………………

9. How long have you been in this business (business experience)?

Less than 4 years (……………), 5 -10 years (……………), 11- 15 years (……………), 16- 20 years (………………), More than 20 years (………………)

Section B: SMES performance before loan (200)

1. What were your average sales for the previous two years before taking the loans?(sales per day)

Below Tshs 15,000 per day(.........), Tshs 15,000 to Tshs 29,000 (.........), Tshs 30,000 to 79,0000 per day(.......),Tshs 80,000 to 100,000 per day(..........), Tshs 200,000 and above per day(...............)

2. What was your average business profit for the previous two years before taking bank loan?

There was no profit (...............), there was very small profit about 3% (.............), I don't know (...........)

3. How many number of employees have you employed when you started the business before taking bank loan?

No employee(........),One employee(..........),Two employees(........),Three employees(.........) Others (specify)…………………………………..

4. What was your average investment growth for the previous two years before taking bank loans? Low (..................), Very low (....................), Satisfactory (...........................)

5. Did your business contributed to the Government before taking bank loan?

Yes (….................), no (..)

If yes, an average, how much tax and levy have you paid for the previous two years?

(a) For central government………………………………………

(b) For Lindi municipal …………………………………………

6. (a) Have you ever attended any training before loan in order to run properly your business? Yes (……………………..), no (...)

If yes, what the nature and duration of the training?

....
....

7. What was your average expenditure for your family members for the previous two years before bank loan?

- Income was not adequate to meet expenditure of social services of my family members (education, medical care, insurance services)..)
- Income was adequate to meet standard of living (..)
- Standard of living was normal (...)

Section C: SMEs performance after bank loan (300)

1. What were your average sales after receiving the bank loans from NMB? (Sales Per day) Between 16,000 to Tshs 70,000 (....................), Tshs 80,000 to 120,000(....................), between Tshs 130,000 to 240,000(..................), Tshs 250,000 to 450,000(...........................), Tshs 500,000 and above (........................)

2. What was your average business profit after taking bank loan?

Profit was doubled (.............), Increase in profit from 3% to 10 %(..............), profit was Satisfactory (..............),there was decrease in profit from 3% to 1% (.................)

3. How many number of employees have you employed after bank loan?

No employee employed (.................), one employee to two employees (...............), three employees to four employees (.............), five employees to seven employees (..............), more than eight employees..

4. What is your average investment after taking the bank loans?

Increase of investment was very good (..........), Increase of investment was good (.............)

Satisfactory investment (.............), No increase in investment (...............)

5. What is your business contribution to the nation after bank loan?

- I am contributing to social activities (................................)
- I registered my business to relevant authorities and I am paying tax (.................)
- I contributing nothing (..)

6. What can you say the effect on your business after getting the training?

- I am doing very well on my business (......................)
- I am doing well on my business (......................)
- No changes, I still doing as before training (..............)

7. What is your current average expenditure for your family members after bank loan?

- Income is adequate to meet expenditure of social services of my family members (education, medical care, and insurance services)......................................
- Standard of living has improved (...)
- No changes in standard of living (..)

8. After taking bank loan and your business prosperity, what development have you made so far?

I built modern family house (..)

I have paid school fees/college to my children (.....................)

I bought family transport (.................)

I started/added another business (.........................)

Others (specify)...

9 (a) How much amount of the loan you have applied for the purpose of your business

………………………………………………...

(b) From 9(a) above, how much actually you have received?

………………………………………………………….....................................

10. Was there any decrease of your business performance after the bank loan?

Yes...

No..

If yes what was the cause of such decrease of business performance?

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

11. What do you think can be the major challenges that can threaten your business growth? (Assigning by numbers according to your priorities, assign number one to the last. Number one being your priorities followed by two etc to the last number).

Stiff competition of similar business (.......................................)

High business operating costs (...)

Difficult availability of the market/customer to my commodity (.............)

Creditors not paying me on time (..)

Multiplicity of taxes both TRA and municipal (.........................)

12. How did your firm utilised the bank loans?

Acquisition of non-business assets (.............), settlement of other debts (............), to increase working capital (................), sources of raw materials (..........................)

13. What challenges are you getting when requesting bank loans? (Assigning by numbers according to your priorities, assign number one to the last. Number one being your priorities followed by two etc to the last number).

Time of application till disbursement of the loan takes long time (.......................)

Less amounts given than anticipated/requested (...)

Requirements of Security such as collateral (...)

High interest rate on borrowing (...)

Lack of knowledge on how to prepare business plan as per NMB requirement (...)

Lack of technology to access the market (...)

A lot of procedures and bureaucracy (..)

Short period to repay the full amount of the loan (...)

14. Would you please comment on the effect of your business before and after taking the bank loans?

……………………………………………………………………………………………

……………………………………………………………………………………………

……...

....

....

....

....

15. What is your advice to the financial Institutions and the government as a whole

PART II

Dear Respondent

My name is Adam M. Ntoga, I am pursuing Master of Science Degree programme in Accounting and Finance (MSc A& F) at Mzumbe University. I am conducting academic study on the effect of NMB Financing on the performance of Small and Medium-sized Enterprises (SMEs) in Lindi municipal.' Will you please assist my study by filling and answering all the questionnaires? I assure you that your answers will be kept confidential and your names shall not be disclosed except for this study.

Please tick the appropriate answers or fill the space provided. Thank you in advance for your assistance.

B: An interview guide to Banks, Professionals and Public:

1. Name of the Bank……………………………………………….............

Address of the Bank……………………………………………..............

Email address...

2. Gender: Male ( ) Female ( )

3. Which of the following categories describe your age?

Below 20 years(……………), 21- 40 years(…………),41-60 years(………), 61-80 years(…………), Above 80 years(……………).

4. What is your current position in the firm?

Branch manager (..................), Loan officer (...................)

Finance/branch accountant (............), Administrative officer (...................), Customer service officer (.............),

Others (specify)…………………………………………….................

5. How long have you been working with this Bank?

Less than 5 years (...................), 6 -10 years (................), 11- 15 years (..................)

16- 20 years (.......................), More than 20 years (...............................)

6. What are the criteria for a new customer to access to your bank?

…………………………………………………………………………………...

…………………………………………………………………………………...

…………………………………………………………………………………...

...………………………………...

7. How many applications from SMEs have you received from years 2010 to 2011?

Year	Number of applications received	Amount applied by SMEs	Amount advanced to SMEs	Amount rejected
2010				
2011				

8. From seven (7) above what was the reasons for the rejection?

....

....

....

....

9. (a) What was the borrowing interest rate charged to your customers under the period of this study?

Year 2010……………....., year 2011............................

(b)) What was the lending interest rate for charged to your customers under the period of this study?

Year 2010(....................), year 2011(.......................)

10. What action normally do you take in case of a defaulter?

- Sale of assets pledged as collateral (security) to recover the debt (............)
- Sue the client to the court of law (..)
- No action to take (...)

11. How would you rate the repayment schedule of the SMEs so far?

Year	Amount advanced	Amount recovered	% age of recovered
2010			
2011			

From above results how would you rate the recovery?

Very good (............), good (.............), Acceptable (..........), bad (...................)
Very bad (...........)

12. Do you think some SMEs are not able to access funds from your Bank?

Yes (............................)

No (................................)

If yes, what were the reasons of not accessing to your bank?

....

....

....

13. What are the transaction costs (in per cent age) associated with the processing the loans to SMEs? (Tick all which you think is applicable)

Bank charges(..............................%, Application fees(..............................%
Service charges(............................%,Legal duties e.g. stamp duty(..........................%

Document charges(..............................%, Risk premium...................................%

14. How many days does it take from the date of application to the date of disbursements of the loan to the applicant?

....

....

15. What difficulties you are facing with regard to issuance of loans to SMEs?

....

....

....

....

....

....

16. How many procedures normally do you have from an application to the disbursement of the loan?

....

....

....

....

....

Appendix 2: Schedule of Activities

S/N	Activity	2012								2013								
		M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S
1	Research concept note																	
2	Literatures review																	
3	Proposal write up																	
4	Proposal submission																	
5	Data collection rehearsal																	
6	Data collection																	
7	Data analysis																	
8	Report Writing																	
9	Study report submit																	
10	Defending dissertation																	

Appendix 3: Budget for the Research Study and source of fund

a) Budget descriptions

S/N	**Activity**	**Cost description**	***Amount (Tshs)***
	Field survey	Travelling	*800,000/=*
		Accommodation: 50days x 30,000/=	*1,500,000/=*
		Meal: 50 days x 2 x 5,000/=	*500,000/=*
2	Stationary	Typing	*300,000/=*
		Printing	*300,000/=*
		Binding	*500,000/=*
		Software (SPSS)	*500,000/=*
3	Communication	Telephone	*200,000/=*
		Internet	*100,000/=*
		Fax	*100,000/=*
	Total		***4,500,000/=***

b) Source of finance: Private