

**SMALL BUSINESS DEVELOPMENT IN TANZANIA: THE  
ACCESSIBILITY/INACCESSIBILITY OF BANK FINANCE**

**SMALL BUSINESS DEVELOPMENT IN TANZANIA: THE  
ACCESSIBILITY/INACCESSIBILITY OF BANK FINANCE**

**By**

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**A thesis Submitted to Mzumbe University Dar es salaam Campus College in  
Partial Fulfillment of the Masters Degree of Business Administration (MBA -  
Corporate Management) Of Mzumbe University**

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**CERTIFICATION**

We, the undersigned, certify that we have read and hereby recommend for acceptance by Mzumbe University a dissertation titled; “**Small Business Development in Tanzania: the Accessibility/Inaccessibility of Bank Finance**”  
Fulfillment of the requirements for the award of a Masters degree in Business Administration (MBA - Corporate Management)

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## **DEDICATION**

This work is dedicated to my family who have been a blessing throughout my life through their material and moral support, spiritual guidance and who also laid down the foundation for my education.

## LIST OF ABBREVIATION

CNFA	-	Citizens Network for Foreign Affairs.
CRDB	-	Cooperative Rural Development Bank
DFIs	-	Development Finance Institution
EAB	-	East African Bank
EXIM	-	Experimental Internet Mailer
FINCA	-	The Foundation for International Community Assistance
MFI	-	Micro Finance Institution
NBC	-	National Bank of Commerce
NGO	-	Non-Governmental Organization
NIPC	-	Nigerian Investment Promotion Commission
NMB	-	National Microfinance Bank Ltd.
OSHA	-	The Occupational Health and Safety Authority
PRIDE	-	Promotion of Rural Initiative and Development Enterprises Limited
SACCOS	-	Savings and Credit Cooperative Society
SBA	-	Small Business Administration.
SELFINA	-	Sero Lease and Finance Ltd.
SIDO	-	Small Industries Development Organization
SPSS	-	Statistical Package for Social Science
STANBIC	-	Standard Bank.
STEP	-	Support and Training Entrepreneurship Program me
TFDA	-	Tanzania Food
TRA	-	Tanzania Revenue Authority
URT	-	United Republic of Tanzania

## **ABSTRACT**

This study investigated the influence of inaccessibility of bank finance and lack of financial management knowledge to people doing small business. The general objective of the research was to investigate the influence of accessibility/inaccessibility of bank finance to small business development in Tanzania. Specific objectives: To investigate the influence of accessibility and inaccessibility of Bank Finance on the Small Business management, to identify effects of accessibility/y/inaccessibility of bank finance to the development of small business and to determine challenges faced by small business owners as a result of inaccessibility of Bank finance.

Both theoretical and empirical literature was reviewed and the latter revealed that many studies have been done on the similar issues. This was because of the importance of small business as a source of job creation and eradication/alleviation of poverty. The survey research design was used to gather information and the sample included 100 respondents who were randomly and purposively selected. Interviews, observations and documentary analysis were data collection methods used to collect both primary and secondary data. Analysis of data was done based on research objectives and research questions.

Findings of this research showed that small businesses owners in the study area find it difficult to access bank finance. The research results also showed that inaccessibility of bank finance have a greater influence on the development of small businesses. It also highlighted that lack of financial management knowledge have an impact on survival and development of small businesses. Recommendations: Small business owners should be financed effectively, business education to be provided effectively, same research to be done in other places.

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## **CHAPTER ONE**

### **INTRODUCTION AND BACKGROUND TO THE PROBLEM**

Small businesses (SB) are considered to be the driving force for the development of economic growth for both developing and developed countries. SB creates the worth for the country. It creates new jobs each year hence reduces poverty. Moreover SB increases productivity and services, stimulate economic competition and introduce innovation within the country. Innovation contributes much for the production of different products and services including the methods of producing them. In Korea up to the end of 1999 there will be more than 2.7 million SB providing employments for 82 per cent of all Koreans working in the private sector (Korea SME statistics, 2000)

In Canada SB sector over the past 35 years contributed almost half of the economy of the Canada (Bruce and Pincard, 2005). Similarly for Malaysia, SB development is highly importance to the economy of the country (Abdullah and Manan, 2010). A survey of South Africa government (2009) concluded that 74% of South Africa economy is employed by the SB. Similarly in Nigeria SB play a key role in creating the growth of the economy (Ariyo, 2000)

According to SME policy of Tanzania (2002), SB is most formalized business with employee's between 5 to 49 with capital investment from Tshs 5 million to Tshs 200 million; however a researcher of this study based on capital investment. In Tanzania SB is the backbone of the country. It is estimated that about a third of the GDP in Tanzania originates from the SB sector. The International Finance Company (IFC) of the World Bank estimates that there are approximately 2.7 million enterprises in the country of which 98% are SB. Currently Tanzania is faced with unemployment problem; and it is estimated that there is about 700,000 new entrances into labour market 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 entrant

into the labor market, leaving about 660,000 to join the unemployed or the under employed reserve. A large percent of the remaining person join into SB sector (Ministry of Industry and Trade, 2002). SB plays a vital role in providing employment and generating income of the country. SB is generally closely associated with raising income and poverty alleviation (SME Tanzania development policy, 2002). According to the SME policy of Tanzania (2002), SB is mostly formalized business with employees between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million however a researcher of the study ignored number of employees and will be basing only on capital.

Although the SB plays a major role in accelerating the economic growth of the country Research shows that SB decline each year. According to the U.S SB administration (SBA), 24% of all new business fails within 2 years and 63% within six years. This is similar to Japan, Hongkong, United Kingdom, Taiwan, South Africa, Nigeria and Tanzania.

There are many challenges facing the SB sectors, these includes lack of education and training, insufficient capital, lack of focus, lack of succession plan and poor management. Lack of education and training reduces the critical decision making in the business. According to Fatoki& Garwe (2010), lack of knowledge and training result in highly failure rate of SB in South Africa. Similarly, Boone & Kurt (2006) argued that bankruptcy can be caused with the same problem.

A number of solutions have been developed for different challenges facing the SB, such as many governments in developed and developing countries tried to develop directly and indirectly policy to support or facilitate the SB to grow and survive hence the better performance of the business. In US there is SB Administration (SBA) which control and monitor the credit unions actions on SB lending (SBA, 2011). In Malaysia there is directly and indirectly ministries, financial institution and agency to facilitate the SB access to loans ( Abdulla& Mannan,2010).

Moreover in South Africa the Integrated small Enterprises Development strategy (2005) aimed at promoting and strengthening the conducive environment for the SB,

promoting access to finance and market, improved infrastructure facilities and competitiveness and facilitation of technology transfer. Onugu (2005) revealed that, in Nigeria there are several non –Government organization like Individual Development Finance Institution (DFIs), Support and Training Entrepreneurship Programme (STEP), the Nigerian Investment Promotion Commission (NIPC) that promotes the growth of SB in Nigeria.

In recognition of the positive contribution of SBs in her economy, the government of Tanzania established the policy to support the SB. The National *Micro Finance Policy* regulates the provision of financial services to small and micro enterprises in rural areas as well as in the urban areas (Tanzania SME policy, 2002) .Furthermore the *Agricultural and Livestock Policy* is aimed at the development of agricultural and livestock activities that are performed by both small farmers and livestock keepers however SIDO is the main government tool for promoting SB in the country.

According to SME policy of 2002, The Vocational Education and Training Act of 1994 provide the framework for the vocational training system in Tanzania. There are about 630 centers in the country offering training in more than 34 different business skills. The Centre provides consultancy and training in SME related issues.

The government statement is to promote entrepreneurship development through facilitating improved access of SMEs to financial and non-financial services. Furthermore the government has established different financial intermediaries and national microfinance institution such as FINCA, PRIDE, SELFINA, etc to increase access to loans for SB. The microfinance institution decrease the condition of collateral during lending by forming forced group whereby if one person fails to repay the loan, all the group will be responsible of recovering that loan, however there are some MFI that use both force groups and individual loan.

Although there have been some solutions addressing the challenges facing the SB, there are still some gaps that needs an attention. One of the important gaps to be addressed is lack of access to loans from formalized banks. Banks is among of one of

the sources of financing (SB). Berger & Udell (1998), in their study on SB finance in the US, concluded that SB relies heavily on commercial banks and finance companies to provide capital. This is due to the limited availability and accessibility of SB financing in the market. A survey by European Commission in 2005 indicated that 79 percent of European SB gets their financing from banks. This proves the importance of banks as the provider of finance and at the same time signaling the reliance of SB to banks' finance (European Commission, 2005).

Although, the banks play the important role in financing SB but the previous empirical research reported that the loans are not easily accessible and the problem is worldwide. This can be justified by Boocock & Wahab (2001) on the comparative experience of SB in UK and Malaysia which indicated that, the businesses face the same difficulties in raising funds from Banks despite differences in financial infrastructure in both countries.

The same problem is faced by the SB in other parts of the world and the reasons are the same. Lack of financial management knowledge (Financial illiteracy) is another gap that facing SB. Lack of financial management knowledge has negative impact on the growth and survival of the business. Berryman (1983) has indicated that poor financial management is a major cause of SB failure.

### **1.1 Statement of the problem**

Despite the fact that, a number of factors affecting the performance of SB have been identified by different researchers as provided in the preceding part as well as the suggested solution to each problem, still the performance of this sector is in declining. Someone would think that, with the posed solutions, the performance of SB would be on the increase, but that is not the case.

This raised the question for this research to further examine as to how the credits extended to the SB in Dar es Salaam have contributed to the increase/decrease in the performance of the sector. The rationale of the study is driven by the fact that, even if there are various factors affecting the performance of SB, but these factors are contextual. Currently, there is no study documenting on the influence of bank loans on the performance of SB in Dar es Salaam, therefore this research filled the gap.

## **1.2 Research objectives**

The research was guided by the following general and specific objectives.

### **1.2.1 General objective**

The general objective of the research was to investigate the influence of accessibility/inaccessibility of bank finance to small business development in Tanzania.

### **1.2.2 Specific objectives**

The following were specific objectives.

- i. To assess the influence of accessibility and in-accessibility of Bank Finance on the Small Business management.
- ii. To identify effects of accessibility/y/inaccessibility of bank finance to the development of small business.
- iii. To determine challenges faced by Small Business Owners as a result of inaccessibility of Bank Finance.

## **1.3 Research Questions**

The following were research questions.

- i. What is the influence of accessibility/in-accessibility of Bank Finance on the Small Business management?
- ii. What are the effects of accessibility and inaccessibility of bank finance to the development of small business?

- iii. What are challenges faced by Small Business Owners as a Result of inaccessibility of Bank Finance?

#### **1.4 Scope of the Study**

Although SB spread through out of the Dar es Salaam but the study will be limited in the contribution of bank loans on performance of SB in Dar es salaam because it will be not easy for a researcher to collect data due to time and funds constraints. Moreover a researcher is an employee in one of the organizations in the Dar es Salaam so will be required to collect data only after working hours and weekends.

#### **1.5 Significance of the study**

This study is significant in as follows: Findings from this study may provide useful information on the accessibility of loans to the SB by showing all possible ways to get access to loans. The study will help the commercial banks to understand the need of developing relationship between a borrower and a bank, and this will includes publication of bank rates in order to help borrowers to make informed decisions while considering borrowing, easy terms loans-example to allow issue of access to loans without collateral and establishment of more consultancy centre and training centre to help the SB to get knowledge about loan.

Second significance is that, this study will provide ways to develop financial management knowledge to SB .This will be by enhancing financial education and training that recommend improving basic personal finance knowledge. The study highlight the government of Tanzania to promote financial awareness among secondary and primary school children on topics related to banking and finance.

Finally the study will inform the policy-makers on the need to develop more policies that would improve the effectiveness of SB by focusing on all condition that limit the performance of SB. Furthermore like any other research the findings will be used as reference for further study and the study.

### **1.6 Limitations and Delimitations**

The researcher faced the following limitations; Time for research work was not enough to the researcher to cover all SME'S present within the district. This limitation was solved by the researcher effectively utilizing public and week end hours and also the researcher took annual were which was effectively used in this study.

Also the researcher experienced financial problems because was self sponsored and that the researcher did not have enough sources of funds. This was solved by the researcher borrowing money from the employer. Moreover, some potential data providers were not available. In this case, at the time of data collection, data providers some of them were out of job for other duties. The use of triangulation method during data collection solved this problem.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **Introduction**

This chapter reviews the key issues relating to this study. It provides the theoretical framework of the study, the conceptual framework of the study which helps in understanding the practice and some themes relevant to the study and provides a summary of the literature review.

#### **2.2.1 Theoretical Literature**

#### **2.2.2 Sources of bank loans**

The following are sources of bank loans available to small business development

#### **Short-Term Finance Sources**

Short-term finance solutions are needed on a daily, weekly and monthly basis to pay for office supplies, rent, utilities, equipment and payroll. Credit cards and trade credit (credit established with local trades and businesses) can assist a business in managing cash flow--the use of itemized statements allow for a clear visual representation of where the cash is being spent and a single payment can be made instead of multiple payments. Many businesses arrange for short-term lines of credit with their bank, referred to as working capital, used to manage everyday business operations. Lines of credit are typically 90-day loans obtained through a commercial bank to assure that payroll and vendors are paid on time, every time.

#### **Medium-Term Finance Sources**

Medium-term financing is used to fund a special business project or expansion that will increase production and revenue. Banks are a first stop when searching for this type of financing. Through letters of credit and equipment leases, banks can help with some of the financial risks involved with medium-term funding. Venture capital is also a finance source for expansion and special projects. Businesses offer venture

capitalists a level of ownership in the business when they contribute funding. Another medium-term finance source is capital contributed by the existing owners--- this is an additional investment the business owners make directly to the business coffers and is called owners' equity. Owners' equity is considered a debt owed by the business to the owners of the business.

### **Long-Term Finance Sources**

Any financial need requiring very large amounts of cash receives long-term funding. These sources of finance are generally designed to be paid off in one or more years and not in a few months. Businesses using this type of financing do so to purchase other businesses or buildings or to invest in long-term product development. Bank loans, venture capital and private financing are sources for long-term funding.

Long-term business financing can be a combination of funding sources that together covers overall costs. For example, a private finance source (such as a car manufacturer like Ford or Honda) could cover the cost of the initial purchase of fleets of vehicles needed for a business expansion. In addition, a local commercial bank loan could cover the purchase of the buildings to house the vehicles, and a line of credit could be used to cover payroll during the training of all the employees needed to run the expanded business.

### **2.2.3 Other Sources of finance**

There are three main options of financing available for SBes in Tanzania. Each type of finance applies at any stage of the business i.e. Start up, Growing and Expanding a business.

#### **Personal savings, family and friends**

This is the form of finance in which a business client can use own resources to finance a business. Usually own resources will take the form of savings. Savings are intended to meet the immediate personal financial needs. An investment into a business should be viewed with a long term perspective to yield the desired future outcomes.

Family and friends involves securing finance from family and friends. This form of finance is costless and it is easier to get money from others.

### **Equity Finance**

SBes can get money through equity financing or debt financing. Equity financing means that you sell stock in your company to a buyer, who then has an ownership interest in your company. The raising of finance through equity comes in the form of Common stock or ordinary shares and Preference shares. A limited company's shares are being sold to specific institutions or individuals where as the shares of a public limited company are open to the general public.

### **Debt Finance**

According to the trade off theory of capital structure a Business can be financed through debt or equity. Access to formal debt finance is facilitated through registered financial institutions licensed by the Bank of Tanzania. The institutions which are used include commercial banks, microfinance institutions and SACCOS. Development Banks, Leasing Companies, Pension and Insurance Companies, Securities companies are used in rare case with restricted conditions.

## **2.2.4 Supporting Small Businesses and Creating Jobs: The American Experiences**

We now face a make-or-break moment for the middle class and those trying to reach it. After decades of eroding middle-class security as those at the very top saw their incomes rise as never before and after a historic recession that plunged our economy into a crisis from which we are still fighting to recover, it is time to construct an economy that is built to last. The President's 2013 Budget is built around the idea that our country does best when everyone gets a fair shot, does their fair share, and plays by the same rules.

We must transform our economy from one focused on speculating, spending, and borrowing to one constructed on the solid foundation of educating, innovating, and

building. That begins with putting the Nation on a path to living within our means – by cutting wasteful spending, asking all Americans to shoulder their fair share, and making tough choices on some things we cannot afford, while keeping the investments we need to grow the economy and create jobs.

The Budget targets scarce federal resources to the areas critical to growing the economy and restoring middle-class security: education and skills for American workers, innovation and manufacturing, clean energy, and infrastructure. These are all areas critical to small businesses. The Budget is a blueprint for how we can rebuild an economy where hard work pays off and responsibility is rewarded.

Small businesses are the engine of job growth in our economy. In order to ensure that small businesses are poised to start, grow and create jobs the 2013 Budget will:

**Spur Job Creation by Enhancing Small Business Access to Credit.**

The Budget supports \$16 billion in Small Business Administration (SBA) 7(a) loan guarantees, which will help small businesses operate and expand. This includes an estimated \$14 billion in term loans and \$2 billion in revolving lines of credit; the latter are expected to support \$46 billion in total economic activity through draws and repayments over the life of the guarantee.

The Administration also supports \$6 billion in guaranteed SBA lending for commercial real estate development and heavy machinery purchases; \$4 billion in Small Business Investment Company (SBIC) debentures to support new businesses and new jobs through early-stage and mezzanine small business financing; and \$18 million in direct loans, for intermediaries to provide small loans to emerging entrepreneurs and other borrowers unable to receive credit elsewhere. In addition, the Department of the Treasury continues to implement key programs it established to provide capital to community banks and support to innovative state small business programs in order to spur additional lending.

### **Cut Taxes for Small Businesses Seeking to Grow and Expand:**

The President is proposing to build on the 17 small business tax cuts he has already signed into law with new tax cuts to encourage growth and investment, including expanding and making permanent the elimination of taxes on capital gains for key small business investments, providing a 10 percent income tax credit on new payroll for small businesses in 2012 (through either or increased wages), expanding and simplifying a tax credit for small businesses that provide health care to their workers and doubling the amount of start-up expenses entrepreneurs can deduct. The President is also proposing to extend 100-percent first year depreciation into 2012, giving firms an incentive for investing in plants and equipment now.

### **Boost Investment in Small Businesses.**

The Budget proposes to create incentives for capital investment in small businesses by permanently eliminating capital gains taxes on investments in small business stock, enhancing the availability of “patient capital” that small businesses need to innovate and grow.

**Promote Impact Investment in Economically Distressed Regions, for Disadvantaged Groups, and in Sections of National Significance.** In 2013, SBA will continue to leverage the SBIC debenture program to support impact investments in regions underserved by venture capital. The SBIC Impact Fund program, which operates with no cost to the taxpayers, annually guarantees up to \$200 million in debentures that leverage efforts by venture capitalists, private equity firms, and institutional investors to invest in promising small businesses in underserved markets. Two other initiatives – the Small Loan Advantage and Community Advantage programs – increase the number of SBA 7(a) loans going to small businesses and entrepreneurs in underserved communities.

### **Help Innovative Small Businesses Obtain Early-Stage Financing.**

Within the SBIC debenture program, SBA will continue to expand the Innovation Fund, which addresses the capital gap many start-ups face between "angel investor" financing and later-stage venture capital financing. Up to \$200 million in guaranteed

debentures for matching funds will be available in 2013 to investors seeking to support innovative companies seeking to ramp up their operations and create new jobs.

**Improve Small Businesses and Exporter Access to Federal Services.**

Businesses looking for assistance from the Federal Government should feel like they are interacting with one entity, rather than a number of separate, albeit linked, components. This means adopting a "No Wrong Door" policy that uses technology to quickly connect businesses to the services and information relevant to them, regardless of which agency's website, call center, or office they go to for help. To this end, the Budget fully supports the BusinessUSA initiative, a one-stop resource that will make it easier for businesses to access the wide array of Federal small business and export promotion services available to them, while also further streamlining and coordinating Federal programs to reduce costs and provide customer oriented service.

**Help Small Businesses Connect to Regional Innovation.**

Small businesses are key players in regional economies. The Administration includes \$3.4 million for SBA to enhance small business participation in regional economic clusters that integrate economic, business and workforce assets to accelerate innovation and job creation. SBA will promote and support small business participation in regional economic clusters by awarding competitive grants to facilitate business counseling, training, and mentor-protégé partnerships in coordination with regional clusters. In addition, through the Department of Commerce's Economic Development Administration (EDA) and other Federal agencies, the Administration will support regional cluster development, regional business plans, investment in science parks, and other activities authorized under the America COMPETES Act to promote innovation, regional competitiveness, and employment growth.

**Strengthen Small Business Exports.**

The President, in 2009, set the goal of doubling American exports over five years. The October 2011 passage of the U.S.-Korea Free Trade Agreement opened up the market of the twelfth-largest economy to U.S. goods and services and supports thousands of jobs. The Budget proposes \$517 million for the International Trade Administration (ITA) to continue implementation of the National Export Initiative, a broad Federal strategy to increase American exports and export-related jobs.

With this funding, ITA will strengthen its efforts to promote exports from small businesses; help enforce international free trade agreements; fight to eliminate barriers to sales of U.S. products; and improve the competitiveness of U.S. firms. This funding will allow the Commercial Service to increase its export promotion efforts in key, growing markets abroad, as well as support the activities of SelectUSA, which helps state and local governments attract investment capital that creates jobs. ITA will play a key role in the interagency Businesses initiative, a one-stop resource that will make it much easier for businesses to access the wide array of Federal export promotion services available to them. The Budget also supports the activities of the Export-Import Bank to strengthen its efforts to promote small business exports and to meet increased financing demands at no cost to the taxpayer. This will support billions of dollars in new exports and thousands of U.S. jobs.

**Double the Small Employer Pension Plan Startup Credit.**

The Budget proposes to expand and improve employment-based retirement security by establishing automatic workplace pensions. Under current law, small employers (those that have no more than 100 employees) that adopt a new qualified retirement or SIMPLE plan are entitled to a temporary business tax credit equal to 50 percent of the employer's expenses of establishing or administering the plan, including expenses of retirement-related employee education with respect to the plan. The credit is limited to a maximum of \$500 per year for three years. The Administration proposes to double this tax credit to a maximum of \$1,000 per year for three years (effective for taxable years beginning after December 31, 2013) and to extend it to four years (rather than three) for any employer that adopts a new qualified retirement or

SIMPLE plan during the three years beginning when it first offers or first is required to offer an automatic IRA arrangement.

### **Help Small Businesses Provide Health Insurance to their Employees.**

The Affordable Care Act provided a new credit to help small businesses afford the cost of covering their employees. It is targeted for those with low- and moderate-income workers, and it is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have. The Budget proposes to expand and simplify this credit. The credit would be expanded to employers with up to 50 full-time equivalent employees, and would provide a more gradual phase-out. The proposal would also reduce taxpayer complexity by eliminating certain requirements related to uniform contributions to premiums

### **2.2.5 Theories which Guided the Study**

The following are reviewed theories which guided this research.

#### **Trade-off theory of capital structure;**

This theory defines away in which a firm choose to be financed either by debit financing or by equity financing in order to balance the cost and benefits. This theory is important because it explain the fact that the firm is usually financed partly with debt equity and partly with debit. It states that there is an advantage to financing with debt, the tax benefits of debt and there is a cost of financing with debt, the costs of financial distress including bankruptcy costs of debt and non-bankruptcy costs.

According to this theory we expect the firm to have much higher debt than we observe in reality. Miller & Modigliani (1963) argued that it is possible for a firm to have 100%debt in its capital structure due to presence of tax-shield during repayment of the loan, however SB have limited access to external equity finance. This tax shield allows firms to pay lower tax than they should pay when using their own capital. The theory argues that the more debt is, the more a firm's values.

According to MacKie-Mason (1990) on a study of the tax impact on the choice between debt and equity will be found that changes in the marginal tax rate for any firm should affect financing decisions. This implies that most SB will have to rely only on internal equity which is often inadequate as a source of capital.

Asymmetric information and moral hazards are the factors that affect the availability of credit for SB (Stiglitz & Weiss, 1981). The important of debit financing first is the tax deductibility during interest payment and second it avoid the agency problem because it limits the free cash flow available to managers and thereby helps to reduce conflict between managers and shareholders (Jensen & Meckling, 1976). Always each firm has a target debit ratio in which it is gradually adjusted.

If the firm is above the target debit ratio the value of the firm is not optimal because costs of financial distress are likely to arise therefore the firm will fail to meet the interest and principal payments hence the firm is required to decrease its debit. If the firm is below the target debit ratio the value of the firm will increase, therefore the firm is needed to increase its debit.

### **The pecking order theory of capital structure;**

It is a finance theory which suggests that management prefers to finance first from retained earnings, they prefer to issue severe debt instead of equity in case when need external source of financing (Myers, 1984). However, only firms that have enough internal funds can apply the pecking order theory. Small, young or growing firms, that lack own capital, will depend on equity financing.

A study by Norton (1991b) reveals that 75% of the SB makes financial decisions through pecking order framework; however Nguyen and Ramachandran (2006) argued that the information asymmetry interferes the application of pecking order theory on SB. Information asymmetry negatively affects accessibility of debt financing Bose and Cotheren (1997).

This asymmetric of information tends to under-pricing of the firm's equity in the market, therefore undervalue the wealth of existing shareholders. Asymmetric information occurs when managers want to use internal financing rather than external financing. Managers have much information than outside investors.

Due to asymmetric information problem, in securing external financing, firms consider external to be cheaper than retained earnings (internal financing) many larger firms prefer financing via debt instead of financing through retained earnings due to presence of more collateral assets which act as a security during borrowing. According to Berger & Udell (1995) asymmetric information problem is more apparent in small firms than in large firms and pecking Order theory is more applicable to small firms.

#### **2.2.6 Commercial Banks**

These are deposit taking and lending institutions regulated by the Bank of Tanzania. Commercial Banks collect and pay out money on behalf of their clients. Bank based financing operates on a short to medium term approach which is usually five (5) years maximum lending period. Banks provide loans and overdraft facilities to their clients. Overdraft facilities are usually provided for working capital requirements. Banks will provide loans for growth and expansion.

Currently in Tanzania, financial Institutions (banks) remain as one of the source of funding SB although recently the commercial banks showed no interest in servicing SB because banks perceive SB as higher credit risk and high transaction costs. Banks are generally unwilling to take the higher risk; however, banks are now realizing the value of SB in the society by improving macroeconomic framework and lower interest rates.

Commercial banks are known for the provision of loan to both private and public sectors for aim of raising the economy of the country. Credits of the commercial banks are important to businesses for it makes possible the financing of the agriculture, commerce, and industrial activities of the nation. Production,

transportation, wholesale, and retails activities are made possible through financial aid from credits of the commercial banks to the final consumers.

Loans are provided by banks to benefit businesses in many ways; first chequing account, they are as good as cash in themselves; they make it much easier to buy goods and services and therefore help both consumers and businesses. Moreover Loans help businesses finance plant expansion and production of new goods, and therefore increase employment and economic growth of Tanzania. In Tanzania for example, there are a lot of financing facilities allocated for SB. The facilities are either channeled via financial institutions appointed by Bank of Tanzania (BOT) or through government agencies.

By end of June 2010, the banking sector will be made up of 41 banking institutions, out of which 19 will be foreign owned. The banking system showed a high concentration of total assets - 57 percent - being held by four big banks, while 43 percent will be accounted for by the remaining 37 banks.

Generally, foreign owned banks in Tanzania account for about 48 percent of the banking industry's total assets (BOT report, 2010). The banks involved in lending SB are NBC, NMB, ACB, BARCLAYS, BOA, EAB, CRDB, Post Bank and other banks. Three out of 25 commercial banks provide financial services and products aimed at the SB sector.

National Microfinance Bank has the largest network of branches followed by CRDB Bank and currently the National Bank of Commerce is increasing its branches from 42 to over 60 early in 2010. The Tanzania Postal Bank, a state-owned non-bank financial institution, provides a variety of savings deposit services nation-wide (total over 100 outlets, and more than 1 million account holders) and has entered into micro-credit provision on a small scale.

In Dar es Salaam the majority of SB had shown dependent on access to finance from the following banks. These include **NBC, NMB, CRDB, BARCLAYS, BOA, EXIM, and STANBIC.**

#### **2.2.6.1 Micro Finance Institutions (MFI)**

Microfinance institution is used to provide financial services to the poor people who are not able to access from other forms of financial institution like commercial banks. These institutions provide financial services like small loans, savings, insurance and transfer payments to low income households and individuals. MFI provides loans for start up, growing business or expansion.

MFI aims at providing poor people in rural areas with improved access to banking services. Therefore, (MFI) meets the objective of reducing the poverty of the country. In Bolivia, a study on the impact of microfinance on poverty by Mosley (2001) revealed that microfinance is effective in reducing the poverty than other anti-poverty measures.

In Tanzania MFI institution are concentrated in the central region, where the economic activity is at high rate. Recently there are many MFI which distributed into different region of Tanzania. The following are the major MFI operated in Tanzania; PRIDE, FINCA, SELFINA, and BRAC,

Majority of the SB clients in Dar es salaam whom their capital ranges between 5-8 million had joined to the MFI. The experience had shown that people will be enter to the MFI because of the application procedures that will be simple, no collateral will be required instead MFI used alternative ways of assessing the clients, short processing periods (between the completion of the application and the disbursement of the loan) and all clients who paid on time will be allowed to repeat for loans with higher amounts.

### **2.2.6.2 SACCOS**

The SACCOS operate under the Co-operative society Act, 1991 in offering saving and loans to members. Also the institution has been covered under the Banking and Financial Institution Act, 1991, but it is not under control of Bank of Tanzania. The responsibility and control of this Institution is under the Ministry of Agriculture and Cooperative.

The Government of Tanzania believes that SACCOS is among financial institutions that reduce poverty, therefore the government insists many citizens to join them. SACCOS performed three activities to its members which are collecting savings, giving loans to its members and providing financial and non financial advice. To make SACCOS effective members utilize well the micro loans they have borrowed from SACCOS and repay the loans on time. Until the end of 2005, there will be about 1876 SACCOS which are operated in Tanzania.

### **2.2.7 Business support services provides by banks to SB**

A business support service refers to all supplementary business activities that facilitate smooth functioning of any business in any part of the world. Harper (2005) defines business support services as support services bought and used by the business, excluding finance. SB Support Services will be established in 2007 in western Loudoun County with the purpose to help SB clients with their day-to-day business.

In U.S. SB Administration (SBA) will be established to aid, counsel, assist, protect the interests of SB and provides information and advice on starting, financing or expanding a SB. Furthermore, Business Development Bank of Canada (BDC) will be established to help and develop Canadian businesses through financing, venture capital and consulting services, with a focus on small and medium-sized enterprises (SMEs). The BDC's services are available across Canada in both English and French through a network of more than 100 Business Centers.

Access to business support services provides business owner with business information and business support including advisory services necessary to improve their organizational effectiveness. Therefore provisions of information and advice support services to SB have an impact on their businesses. The actual current state of provision of business support services is not effective, and SB clients are not satisfied with advisory services on business environment issues such as those related to taxation and legal matters.

Majority of SB clients wants to access training in book-keeping as a priority service followed by training in costing and pricing, business planning and purchasing and stock control (Swisscontact Tanzania, 2005). Although SB owners, needs various business services but experience showed that SB have lower demand for business support services such as training, counseling, advising and consultancy due to cost considerations. This is because many business institutions need some contribution of money from SB during conducting such training and consultants.

### **2.2.8 Access to loans**

It has reported that major problem to many SB is lack of capital and credit (Broom & Longenecker (1985). Studies such as Mulhern (1995), Sentilhes and Nilforoushan (2003) on the familiar problems encountered by SBes throughout Europe indicated that, the main reason for their limited access to loans is the inability of the businesses to provide collateral needed to obtain the required loans.

Hassan (1992) argued that SB are not able to gain access and utilize available funding due to different factors such as inadequate collateral and lack of performance record to convince the banks to provide them loans. Other studies in developed countries like United States of America and United Kingdom also suggested that SB operating in these countries faced the same problem.

Similar study in Africa found that weak financial base of the SBes, their inability to provide collateral as required by banks and high interest rate are the main reasons for the businesses not to get the same access to finance opportunities as large businesses

(Beyene, 2002). Moreover, Francesco (2009) reported that, Small firms especially if they are young, have little collateral and short credit histories, and thus may find it difficult to raise fund from banks. Garcia-Fontes (2005) reported an outcome of a survey by World Bank Investment Climate for China and it will be found that SBes in this Asian continent obtained only 12 percent of their working capital from bank loans.

Moreover a survey conducted by Daniels (2003) reported that 58 percent of the businesses in their sample have a problem of access for being financed while 35 percent have a problem in getting the operating funds. Banks are more important approved to support SB.

Charkraborty & Hu (2006) reported that collateralization is believed to be a useful tool in resolving problems associated with both symmetric information and moral hazards in business and consumer lending. They also reported that collateral can be used to lessen some of the moral hazard and its impact on collateral. According to the study conducted by Stiglitz & Weiss (1981) proved that lending to SB can be difficult to financial institutions because of informational asymmetry, moral hazard, and adverse selection problems Beck et al. (in press).

Schiffer & Weder (2001) argued that larger firms have great chance of accessing financing than SB. They further recommended that, apart from all rank of obstacle which SB face when doing business, financing is a top problem for SB, which its rate is higher than larger firms. According to World Bank (2004) SB are usually more credit constrained than other segments of the economy because of the following:

- i. Financial sector policy distortions
- ii. Lack of know-how on the part of banks
- iii. Information asymmetries, for example, lack of audited financial statements
- iv. High risks inherent in lending to SB.
- v. Size; age and ownership are the most reliable predictors of firms' financing obstacles.

Half of SB in developing countries rating, access to finance is a major constraint. . Africa's SB has little access to finance, which thus affects their emergence and eventual growth. Access to finance is essential for improving SB competitiveness, as SB has to invest in new technologies, skills and innovation. Furthermore, access to finance for SB can improve economic conditions in developing countries by fostering innovation, macro-economic resilience, and GDP growth.

A study by Micah (2007) on factors affecting bank credit management concluded that, character collateral and circumstance are effective tools in assessing customers' creditworthiness. This implies that, good character, supported with collateral and favorable circumstances are the haven for adherence to credit obligations by borrowers. Collateral and character differ significantly in terms of their effectiveness in credit risk mitigation.

This is because collateral is something measurable and its stability in value can be ascertained while character is something invisible and strongly out of control of the lender. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk.

In Tanzania the most of reviewed literature indicated that most SBs are owner-financed. The start-up and operating capital are mainly from the pocket of owner(s) of a particular enterprise. The sources of these finances are in most cases from personal savings. They need additional finance for purchasing machinery, equipment and for expanding their business through transfer technology; however most of the SB organization do not enjoy the services that formal financial institutions offer.

They normally did not borrow from institutions such as banks. This will be due to many factors including strict conditions set by these formal financial institutions .Apart from collateral, there will be a limitation of the amount and the procedures to access the needed amount by the borrower. This will be followed by the process of application of loans which starts with small amount and after a certain period of

loan repayment the business holder can apply for higher amount. The restriction provided by banks affected those clients who need large amount of loans just right from the beginning. The amount of loans received will be not enough to start and expands business; however there will be an extra layer of bureaucracy to the borrower including letters from WEOs, to have trustee/sponsor, site visiting, taking long time to process and covered with an element of corruption.

Inefficiency in the administration of incentive support facilities provided by banks and government discouraged the SB holder to borrow from banks and at the end SB holders secured loans from un-trusted/unregistered/ unreliable finance organs like SACCOSS, village banks, informal savings, self help group, etc.

These groups are not governed by banking laws, their rules are usually made and enforced by members and they operate largely on the basis of trust among the members, as a result may end up with loss and quarrel with relatives if failing to pay as agreed due high interests. Others lost their assets that will be taken as security/collateral to these lending organs holders.

Fema (2011) in the study of loans for startup highlighted that, in Tanzania banks and other financial institutions had very low level of penetration across the country especially in rural areas and focus on bigger profit making businesses and people who have employment and steady incomes.

The experience showed that most of the young entrepreneurs argued that most banks have unfavorable conditions and are not supportive of their business ideas and the procedure for getting loans are complex and sophisticated (Some, 2006).

Other reasons for lacking access to loans are;

- i. Poor understanding of services that bank offer
- ii. Lack of understanding of Bank loan procedures.
- iii. lack of confidence- people did not believe themselves that are able to get loans

- iv. little information on loan offered by bank
- v. Fail to prepare business plan- lack of skill to present bankable projects
- vi. High interest rates – disparities between savings account returns and borrowing rates
- vii. Delays in processing-bureaucratic and corruption especially in Tanzania
- viii. Inflexible conditions
- ix. SACCO's demanding group borrowing rather than individual companies
- x. Lack of transparency – Conditions and requirements will be not shown in advance
- xi. People borrow and do not pay back- due to lack of moral hazards
- xii. SB access to both formal and informal sources will directly affect their ability to raise the capital for the business (URT 2002). SB access to finance is problematic, however the government policy Statement on SB' access to Finance reads that; *“The Government will enhance financial reforms aimed at further liberalization of the financial sector and the creation of financial intermediaries to cater for SMEs”* (URT, 2002).

To the extent that this policy statement is implemented until the end of year 2011, still the SB lacks access to finance from the financial intermediaries. Access to finance remains a major problem in the majority of African countries. Although loans from commercial banks are at least possible but the terms of such access are often punitive for SB. This is a major obstacle for SB development

### **2.2.9 Financial management knowledge**

Financial management is the ability of understanding the financial skills and knowledge that will make an individual to make effective decisions in business. Financial skills involves managing the financial resources, including accounting and financial reporting, budgeting, collecting accounts receivable, risk management, and insurance for a business. Financial literacy provides greater control of one's financial future. Making effective financial decisions and knowing how to manage money are skills critical to enjoying a secure financial future. A study by Kwame (2010) on

Financial management practices of small firms in Ghana argued that Financial management knowledge covers areas such as: Determining the source of finance and dividend policy, Investment decisions including capital budgeting, assessing capital risk and cost of capital and working capital management. In addition financial management knowledge provides a wide spectrum of a company's financial decisions (Parkinson & Ogilvie, 1999).

Nayak & Greenfield (1994) and Lybaert (1998) concluded that management accounting and information used within the SB sector has a positive impact on performance of SB. Hence financial management knowledge enables SB holder to make better decisions on business and to avoid any risk which might appear during progressing with the business.

Moreover financial management knowledge help to improve efficiency and quality of products and goods which are produced, however several study recommended that poor financial decision destroy the productivity in the firm (Joo & Grable, 2000).According to Hilge, Hogarth, & Beverly (2003), lack of financial management knowledge is directly related to self-beneficial financial behavior. Lack of financial management knowledge affects the better performance of the business.

Lack of financial management knowledge contribute much for the small firm to lack accessibility to loans, this is due to that people lacks knowledge on how to get loans and how to write a business plan which will convince the bank to provide the loan. Many banks do not finance SB because business plan submitted by SB clients are not presented properly (Migiro, 2005).

Banks require business plan which has to show the business cash flow of at least two years, audited accounts, balance sheets and the proposed budget. Due to not be transparent, most of banks avoid to lend them and if loaned they will be charged with high interest rate during repayment of loans. Business survival depends on the cash flow and cash management (Chaganti and Chaganti, 1983).

Moreover UK research has found that a focus on cash flow is more likely to be associated with firm survival (Jarvis et al., 1996; Deakins et al., 2002).

Nieman & Niewenhuizen (2009) reported that the most of the SB fails during the first two years of their existence due to cash flow problems.

The business clients have not got knowledge on how to prepare financial statement, how to record the sales in the book and other procedures concerning financial management about business survival pinpoints the importance of cash flow and cash management (Welsch & White, 1981; Khan and Rocha, 1982; Chaganti & Chaganti, 1983). Furthermore, UK research has found that a focus on cash flow is more likely to be associated with firm survival (Jarvis et al., 1996; Deakins et al., 2002). “Money in the bank “will be found by Dyt & Halabi (2007) to be a critical measure of firm performance.

The greater the amount of surplus cash ploughed back into the business, rather than taken as remuneration by the owner, the better the chances of survival (Hall, 1995).

A study on SB at West Midland, U.K. (Nayak & Greenfield, 1994) concluded that SB which does not do well, is not only because of lack of business records and lack of awareness in business, but due to the lack of adequate accounting knowledge and proper financial records.

According to McMahon & Davies (1994), the comprehensive financial reporting and analysis should generally lead to significantly increase the chance of SB to prosper through growth. Similarly Vinayak (1987) argued that among the other factors, the non-use of financial tools and techniques for economic decision-making has resulted in a variety of financial problems, which the SB faces.

Some of the research in India proved that there is a wide gap between theory of financial management and the actual practices by the SB in India and show that firms not doing well are less likely to have knowledge on financial management and proper business records. Gaskell & Van Auken (1993) has reported that most of the problems faced SB in US relates with inadequate capital, cash flow management and

inventory control. Furthermore a survey did by the Insolvency Practitioner Society, (CIMA, 1994) indicated that 20% of UK small firms failures will be due to bad debts or poor credit management.

In addition, Developing countries have especially low levels of financial literacy than developed countries. In India, for example, more than half of laborers surveyed indicated that they store cash at home, while borrowing from moneylenders at high rates. The improved financial literacy brings large benefits for both the economy and the individual (Foundation, 2006).

According to the Indian National Council of Applied Economic Research (2008),It is known that lack of financial management knowledge is directly related to lack of access to financial product or failure to use them when are available. In Zambia and other countries of Africa, only 29 percent of adults have a bank account and 50 percent use no financial products at all (DFID, 2008).

In South Africa, a recent survey found that nearly 60 percent of the people surveyed do not understand the term “interest. In Nigeria many Research on SB development has shown that the rate of failure in developing countries is higher than in the developed country (Arinaitwe, 2006), and the main reason is lack of accounting skills Oladejo (2008) .The accounting skills is necessary for successful entrepreneurial and SB development . This is because the inability to install a proper accounting system would disallow business monitoring, reporting, and performance evaluation that affects the business survival.

In Tanzania the rate failure of SB becoming large and the main reason is lack of financial management knowledge. Most of the SB fails in access to finance due to lack of knowledge on creating incentives and environments that promote desired financial behaviors such as saving, budgeting, and not using credit wisely. Tanzania is among of the developing country which has especially low levels of financial literacy. Most of the business clients and other laborers surveyed they have no

accounts in bank and they store their money at their homes and in their firm buildings.

Indeed, if the business client could have knowledge on how to operate a business by managing cash and other financial needs the firm will grow and survive, money only cannot make a firm to perform well. (Kiyosaki and Sharon, 1995) stated that “*Money is one form of grow power, but what is more powerful is financial education. Money comes and goes, but if you have the education about how money works, you gain power over it and can begin building wealth*”.

### **2.2.10 Bank’s Contribution to the performance of SB**

The better performance of SB depends on the form of external financing, the higher the financing by the bank, the greater the growth and survival of the SB. Fogel (2001); Mambula (2002) & Basel (2003) indicated that access to finance is among the necessary factor for success and development of SB.

This is true because the SB want more capital to be able to invest in more assets so as to cater for more customers, lack of bank finance is seen as the biggest challenge that affect the growth of SB sector. According to Rogerson (2006) bank finance is the source factor that contributes to the growth of the business. Bank finance is necessary to create an economic environment that enables firms to grow and prosper. The World Bank Investment Climate Surveys revealed that bank finance improves firm performance.

The most important role of Banks in the economy is to create liquidity by funding illiquid loans with liquid demand deposits (Diamond, 1984; Ramakrishnan & Thakor, 1984). Banks are among of the sources of financing (SB). Berger & Udell (1998), for example, in their study on SB finance in the US, concluded that SB relies heavily on commercial banks and finance companies to provide capital. Furthermore, Udell (2004) using the data from the United State, found that nearly half of SB financing comes from externally provided debt.

A survey by European Commission in 2005 indicated that 79 percent of European SB gets their financing from banks. This proves the importance of banks as the provider of finance and at the same time signaling the reliance of SB to banks' finance (European Commission, 2005).

Access to bank finance is the major tool that helps SB to increase the economy of the country by creating new jobs and reduce poverty in developing countries. Access to bank finance allows SB 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.

Without finance, SB cannot acquire or transfer new technologies. Broom & Longenecker (1975) indicated that one problem of major significance to many SB in developing country is lack of capital and credit. Most of SB in Africa possesses a lack of financial to expand the business.

Small enterprises and most of the poor population in sub-Saharan Africa have very limited access to deposit and credit facilities and other financial services provided by formal financial institutions. For example, in Ghana and Tanzania, only about 5–6 percent of the population has access to the banking sector.

This lack of access to financial services from the formal financial system affects heavily the performance of SB and the growth of the country. Similarly, other different study on economic development and corporate finance commented that inadequacies in relation to finance are key barriers to firm growth. Banks in developing countries are in turn hampered by the lack of lender information and regulatory support to engage in SME lending, which results in SB distortion growth, lack of innovation and poor economic growth. The main objective of the bank is to improve the economic growth of country by financing the business, private sector which also contributes to economic growth.

### **2.2.11 Contextual factors affecting performance of SB.**

#### **Business environment**

Business environment refers to set of conditions that are uncontrollable in nature and affects the performance of SB. The conditions may be social, legal, political, and economic and so on. Any business works in environment. Therefore environment is an important factor that affects performance of SB worldwide. SB can be affected internally or externally. External factor includes all factors which are beyond the control of business firm, which are Government and Legal, Geo-physics, Political, Social-Cultural, Demo-Graphic .In external factor there are operating environment which are close to the business and affects its capacity to work. These consist of suppliers, customers, market intermediaries and competitors and public.

Furthermore there is other factor (Macro environment) that includes forces and institution outside the organization that can potentially affects the performance of the SB Company. These include the political and government environment, social cultural environment and international environment study.

According to Coplin L.C.H (2002) on a study of competitive advantage and SMEs: The role of distinctive competence as determinant of success in America confirmed that the survival of the business will depend on the environment in which a business is located. More over a study by McHugh et el (1999) highlighted that business environment have potential impact to the success or failure of SB.

They had showed four factors that are potential key for the growth and job creation. These are economic environment which includes contract law, freedom of ownership, elimination of corruption, tradable currency and minimum taxes and regulations, the second factor is technological factor which represented by information technology, databanks and bar codes. The other factors are competitive environment and social environment

According to URT (2003), in Tanzania there are many laws, ordinances, administration procedures, by- laws that make the business environment to not be favourable. It also states that poor regulation destroy the economic growth, thus why Environment Strengthening Tanzania (BEST) will be proposed to be established to make sure that the environment for business are good and maintained, however the problem is still existing even if BEST is operating.

### **2.2.12 Overview of Business environment in Dar es Salaam**

The business environment for the SB in Dar es Salaam is not conducive. The complexity of the regulatory environment and bureaucracy are among of the constraints that affects the performance of SB in Dar es Salaam. For example when you want to register a business and getting the required license is an issue for SB. Majority of the regulatory environment agent like TRA, TFDA, OSHA and TBS are not friends to their customers (SB clients). Moreover the procedures of tax setting have been surrounded with an element of corruption and needs of bribes from tax officers.

Ndlovu (2002) revealed that taxation favors large scale business than small scale business because large scale has high degree of business resources. Furthermore it has been highlighted that high cost of operation, low market and inadequate government incentive affects the growth and survival of SB sector in Mbeya, however it seems that majority of SB clients are not innovative and creative. Therefore they fail to compete with SB in neighboring countries like Malawi, Zambia and Mozambique.

Although BEST will be initiated to strengthening business environment in Tanzania but majority of SB are not aware with that agency and this agency does not involve much in educating SB through providing training. Since Dar es Salaam is found in the boarder of Zambia and Malawi majority of SB avoid paying tax to TRA due to multiplication of tax they engage in un- lawful business by buying foreign products from Zambia and Malawi countries.

Moreover the inflation rate has affected performance of SB in Dar es Salaam. There are scarcities of customer due to lack of money however currently there are many University and other Institutions which due to population density of student has up rise the economy of Dar es salaam. Furthermore the infrastructure of Dar es Salaam is not friendly for the SB of Dar es salaam since it poor.

The Ecological factor which includes environment aspects such as climate and change of weather affects business operations and products offered. Natural calamities like fire which occurred recently in the business centers of Mwanjelwa, Sokomatola and Sido, had brought negative impact to the performance of SB. Many SBes failed and there will be no support from the government and other institution to support the clients to revive their business. And banks will be not ready to lend those small clients because banks perceive SB sector as risky.

### **2.3 Empirical Literature**

According to the study done by Fatoki and Garwe (2010), inaccessibility of finance is the second most reported contributor to low firm creation and failure, after education and training in South Africa. Herrington and Wood (2003) also concluded that lack of education and training has reduced management capacity in new firms in South Africa. Lack of education and skills can as well mean or lead to lack of financial management knowledge. In support of this notion,

Fatoki and Garwe (2010) also concluded that lack of knowledge and training is one of the reasons for the low level of entrepreneurial creation and the high failure rate of small business in developing countries including South Africa. In their study, Herrington et al. (2009) suggested that access to finance is the major problem for South African small business. Cassar (2004) makes it clear that inaccessibility of finance can be a constraint on small business development.

A research conducted by Naude and Havenga (2004) indicated that most entrepreneurs, specifically small businesses, struggled with accessing finances from banks due to excessive red tape and administrative burden. They argued that

financial institutions rarely finance start up businesses, they are bureaucratic, lack knowledge or understanding of the owners or operators of small businesses (entrepreneurs), and are not willing to assist and are wary in providing finance to people who do not have a small business record.

Access to finance and financial illiteracy are not the only challenges faced by small business, Rogerson (2006) in the study conducted in the Free State province on SMMEs identified access to finance, inadequate premises, lack of equipment and tools, inadequate markets and marketing, theft, registering and transport challenges as attributes to failure rate in that province. From the findings of Rogerson (2006), inaccessibility to finance is the primary challenge and all other challenges can be said to be as a result of inaccessibility to finance.

The findings of the study by Mutezo (2005) reveal the fact that conventional financing mechanisms do not allow for cost effective provision of finance to large numbers of entrepreneurs or SMMEs seeking small quantities of finance. Mutezo (2005) argues that poverty and lack of assets indicate that many people do not have the collateral needed to access formal financing. According to Mutezo (2005), entrepreneurial activity is hampered by lack of access to finance. Poor management is a common reason for the failure of small organizations. A lack of business training and knowledge often leads to bankruptcy (Boone and Kurtz, 2006).

Mutezo (2005) asserts that the key factor militating against increased investment in SMME sector is the structure of the financial sector. He argued that the financial sector is composed by concentrated banking sector targeting corporate accounts and competing with smaller niche banks. He added that there is a strong dearth of strong alternative financial institutions providing credit to self-employed for productive purposes. A larger portion of the SMME sector is said to have no access to adequate and appropriate forms of credit and equity or financial services.

The study by Bbenkele (2007) revealed that SMMEs especially those from rural areas have a poor understanding of the services that banks offer and they also lack understanding of the bank loan procedures. Bbenkele (2007) argues that this lack of information and knowledge leads to SMMEs' weak bargaining position in terms of interest paid, asset and liability disclosure, misuse of loan funds and generally bad preparedness when applying for business loans.

In an article, Christianson (2005) supports that small business face problems in accessing finances. He asserts that small business in South Africa is often quoted as not being able to access money from banks to grow their businesses. Inaccessibility of bank finance is seen as the biggest inhibitor of growth. The main problem facing the development of small businesses 's in both developed and developing countries is access to finance and this has also been supported by the work of Bosa (1969), Levy (1993) and Keasey and Watson (1994).

Other commentators have however refuted this fact and feel that the problem is not really inaccessibility of bank finance but how small business owners apply for finances. South Africa is included in this predicament as a developing country and the government has tried different options to improve accessibility of finance. Despite various government initiatives, many SMMEs still have difficulties in accessing finance in South Africa.

Fin (2006) finds that only 2% of new SMMEs in South Africa are able to access bank loans. According to Foxcroft et al. (2002), 75% of applications for bank credit by new SMMEs in South Africa are rejected. This suggests that SMMEs without finance may not be able to survive and grow. According to Phillips and Wade (2008), SMMEs without access to finance may find it difficult to purchase necessary technology.

## **2.4 Conceptual Framework**

A conceptual frame work for analyzing and explaining a study on assessing the contribution of bank loans to the performance of SB, this framework presents the

relationships among bank finance characteristics, other sources of finances, non financial supportive services to SB and economic performance. Inaccessibility of bank finance to SB owners can be caused by lack of collateral, high interest rate, Lack of financial management knowledge, lack of information and other factors like Training, Bureaucracy and Bribes. Banks have different conditions in order to allow SB owners to access loans, which include collateral, business plan and financial statement.

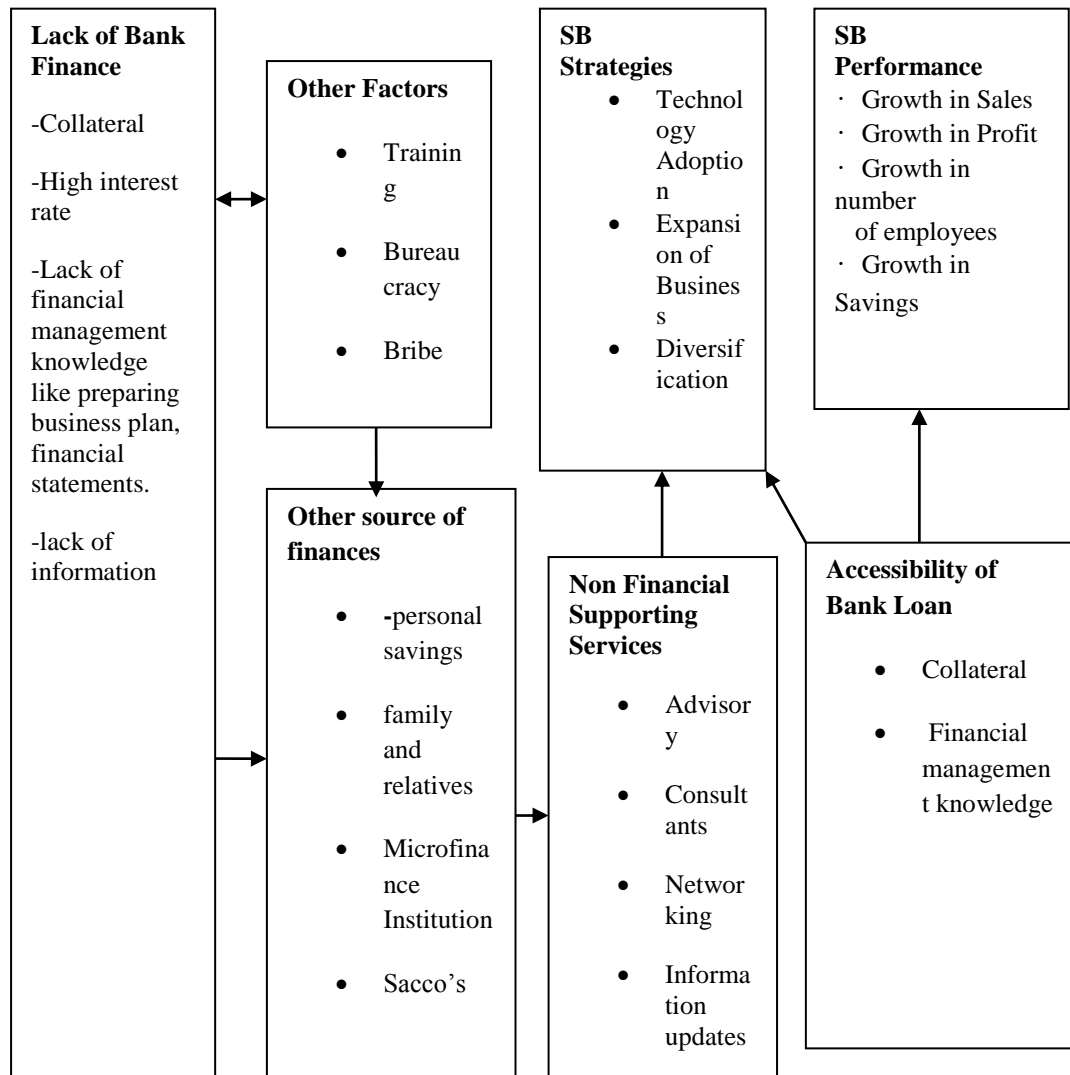
All these factors affect the way which banks play their role as the financial mediator and SB supporter. SB owners avoid borrowing from banks due to lack of collateral, high interest during repayment of loans, lack of training, lack of information, bureaucracy in processing loans and need of bribes from credit officers. Avoid borrowing from bank, SB rely on other source of finance like personal savings, family, friends, relatives, MFI, SACCOs where they get small amount of loan which affects performance of SB owners. If a SB owner can use non financial services like Advisory, Consultants, Networking, Information updates and Training will lead to better

Strategies like technology adoption, expansion and diversification, also will lead to easy access of loans to SB owners. All these strategies and accessibility of loans will lead to better performance of SB by achieving growth in terms of Growth in Sales, Growth in Profit, Growth in number of employees and Growth in Savings.

SB can contribute to the economic development of the country if it will achieve the growth. The growth of SB can be affected by factors such as lack of bank loans, lack of training, lack of financial management knowledge, lack of education, business environment and so on.

## A CONCEPTUAL FRAMEWORK

**Figure 2.1: Conceptual frame work**



**Source:** Adopted and modified by Bamidele, A. (2011).

### 2.5 Research Gap

The literature indicates that many researches were done similar to this study in different countries. But the researcher has failed to establish if the same researcher have been done where this research is done. The researcher therefore contended that findings from this study, conclusion and recommendations will cover the gap.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter represents the approach which the researcher used to gather and analyze data. It describes data collection instruments, and what was done to enhance the validity of the research. Other aspects include study design, research approach, area of study, study population, sample and sampling techniques, reliability, ethical issues and data analysis plan.

#### **3.2 Research design**

Research design is a plan of how the research was systematically collect and analyze the data needed to answer the research questions, thus it is a generation of evidence that is suited both to a certain set of criteria and to the research question in which the investigation is interested (Bryman, 2001).

Kothari, (2004) provides that research design constitutes the blue print for the collection, measurement and analysis of data.

This study adopted cross section survey design using a semi structured interview format with a set of questionnaire and documentary review in seeking to assess the contribution of bank loans to the performance of SB (Creswell, 2003).

A survey is a method of securing information concerning phenomena under study from all or selected number of respondent of the concerned universe.

The researcher decided to choose this design because the survey method minimizes bias and maximize reliability of the evidence collected (Kothari, 2004).

#### **3.3 Research Approach**

The study predominantly employed mixed research approaches which were qualitative and quantitative research approach. The mixed research approaches were employed because the researcher wanted to capture the different facets of the study,

which would not have been possible if only one strategy will be, used (Mbobo, 2010).

Moreover, Babbie (2007) recommended that in social science research, triangulation is used to employ the complementary diversity thesis which entails adopting one dominant methodology and borrowing from other methodologies especially at data collection and analysis stage in order to yield the best results.

Qualitative approach is conducted in natural setting and it is concerned with viewing experience from the perspective of those involved and attempt to understand to why individuals react or behave as they do. Krathwolh (1993) defines qualitative research as research that describes phenomena in words instead of numbers or measures.

In this study the qualitative approach was used the questions why, how and gives explanation to various concepts, ideas and opinions while the quantitative approaches gave the magnitude of the concept, ideas and opinion. For example, in this study qualitative method gave answers to what are the sources of finances while the quantitative approach gave the magnitude of how big was one source of finance.

Quantitative approaches measures a phenomenon using numbers in conjunction with statistical procedure to process data and summarize the results.

Quantitative research has its roots in positivism and is more closely associated with the scientific method than qualitative research. Rees (1980) defines positivism as a family of philosophies characterized by an extremely positive evaluation of science and scientific methods. .Although there is a difference between quantitative and qualitative research, the two paradigms should not be considered as oppositional but rather as complementary components of scientific and disciplined inquiry (Gay and Airasian, 2000).According to Sandelowski (2000) mixed method research is a dynamic option for expanding scope and improving the analytic power of studies.

### **3.4 Study area**

This study was conducted in Dar es Salaam including the SME's and financial institutions (Banks) found in the Dar-Es Salaam city.

### **3.5 Study Population**

Population is total number of people or group or organizations who could be included in a study. Kombo and Tromp (2004) define population as a group of individuals, objects or items from which samples are taken for measurement. It is a group of units with common characteristics of which a researcher is interested (Mbobo, 2010).

The targeted populations for this study in particular, was people with SB within Dar es salaam with capital ranging between Tshs 5,000,000 to Tsh.200, 000,000, with a minimum of three years life span operating within the city and the all commercial bank in Dar es Salaam that have been authorized with the Bank Of Tanzania.

### **3.6 Sample size and sampling Techniques**

A sample is a representative of the population about which the conclusions are drawn. Kothari, (2004) define a sample as a group of participants drawn from a population in which the researcher is interested in collecting information and drawing conclusion (Kothari, 2004). The basic idea underpinning selection of participants in qualitative studies is involvement of information-rich participants (Gall *et al.*, 2005).

This is in contrast to what quantitative studies seek to achieve. Quantitative studies go for representativeness (Leedy, 2001).

The study used probability and non probability sampling technique; more specifically, snowball, purposive sampling as well as stratified sampling. Probability sampling was used to ensure that every SB client had equal chance of being selected for purpose of survey. Snowball sampling refers to “cases that are recommended by

individuals who know other individuals likely to yield relevant, information-rich data” (Gall et al., 2005). However, purposive random refers to “multiple cases selected at random from an accessible population” (Gall *et al.*, 2005).

In this study a researcher used snowball sampling by asking one SB clients to direct to other clients who fall in category of the study. A sample of 100 respondents out of the population of 500 SB was surveyed and the number of population selected was sound because a researcher assumed the response rate to be 70% of that case who was supplied with questionnaires. The sample was randomly selected based on the researcher definition and included SB owners who were operating different types of business. Sampling techniques

### **3.6.1 Simple Random sampling**

Random sampling (simple random sampling) is the purest of probability sampling or chance sampling. This is a sampling in which each member of the population has equal chance of being selected (Kothari, 2004). In this study random sampling was employed for selection of sample of SB in Dar es salaam, this is because the population of SB was so large therefore it required random sampling in order to get a representative sample and this method eliminates all element of biasness during selecting a representative sample.

According to (Creswell,2003) random sampling ensure the law of statistical regularity which states that if on an average the sample chosen is the random one , the sample would have the same composition and characteristics as the universe. From each strata number of respondents were randomly drawn.

The researcher visited the business premises in respective areas. In the business premises the researcher asked the business owner a number of preliminary questions to identify if the business owner falls under the criteria for the study. The first factor was to assess the amount of capital the business owner had and assessed if the business owner had ever obtained a loan from a bank. The inclusion criteria were

capital ranging between Tsh.5, 000,000 to Tsh.200, and 000,000 and if ever obtained a loan from commercial Bank.

### **3.6.2 Purposeful sampling**

Purposive sampling was used in selecting the Banks, Business Managers and Loan officers that was included in this study. The researcher asked all the mentioned banks personnel to participate in the study for the purpose of giving more insight to the study.

The researcher obtained the information that was not being available to business owners such laws, rules and regulation that governs bank loans schemes. And a researcher had chosen this purposive sampling technique because a researcher was sure that the participants were easily reached since was the area which the researcher was working.

## **3.7 Data Collection Method and Instruments**

Data are the evidence that a researcher collects in order to shed light on the particular question he or she asked. Data collection methods help the researcher to collect necessary information concerning the study. . The data collection method refers to technique used in collection of data (Enon, 1998).Data collection methods that was used in this study were questionnaires, interviews and documentary reviews.

According to Bryman (2001), no single technique is necessary superior to any other. Patton (1990) emphasizes the significance of using a combination of data collection techniques by maintaining that, no single research technique is adequate in gathering the required information. The use of more than one specific method enables the research instruments to counter-check and strengthen each other (triangulation).

### **3.7.1 Questionnaires**

A questionnaire is a least of questions which the respondents answer. It is a method of gathering self –reported information from respondents through self-administration of questions (Simba, 2011).Questionnaires can contain either closed-ended or open –

ended questions or both. Closed ended questions are asked to elicit structured responses. The open- ended questions allow the respondents to answer in their own words and give unprompted opinions.

### **3.7.2 Interview and Interview Questions**

Interview is widely used methods for gathering qualitative data. It is a purposeful interaction in which one person is trying to obtain information from another (Gay, 1987) and it allows the researcher to clarify the ambiguities, where appropriate, but it is time consuming and hence cannot be used in large samples (Leedy and Armrod, 2001).

There are three ways of collecting data through interviews, the structured interview, unstructured interview and semi-structured interview (Creswell, 2003). In the structured interview the question may require closed-ended, structured responses or open ended, unstructured responses. Semi-structured interview also, can be used to gain a detailed picture of a respondent's belief and perception of a particular phenomenon (Smith, 1987).

The study employed semi-structured interview because these techniques allows greater depth than is the case with questionnaires, that is, there is direct interaction between the researcher and the respondent. The interview method eliminated all misinterpretation raised during answering question this is because the researcher got a chance to explain the purpose of the study and clarified queries which raised during the interview. The semi-structured interview will be particularly useful in the collection of qualitative data due to their flexibility, (Patton, 2002).

The study used interview in order to gather information from the Managers and bank loan officers. The Bank managers were asked question from the interviewing guide that was prepared beforehand. The answers were recorded by pen and paper. Moreover semi structured interview were used to collect extra information from the owners. The obtained information was used more in clarifying the findings.

### **3.7.3 Documentary Reviews and Documentary Review Guide**

Documentary reviews involves obtaining data from any written or visual sources such as, novels, review of research incident reports, advertisements, speeches, official documents, files, films, audiotapes, books, newspaper, journals, . Specifically, the study employed the review of written documentary, visual and audio sources.

To a certain extent the method gave some insights concerning the study as a broad term of which gave a certain direction for the researcher to make decision. More over this tool is easier and quick method and covers a wide range of different kind of sources. Documentary evidence acts as a method to cross validate information gathered from interview and observation given that sometimes what people say may be different from what people do (Noor, 2008).

A researcher studied the records from files and the information obtained from the records will be being used for the study. The respondents were asked to provide their business record books.

In these books the researcher verified the amount of the capital, look at the financial statements, Banks statements if was available. In the financial statements and bank statements the researcher was interested to see if the respondent had ever obtained a loan and the payment mode and the interest charged. From the bank document the researcher reviewed the documents that showed the defaulters and the reasons for not paying. An instrument that documentary review guides was used to effect the use of documentary review schedule.

### **3.8 Types and Sources of data**

Both primary and secondary data were used in getting information of the contribution of bank's loans on performance of SB in Dar es Salaam. The primary data was collected by administering structured questionnaires to the sampled respondents who were SB owner and who were loaning from commercial banks and

other financial institution like Post Office Savings Bank (POSB), non-bank financial institutions, savings and credit cooperative societies (SACCOs) and MFI. The informal financial institutions in the study were savings and credit association's mutual assistance groups, relatives and friends, organizations and NGOs.

The secondary data was collected by assessing the commercial bank reports in Dar es Salaam, reading on publications on the subject matter and related topics, news papers, journals, study of various book, Web based data and looking on financial statements of SB owners within Dar es salaam.

### **3.9 Validity and Reliability**

To ensure validity the researcher conducted a study by using different tools like questionnaires, interviews and documentary reviews in order to eliminate ambiguity. Validity refers to the issue of whether an indicator (or set of indicators) that is devised to gauge a concept really measure that concept (Bryman, 2001; Sapsford and Evans, 1984). Validity as used in quantitative research to mean absence of subjectivity has been found to be almost impossible in qualitative research (Auerbach and Silverstein, 2003; Patton, 2002 approaches).

Therefore, to achieve validity, triangulation of study instruments was applied in this study. Therefore, triangulation refers to the use of more than one approach to the investigation of a research question in order to enhance confidence in the ensuing findings (Bryman, 2001)

A researcher conducted the translation and back-translation purposely to ensure validity of the instruments and at the same time most of the respondents were likely to understand better in Kiswahili than in English, and the translation was done by the experts and after the pilot study back translation were used (Mbobo,2010). For more validation the instruments were given to the supervisor for further editing.

Reliability refers to the quality of measurement method that suggests that the same data would have been collected each time in repeated observation of the same phenomenon. McMillan and Schumacher (1993) said reliability “refers to the consistency of measurement, the extent to which the results are similar over different forms of the same instrument or occasions of data collecting “.Reliability, on the other hand, implies that if a method of collecting evidence is reliable, it means that “anybody else using this method would come up with the same results (McNeil, 1990). Similarly, it refers to the consistency of a measure of a concept (Bryman, 2001). Reliability, like validity, depends on how transparent the narrative is (Schensule *et al.*, 1999; Silverman, 1993). Lincoln and Guba (1985) also agree with this position when they say that findings grounded in data, logical inferences from data, explicitness and reduction of researcher bias maximize reliability.

The tools for data collection that is interviewing guides and questionnaires were prepared. The tools was translated into Kiswahili, the language that was used to collect data from the respondents then the translated tools in Kiswahili was translated back to English. After the translation back to English the two English versions was compared for difference. Areas that was shown significant difference was harmonized. The tools were tested where by a small sample was selected and be given the questionnaires and some interviewed using the interviewing guide. During testing of the data collection tools the researcher observed the areas that are not clear. The areas that shows ambiguity and that are not clear were collected. The tools that have been collected were used in the study.

### **3.10 Data Analysis Procedure**

Data analysis is the process of making meaning from the data. Kothari (2004) defines the term analysis as the computation of certain measures along with searching for patterns of relationship that exist among data-groups. Data analysis begins soon after collection of data. Before analysis of data a researcher edited the collected raw data to detect errors and correct when possible. A researcher analyzed raw data by quantitative and qualitative methods.

For quantitatively approach a data base will be created, the questionnaires were checked for completeness. Statistical Package for Social Science (SPSS) package was used in analyzing data. The analysis involved coding, data entry, data cleaning, and the generating of descriptive statistics. The descriptive statistics include frequency tallies, and their corresponding percentage scores.

After obtaining the descriptive statistics a regression analysis and one sample t-test were conducted. The one sample t-test conducted so as to test the significance of the variable. Some variables were cross tabulated to establish their association and correction by employing a chi-square method. The findings were presented by using tables and charts as found appropriate. Qualitative analysis involved categorizing of data from interviews and field notes into common themes and presented by using frequency distribution tables and charts. Interviews were coded and analyzed by pen and paper, there after the contents were transcribed.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION

#### 4.1 Introduction

This chapter presents data, analysis and discussion. All of these are based on the research objectives stipulated in chapter one of this thesis.

#### 4.2 The Influence of In-Accessibility of Bank Finance on the Small Business Development

Influence of inaccessibility of bank finance on the development of small business in the study area was intensively studied. Respondents were asked to tell the extent of in-accessibility of bank finance affected their business performance and the following Table 4.1 indicates findings.

**Table 4.1: Responses on the Extent in-accessibility of bank Finance affected their Business N=100**

Response	Number of Responses	Percent
Highly affected business	20	20
Affected business generally	50	50
Did not affect business at all	20	20
Affected business at low rate	10	10
Total	100	100

**Source:** Research Source; research Data, 20-13

Findings indicated that respondents (20%) said that inaccessibility of bank finance affected the development of small business and respondents (50%) said that it generally affected business development. Table 4.1 also indicates that respondents (20%) said that in-accessibility of bank finance did not affect their business and respondents (10) said that inaccessibility of bank finance affected business at low rate.

The extent of business operation was then probed in order to validate the above explained findings. It was revealed from the study that respondents (35%) explained that they have been doing small business for a period of less than one year and respondents (20%) said that they have been doing small business for the period of 3 years. Respondents (25%) explained that they have been doing the business for the period of more than seven years. These findings generally indicated that a good number of people had enough period of doing small business and that had time for seeking financial assistance from banks.

It was also revealed from the study that possession of finance knowledge and skills was among indicators for people to be able to access finance from banks. About 48% of total respondents claimed to have knowledge and skills on finance management and that they had been striving to get financial assistance from different banks in the city. Respondents (21%) confirmed that they had adequate financial management skills. Respondents (55%) said that they once applied for bank finance but only 10% managed to access it. It was also revealed from the study that 32% of total people in small business never applied for bank finance.

Reasons for not applying for bank finance were then sought. For those who never applied for bank finances provided various reasons. Four main reasons were given. The majority (60%) explained that they did not know the procedures. Another 14% said they lacked knowledge on the sources of finance available at banks. Only 5% said high interest charged by banks discouraged them from borrowing. The remaining 19% had enough Capital to start and run their small businesses.

Reasons why applications for finance were unsuccessful at banks were also determined. Findings indicated that 45% of business people who failed to access bank finance said they never got any response from banks clarifying why they could not offer them the much needed loans. In light of this, lack of financial deposit was found to affect 60% of total people doing small business. Respondents in this category explained that they lacked collateral security which proved to be the greatest obstacle in accessing finance. Only 9% failed to access bank finance

because they had poor business plans. The other reason why other SMMEs were not funded by banks was that their business ideas were said to be 'not viable'.

The influence of lack of financial management knowledge on the accessibility of bank finance people doing small business was also probed. Respondents (39%) **were of** view that lack of financial **management** knowledge has an impact on access to bank finance. Only 30% admitted that it does not have any influence on access to bank finance and 70% which is the majority, were of the view that it has affected their businesses negatively, especially when it comes to accessing funds.

#### **4.3 Effects of inaccessibility of bank finance to the success and development of small business**

The objective intended to determine effects of in-accessibility of bank finance to the success and development of bank. All respondents (N=.....) provided responses which were validated through the review of documents. Findings indicated that he majority (80%) of respondents expressed their view of influence of inaccessibility of finance on survival of

Their businesses revealing that it has a very negative influence. It was also revealed from the study that 10% of respondents said this had a positive impact on the success and development of small businesses. Findings also indicated that 18% argued that inaccessibility of finance had no influence on the development of small business.

Over seven percent (7%) on the other hand, also argued that inaccessibility of finances never affected growth of their, yet, nearly 6% claim that this impacted the growth of their businesses positively. Findings also indicated that more than 80% of total respondents said that were affected negatively and Means that they were totally depending on bank finances, which was not advisable. Respondents explained that also have to make use of their retained earnings to grow or else, explore other options to fund the growth of businesses.

Lack of business skills, flexibility, skilled labour, innovation and flexibility in doing small businesses attributed to inaccessibility of bank finance. The researcher noted that inaccessibility of finance has also affected performance of small business negatively in factors like transportation, information technology, exporting activities, visibility and also, relationships with suppliers.

These findings are in line with what is stipulated in theoretical literature. According to Nieman and Nieuwenhuizen (2009), these factors contribute to the success of a business venture. If small business in the study area makes use of poor raw materials, the quality will obviously be below standard. If poor quality products are to be sold at a higher price, sales are most likely to be lost and in the long run, the business will fail.

Parallel to this objective the researcher discovered that **lack** of knowledge on financial management influenced development of small business. According to respondents (85%), lack of financial management knowledge has a negative impact. Of the remaining 15%, 10% said this strongly affected their businesses negatively, and only respondents (5%) argued that it never affected their businesses. Lack of financial management knowledge also has influence on investment decisions, survival of small business orientation towards the future, innovation, lack of business skills and small business flexibility. Most, if not all of these factors, affect small business success.

It was also revealed from the study that financial management knowledge have influence of on the capacity of people to access financial services from the bank. Findings indicated that 5% of respondents said it does not have an effect. But respondents (85%) were affected negatively and the remaining 15% said it strongly affected them negatively. These findings agree with results from the study done by Kondrich (2008) that knowledge of financial management is crucial in making investment decisions and this in turn affects the capacity and capability of people in small business to access financial support from different financial institutions.

Furthermore, Kejo (2007) point out that most small business people that fail to manage their finances will fail. This is empirically true because lack of education and training is one of the major causes of failure of small business in developing countries. Lack of financial management knowledge also affected small business orientation towards the future. Nieman and Nieuwenhuizen (2009) made it clear that successful entrepreneurs focus much on the future. Poor financial planning and management will lead to failure and no future. More than 80% of respondents indicated that they were affected negatively and were only focusing to achieve short term financial goals, not strategic goal of their ventures. It was revealed from the study that depending too much on consultants and experts limited small business flexibility in making financial decisions that are crucial to the business performance/development. Nieman and Nieuwenhuizen (2009) stresses that small business owners must themselves be able to interpret and understand financial statements.

#### **4.4 Challenges faced by Small Business Owners as a Result of Inaccessibility of Finance**

Data for this objective was collected from the use of interviews and observations and review of documents. Respondents were asked to tell if there were challenges or not and the Following table below indicates results.

**Table 4.2 Challenges Facing Small Business Owners as a Result of Inaccessibility of Finance**

Type of challenge	Number of Responses	%
inability to expand or slow growth of businesses	20	20
inability to compete with bigger firms in the market	30	30
Lack of business knowledge and skills and poor financial management	10	10
failure to register/poor quality goods or services	15	15
poor marketing and bad reputation or images created	5	5
Mismanagement of business/failure to access funds	20	20
Total	100	100

**Source:** Field Data, 2013

According to the data in table 4.2, the main challenges faced by SMMEs as a result of inaccessibility of finance include inability to expand or slow growth of businesses. According to respondents (20%), there were many same small businesses which were undertaken in the study area. It was revealed from the study that customers were getting big opportunities to choose where to buy. In the business industry, this results into plenty of goods in the market and hence, falls of prices.

Respondents (30%) mentioned another challenge to be inability to compete with those people doing big business in the market. It was revealed from the study that being small business also the quality of goods and services were not of high standard compared to those from big business people. It was revealed from the study that also people doing small business were not able to produce big quantity of products to the market due to financial constraint.

According to data in the above table, as explained before, lack of knowledge and skills on business and finance. Respondents (10%) explained that most of them have

no enough basic education and business education and management. The challenge was explained to negatively affect not only the business performance but also their abilities to access finance from banks. They explained further that most of people in small businesses such as those doing '*mama/baba lishe*' are illiterate to the extent that they cannot competently read and write.

Therefore, proper keeping planning of business and keeping business records was explained to be default tasks. Together with this respondents (15%) explain that to result also into failure to register their business in order to be officially recognized by relevant authorities. As a result the researcher observed a number of small business people doing the businesses into unplanned areas that are in informal sector. Doing businesses in such areas deprives their right to get necessary social services and the like which facilitates development of any type of business. In light of this also entails the extent in-terms of quality the provision of services and that is why respondents (10%) explained that poor provision of services/quality goods was among challenges they faced during doing businesses.

According to data in table 4.2, other challenges were identified include poor marketing and bad reputation or images created for small business. Respondents (5%) explained that the market available for most of those doing small businesses were mainly locally and encased with the premises where business owners resided. With regard to bad business reputation/images respondents explained that this was due to the fact that many business were of short term and frequently collapsed and that it was difficult for owners to be easily trusted for loans.

According to respondents other challenges were explained to be poor decision making leading to high failure rate and closure of businesses and failure to develop due to uninformed budgets and mismanagement of businesses. Findings also indicated that failure to access finance due to inadequate documentation and poor presentation were among challenges faced by people doing small business and all were generally underpinned by lack of financial management knowledge.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

In this chapter, a summary of the study is given and covers the entire study. The chapter also provides a conclusions and recommendations.

#### 5.2 Summary of the Study

This study investigated the influence of inaccessibility of bank finance and lack of financial management knowledge to people doing small business. Both theoretical and empirical literature was reviewed and the latter revealed that many studies have been done on the similar issues. This was because of the importance of small business as a source of job creation and eradication/alleviation of poverty. The survey research design was used to gather information and the sample included 100 respondents who were randomly and purposively selected. Interviews, observations and documentary analysis were data collection methods used to collect both primary and secondary data. Analysis of data was done based on research objectives and research questions.

#### **The following were research findings:**

**With regard to the influence of In-Accessibility of Bank Finance on the Small Business** Development, generally respondents agreed that inaccessibility of bank funds have influence and very few said it had influence since they had their own sources of funds. The results are based on the extent of business operation people has been doing small business for a period of less than one year others more than five years. This indicated that a good number of people had enough period of doing small business and that had time for seeking financial assistance from banks.

Findings indicate that that possession of finance knowledge and skills were among indicators for people to be able to access finance from banks. However few respondents indicated to have business education knowledge, skills and lacked knowledge and skills on finance management. This resulted either not completely to

be not aware of sources of finance for their business or not to apply for loans from the banks because they did not know the procedures. It was also revealed from the study that failure to get bank loans was also underpinned by the lack of business plans. Findings also indicated that those who had knowledge did not apply for loans because they had no collateral and claimed high interest charged by banks discouraged them from borrowing. Business ideas were said to be 'not viable'.

Findings also revealed that some who applied for the loans never got any response from banks clarifying why they could not offer them the much needed loans. In light of this, lack of financial deposit was found to affect 60% of total people doing small businesses. It was also revealed from the study that lack of financial management knowledge on the accessibility of bank finance negatively influenced development of small business.

**With regard to the effects of to the success and development of small business findings indicated that inaccessibility of bank finance** has a very negative influence. It was also revealed from the study that 10% of respondents said this had a positive impact on the success and development of small businesses. Findings also indicated that few argued that inaccessibility of finance had no influence on the development of small business. Findings also indicated that inaccessibility of finances never affected growth of their claim that this impacted the growth of their businesses positively. Findings also indicated that more than 80% said that they were affected negatively and that means that they were totally depending on bank finances, which was not advisable. Findings indicated that people doing small businesses also have to make use of their retained earnings to grow or else, explore other options to fund the growth of businesses.

Lack of business skills, flexibility, skilled labour, innovation and flexibility in doing small businesses attributed to inaccessibility of bank finance. The researcher noted that inaccessibility of finance has also affected performance of small business negatively in factors like transportation, information technology, exporting activities, visibility and also, relationships with suppliers. The researcher discovered that lack of knowledge on financial management influenced development of small business

both passively and negatively. Lack of financial management knowledge also has influence on investment decisions, survival of small business orientation towards the future, innovation, lack of business skills and small business flexibility. Most, if not all of these factors, affect small business success.

It was also revealed from the study that financial management knowledge has influence of on the capacity of people to access financial services from the bank. Findings indicated that 5% of respondents said it does not have an effect. But respondents (85%) were affected negatively and the remaining 15% said it strongly affected them negatively. These findings agree with results from the study done by Kondrich (2008) that knowledge of financial management is crucial in making investment decisions and this in turn affects the capacity and capability of people in small business to access financial support from different financial institutions.

The literature also revealed that most small business people that fail to manage their finances will fail. This is empirically true because lack of education and training is one of the major causes of failure of small business in developing countries. Lack of financial management knowledge also affected small business orientation towards the future.

**With regard to the challenges faced by Small Business Owners as a Result of Inaccessibility of Finance findings indicated that** the main challenges faced by SMMEs as a result of inaccessibility of finance include inability to expand or slow growth of businesses. It was revealed from the study that customers were getting big opportunities to choose where to buy. In the business industry, this results into plenty of goods in the market and hence, falls of prices.

Another challenge was revealed to be inability to compete with those people doing big business in the market. It was revealed from the study that being small business also the quality of goods and services were not of high standard compared to those from big business people. It was revealed from the study that also people doing small

business were not able to produce big quantity of products to the market due to financial constraint.

Another challenge was lack of knowledge and skills on business and finance. The challenge was explained to negatively affect not only the business performance but also their abilities to access finance from banks. Therefore, proper planning of business and keeping business records was explained to be default tasks. It was reported that this resulted into failure to register their business in order to be officially recognized by relevant authorities.

As results the researcher observed a number of small business people doing the businesses into unplanned areas that are in informal sector. Doing business in such areas deprives their right to get necessary social services and the like which facilitates development of any type of business.

Findings also indicates that other challenges were identified include poor marketing and bad reputation or images created for small business. This was due to the fact that the market available for most of those doing small businesses was mainly local and encased within the premises where business owners resided. With regard to bad business reputation/images respondents explained that this was due to the fact that many businesses were of short term and frequently collapsed and that it was difficult for owners to be easily trusted for loans.

Other challenges were explained to be poor decision making leading to high failure rate and closure of businesses and failure to develop due to uninformed budgets and mismanagement of businesses.

Findings also indicated that failure to access finance due to inadequate documentation and poor presentation were among challenges faced by people doing small business and all were generally underpinned by lack of financial management knowledge.

## **Conclusion**

Based on the study findings, small businesses are important because they help to eradicate poverty. Although lack of financial management knowledge among those doing small business does not necessarily influence inaccessibility of bank finance it is concluded that it affects small business severely on survival and success.

In this regard, many small businesses fail because of lack of financial management knowledge. It is also concluded that inaccessibility of finance does not have a greater influence on development of small business. This is mainly because after Small businesses are established, owners can seek other sources of finance other than bank finance.

## **Recommendations**

Based on the findings of this study, the following recommendations are suggested.

### **To small business owners**

Inaccessibility of bank finance and lack of financial management knowledge are real challenges to Small business owners. SB owners need to take time to explore all financing opportunities and also how they can gain more financial management knowledge. It is business owners that are supposed to look for institutions that support them, not the other way round. Business owners also need to show seriousness when applying for bank loans and in preparing business plans. Making use of experts at their disposal can help ease the problem of inaccessibility to finance.

Financial literacy trainings offered to them through SMEs need to be taken seriously. These trainings are of benefit for they can help ease other challenges affecting small business especially lack of financial management knowledge and access to finance. Inaccessibility of bank finance should not kill the entrepreneurial spirit. Small business owners should now not depend only on bank finance.

They can explore other options to grow and start businesses. Money from family, friends and fools can work for their good for it is usually interest free. Small business owners need to realize that their success is dependent on what they want to achieve and how they plan to achieve it, not on banks or the government. This is why some owners of small business are excelling while others are failing even if they are operating in the same area and doing the very same business.

### **The government**

The majority of small business owners are not aware of government Initiatives that are meant to improve the small business sector. There is a need to educate them on useful government services and how they can access them. The government should also monitor the services offered to them by banks.

Although the government has a role to play, it has to be careful not to create a spirit of dependency for it destroys the entrepreneurial spirit in small business. Those doing small business need to be supported but must not be allowed to be over dependent on the government.

### **Banks**

Although it is sometimes suggested that those doing small business can explore other financing alternatives, bank finance remains common and useful to them. Banks need to realize that their actions and attitude towards SMEs has an effect on the small business and the nation at large. Banks should not just turn down those doing small business' applications for finance without explanations.

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