

**THE IMPACT OF FINANCING SMALL AND MEDIUM  
ENTERPRISES (SMEs) ON IMPROVING THE LIVING  
STANDARD: A CASE STUDY CHATO DISTRICT**

**By  
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**A Research Report Submitted in Partial / Fulfilment of the Requirements for  
Award of the Degree of Master of Science Accounting & Finance (MSc A & F) at  
Mzumbe University.**

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## CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation/thesis entitled **“Impact of financing Small and Medium Enterprises (SMEs) in improving the living standards: A case study of NMB PLC Chato Branch.”**, in partial fulfilment of the requirements for award of the degree of Master of Science in Accounting and Finance (Msc. A&F) of Mzumbe University.

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## **DECLARATION**

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

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## **DEDICATION**

*This work is dedicated to my guardian Elizabeth Abdallah Amlima, my mother Victoria Lumala who have supported me fully in all aspects (moral, spiritual, material, academic affairs) ensuring my life achievement.*

## ABBREVIATIONS

NMB PLC	-	NMB Public Limited Company
GDP	-	Gross Domestic Product
SME	-	Small and Medium Enterprises
MSE	-	Micro and small enterprises
MKUKUTA	-	Mpango wa kudhibiti na kuondoa umaskini
ILO	-	International Labour Organization
NMNF	-	National Microfinance Policy
NISS	-	National Informal Sector Survey
MFI	-	Micro Finance Institution
NPES	-	National Poverty Eradication Strategy
TAS	-	Tanzania Assistance Strategy
MTEFs	-	Medium Term Expenditure frameworks
PEeewS	-	Public Expenditure Review
PRSP	-	Poverty Reduction Strategy paper
HIPC	-	Heavily Indebted Poor Countries Initiative
NGO	-	Non Government Organization
UNDAF	-	United Nations Development Assistance Framework
CARD	-	Center for Agriculture and Rural Development
TZS	-	Tanzanian Shillings

## **ABSTRACT**

This study explored the impact of financing SMEs clients on improving the standard of living at Chato District in Geita. Since SME is the general term use for micro, small, medium and large enterprises, the study was only concentrated on the micro and small businesses that are mostly being financed by the NMB PLC. This study aimed at investigating the impact of the loan received by SMEs clients on improving the standard of living at Chato and see whether the loan given to these SMEs clients have real contributed in the improving standard of living.

The general objective of the study was to find the impact of loans granted to the micro and small business owners on improving standard of living in terms of business expansion, employment and employment expansion, increase assets ownership, income level and acquisition of basic needs. Specifically the study ought to identify loan disbursement trend between 2010 -2012, to identify and characterize the employment trend for the micro and small business at Chato District that benefited from the NMB PLC Chato Branch loans, to identify the impact of loans given the small and micro business owners in improving the standard of living, while the last objective was to examine the challenges faced by the small and medium enterprises when struggling to expand their businesses.

The study design was a diagnostic study with the sampling techniques being systematic random sampling. The findings of the study showed that, bank loans help to improve the standard of living because they contribute into business growth and expansion, hence employment, since employment is a source of income , and whoever is employed then he/she earn income and with that income will increase wealth (wealth in various forms) thus controlling income poverty.

The study recommendations are directed to the government insisting on providing conducive environment for micro and small business people, providing training and entrepreneurial skills to the business owners since most of them are the primary and ordinary level of education. To the NMB PLC Management and other financial institutions should provide financial assistance to the SMEs with reasonable and affordable interest rate. However, loan bureaucracy should be reduced and if possible to be completely eradicated and provide them with loans on time as needed with no reasonable delays.

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## **CHAPTER ONE**

### **BACKGROUND INFORMATION AND PROBLEM DEFINITION**

#### **1.1 Introduction**

In chapter one the study presents the background to the problem, the statement of the problem, research objectives general and specific objectives, research questions, and the significant of the study.

#### **1.2. Background to the problem**

The National Microfinance Bank's (NMB PLC) contribution in improving living standard in Tanzania is seen through its lending policy to the SMEs clients. Small business benefited by accessing loans from the NMB PLC, but the extent to which these loans have been able to improving the standard of living is unknown. This study aim at investigating this problem and to examine the impact of the loans extended to the SMEs clients' business in terms of business growth, employment growth and income generated by those firms that managed to access loans from the NMB PLC-Chato Branch.

The study assume that, employment is a source of income, and whoever is employed then he/she earns income and with that income will improve his/ her living standard in various form thus controlling income poverty.

The government of Tanzania has recognized the need for financing SMES's clients as a way forwards improving the small and medium business enterprises, an enabling environment, including policy environment (SME policy 2002) and the financial institution has been in place for a long time and changing from time to time according to the needs in order to achieve the goal development of the SMEs.

Over the past fourteen years since early 2000s, Tanzania has embarked on an ambitious and long process of economic, social and political reforms in order to improve the business environment and to increase economic growth. Despite adverse weather conditions and deteriorating terms of trade, the economy of Tanzania has been growing at an annual average rate of more than 4 % (CIA, 2010-2012). The

balance of payment position has also improved substantially with foreign exchange reserves rising and maintained at a sustainable level (UNDAF, 2010-2012). Despite all these success stories, the challenge facing the government of Tanzania is to translate these achievements into tangible human development. The depth and extent of poverty is still high with 70% of the population living below poverty line. The task of reducing poverty and improving the living standards of Tanzanian population is huge. The rate of growth of national economy has not been high enough to generate the number of jobs required. That brings about the issue of the majority to enter into private sector in the form of entrepreneurship and small business, thus expanding the private sector and informal sector of the economy.

According to International Labor Organization (ILO) (2006), in the National Informal Sector Survey (NISS) conducted in 1991, it was found that there were 1,801,543 enterprises employing 2,369,380 people, 60% of those enterprises were located in rural areas and 56% in urban areas of that total employment, 36% were woman and 75% of them were operating restaurants/food stuffs type of business.

Other studies conducted later, for example Rural Informal Sector Survey (1992) and Dar es Salaam Informal Sector Survey (1995) did not change the statistics, hence it could be taken that, the sector employs 22% of the labor force.

This information shows that, the informal sector as is taken to include the SMEs sector is a dependable sector in employment and ability to increase wealth. This is rooted in the definition of the government of Tanzania about the SMEs, to include micro enterprises, small enterprises and medium enterprises and this is based on sector, employment size and capital employed. In this way most of the micro enterprises employ up to four people, and this reduces the enterprises to a family unit. For all informal sector enterprises, the average employment level is only 1.4 meaning that they are micro enterprises in the government definition.

Starting with the argument that the business owners were poor, but were competitive entrepreneurs then the banks' loans would play a facilitating role, and therefore the entrepreneur's effort together with the loan will amount to reducing poverty.

SMEs all over the world and in Tanzania in particular, can be easily established since their requirements in terms of capital, technology, management and even utilities are not as demanding as it is the case for large enterprises.

It is now increasingly recognized that the Small and Medium Enterprises (SMEs) play crucial role in employment creation and income generation in Tanzania, (SMEs policy, 2002). Indeed SMEs development is closely associated with more equitable distribution of income and thus important with regards poverty alleviation.

The SMEs are potentially the most dynamic of the economy and therefore are expected to fit in any environment and enable the owner to get income. The growth of SMEs is the key for the overall economic well being of any nation and because of this, the government of Tanzania has several programmes of promoting their growth. For example in may 2000 the government of Tanzania formulated and adopted the National Microfinance Policy (NMFP) with a view to establish the basis for evolution of an efficient and effective microfinance system in the country that will serve the low income segment of the society and their by contribute to economic growth and poverty reduction. However the MFIs were initiated with the objective of meeting different goals, the most common mentioned objective being poverty reduction, women empowerment and development of business sector as a means of achieving high standards of living.

However micro enterprises have become important contributors to Tanzania economy. They are the source of income and employment to overwhelming majority of Tanzanians. They are also major suppliers of goods and services to people. Apart from contributing of about 50% of industrial products, services and enterprises. Despite the Government's long term objective of reducing abject poverty by 50% by the year 2010 and eradicate poverty by the year 2025 (URT, 20000), two questions arise: first whether micro credit increases earning capacity of the poor families that is sufficient enough to move them out of the poverty trap. Second, whether the poverty reduction is on a sustainable basis or it is just a temporary phenomenon. In relation to the subject of this study which is to investigate as to whether financing these small

and medium business (SMEs) has had an impact SMEs growth and poverty reduction, the challenge is to identify the precise direction these SMEs are taking-are they growing and reducing poverty after they have obtained the loans? This knowledge is what is defining the kind of policy the government should take to further reduce poverty in Tanzania.

### **1.3. Statement of the Problem**

Financing SMEs is considered by many capital providers as a risky venture due to high transaction costs and low returns, and going concern of the businesses especially in the early stages. Despite this, finance remains a strategic resource for SME development because investments are needed for new ideas to become marketable products and services. The impression has been that lack of fund or inadequate funding is the major root cause of several SMEs unproductive activities which is the reason why government made microfinance banks the major sources of capital provider for entrepreneurs (Obasan, 2001).

Several Financial sectors' policy of providing credit to the micro and small businesses has not yet established whether have succeeded in promoting employment growth within the business or not. The loans to the micro and small business were expected to enable the business to grow and therefore improve living standard form business which leads to creating employment opportunities which in turn is assumed to check income poverty. This could be in terms of annual turnover, profit, or employment, but unfortunately the growth is not yet clearly seen after accessing the loans. The study aims at investigating the impact of the loans received by the SMEs clients on increasing wealth from Business at Chato District.

Khandker (1998) conducted a study showing a direct link of microfinance program with an increase in household incomes in poverty alleviation, but his study has a gap that it didn't show how the resulted income helps in poverty reduction. Another gap is, the study was conducted in Bangladesh a country which is not the same as Tanzania.

Reuben (2007) investigation shows that small and medium business sector is for people at all education levels. The study revealed, as education level increases, few people with higher education level are involved. The study has got importance though it has got its weakness in the sense that, the sector must not necessarily be dominated by operators with low education level, primary and secondary level of education.

#### **1.4. Significance of the study**

Improving the standard of living has been given priority in the government of Tanzania. The country was concerned with poverty alleviation since independence. However, in the late 1990's, plans and procedure to eradicate mass poverty have been evidenced in the establishment of various policy frameworks such as the Tanzania Vision 2025, the National Poverty Eradication Strategy (NPES), the Tanzania assistance Strategy (TAS), the Medium Term expenditure frameworks (MTEFs) and public expenditure review (PER).

On the other hand microfinance is considered as one the key strategies to facilitate this move towards the improving individual wealth efforts not only in Tanzania, but in most of developing countries. Commercial banks have traditionally concentrated their lending to large formal enterprises that posses collateral, thus leaving majority of Tanzania who are low income earner (SMEs policy 2002), majority of who have never adequately accessed loans for their small and medium business, which results in poor economic growth, low level of self-employment in general.

The study will help the micro and small business owner to understand well the contribution of loan financing to their business, since as a result of loans they will have grown in terms of capital, investment, and also employment and thus generate more income useful in obtaining such needs like education, food, good shelter and like. This will also encourage those entrepreneur who are not using loan to enter in the system

The study on the impact of loans provided to the SMEs clients by the NMB PLC will help to identify the challenges faced by the SMEs clients and how to handle them.

The finding will be useful input policy makers since financing of the SMEs is among the crucial components in the effort of poverty reduction.

The study further will contribute to the understanding of the importance of loans extended to micro and small business' clients by the NMB PLC management and how to make the loan service more effective and hence realize their contribution towards poverty reduction through micro-credits.

However the study will add knowledge to the related existing studies.

## **1.5. Research Objectives**

### **1.5.1 General Objective**

The overall objective of this study is to investigate the impact of the loans received by SMEs clients on increasing of individual wealth in Geita at Chato district.

### **1.5.2 Specific Objectives**

The specific objectives of the study are

- a. To identify the loan disbursement trend between 2010-2012
- b. To identify and characterize the employment trend for the micro and small business at Chato district that benefited from loans provided by the NMB PLC
- c. To identify the impact of loans given to the micro and small business owners in increasing individual wealth.
- d. To examine the challenges faced by the micro and small client when struggling to expand their businesses.

### **1.5.3 Research Questions**

The aim of microfinance institutions is to provide financial services to the world's lowest income entrepreneurs so they can create jobs build assets and improve their standard of living. According to the research done by Chijoriga (2000) in Tanzania, most of MFIs operate only in the municipalities, cities and town in which they are

registered, showing high concentration in the urban areas few of Microfinance Institutions reach the rural people. NMB PLC as one of the institution which offer micro credit to small business owners have been offering micro credit to small business owners in Chato District. In this study the Researcher wants to know the impact of financing small and medium enterprises through micro credit from NMB PLC Chato Branch on improving the standard of living.

#### **1.6. Limitation of the study**

The Researcher conducted the study at Chato District as the case study, the only respondents to this study were the Micro and small business owner from Muganza, Kibehe, Nyamirembe and Chato Centre, large party of Chato District is a rural area and most of people around the district have low education level, most of them have primary and ordinary secondary level of education, therefore this study can only be beneficial to the business owner who conduct business at the region with the same nature as Chato District.

The study was designed to have 72 respondents but the researcher collected information only from only 50 Respondents, this was due to the level of education for most of the respondents. Due to the nature of the study, the Researcher used

#### **1.7. Scope of the study**

The study area concentrated to the micro and small enterprises only, because NMB PLC is much concentrating on providing loans to the micro and small enterprises rather than medium and large enterprises. Small enterprises include those enterprises with the capital investment in machinery (Tsh) of above 5 million to 200 million with the number of employee being between 5 to 49 while micro enterprises are those with capita investment in machinery (Tsh up to 5 million with the number of employees between 1 to 4.

### **1.8 Study Variable**

The study variables that were used to establish the importance of loans provided to the micro and small business' clients on improving the standard of living were business expansion, employment trend, acquisition of basic needs, increase assets ownership, income levels and working capital

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Chapter two presents literature review; conceptual frame definitions, theoretical definition theoretical discussions and empirical evidence.

#### **2.2 The Concept of Microfinance**

Microfinance is the provision of financial services to low-income, poor and very poor self-employed people (Otero, 2000). Robinson (2001) as cited in Ogunleye (2009) defined microfinance as small scale financial services that involve mainly savings and credit services to the poor. Over twenty years ago, microfinance simply meant the provision of very small loans (microcredit) to the poor, to help them engage in new productive business activities and/or to grow/expand existing ones. However, overtime, microfinance has come to include a broader range of services. These include mainly credit, savings opportunities, insurance and money transfers, as practitioners came to realize that the poor, who lacked access to traditional formal financial institutions, needed and required a variety of financial products to achieve meaningful improvement in their business activities. Microfinance refers to loans, savings opportunities, insurance, money transfers and other financial products targeted at the poor. Ogunleye (2009) is of the opinion that microfinance is about providing financial services to the poor, who are traditionally not served by the conventional financial institutions. He said the three features which distinguish microfinance from other formal financial products are:, The smallness of loans advanced and or savings collected, The absence of asset-based collateral and Simplicity of operations.

Commercial banks usually demand for collateral security before giving out loans for business purposes. This is a necessary factor in obtaining loan as collateral serves as guarantee for recovering of loans given out by commercial banks in case of repayment default. An average citizen in cannot provide such collateral security. This

results to inability of an average Tanzanian to access loans from commercial banks. Thus the difficulty of access to loans from financial institutions constitutes a great setback to entrepreneurial development. (Parker, 2006)

The evolution of community banks as intermediaries of microfinance program was supposed to reduce the stress which low income individuals go through before they can have access to capital. (CBN, 2005). It has been noted that robust economic growth cannot be achieved without putting in place well focused programs to reduce poverty through empowering the people by increasing their access to factors of production, especially capital. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth.

Consultative Group to Assist the Poor (CGAP), is a consortium of 28 public and private development agencies working together to expand access to financial services for the poor, referred to as microfinance. The following principles were developed and endorsed by CGAP and its 28 members, and further endorsed by the Group of eight leaders at the G8 summit on June 10, 2004.

1. The poor need a variety of financial services, which are convenient, flexible and reasonably priced such as savings, cash transfers and insurance depending on the circumstances.
2. Microfinance is a powerful instrument against poverty as it allows poor households to move from everyday survival to planning for the future, investing in better nutrition, improved living conditions and children's health and education.
3. Micro financing means building financial systems that serve the poor: In order to achieve its full potential of reaching a large number of the poor, microfinance should become an integral part of the financial sector.
4. Financial sustainability is necessary to reach significant number of poor people. Sustainability is the ability of a microfinance provider and the

ongoing provision of financial services to the poor. Achieving financial sustainability means reducing transaction costs, offering better products and services to the poor that meets clients' needs, and finding new ways to reach the unbanked poor.

5. Microfinance is about building permanent local financial institutions which translates to building sound domestic financial intermediaries that can provide financial services to poor people on a permanent basis. Such institutions should be able to mobilize and recycle domestic savings, extend credit, and provide a range of services.
6. Microcredit is not always the answer because microcredit is not appropriate for everyone or every situation for example the destitute and hungry that have no income or means of repayment need other forms of support before he can make use of loans.
7. Interest rate ceilings can damage poor people's access to financial services: it costs much more to make many small loans than a few large loans and unless micro lenders can charge interest rates that are well above average bank loans rates, they cannot cover their costs, and their growth and sustainability will be limited by the scarce and uncertain supply of subsidized funding.
8. The government's role is an enabler, not as a direct provider of financial services: The key things that a government can do for microfinance are to maintain macroeconomic stability, avoid interest-rate caps, and refrain from distorting the market with unsustainable subsidized, high delinquency loan programs. Governments can also support financial services for the poor by improving the business environment for entrepreneurs, clamping down on corruption, and improving access to markets and infrastructure.
9. Donor subsidies should complement not compete with private sector capital: donors should use appropriate grant, loans and equity instruments on a temporary basis to build the institutional capacity of financial providers, develop supporting infrastructure (like rating agencies, credit bureaus, audit capacity etc), and support experimental services and product.

- 10.** Lack of institutional and human capital is the key constraint as microfinance is a specialized field that combines banking with social goals, and capacity needs to be built at all levels, from financial institutions through the regulatory and supervisory bodies and information systems, to government development entities and donor agencies.
- 11.** The importance of financial and outreach transparency such as accurate standardized and comparable information on the financial and social performance of financial institutions providing services to the poor is imperative.

Economic development essentially means a process of upward change whereby the real per capita income of a country increases over a period of time. Entrepreneurship has an important role to play in the development of a country. It is one of the most important inputs in economic development. The number and competence of entrepreneurs affect the economic growth of the country.

The economic history of the presently advanced countries like USA, Russia and Japan supports the fact that economic development is the outcome for which entrepreneurship is an inevitable cause. The crucial and significant role played by the entrepreneurs in the economic development of advanced countries has made the people of developing and under developed countries conscious of the importance of entrepreneurship for economic development. It is now a widely accepted fact that active and enthusiastic entrepreneurs can only explore the potentials of the countries availability of resources such as labour, capital and technology.

The role of entrepreneurs is not identical in the various economies. Depending on the material resources, industry climate and responsiveness of the political system, it varies from economy to economy. The contribution of entrepreneurs may be more in favourable opportunity conditions than in economies with relatively less favourable opportunity conditions.

Entrepreneurship and economic development are intimately related. Schumpeter opines that entrepreneurial process is a major factor in economic development and

the entrepreneur is the key to economic growth. Whatever be the form of economic and political set-up of the country, entrepreneurship is indispensable for economic development. Entrepreneurship is an approach to management that can be applied in start-up situations as well as within more established businesses. The growing interest, in the area of entrepreneurship has developed alongside interest in the changing role of small businesses. Small entrepreneurship has a fabulous potential in a developing country like Tanzania.

The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important input in the economic development of a country.

The entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. He plays a pivotal role not only in the development of industrial sector of a country but also in the development of farm and service sector

The entrepreneurs need funds to bring together various factors of production such as land, labour and capital for production to take place. The take-off and efficient performance of any enterprises, be it small or large will require the provision of funds for the creation of new investment.

Therefore, various forms of assistance have been designed in many microfinance institutions to promote the development of entrepreneurship. These include finance, extension and advisory services, training and the provision of basic infrastructure. In the past, the poor and micro enterprises have been discriminated against by formal financial institution because of the high risk associated with financing them. As a result, access to economic source of finance for the low income earners to establish their own business has been a major issue in the literature of economic and entrepreneurship development.

Poverty reduction is not an impossible task in a country. Empirical evidence has shown in Indonesia that significant poverty reduction is possible and had occurred in developing countries. For example, studies have revealed that the absolute number of

people living in poverty has dropped in all developing countries that have experienced sustained rapid economic growth over the past few decades (Aderibigbe, 2001).

The approaches adopted by these countries are collectively known as microfinance. It is designed to raise the level of investment infrastructure and people in order to enhance income generation capacities. According to Fashola (2008), setting up microfinance institutions was a strong commitment to alleviate poverty, raise the standard of living of the people and help to generate job opportunity. He stressed that when people are empowered and loans are made easily available to especially poor people to start small scale business, our society would be better off.

### **2.3 Background of the Organization**

National Microfinance Bank Plc (NMB) is one of the largest commercial banks in Tanzania, providing banks services to individuals, small to medium sized corporate clients, as well as large business. NMB PLC was established in Tanzania under the National Microfinance Bank Limited Incorporation Act of 1997, following the break-up of the old National Bank of Commerce by an act of Parliament. In the same year it was subsequently incorporated into a private limited liability company under the companies Act (cap 212) of the laws of Tanzania and issued with certificate incorporation Number 32669 on 6<sup>th</sup> November 2007. A resolution was passed by the shareholders to convert NMB to a public limited liability company incorporated under the Company Act of the laws of Tanzania. The resolution which received a no objection from the Bank of Tanzania on 26<sup>th</sup> November, 2007 was filled with the Register of Companies on 28<sup>th</sup> November, 2007. NMB means National Microfinance Bank, therefore as its name indicate, I have decided to select NMB in my study because the study itself will concern with micro financing.

### **2.4 Micro finance institutions**

Micro finance is the provision of financial service to the poor who do not have the required traditional condition to access capital and financial services by helping them usably large sums of money, this expand their choices and reduces the risks they

face. A more precise definition describes micro finance as the provision of appropriate financial services to significant numbers of low income, economically active people with an end objective to alleviate poverty (ledger Wood, 1998)

Financial services can include one or any combinations of lending, saving and insurance pension or retirement and payment services. Increasingly mature MFIs also provide diverse product, including loans (primarily improvement, repair and maintenance), and also frequently combined with the provision of social and business development services, such as literacy training, education on health issues, management or accounting training. The availability of financial services has proven to be a critical factor in developing the business and its effects, revealing positive results on nutrition, education, health, gender equity, and the environment (little field, 2003)

Micro finance may also mean providing poor families with small loans (microcredit) to help them engage in productive activities or hasten the growth of their tiny businesses. Micro fiancé include a broader range of services (credit, services and insurance). The poor who lack access to traditional formal financial institutions require a variety of financial products and flexibility with respect to loan conditions and this kind of services are provided by the MFIs

For majority of Tanzanians, whose income are very low, access to microfinance services offers the possibility of managing scarce household and enterprises resources more efficiently, protect against risk, provision for future and taking advantage of investment opportunities, for the economic returns. Household participation in microfinance services is expected to result into increased living standards, while for the farmers and rural enterprises these financial services facilitate pursuit of income growth.

## **2.5 Small and medium Enterprises**

There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. In the

context of Tanzania, (small and medium Enterprises Development policy 2002), micro enterprises are those engaging up to four (4) people, in most cases family members or employing capital amounting up to Tsh 5.0 million. The majority of micro enterprises fall under the informal sector. But in total there are four categories of enterprise according to the Tanzania definition which are: Micro enterprises, Small enterprises, Medium Enterprises and Large enterprises

Government and public see small business enterprises in general as a hub in generating income for the majority of urban dwellers with no formal paid employment. In Tanzania, entry into small business entrepreneurship is usually not seen as a problem. One can start small business at any time and in any place. However, the development of this informal sector has been profoundly characterized by in two parallel phenomena, which are perhaps contradictory in character. One is the politicization effort encouraging people to engage in small and medium Enterprises (SME). This has led mushrooming of small business most of which are in the form of petty trading. It is also recorded that small enterprises are mostly formalized undertaking engaging between 5 and 49 employees or with capital investment from Tsh 5 million to Tsh. 200 million

The small Industrial Development Organization (SIDO) classified small-scale industries as those establishment that employ people not exceeding 50 people. The micro enterprises are those projects with 10 people or less.

National Micro finance Bank defines small and micro enterprises as those projects starting with a capital investment of 5 million and above. The categories of SMEs are also indicated in the Small and Medium Enterprises Development Act 2002 below.

**Table 2.1: Categories of SME in Tanzania**

<b>category</b>	<b>Employee</b>	<b>Capital Investment in machinery(Tsh)</b>
Micro Enterprises	1-4	Up to 5 million
Small Enterprises	5-49	Above 5 million to 200 million
Medium Enterprises	50-99	Above 200 million to 800 millio
Lager Enterprises	100+	Above 800 million

**Source:** Small and Medium Enterprises Development Policy 2002

## **2.6 Importance of small and Medium Enterprises**

SMEs sector plays a crucial role in the economy (Lukacs, 2004; Harvie and Lee 2002; Kyureghian et al, 2005). It is estimated that about a third of the GDP originates from the SME sector (Alascraq, 2007). According to the informal sector survey of 1991, micro enterprises operated in the formal sector alone consisted of more than 1.7 million business engaging about 3 million persons that were about 20% of the Tanzania labor force. (Small and Medium Enterprises Development Policy), 2002)

Since SMEs tend to be labour intensive, they create employment at relative low levels of investment per job created. At present unemployment is a significant problem that Tanzania has to deal with. According to the last labour force survey of 1991, the unemployment rate was 10.6% (UNDP, 2002; Bureau of statistics, 1999). Estimates show that there are about 700,000 new entrants into the labour force every year. The public sector employs only about 40,000 of the new entrants into the labour market, leaving about 660,000 to join to the unemployed or the underemployed reserve. Most of these people end up in the SME sector, and especially in the informal sector. Given that situation and the fact that Tanzania is characterized by the low rate of capital formation, SME are best option to address this problem. (Small and Medium Enterprises Development 2002)

SME tend to be more effective in the utilization of local resources using simple and affordable technology. SMEs facilitates distribution of economic activities within the economy and thus foster equitable income distribution and poverty reduction (pang 2008)

SMEs technologies are easier to acquire transfer and adopt. SMEs are also better positioned to satisfy limited demands brought about by small and localized market due to their lower overheads and fixed costs. Moreover, SME owner tend to show greater resilience in the face of recessions by holding on to their business, as they are prepared to temporarily accept lower compensation (UCTAD, 2004)

In addition SMEs serve as a training ground for entrepreneurship and managerial development and enable motivated individuals to find new avenues for the investment and expanding their operation. They are considered to be the vital resources not only for the contribution they make on poverty alleviation and job creation, but also represent a groundswell of entrepreneur endeavor and the potential for new business development.

The SMEs sector, which includes micro-enterprises, also plays an important role for Tanzania Economic development. Hence the growth of the sector is crucial to the Tanzania's economy as well as social development of the country and citizen in general. The growth of Micro, Small and Medium Enterprises sector will further stimulate the living standard of people. This sector contributes about 12% and 34% of rural and urban employment respectively, as well as up to 32% of GDP in Tanzania. Generally, employment in the SMEs is growing at 10% per annum. Operators are able to generate between 2.5 and 10 times the minimum earning of civil servants.

## **2.7 Importance of National Microfinance Policy**

Give the important played by Microfinance system, the government of Tanzania put in place a Microfinance policy in 2000. The overall objective of the policy is to establish the basis for evolution of an efficient and effective micro financial system in the country that serves the low income segment of the society and thereby contributes the economic growth and reduction of poverty

The National Microfinance Policy covers the provision of financial services to small and micro enterprises in rural areas as well as in the urban sector that are engaged in all types of legal economic activities.

The role of the government is to create an environment that allow sound financial institutions offering microfinance services to emerge, including managing rate of inflation, allowing interest rate to be free, developing the rural infrastructure, building a health credit culture through public awareness programs, providing high quality and independent banking supervision, and developing a supportive legal framework. Providers of microfinance services such as SACCOs, NGOs and donor community have a responsibility to meet prudent norms and provision of services as required by target markets.

But the policy needs to be dynamic enough to allow and accommodate contemporary development in science and technology, and whether life is brought about by those achievements. The policy operation in 2002, and it's now high time should the concerned start thinking of a new one. For example the policy should gear towards forcing informal business go formal. It should encourage the use of modern technology

## **2.8 SME policy development**

Tanzania development version 2025 seeks to transform from low productivity agricultural economy to semi-industrialized one lead by modernized and highly productive agricultural activities which are buttressed by supportive industrial and

service activities through actively mobilization of people and other resources towards of the shared goals. In the poverty reduction strategy, the government has decide to promote private sector participation including small and medium enterprises. The sustainable industrial development policy-SIDP (1996-2020) places specific emphasis on promotion of small and medium industries through the following measures: Supporting existing and new promotion institutions, simplification of taxation, licensing and registration of SMEs and improve access to financial services. In addition, SIDP encourage informal sector businesses to grow and be formalized. Furthermore, the policy identifies measures to enable indigenous entrepreneurs, women, youth and people with disabilities to take part in economic activities.

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. The priority is given to resources-based enterprises particularly activities that add value to agricultural products. Nevertheless, agriculture is still the backbone of our economy. It contributes more than 50% of the county's GDP and accounts for 60% of county's foreign earnings.

The mineral policy of Tanzania identifies the artisans and small scale mining operations as a major target group to be promoted through improved access to finance and availability of tools, equipment and consumables, supportive extension services, simplifies licensing and enhanced marketing opportunities.

The National Employment Policy recognizes that the private sector including SMEs is the major source of employment in Tanzania and outlines policies that will contribute to the creation of an enabling environment for private sector development.

## **2.9 Rationale for SMEs Development policy**

In Tanzania the SME sector has been recognized as a significant sector in employment creation, income generation, poverty alleviation and as a base for industrial development. The sector is estimated to generate about a third of GDP, employ about 20% of the Tanzania labour force and has greatest potential further

employment generation. However, Tanzania has never had a specific policy focusing at the development of SME sector. The different policies have various uncoordinated programs and intervention aimed at supporting the sector with limited impact. This has resulted in a number of gaps leading to inability to address the core constraints inhibiting the growth of the sector. This has made it difficult to exploit the existing potential for acceleration of SME development and limits its ability to exploit the exciting potential of SMEs to accelerate growth.

Moreover, the SIDP does address the aspect of small industries but as a matter of fact, the SME sector covers more economic activities than manufacturing alone. As much strategies and programs identified by SIDP have lopsided effect since they neglected a greater part of SME activities in the area of commerce, mining and services. This requires an all-embracing policy in terms of covering the whole range of economic activities being performed by SME broad-spectrum sector perspective. In addition, the SMEs by nature of their scale require specific intervention to nurse them. In the international perspective, economies that have strong SME sectors have being due to having in place clear guidance, focused visions and appropriate strategies arising from well-designed SME policies

Based on the importance of this sector and its potential, the SME Development policy has been designed to revitalize the sector to enable to contribute to the objective of the National Development Vision 2025. Furthermore, it aims at creating a mechanism to put in place an effective institutional framework for its implementations, coordination, monitoring and evaluation. Central to all these strategies is the ultimate objective of attaining rural industrialization in line with the Poverty Reduction Strategy and the vision 2025.

## **2.10 Poverty**

The term poverty was derived from a latin word “pauper” which means poor. However, different people and societies tend to define the word according to their socio-economic experiences hence varied meanings. Historically, poverty has been related with income, which remains at the core of the concept today. However,

income is itself no less problematic a concept than poverty, it too has to be carefully and precisely elaborated. Other resources such as assets, income in kind and subsidies to public service and employment should be imputed to arrive at comprehensive but accurate measure of income. People can thus be said to be in poverty when they are deprived of income and other resources need to obtain the condition of life, the diet, standard and services that enable them to play the roles, meet the obligations and participate in the relationships and customs of their society. Tanzania which is one of the Sub Sahara Africans countries with high poverty levels has since independence 1961 been undertaking efforts to improve the wellbeing of its people. Despite recording some improvements in various aspects, the measures taken, however, have not been able to attain the desired results of taking the people of poverty. The Government through her vision 2025 and the UN Millennium Development Goal (MDGs) has put in place a number of strategies and programs to speed up poverty eradication. The National strategy for Growth and Reduction of Poverty (NSGRP) commonly known by its Kiswahili, MKUKUTA and MKUZA for Zanzibar are among the country's ambitious strategies aimed at boosting economic growth and eradicating poverty. However, the programs are highly criticized by some economist who regards the policies as inadequate to address the problem. Most of the critics say, many initiatives adopted under MKUKUTA and MKUZA are irrelevant to the country's actual development needs. Available statistics show that, between 15 and 18 million Tanzanians, about half the population, live below the poverty line of 0.65 US dollars a day, of these, nearly 12.5 million live in abject poverty, spending less than 0.5 US dollars on consumption a day

### **2.10.1 Measure of poverty**

Poverty is usually measured as either absolute or relative (the latter being actually an index of income inequality). Absolute poverty refers to a set standard which is consistent over time and between countries. An example of an absolute measurement would be percentage of the population eating less food than is required to sustain the human body (approximately between 2,000-2,500 calories per day for an adult male)

### **2.10.2 Poverty Reduction**

Poverty Reduction (or poverty Alleviation) is any process that seeks to reduce the level of poverty in community, or amongst a group of people or countries.

The world announced its renewed concern with poverty reduction in the 1990 World Development Report concerning Poverty (World Bank, 1990). The evidence in this report suggest that rapid and politically sustainable progress on poverty has been achieved by pursuing a strategy that has two equally important elements. The first element is to promote the productive use of the poor's most abundant asset-labour. It calls for policies that harness market incentives, social and political institutions, infrastructure and technology to that end. The second is to provide basic social services to the poor. Primary health care, family planning, nutrition and primary education were considered critically important (World Bank, 1990).

In 1996 the IMF and the World Bank introduced the Heavily Indebted Poor Countries (HIPC) Debt initiatives, a program aimed to provide debt relief against country commitment to reduce poverty and pursue economic reform ([www.chronicpoverty.org/cammack.pdf](http://www.chronicpoverty.org/cammack.pdf)). IMF have become of an increasing important component of strategies to reduce poverty and promote SMEs development (Hulme, 1996)

The government of Tanzania has been concerned with the poverty alleviation since independence. However, since 1995, plans and procedure to eradicate mass poverty manifested in the form of vision 2025, the National Poverty Eradication Strategy (NPES)

Three years after adopting the Poverty Reduction Strategy (PRS) approach in 2000, Tanzania took another step embarking on the second phase with a nationwide frame framework putting poverty reduction high on the country's development agenda <http://www.grid.no/garphic.aspx?f=series/et-common/thegeography.jpg> The national Strategy for Growth and Reduction of Poverty(NSGRP) or (MKUKUTA as it known in its Swahili acronym) builds on Poverty Reduction Strategy paper (PRSP) of 2000,

which was linked to debt relief under the Heavy Indebted poor Countries Initiative (HIPC)

The MKUKUTA represented and still represent a new, more comprehensive approach to poverty reduction. Although it is built on its predecessor, it differs in a number of key areas. In particular it pays greater attention to across-the-board issues such as environment sustainability that contributes to both improving the standard of life and growth.

One of the indicators of the decline in poverty is the rise in per capita in real terms. Poverty reduction and per capita income are two faces of the same coin.

The income rise may be seen in the family and can be reflected in the rise of the family expenditure, family spending in quality things, family spending in durables, family investing on financial assets and stocks and the decline in the proportion of the family income set aside for food, there will be a change in family life style, towards spending on education and better service.

For the community the rise in income will be reflected in the increase in number of new jobs. The family enterprises will grow and employ more. There could be a shift towards labour saving technology, but that is likely to come about at higher levels of development.

### **2. 10.3 The human Poverty Index (HPI)**

If human development is about enlarging choices, poverty means that opportunities and choices most basic to human development are denied access to a decent standard of living, freedom, dignity, self respect and the respect others. From a human development prospective, poverty means more than the lack of what is necessary for material well-being.

For policy makers, the poverty of choices and opportunities is often more relevant than the poverty of income. The poverty of choices focus on the causes of poverty and leads directly to strategies of empowerment and other actions to enhance

opportunities for every one. Recognizing the poverty of choices and opportunities implies that poverty must be address in all its dimensions, not income alone.

The human Development Report1997 introduced a human poverty index (HPI) in an attempt to bring together in a composite index the different features of deprivation quality of life to arrive at an aggregate judgment on the extent of poverty in a community.

#### **2.10.4 The three indicators of the human poverty index (HPI)**

Rather than measure poverty by income, the HPI uses indicators of the most basic dimensions of deprivation: a shorty life, lack of basic education and lack of access too public and private resources. The HPI concentrate on the deprivation in the three essential elements of human life already reflected in the HDI: longevity, knowledge and a decent standard of living. The HPI is derived separately for developing countries (HPI-1) and a group of select high-income OECD countries (HPI-2) to better reflect socio-economic differences and also the widely different measures of deprivation in the two groups.

The first deprivation relates to survival: the likeliness of death at relative early age and is represented by the probability of not surviving to age 40 and 60 respectively for HPI-1 and HPI-2

The second dimension relates to knowledge: being excluded from the world of te reading and communication and is measured by the percentage of adults who are illiterate.

The third aspect related to a decent standard of living in particular, overall economic provisioning.

For the HPI-1, it is measured by the underweighted average of the percentage of the population without access to safe water and the percentage of the underweighted children for their age. For the HPI-2, the third dimension is measured by the

percentage of the population below the income poverty line (50% of medium household disposable income).

In addition to the three indicators mentioned above, the HPI-2 also includes social exclusion, which is the fourth dimension of the HPI-2. It is presented by the rate of long term employment.

### **2.11 Theoretical part**

In 2000, Government produced a Poverty Reduction Strategy Paper (PRSP). It was subsequently approved by parliament in 2000 and endorsed by the Executive Boards of the World Bank and IMF. The PRSP is narrower than vision 2025, the NPE and TAS in the sense that it covers a shorter time-span and entails more focused objectives. In other words, Tanzania's new Poverty Reduction Strategy (PRS) is intended to be the key mechanism for coordinating practical initiatives to end mass poverty.

The World Bank's strategy for reducing poverty focuses on promoting the productive use of labor—the main asset of the poor and providing basic social services to the poor. Investment in education contributes to the accumulation of human capital, which is essential for higher incomes and sustainable economic growth. Education especially basic (primary and lower secondary) education—helps reduce poverty by increasing the productivity of the poor, by reducing fertility and improving health, and by equipping people with skills they need to participate fully in the economy and in society. More generally, education helps strengthen civil institutions and build national capacity and social policies. Basic education encompasses general skills such as language, science and mathematics, and communication that provide the foundation for further education and training. This also includes the development of attitudes necessary for the workplace. Academic and vocational skills are imparted at higher levels; on-the-job and work-related continuing education update those skills (World Bank 1995a)

The study is governed by theory which state “*that Micro financing improve the standard of living*”. This is true because Micro financing is the source of capital, of which is among the factors of production. It is through this capital that can enhance business growth and hence create jobs by either generating wage employment or by promoting self-employment in non-farm activities. This is in turn would increase the entrepreneurship’ income. The large the share of loan to total capital, the higher would be the growth of household income. Under normal circumstances, due to low income and higher marginal of propensity to consume, it is extremely difficult for the rural poor to accumulate saving out of the income received from the loan capital. However, if a credit program can be designed and instituted in such a way that the loan and the interest are recovered in small installments stretched over a longer period of time; the loan might eventually make the borrowers save small amount on a regular basis of what would otherwise would be consumed due to the pressure of poverty. However the theory has got its weakness in the sense that, financing small and micro businesses alone will not lead into poverty reduction unless these business owners must possess education that will contribute to the accumulation of human capital, which is essential for higher incomes and sustainable economic growth. Education especially basic (primary and secondary) education helps reduce poverty by increasing the productivity of the poor, by reducing fertility and improving health. Another question which may rise is to whether the business people have that culture of using the money given as a loan for intended purpose or not. Linking the theory and research’s variables (financing micro and small medium business leads into poverty reduction), the researcher have deeply look on the relationship of financing these micro and small business with poverty reduction in terms of business growth, sales turnover, income generated, employment expansion, acquisition of basic needs, increased asset ownership.

## **2.12 Empirical part**

Microfinance in Tanzania is a relatively new and emerging but it is gaining importance fast as a tool of social mobilization and improving the standard of living. Though the impact of financing small and medium is still ambiguous, globally it has

shown a positive impact on improving the standard of living that is significant enough to be recognized.

Hamad(2001) did a study on the role of micro credit in poverty alleviation concerning the micro credit sector in Lebanon. The author tried to assess the impact of micro credit on a basic needs and living standards of borrowing households through comparison between program households (those who has just joined the program). It was observed that program households had more entitlements on basic needs, i.e education, health, shelter and food compared to comparison households, and therefore concluded that program households have better status compared to comparison households. The study further tried to assess the impact of micro credit on poverty of borrowing households. The subjective poverty judgment techniques as well as the objective poverty estimates technique were used to determine the poverty status of program and comparison households. Hamad observed that micro credit reduces the risk of poverty of borrowing households at the rate of about 47%

The study has got very big potential but unfortunately it was conducted in Lebanon, and the environment in Lebanon is not the same as that of Tanzania, therefore it is important to conduct the study in Tanzania to have the Tanzania perception.

Khandker (1998) also did a research on impact of microfinance in poverty alleviation in Bangladesh and found that there had been an increase in household income, which were a direct result of microfinance program.

The study shows a direct link of microfinance program with an increase in household incomes in poverty alleviation but didn't show how the resulted income helps in poverty reduction. Another gap is, the study was conducted in Bangladesh a country which is not the same as Tanzania.

Kuzilwa (2003) did a study on the role of credit for small business success in Tanzania. The paper is based on combining case studies with a sample survey of business that gained access to credit from Tanzania government financial source. A substantial increased output is observed following access to credit. The findings

reveal that the enterprises whose owners receive business training and extension advice performed better than those that did not. The study further show that many of the problems faced by the entrepreneurs are not related to capita, but rather arises as a result of macroeconomic and institutional constraints. Example of the reported business barriers are poor infrastructural support and stiff competition amongst the micro and small-scale producers

The study shows a direct link between access of loan and business performance in case of increasing output. However the access of funds (loans from bank) should be associated with good culture of using money

However in another study using Khandker's own data, Morduch (1998) found that, the income effect was due to miss-targeting of microfinance program and that the perceived increase in incomes was due solely to those already above the poverty line who had managed to access the program. Khanker had made the mistake of assuming that, the large group was all below the poverty line while, in fact, this was not the case.

Reuben (2007), did a research concern the assessment on how micro finance institution services influence SME's growth: the case of SMEs in Arusha, concluded by saying that, MFIs services contribute significantly to the SMEs growth. Majority of small and medium business operators reported increase in performance measure (employment, profit, capital investment and sales revenue) that is loan from MFIs have contributions to small business growth.

However, the investigation shows that small and medium business sector is for people at all education levels. The study revealed, as education level increases, few people with higher education level are involved. The study has got importance though it has got its weakness in the sense that, the sector must not necessarily be dominated by operators with low education level, primary and secondary level of education.

An evaluation study on, Center for Agriculture and Rural Development (CARD), Philippines suggest that it has succeeded in reaching very low income households, generating self-employment and significantly increase their income. At the time of joining, 100% of CARD belongs to the bottom 50% of population below poverty line. As per CARD impact study, 50 percent of its borrowers had already crossed the poverty line.

The study shows that, the sample must be scrutinized correctly before being used. However, it is not necessarily that financing should be to the people below the poverty line only, even those above it can be financed so as to expand and improve their businesses which in turn will lead into employment opportunities to others and earning of more income to both, the employer and employees.

On the other hand, Pitt and Khandker (1996) found that not only were households that received loan are better off, but also that women (quoted in Kaber, 2001). Likewise Hashemi et al (1996) found that, on eight indicators ranging from increasing mobility, making independent purchases through political and legal awareness, access to credit had a positive impact on empowerment, while Mayoux (1999), looking at microfinance programs across Africa, found a similar range of results.

The study put much emphasis on empowerment due access to credit. This is true because if we take an example of the World Bank Group and other international aid agencies were able to provide targeted assistance to small and medium size enterprises (SMEs) in developing economies, for example, the World Bank Group approved more than \$10million in SME support program over the last period 1998-2002 so as to empower the Tanzanian economy.

Though literature of different areas explain the positive role of financing micro and small businesses in poverty alleviation, poverty in Tanzania is still quite shocking. There is no hard evidence to whether financing micro and small businesses help to alleviate poverty, thus the study will demonstrate.

## **2.13 Conceptual framework**

### **2.13.1 Theoretical Framework**

The SMEs need funds to bring together various factors of production such as land, labour and capital for production to take place. The take-off and efficient performance of any enterprises, be it small or large will require the provision of funds for the creation of new investment. Therefore, various forms of assistance have been designed in many microfinance institutions to promote the development of SMEs. These include finance, extension and advisory services, training and the provision of basic infrastructure. In the past, the poor and micro enterprises have been discriminated against by formal financial institution because of the high risk associated with financing them. As a result, access to economic source of finance for the low income earners to establish their own business has been a major issue in the literature of economic and entrepreneurship development.

Poverty reduction is not an impossible task in a country. Empirical evidence has shown in Indonesia that significant poverty reduction is possible and had occurred in developing countries. For example, studies have revealed that the absolute number of people living in poverty has dropped in all developing countries that have experienced sustained rapid economic growth over the past few decades (Aderibigbe, 2001).

The approaches adopted by these countries are collectively known as microfinance. It is designed to raise the level of investment infrastructure and people in order to enhance income generation capacities. According to Fashola (2008), setting up microfinance institutions was a strong commitment to alleviate poverty, raise the standard of living of the people and help to generate job opportunity. He stressed that when people are empowered and loans are made easily available to especially poor people to start small scale business, our society would be better off.

### **2.13.2 Operational Conceptual framework**

This study is concerning the impact of financing small and medium enterprises on the improving the living standard to people of Chato District, the study involve several variables which are Micro credit form NMB PLC, income which have been generated after receiving loan from NMB PLC, the employment opportunity which resulted due to the expansion of the business after receiving loan from NMB PLC, the standard of living to the business owners and the to the people employed which the researcher wanted to find out if may be improved or not after receiving the loan from NMB PLC and use the loan in the intended purpose,

The standard of living is the dependent variable which depends on the micro credit from NMB PLC to the business owner that have been introduced to the business, the employment which may result to the improvement of the standard of living to people apart from the business owners who are employees within the business, the micro credit from NMB PLC also can also make effect to the standard of living if the received credit is to be used to the intended purpose. From the above explanation it implies that this study has one dependent variable (The standard of living) and three independent variables (income, employment and micro credit)

### **2.13.3 Definition of variables**

#### **a) Microcredit**

Microcredit is a variation on traditional credit service that involves providing small loans to people who would otherwise be unable to secure credit, typically because of poverty. Related barriers may include unemployment or underemployment and a lack of collateral and credit history.

Microcredit is sometimes provided to fund a business initiative by the recipient. The entrepreneurs involved are sometimes referred to as “micro-entrepreneurs” because the scope of their projects and the sums required to fund them are very modest.

**b) Standard of living**

The standard of living is the level of wealth, comfort, material goods and necessities available to a certain socioeconomic class in a certain geographic area. The standard of living includes factors such as income, quality and availability of employment, class disparity, poverty rate, quality and affordability of housing, hours of work required to purchase necessities, gross domestic product, inflation rate, number of vacation days per year, affordable (or free) access to quality healthcare, quality and availability of education, life expectancy, incidence of disease, cost of goods and services, infrastructure, national economic growth, economic and political stability, political and religious freedom, environmental quality, climate and safety. The standard of living is closely related to quality of life.

**c) Income**

Income is the amount of money or its equivalent received during a period of time in exchange for labor or service from the sale of goods or property, or as profit from financial investment. This is an amount a person or firm can afford to spend during a given period and be as well off at the end of it as was at the beginning.

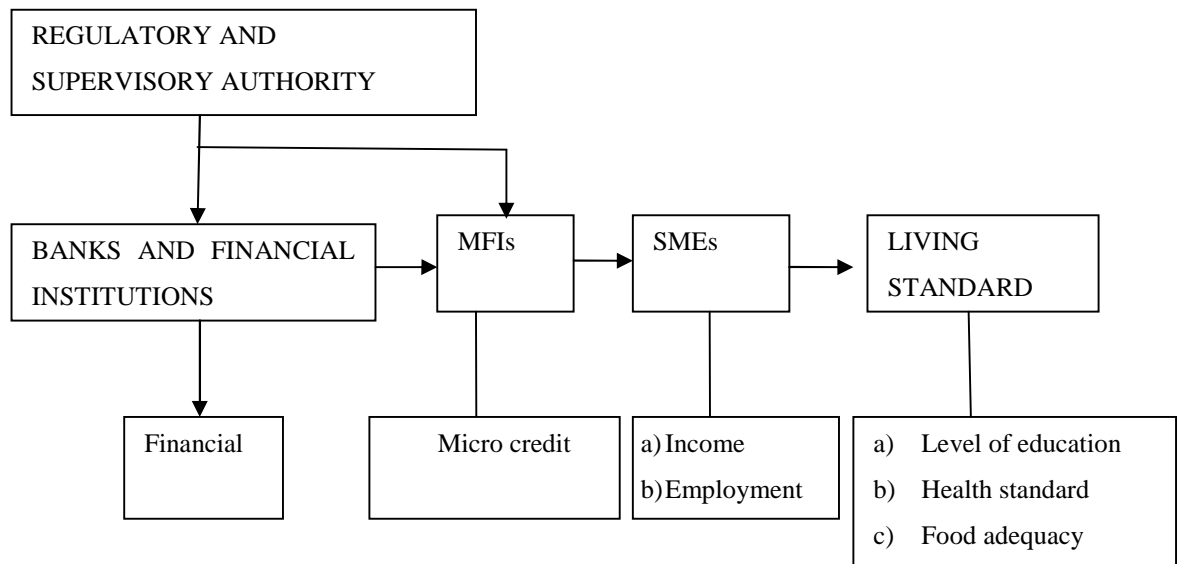
**d) Employment**

Agreement between an employer and an employee that the employee will provide certain services on the job, and in the employer's designated workplace, to facilitate the accomplishment of the employer organization's goals and mission, in return for compensation. The agreement can be verbal, implied, or an official employment contract.

In employment, the employer determines the where, when, how, why, and what of the work that is performed by the employee. The degree of input, autonomy and self-directedness that an employee experiences on the job is a by-product of an employer's philosophy of management and employment.

It is a situation in which all available labor resources are being used in the most economically efficient way. Full employment embodies the highest amount of skilled and unskilled labor that could be employed within an economy at any given time. The remaining unemployment is frictional.

**Figure 2.1: Regulatory Framework for MFIs and relationship between MFIs and standard of livings.**



#### 2.13.4 Relationship among variables

As shown in the figure 1 above, SME has a link with improving the standard of living in a society, Mukras (2003) posted that poverty can be reduced through the strengthening SME. MFIs provide micro credit to SMEs. These lead to the growth of SMEs through investing those Micro credits received from MFIs, The presence and improvement in the capability of SMEs promotes employment opportunities to a wide range of people, as they are labor intensive. On the other hand, they generate income to both employers and employees of the business.

Now it is conceptualized that entrepreneurs before engaging in bank loans were in a state of poverty and after engaging their business grow, which in turn increases income generated to pay for the health service, education and other needs, thus reducing poverty. At the same time, they create jobs, employ and provide income to their servants, thus contributing in reducing poverty in the community.

#### **2.13.5 Measurement of variable**

From figure 1 above standard of living measured by the level of education, availability of food and the health standard, the standard of life was measured by looking at the changes of the business owners' life before receiving the loan from NMB PLC and after receiving the loan from NMB PLC, in this variable the changes can be seen through increasing the ability to acquire assets, ability to acquire enough food, improving the family health standard, improving their education and paying their children school fees.

Income was measured on the increase or decrease of turnover before and after receiving the loan from NMB PLC. Employment was measured by looking at the increase of number of employees before the application of loan and after the application of loan from NMB PLC. Micro credit was measured on the exactly amount of loan received by the business owners from 2010 to 2012

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Chapter three comprises of research methodology: types of data, its sources, sampling design, sampling technique and methods of collection.

#### **3.2 Types of Study**

##### **Research Design**

The study was a diagnostic study as it sought to demonstrate a causative relationship between financing the micro and small business in improving the living standard.

In its design the study adopted the view of Kothari (who defined research design as a plan of action for collecting data, organizing and analyzing it with the objective of combining the relevance of research with the economic procedure.

The study also employed explanatory research because it aimed at showing whether the two variables mentioned above are associated.

#### **3.3 Types of data**

Primary data were collected from business people, concerning their daily sales and income, capital growth, the number of people employed, expenditure, acquisition of basic needs, ownership of assets and the contribution of NMB PLC to their business growth. Secondary data are the data which were collected from document available source. These will include the total number of micro and small customers who have their loan at NMB PLC Chato branch, their loan amount and the whole amount of loans being financed since 2010 to 2012

### **3.4 Source of data**

The sources of data were from business owners, from NMB PLC loan officers and NMB PLC Branch managers. Also data from different books, documents, manuals, circulars, reports

Source of primary data

- i. Business owners
- ii. Loan officers from NMB PLC Chato Branch
- iii. Branch Manager including the departmental managers

Source of secondary data

- i. NMB PLC manual circular
- ii. NMB PLC Reports
- iii. Small and Medium Development policy 2002

### **3.5 Sampling Design**

#### **3.5.1 Units of study**

Units of study include the SME owners because these are the borrowers and have all the information about the usefulness of loans in raising their income, capital, employment and hence reducing poverty. The loan officers also help in providing good inputs to the researcher, as they are the ones concerned with the follow up to see the customers' progress after being given their loans.

#### **3.5.2 Population size**

The study included 400 customers with small and micro business at Chato district who have accessed loan form NMB PLC Chato Branch and 2 loan officers. Hence a total population which represented all residents of Tanzania living at Chato who involve in small and micro business and employee of NMB PLC was 402. The table below shows the categories of respondents and its percentages in brackets

**Table 22: Population size**

<b>Distribution</b>	<b>Loan customers</b>	<b>Loan officer</b>	<b>Total</b>
NMN PLC Chato Branch	400 (99.5%)	2 (0.5%)	402 (100%)
Total	400 (99.5%)	2 (0.5%)	402(100%)

**Source:** NMB PLC Chato Branch

### **3.5.3 Sampling frame**

The elementary units or the group of cluster of such units may form the basis of sampling process in which case they called as sampling frame. Thus sampling frame consists of a list of items from which the sample is drawn (Kothari, 2004). According to the researcher, the sampling frame included the owner of micro and small businesses at Chato, who have been given loan from 2010 to 2012 at NMB PLC Chato branch and the loan officer.

### **3.5.4 Sample size**

Due to the location of the case of study and the population size, a sample size of 70 respondents were used

**Table 2.3: Sample size**

<b>Institution Expected</b>	<b>Customers</b>	<b>NMB Employees</b>	<b>Total</b>
NMB PLC Chato Branch	70	2	72
<b>Total</b>	<b>70</b>	<b>2</b>	<b>72</b>

**Source:** Table 2 above

### **3.6 Sampling technique**

The sampling technique refers to the procedure that will be used by the researcher in selecting some sampling units from which inference about the population is to be drawn. The researcher opted for probability sampling. The researcher opted for systematic sampling and random sampling. In this technique the researcher did the following;

Enterprises studied were sampled using systematic sampling from the loan registers containing the list of all customers from 2010-2012. The loan registers will be obtained from the respective credit schemes officers. In systematic sampling every  $k$ th element in the total list is to be chosen for inclusion in the sample. To make sure that there is no bias, the first element in the list is of the enterprises is to be picked randomly.

### **3.7 Methods of Data collection**

A 'Method' is different from 'tool'. While a method refer to the way or mode of gathering data, a tool is an instrument use for method (Krishnaswami 2006), the method used to collect data was interview as follows

#### **1. Face to face interview**

Under this the researcher ask question generally in a face to face contact to the other person or persons. The unstructured interview is used so as to allow much greater freedom to ask and flexibility.

#### **Advantages of unstructured or non-directive interview**

It is less prone to interviewer's bias, greater flexibility and the personal information can as well be obtained easily, the interviewer can control which person(s) will answer the questions.

#### **Limitation of Unstructured or non-directive interview**

There is no particular order or sequence in this interview, the classification of responses and coding may require more time, this type of informal interviewing calls for greater skill than formal survey interview

#### **How to overcome these limitations?**

The researcher have to make sure that irrelevant conversation is discouraged and make all the possible effort to keep the respondents on the track. However the interviewer has to ask the questions properly and intelligently and record the responses accurately and completely.

#### **2. Telephone interview**

Telephone interview is to be used where information have to be collected by contacting SMEs customers on telephone. The interviewer has to prepare for this by having the list of customers with telephone numbers.

### **Advantages of Telephone Interview**

It is more flexible and faster than any other method, meaning that it's a quick way of obtaining information. It is cheaper than personal interview and high rate of response. An interview can explain requirements more easily and there is no field staffs required. Representative and wider distribution of sample is possible. At times, access can be gained to respondents who otherwise cannot be contacted for one reason or the other, with easy recall and replies which can be recorded without causing embarrassment to respondents.

### **Limitation of Telephone Interview**

Little time is give to respondents for considered answers, possibility of bias of the interviewer is relative more, and questions have to be short and to the point, probes are difficult to handle.

### **How to overcome the limitations**

The researcher has to overcome the above limitations by making sure that biasness is not entertained.

### **3. Documentary Sources**

This is another source to be used to elicit secondary data from the sample area. To get accurate and reliable data, documents were examined from the operation and loan department within the area of study.

### **3.8 Tools of Data collection**

In a face to face interview and Interview Schedule was used, both structured and unstructured questions were used. In a Telephone Interview the respondents were asked through a telephone, the customer's telephone numbers were easily accessed from their files. The interview guide was flexible enough to explore various avenues that emerged during interviews. Kiswahili was extensively used as a medium communication in small business activities.

### **3.9 Presentation of data**

#### **3.9.1 Data editing**

Editing of data is a process of examining of the collected raw data especially in the survey to detect errors and omissions and to correct them when possible, so as to assure that the data are accurate, consistent with other facts gathered. According to this study the researcher used both field editing and central editing. By field editing the researcher made review of the reporting forms by investigator for completing (translating or rewriting) what has been in abbreviated and/or in illegible form at the time of recording the SMEs, loan officer and managers response, this was done after the interview. The central editing done after all the schedule were completed and returned back to the researcher. In case of inappropriate on missing replies, the editor determined the proper answer by reviewing the other information in the schedule. At times, the respondent may be contacted for clarification.

#### **3.9.2 Data processing**

This is intermediary stage of work between data collection and data interpretation. Data processing included editing, coding, classification and tabulation of the collected data so that they are amenable to analysis. With coding numeral or other symbols will be assigned to answers do that the responses can be put into a limited number of categories or classes.

#### **3.9.3 Data analysis**

The researcher used statistical measure to analyze the data. Statistical package for social scientist (SPSS) was used to test the association between the main variables. This is because the statistical analysis summarizes large mass of data into understandable meaningful form also statistics makes exact description possible. Data were analyzed quantitatively. This was done through simple frequency tables

## **CHAPTER FOUR**

### **FIELD FINDING OF THE STUDY**

#### **4.1. Introduction**

Granting loans to the business owners have shown positive impacts on improving the living standard of the business owners. This has been shown by the data and information gathered from the survey, such analysis has been important because financing micro and small business help in business expansion and diversification, income generation, employment, revenue and acquisition of basic need.

#### **4.2 Coverage**

The results presented were based on the surveyed data collection from the customers who have been given loan by the NMB PLC Chato branch.

#### **4.3 Loan Disbursement trend from the year 2010-2012**

As NMB PLC started its portfolio bottom up, it should expect the average SME loan to be between TZs 10 and 15 million (growing over time). The expected impact from SME clients on further economic growth in Tanzania is substantial, as SME's give dynamic s to the market and are important in job creation. SME's however facing a number of barriers for the development and growth, as often their capital and managerial skills are limited Banks therefore have been reluctant to lend money to SME's clients. . Hence it is reported that about 54% of Tanzania are not using banking facilities especially loan facilities. Limited collateral availability and slow moving judiciary system further strengthen this reluctance

**Table 4.1: Small and medium Micro Enterprises portfolio growth**

<b>MSE</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Portfolio	10 billion	15 billion	25 billion
Clients	1000	1500	2000

**Sources:** NMB PLC Business Plan 2010-2012

**Table 4.2: Micro and small Enterprises**

<b>Micro lending MSE</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Portfolio	22 billion	45 billion	60 billion
Clients	40000	55000	60000

**Sources:** NMB PLC Business Plan 2010-2012

NMB PLC started its loan operation from the year 2003 with the amount of loan outstanding of Tshs 6 billion. The amount went on increasing in the year 2004 with the amount of micro loan outstanding almost doubling to Tshs 15 billion and the total number of loans being 26,000. The trend went on increasing to 22 billion with the number of customer almost doubling to 40,000 customers. In 2006 the amount increased to Tsh 30 billion with 55,000 customers. However the trend kept on increasing in 2007 up to 2009 with the microloan amount outstanding Tshs 60 billion and the number of loan being 60,000 customers

#### **4.4 Loan Disbursement Trend at Chato Branch from the year 2010-2012**

The NMB PLC Chato Branch has shown good improvement trend of the amount of loan disbursed from the year 2010 to 2012. The trend show that, on the year 2010 the amount disbursed was Ths 120,000,000.00 with the number of customers disbursed being 145. The trend went on increasing in the year 2011 where by the number of customers increased to 289 with the total amount disbursed being Ths 469,000000.00. However in 2012 number of customers went to 374 with disburse amount of Tsh 782,000,000.00.

For the case of SME loans, it started with a very few customers in 2010 of about 10 with the amount disbursed being Tshs 45,000,000.00 in the year 2011 the amount disbursed increased to TShs 110,000000 with the total number of customer being 71. The number of customers went on increasing in the year 2012 where it reached 150 with the total amount disbursed being Tsh .350, 000,000.00

**Table 4.3: MSE Loans Disbursement and Gender comparisons**

Gender	2010	%	2011	%	2012	%
Female	37	25.52	91	31.49	109	29.14
Male	108	74.48	198	68.51	265	70.86
Total	145	100	289	100	374	100

**Source:** NMB Equinox Database Report 2010-2012

**Table 4.4: SME Loan Disbursement and Gender Comparison 2010-2012**

Gender	2010	%	2011	%	2012	%
Female	2	20	13	18.31	30	29.14
Male	8	80	58	81.69	120	70.86
Total	10	100	71	100	150	100

**Sources:** NMB PLC Equinox Data base Report 2010-2012

#### **4.5 Loan disbursed basing on Gender**

The result from table 6 and 7 above, shows that, female are very much behind accessing loan for the NMB PLC. This might be caused by the factor that, most female are not engaging themselves in doing entrepreneurial works, or they do engage but they do not meet the qualifications needed by the banks for them to be granted the loans or they are afraid to get loans from the financial institution

#### **4.6 The profile of respondents: Age gender and Education levels.**

A total of 48 beneficiaries of loan for NMB PLC were interviewed. A systematic random selection process was used to select the micro and small business owners who have been given loans from the NMB PLC. The average age of the respondents was 37 years, while the minimum and maximum age were 25 to 52 years/ with regard to gender, most respondents were male (68.8%) and female respondents were 31.2%

Since Education level is considered an important factor in managing business, the respondents were asked of their levels of education for the purpose of determining their capacity to manage their business efficiently. The findings in table 8 reveals

that most of beneficiaries had completed ordinary level of education, represented by 37.5% followed by 29.2% of the respondents who had primary education.

**Table 4.5 : Level of Education of the SME owners**

Education Level	Frequency	Percent
Primary Level	14	29.2
Ordinary Secondary Level	18	37.5
Advanced Secondary Level	13	27.1
University degree	3	6.3
Total	48	100.0

**Source:** Field data 2010-2012

#### 4.7 The Main Businesses

The type of business conducted by the beneficiaries of the loans from NMB PLC was considered an important factor before accessing loans from the bank. The NMB PLC policy that provides a frame work for the loan provision to clients requires the applicants to indicate their main business before accessing the loan. In this study, when asked to state the main business conducted by the loan seekers, the finding in Table 9 below reveal that retail shops (35.4%) and garments & shops (29.2%) business were conducted by most of the respondents

**Table 4.6: The main Business**

	Frequency	Percent
Shop(retail)	17	35.4
Bar & Guest	14	29.2
Saloon	6	12.5
Butcher	7	14.6
Charcoal Business	4	8.3
Total	48	100.0

**Source:** Field data 2010-2012

#### 4.8 Business establishment and initial loans

The date of business establishment is a crucial factor in accessing loan especially for new clients to microfinance services. The study was interested in understanding when the business that was involved in the survey was actually established. The results indicate that, the investigated SMEs were established between 2010 and 20112. Further analysis of the studied small and medium sized business showed that the initial dates they had accessed loans from the NMB PLC significantly varied from one respondent to another. As it is indicated in the table 10 below, 52.1% of the interviewed respondents had accessed their loans for the first time in 2010 and the rest of the respondents for the first time in 2011 (37.7%) and 2012 (10.4%)

**Table 4.7: The initial date of SME accessed the loan from NMB**

Year of loan access	Frequency	Percent
2010	25	52.1
2011	18	37.5
2012	5	10.4
Total	48	100.0

**Source:** Field data 2010-2012

On average, the respondents took the loan of Tsh 3,018,750.00 at the first time. Generally, the loans which were accessed from the bank by the respondents, ranged from Tsh 500,000.00 to Tsh 20,000,000.00

**Table 4.8: Number of employees before accessing the loan**

Number of Employees	Frequency	Percent
None	31	64.58
1-3	10	20.84
4-6	7	14.58
Total	48	100.0

**Source:** Field data 2010-2012

The table 11 shows that some of the business had no employees before accessing loan from NMB PLC, this include 31.3% of the total respondents.

The analysis after having accessed the loans revealed that all the respondents employed number of employees to assist in their businesses. Table 12 below shows that most of the businesses employed between 1 to 3 numbers of employees represented by 56.3% which significantly high percentage increase in the terms of employment growth, thus indicating a significant impact of the loans accessed by the SMEs clients form the NMB PLC with regard to employment creation as compared to table 11 above

Table 12 below shows that after accessing loans from NMB PLC, all the beneficiaries were able to employ some people. As it is the case of the analysis on the current number of employees, both the number of employees, increase hence an impact to improving standard of life.

**Table 4.9: Number of Employees after accessing loan**

<b>Number of Employee</b>	<b>Frequency</b>	<b>Percent</b>
1-3	27	56.3
4-6	14	29.2
7+	7	14.6
Total	48	100.0

**Source:** Field data 2010-2012

**Table 4.10: The impact of loan on business and personal life**

<b>Impact of the loan</b>	<b>Frequency</b>	<b>Percentage</b>
Build another house	7	14.56
Expansion of business	10	20.83
Married another wife	3	6.25
Build a new house	2	4.17
Purchase a car/motor cycle	3	6.25
Acquisition of household assets	2	4.17
Able to establish family	2	4.17
Abel to increase working capital	5	10.42
Abe to renovate the existing house	2	4.17
Assisting his/her relatives	2	4.17
Bought a plot of land	3	6.25
Finishing up the house	2	4.17
Increase number of employee	3	6.25
Sales increase	2	4.17
	48	100.00

**Source:** Field data 2010-2012

## **CHAPTER FIVE**

### **DISCUSSIONS OF THE FINDINGS**

#### **5.1 Introduction**

This chapter include the discussion of the findings, the limitation of the study and the expected benefits from the study and Dissemination of the Results.

#### **5.2 Discussion of the findings**

Provision of loans to the micro and small business owners can have the positive impact on the living standards. This impact may be seen through business expansion, employment creation, income generation, increased asset ownership, and acquisition to basic needs.

All business owners reported to have been able to expand their business after having accessed their first loans. This was reported by 100% of the interviewed beneficiaries when asked whether they have been able to expand their business as a result of the NMB PLC loan.

The Researcher found that, 64.58% of the SMEs clients had no employees before accessing their first loan from NMB PLC. The researcher went on investigating the beneficiaries of the NMB PLC loans of the number of employees they had before accessing the first loan. Through employment, SMEs contribute to their communities and can be seen as an important in the fight against unemployment; the generation of income, more equal income distributions and ultimately provide a road out of poverty which leads to sustainable development and greater economic stability

Apart from impact on employment and business expansion, the accessed loans from NMB PLC further shows that, there have been significant impacts on the business and the personal lives of the beneficiaries. This is the case when beneficiaries replied that they had experiences significant impact not only on their business but also on

their general life in general for example in education, building new or increasing another house, assisting relatives, establishment of family.

Increased ownership of asset is among the important reflection of how the poor are raising their ability to get out or reduce poverty. There are several types of assets which are known like Physical Assets, Human Resources, Natural Resources and Social Capital. The researcher considered two types of Assets known as physical Assets and Human Resources Assets. The researcher discovered that loan to micro and small business owners had much positive impact to physical and human resources Assets. These include consumer durable, equity investment, and acquisition of cash, capital and employment opportunities. The results above shows that about 2% have been able to acquired house hold assets, 3% have been able to build or purchase one more/additional house, 2% had no house at all, but as a result of loans they were able to build/buy houses. The other 3% were able to purchase motor vehicles while the remaining 2% were to renovate their existing houses. The last 3% were able to finish up their existing houses that were not yet completed and the other 2% were able to buy plots of land.

The researcher found that with provision of loans, people were in a good position to acquire their basic needs like education, food, water and energy. This is because their business expand hence increasing their amount of cash in circulation thus raising income and revenues as well. The findings shows much impact in education, of which about 16% of the respondents agreed to have succeeded to bring their children to school (private and government school) as they can afford to pay their children's school fees and provide them with other necessary school needs.

It is usually not easy to get accurate income levels of interviewees. It was not easy to get accurate income from the business owners and employees as well. The study therefore, reports the estimated income from business owners and employees as well to have been increased to increase in sales and working capital as indicated in table 7 above.

The sustained economic liberalization and deregulation of developing countries like Tanzania can also be measured on the challenges that SMEs face when processing loans. After all, globalization, which mainly is a private enterprises-purchased phenomenon, the SMEs account for well over 90 per cent of private sector business firm and usually for the bulk of employment in the developed and developing countries alike. In fact, they are so crucial to the development process that ignoring this sector, despite paying considerable lip services to their cause in recent years, has kept many countries well below their development potential. Access to credit is one of the major constraints hindering the effort of improving the standard of life not only in Tanzania, but also in most of developing countries. Commercial banks have traditionally concentrated their lending to large formal enterprises that possess collateral, thus leaving majority of Tanzania who are low income earners (SMEs policy 2002), majority who have never adequately accessed loans for their small medium business, which results in poor economic growth, low levels of self-employment and employment in general.

SMEs however are facing a number of barriers for development and growth, as often their capital. Banks therefore have been reluctant to lend money to SMEs to void the possibility of the SMEs failure to pay the principal loan and interest.

SMEs are being faced with is the lack of skills and skill transfer. Most entrepreneurs know what they want to do but not how to go about managing a business. They normally do not have any formal managerial training and according do not know for example how to do proper risk management or how to draft a business plan in order to apply for financial assistance. The lack of skill might lead to demise of the enterprises and thus have a direct effect improving the standard of living and ultimately sustainable development.

Lack of information is another obstacle. This possible obstacle is closely related to the previous one related to skills. If it is accepted that information is power, the lack of information to appropriate, relevant and understandable information represent a land cap to SMEs owners in the sense that they are unaware



In this study, the respondents were asked of the challenge they face when processing the loan from NMB. It was significantly observed that several challenges emerged to be common across all the respondents involved in the study. The challenges with the percentages in the brackets were as follows

- The loan amount is too small (79%). About 79% complained that, the starting amount for the micro loan is still small in such a way that, it doesn't fulfill their business' needs.
- Collateral (94%); According to the NMB PLC procedures, for a customer to be given a loan he/she must possess collateral, which normally a house. About 94% said that collateral is still a problem to them, so long as most of them do not possess these collaterals despite the fact that they possess viable businesses
- Delays in loan processing (81%), most of customers complain on the delays during loan processing. There is a long period of time from the day of loan application to the day access of the loan, the bank take a much time to process the loan.
- Interest rate (98%), many customers complain on the high interest rate and gave their suggestion that it should be lowered.

The entrepreneurs were asked whether they thought that the accessed loans from the NMB PLC were important to their business. As one would have expected, all the interviewed entrepreneurs replied that the accessed loans were significantly important for their business growth.

The importance of sales turnover margin (in the sense of Changes) is quite evident when looking at the progress of the small and medium sized enterprises. The significance of the loans was measured by their response on whether they have been able to expand their business as a result of loan accessed from NMB PLC. In this regard, the respondents, when asked whether they have been able to expand their

business as a result of the NMB PLC loans, the respondents simply replied that the loans were very much important for their business.

Due to fact that the entrepreneurs have been able to expand their business as a result of the loans accessed from NMB PLC, the respondents also said they are intending to increase their loan size after they have paid their previous loans. This was reported by 87% of the respondents.

In general, sales turnover are the significant measure for business growth and business expansion in particular. The study also investigated whether there were reported changes in sales turnover after they had received their first loan from the NMB PLC. The finding revealed that 84% of the respondents had experienced an increase in sales turnover.

From the discussion above, it found that the micro financing from NMB PLC have positive impact to the small and medium enterprises on improving the standards of living to the owner of the business and the people at Chato District in Geita. The improvement of living standard to the owners of business can be seen through the expansion of the business since the business owners were reported to have been able to expand their business after having accessed their first loan. Also the improvement of the living standard was seen through various changes of the living standards including the acquisition of assets, the increase in sales turnover building another house as shown in table 4.10. The accessed loan from NMB PLC further shows the impact on business and personal life as the owner experienced significant impact on the business and personal lives of the beneficiaries, the beneficiaries were able to increase their level of education and others were able school fees to their children, acquisition of enough food for their family including the ability to eat the balanced diet, also the health standard was improved among the beneficiaries of loan from NMB PLC.

The financing to Small and Medium Enterprises from NMB PLC also show positive impact people apart from the business owners, these people are the employees of the Small and Medium Enterprises, since the business owners was able to employ more

people to the business, the employed people were able to improve the standard of living through the paid salaries, the employees were able to increase the level of education, acquire enough food for their families and also improve the health standard including the environment.

### **5.3 Expected Benefits from the study and Dissemination of the Results**

This study is expected to be useful to policy maker as it shows its positive impacts on improving the standard of living hence the policy makers should put much initiative to all financial institutions to make sure that the interest rate charged is affordable.

It will also help the loan customers and other people who are provided with NMB PLC services and other related financial institutions. Academicians will also benefit from the addition literature of the study itself. Also this study expected to add knowledge to the Small and Medium Enterprises owners who have accessed loan from NMB PLC Chato Branch and those who have never apply loan from NMB PLC on the important of the loan for their business development which lead to the improvement of their own living standard.

## **CHAPTER SIX**

### **CONCLUSION AND RECOMENDATION**

#### **6.1 Conclusion**

This study investigated the impact of financing small and medium business (SMEs) on the improving life standard. The cases of the financed SMEs clients at Chato district in Geita region. Different loans customers at Chato district practice different kinds of business. Among these different activities the main activities practice are retail shops followed by Bar and Guest houses and other businesses like Butchery shop, Saloon and charcoal business. However the business owners undertaking these businesses are of different level of education mainly from ordinary level of education followed by primary education level.

The main objective of this study was to analyze the impact of loans and their implication for improving standard of living. In order to achieve this objective the study relied on the questions related to the generation of income, employment and employment creations, acquisition of assets and other basic needs.

The quantitative information was used in the analysis. Using the results the study established that:

- a) Financing small and medium business is very important for business growth and business expansion as well.
- b) In connection with the business growth and business expansion, it means that much income and revenue will be attained due to increase in sales.
- c) However, with the business growth and business expansion, it means that, more people will be employed hence employment creation to people.
- d) It is through this employment creation that the employed people will be getting income hence reducing income poverty to as they will in a good position to acquire their basic needs hence improving their standard of living

It is concluded that, the degree to which microfinance institutions target their loan products to the SMEs is improving in the sense that, they are serving the poor. Collateral and interest rate are still the hindrance of the poor to borrow which, ultimately increase the opportunity cost to borrow. However despite the hindrance of collateral and the interest rate increase that cause the borrowing cost to be increased, the Small and Medium Enterprises owners and employees improved the standard of life, this can be seen through changes of life style before and after application of loan from NMB PLC. According to the findings, the respondents were able to buy and build new houses and also to improve their level of education, others were able to improve their health standard and also were able to acquire enough food their family. All the above improvement was caused by the financing of Small and Medium Enterprises from NMB PLC Chato Branch.

## **6.2 Recommendations**

Based on the findings, the following are the recommendations that will assist the stakeholders

### **6.2.1 Government**

- a) The government should take much initiative to make sure that the business owners get conducive environment to perform their business
- b) The government should initiate the banking institutions (NMB PLC) to lend at low interest rates to attract more borrowers due to competitive environment from other lenders. Otherwise high interest rate is a burden to other customers as it may cause other customers fails to repay their loan in time.
- c) From the findings, it showed that most of the business owners are the primary and ordinary level education, the government should enhance entrepreneurial skills among the operators through regularly training especially on how to conduct business and how to management the business risk. The training in entrepreneurship and innovations should

begin from the primary school level. As policy entrepreneurship training should be made a compulsory course on all school in the country.

- d) There is the need to establish more microfinance banks especially in rural areas so as to further promote and develop the entrepreneurial capacity that is needed for transforming the areas and accelerating economic growth

### **6.2.2 Business Owners**

Loans to business owners are very crucial in terms of the business growth, business expansion, employment creation, income and revenue generation.

- a. Despite its important still some business owners do not use these loans effectively for the intended purposes, instead they do fund diversion. From the point of view, I would like to recommend and advice the business owners that, when they get the bank loan, they should use it intensively for the intended purposes and avoid fund diversion since at the end of the day they will have to repay back the loan and bear whatever burden that may happen.

SMEs should network and possibly establish a mutual fund to be run and managed by the owners of these SMEs. Such a fund would help provide some relief capital usually required by these firms. Financial constraint has impeded the growth prospect of many small firms in Ghana, and such an alliance would help deal with such a problem.

- b. Repayment problem and loan delinquency is threat to institutional sustainability; therefore entrepreneurs should endeavor not to divert loans given to them by microfinance banks.

### **6.2.3 NMB PLC Management**

- a) NMB PLC is among the leading bank in providing loan services to its customers. This is due to its wide average all over Tanzania. However, the said should make sure the loan services are provided on the time as per

customers' demand with intensive customer care so as to continue retaining the existing customers and continue attracting more customers.

- b) The NMB PLC should develop effective small business training programs and give proper consultation to their clients so that can be much existed on the rules of doing business like recording keeping, separate business from owner, good business management, tolerance and persistence to any business changes.
- c) The starting loan amount to the micro customers should be increased to be above 1,000,000/= as the amount is still small to fulfill the customers' business needs.
- d) The loan processing duration should be reduced and some of the processes and procedures should be minimized so as satisfy the customers' needs, overcoming competition and at the same time controlling risks. It shouldn't mean that putting a lot of procedures and processes is a way of controlling risks, what is needed is intensive care with good follow-up of other lending principles like safety, loan purpose, security and the repayment sources which should be from the business revenue income.
- e) The bank should conduct regular visit to the borrower's business and check the performance of the business and the utilization of loans granted to the borrower so as to ensure that the credit facilities asked for is used in respect to the intended purpose and not to other uses. Close monitoring of projects help to reduce the diversion of fund other business which was not in the business plan therefore help to improve the loan recovery rate.
- f) Loan conditions and interest rates charged which ranges from between 18%-24% should be reduced so as to attract more borrowers due to competitive environment from other lenders. Otherwise high interest rate it a burden to other customers and cause other to fail to repay their loan on time.
- g) There is a need for banks to educate and train people on the procedures and requirements concerning loan such as characteristics of collateral, terms of repayments, the encourage peoples to borrow so that they can improve their social life.

h) NMB PLC should encourage the formation of cooperatives so that a number of beneficiaries that are engaged in the similar business can collectively enjoy their services and hence a reduction in operating cost as well as a reduction in the likelihood for borrowers to default

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## APPENDICES

### APPENDIX I

#### Questionnaires

The objective of these questionnaires is to gather data from the Small and Medium size business which have accessed loans from the NMB PLC- Kenyatta Branch for purpose of analyzing the impact of such loans on poverty reduction.

1. Age
  - a. 18-30 [ ]
  - b. 31-40 [ ]
  - c. 41-55+ [ ]
  
2. Gender
  - a. Male [ ]
  - b. Female [ ]
  
3. Education
  - a. Primary level [ ]
  - b. Ordinary Secondary level [ ]
  - c. Advanced secondary level [ ]
  - d. University degree [ ]
  - e. Advanced Diploma [ ]
  - f. Master degree [ ]
  - g. PhD degree [ ]
  - h. Others (specify) [ ]

4. What is your main business that you conduct?

- a. Shop ( retail)            [    ]
- b. Bar and Guest            [    ]
- c. Saloon                    [    ]
- d. Butcher                   [    ]
- e. Charcoal Business        [    ]
- f. Medical service           [    ]

5. Which year did you established your business?

- a. 2010                      [    ]
- b. 2011                      [    ]
- c. 2012                      [    ]
- d. 2013                      [    ]

6. Which year did you access the loan from NMB for the first time?

- a. 2010                      [    ]
- b. 2011                      [    ]
- c. 2012                      [    ]
- d. 2013                      [    ]

7. What is the amount of loan did you access from NMB at first time.....

8. Have you been able to expand your business as a result of the NMB loan?

- a. Yes            [    ]
- b. No             [    ]

9. Do you have any employee at your business?

- a. Yes            [    ]

b. No [ ]

10. How many employees did you have at your business before accessing the loan?

a. Male [ ]

b. Female [ ]

11. What is the current number of your employee after accessing loan?

a. 1 to 3 [ ]

b. 4 to 6 [ ]

c. 7+ [ ]

12. In your opinion, is there any realized impact after you have accessed the loan?

a. Yes [ ]

b. No [ ]

13. If Yes to Question 12, kindly mention the observed impact of the loan to your business and life in general.

a. ....

b. ....

c. ....

d. ....

e. ....

14. What are the challenges are you faced when processing the loan?

a. Interest rate [ ]

b. Collateral [ ]

c. Repayment [ ]

15. Do you think the loan you accessed from NMB was important to your business? [    ]
- a. Yes
  - b. No [    ]
16. Have you been able to expand your business as a result of the NMB loan?
- a. Yes [    ]
  - b. No [    ]
17. Are you intending to increase the loan after you have repaid the previous loan? [    ]
- a. Yes
  - b. No [    ]
18. Is there any change to your sales turnover after receiving the NMB loan?
- a. Yes [    ]
  - b. No [    ]