

**ANALYSIS OF CHALLENGES FACING MICRO AND SMALL
ENTERPRISES IN ACCESSING FINANCE FROM COMMERCIALBANKS
AT KARIAKOO MARKET**

**BY
JACKLINE C.M.DOBSON**

**A Dissertation Submitted in Partial/Fulfillment of the Requirements for Award
of the Degree of Master of Business Administration in Corporate Management
(MBA-CM) of Mzumbe University.**

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CERTIFICATION

We, the undersigned, certify that we have read and therefore recommend to be accepted by Mzumbe University a dissertation titled; “**Analysis of Challenges Facing Micro and Small Enterprises in Accessing Finance from Commercial Banks: The Case of Kariakoo Market**”. In partial fulfillment of the requirements for the award of a Masters Degree in Business Administration from the Mzumbe University, Dar e salaam Campus.

Major Supervisor

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External examiner

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DEDICATION

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LIST OF ABBREVIATIONS

MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
SMEs	Small and Medium Enterprises
WB	World Bank
URT	United Republic of Tanzania
SACCOS	Savings and Credit Cooperative Societies

ABSTRACT

The aim of this study was to examine challenges faced by Micro and Small Enterprises regarding the process of accessing finance from commercial banks in Tanzania using Kariakoo Market as a case study. The study utilized both primary and secondary data through a case study research design. The study used a sample of 100 respondents from micro and small enterprises that are in operation, mainly beauty shops, mobile phones and accessories vendors, clothes and shoe vendors, food, salons and cereal vendors. Data analysis techniques involved quantitative and qualitative analysis. Quantitative analysis was aided by a computer program through outputs from SPSS version 20.0 and excel, while qualitative analysis involved content analysis based on the primary data and respondents comments.

The findings indicate that, MSEs at Karikaoo market have been facing difficulties in accessing loans from banks. This is attributed by lack of adequate correct information and knowledge with regards to get their loans; high cost of credit; difficult collateral requirements and inadequate business skills for entrepreneurs to maintain proper books of accounts and failure to prepare bankable business plans. The study concludes that, MSEs have a great potential to substantially contribute to economic growth of the country. Given their potentials, MSEs need to be equipped with necessary tools that will help them grow and utilise their full potentials. The study recommends training and education to MSEs should be given a top priority to enhance their entrepreneurial skills and be able to manage financial challenges. The government need to put in place enabling environment that will ensure MSEs are supported in terms of accessing finance, and research institutions and academia should work hand in hand with other stakeholders to conduct further research that will in identify more challenges and offer workable solutions.

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CHAPTER ONE

BACKGROUND INFORMATION

1.1 Introduction

Small businesses in developing countries often are hit by capital challenges whenever they want to advance or start a business. According to Stein and Schiff, (2010), about 365 million to 445 million enterprises in emerging markets which account for 85% suffer from credit access constraints. Only 15% can access credit and 70% of all emerging-market Micro, Small and Medium Enterprises (MSMEs) do not access and use any formal credit at all. Hence, at the global level SMEs have been reported that limited access to finance is obvious (Stein and Schiff, 2010).

Karimunda and Barumwete (2006) put forward the fact that, there are several reasons as to why small businesses need access to finance. These are; need to finance new branches, new projects and many more. However SMEs especially the micro and small business part known as Micro and Small Businesses (MSEs) do not always have the capacity for finance their own business that is why they have to rely largely on their internal generated funds which is always insufficient to meet all their capital requirements. For this reason, several governments in developing countries offer funding to small firms either directly or by guaranteeing them to get loans as lack of financing is cited as one of the major challenges faced by small businesses (Obert and Olawale, 2010).

Without finance, SMEs cannot expand to compete in international markets or even strike business linkages with larger firms. Access to finance however, has always been mentioned by SMEs both existing and potential operators, as the most serious barrier to business expansion and or business start-up (Finscope, 2007; Olomi, Mori, Mduma, & Urassa, 2008). Several studies indicate that MSMEs 'access to bank credit has repeatedly been a problem as a major constraint to industrial development. A common explanation for the alleged failure of MSMEs to access bank loans is their inability to pledge acceptable collateral (Davidson, 2004).

SME financing is the funding of small and medium-sized enterprises and is a major feature of the finance institutions under which capital is supplied, purchased and cost or priced for various types of enterprises. Capital is supplied in the form of bank loans and overdrafts via the business finance market; leasing and hire-purchase arrangements; equity/corporate bond issues; investment capital or private equity; and asset-based financing such as factoring and discounting invoices. Not all business finance, however, is supplied externally/commercially via the sector. Much financing is created internally by companies from their own earnings and/or given informally as trade credit, that is, delays in paying for the purchase of goods and services (Business Finance Market, 2008).

Micro, Small and Medium Enterprises (MSMEs) are recognized as the backbone of an economy, serving in a country's regional development through which job opportunities are developed. Globally, MSME production is seen as a crucial strategy for economic growth, job creation and poverty reduction (Berry et al 2002). SMEs play a fundamental role in the use of local resources, to which they add value, in terms of scale, resources (financial, human) and also the role of the entrepreneur in which the entrepreneur is the owner and also the manager in a SME (World Bank, 2006).

The World Bank study concerning the voices of the poor (2005) highlighted several factors that leads to poor people fail to come out of the poverty spheres. The findings of the study revealed that, majority of poor people rely on wages emanating from their self employment. The problem towards this means of earning is due to lack of adequate capital to make a significant income generation that will meet all the daily needs. Another problem is the increasing rate of unemployment where a group of youth is the most victim of the situation. The report revealed that, youths were more than double the average unemployment rate in all regions(World Bank, 2006).

The World Bank Report further reveals that, hundreds of millions of poor people depend on micro-enterprises as farmers or street vendors or even as home workers and other diverse petty activities which mostly are in informal sector. Surveys for this report show that firms in the informal economy face many of the same constraints as other firms, including insecure property rights, corruption, policy unpredictability, and limited access to finance and public services. The WB report suggests for having a good investment climate that will allow a wider participation of those in the informal sector to access to prevailing opportunities available in the country (World Bank, 2006).

Access to finance was cited as one of the major interventions that are required to elevate these marginalized groups. The report also encouraged provision of more secure rights to land as an encouragement to investments and facilitating easy access to finance by majority of poor who can use a piece of land that they own as a security for bank loans as the case in Peru. The model was practiced in Peru and found working as more people from the informal sector were enabled to access finances from banks using their lands as collaterals. The results indicated that even those in urban areas including slum dwellers found an activity to raise their income.

The MSMEs from Africa have shown to face challenges in accessing finance. This has hampered their emergence and eventual growth. Studies show that, most of MSMEs in Africa obtain their start-up capital from informal savings and loan associations that cannot be well predicted and are not secure with little scope for risk sharing. The poor access to finance is said to be a result of high defaulting rates among MSMEs (World Bank, 2006).

Other challenges are said to have related with lack of adequate financial facilities in the region. The few available financial institutions operate under conditions that are difficult to be met by MSMEs as they are considered to be riskier than other business categories. Studies show that, small businesses in Africa rarely meet the conditions

set by most financial institutions. Despite the fact that, MSMEs are viewed as key drivers to the economy in the region as they comprise a largest portion of business actors, yet their contribution is still hampered by various factors where access to finance stand at the top(Pelham 2000).

The records show that, the total number of MSMEs in Africa stands at 90% of all enterprises that are found in the continent. It also estimated that about 80% of new jobs in the continent come from this sector(Reinecke, 2002). With such a remarkable contribution to the economic development of the region, there is every need to strengthen measures that are aimed at supporting the sector so that it can be able to operate at its full potentials and produce the desired outcomes.

In developing countries, Tanzania included, the statistics providing information on SMEs operations are not as comprehensive as they should be. The information is too general where specifications of the actual needs and challenges are limited. However, several studies have found something in common that is access to finance. This is considered as a major prohibiting factor for the success of SMEs. This constraint in Tanzania has led to SMEs fail to fully utilize their potentials leading to poor production and poor overall performance of their business. In Tanzania for instance, majority of SMEs use obsolete and outdated technologies in manufacturing for instance in the processing food stuff, processing of sunflower cooking oils and other edible seeds, handicrafts and clothing. One of the main reasons for this is limited access to credit by these SMEs operators is lack of collateral demanded by banks and financial institutions. As a result most of them fail to raise enough capital to reach the improvement in production technology so as to raise productivity and maintaining competitiveness in local and global markets (Maghembe,2017).

As it is for the entire continent, Tanzania is not exempted from the challenges facing the region. Despite the potentials that SMEs have on economic development, yet the sector is facing many challenges that hinder their growth. The major problem towards this challenge has been limited access to finance. This problem as agreed

upon by several policy makers and practitioners is seen to affect mostly micro and small enterprises (Maghembe, 2017).

The SMEs and principally micro-enterprises (MSEs) have been denied much access to finance as they fail to meet the requirements. They thus depend on informal ways to raise their start-up capitals as they cannot raise this amount through form equity financing. Most of these MSEs get their start-up capital from close relatives such as parents, uncles, aunties, sister or brother or even friends and credit groups in their communities (Beck & Demirguc-Kunt, 2006; Mori et al., 2009). The capital amount raised through these methods is limited and insufficient to sustainably finance growing SMEs. In absence of adequate financing, most SMEs turn into other alternative sources of finance other than those available from banks and other financial institutions (Olomi et al., 2008).

Despite several efforts and measures from the government of Tanzania including the reform of the policies that are guiding operations of SMEs, these measures are yet to bring the desired outcomes (URT, 2003). Generally, availability of finance is still perceived as a major problem for small businesses in the country. Other studies also showed how small and medium- companies are facing more difficulties than larger businesses when it comes to banks 'access to credit as illustrated in Beck's (2007) and Beck & Demirguc-Kunt (2008) . In developing countries, SMEs find access to and cost of finance to be a greater constraint on growth than any other feature of the business environment The higher financing obstacles reported by SMEs as compared to large enterprises are also reflected in their financing pattern (Beck, 2007).

Among the many problems facing small and medium-sized businesses in Tanzania is lack of planning, unsuitable funding and poor management has been the key cause of small business failure (Longenecker, et.al. 2006). Lack of credit facilities has also been described as one of the most important constraints that SMEs face and hinder their growth (Oketch, 2000; Tomecko & Dondo, 1992; Kiiru, 1991). In Tanzania, credit facilities to small and medium-sized enterprises are in the form of loans, or debt financing provided by banks, which will generate capital growth for SMEs. One

of the major obstacles regarding the credit facility is the view of banks that give loans to small and medium-sized enterprises as a high risk in terms of repayment of loans.

The issue of credit access is a critical problem that over time has been facing SMEs in Tanzania that limit their start and growth. The situation is reported to be more critical in Tanzania due to the fact that SME operators in Tanzania are perceived as high risk ones. Other reasons that are mentioned in the literature include; inability of SME operators to fulfil the collateral requirements. Furthermore, the credit supply side is blamed of operating in limited geographical areas; some banks do not have SME financing windows, inexperience of staff in issues related to micro financing

1.2 Statement of the Problem

It is a well-known fact that most formal financial institutions do not prioritize business with individuals and customers of small businesses as they find them high-risk clients. Categories of small and medium-sized enterprises and in particular MSEs are considered high-risk enterprises because they lack the requisite collateral to act as protection for loans and the loan process is costly because applicants from the informal sector appear to apply for small loans requiring the same administrative procedures and costs/surveillance that are needed for relatively larger requests for medium and large loans (Kamala, 2000).

Several studies, including those of Asare (2007) and Etemis (2017), suggest that, given the enormous contributions of SMEs to national economies, access to banks' and other formal financial institutions' credit facilities has been one of the key bottlenecks for SME growth in most African nations. Furthermore, Pasape (2018) pointed out that, limited capital sources, lack of collateral, weak credit background and high transaction costs were among main impediments for SMEs in accessing finance from financial institutions in the African region.

In Tanzania, commercial banks have introduced the SME banking concept but they have not got to examine the real needs of SMEs, challenges they face in trying to lend this funds and the suitable methods that they can use to satisfy the financial

needs of this sector. Some banks have the prevailing mindset that “bigger is better”. As a result they demand collateral, require onerous documentation and subject the SME to the same evaluation criterion as the large and structured corporations.

It is commonly found that non-bank financial institutions and microfinance are more perceptive and informed about SME financing. They also played a greater role in offering credit and other services but under strict credit terms that most SMEs do not favour. Non-bank financial intermediaries, such as microcredit institutions, can be of great help in lending money to the smallest MSEs, but they may not have the ability to serve customers consistently and constantly as they grow (Kauffmann, 2005).

This study focuses on the Micro and Small Enterprises (MSEs) segment which is a sub-category of SMEs. The researcher chose this category because most of them fail to meet the requirements set by banks to access loans. The study investigates the main factors leading to non access to finance by most MSEs and propose possible solutions to the problem in order to ensure that MSEs are able to utilize their maximum potentials to attain their goals without being hampered by difficulties especially those which are related with financing.

1.3 Objectives of the Study

Generally the study assesses the challenges facing MSEs in accessing finance from commercial banks at Karikao Market in Dar es salaam, Tanzania.

Specifically the study looks into the following;

- i. To assess the availability of loan facilities to MSEs in Dar es salaam
- ii. To assess security challenges faced by MSEs in accessing loans from banks
- iii. To examine main procedures applied by banks in provision of loans to MSEs
- iv. To determine the level of satisfaction of MSEs on bank services.

1.4 Research Questions

1. What is the level of availability of loan facilities to MSEs in Dar es Salaam?
2. How do security challenges determine access to loans from banks by MSEs?

3. What are the main procedures applied by banks to provide loans to MSEs?
4. What is the satisfaction level of MSEs on services from commercial banks?

1.5 Significance of the Study

The research findings in this study lead to a better understanding by the public on the challenges encountered by SMEs in accessing loans from commercial banks in Tanzania and find possible means to address these challenges and improve access to finance among MSEs. As an essential requirement of the study programme, the findings of this study will help the researcher meet that requirement and update her knowledge. This study will also contribute to existing literatures on the topic, reveal new areas of research study and serve as a reference for future research works in the banking and non bank industry.

1.6 Organisation of the Study

The study was organized and presented in six chapters. The first chapter talks about the background information of the study, problems statement, objectives of the study including the general objective and specific objectives. This chapter also presents research questions that guided the study to obtain the results specified in the study objectives. Also the chapter takes about the rationale of conducting the study. The second chapter presents the main literatures reviewed including the theoretical and empirical literature review. The second chapter also gives a definition of key terms used in the study, the conceptual frameworks and the knowledge gap that is intended to fill by the current study. The third chapter presents the methodology used in the study where case study design is used. This chapter also shows how data were collected and the type of data analysis method used the area of the study, method of analysis, reliability and validity of data. Chapter four includes presentation of the findings and its analysis. Chapter five presents the discussion of findings basing on data obtained. Lastly, chapter six provides a summary of the findings, conclusions and recommendations based on the study findings, and a direction for future research works.

1.7 Scope and Limitations of the Study

This study focused on factors pertaining to Micro and Small Enterprises (MSEs) which is a sub-category of SMEs. The study was carried out at Kariakoo market in Ilala Municipality in Dar es Salaam region. The study by focused on formerly registered establishments from various sectors that could fit in the MSEs category. Therefore, the study was limited to this scope of MSEs. The researcher encountered some limitations in accessing data from this group most of them could be easily located but were unwilling or were extremely busy to the extent of failing to complete the questionnaires. The researcher had to make several follow-ups to questionnaires until when a substantial amount of complete questionnaires was obtained. Due to time limitations and budget, the researcher could not conduct this study in other areas of Dar es Salaam with a diverse range of MSEs.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides the general overview of the literatures consulted in this study. It covers both theoretical and empirical literature review. The theoretical part defines various terms applied in the field of financial management and MSEs operations while the empirical part analyses various studies in relation to the topic. This helps to establish a knowledge gap which needs to be covered in this study.

2.2 Theoretical framework

This part summarizes various theories that are relevant to the study in question. The study uses pecking order theory which was developed by Myers and Majiluf (1984); and the credit rationing theory as developed by Stiglitz and Weiss (1981). These theories provide a foundation of the literature review concerning how business enterprises perform in relation to access to finance.

2.2.1 Pecking Order Theory

The theory/hypothesis was at first created by Myers and Majiluf (1984). The hypothesis depended in light of the fact that, within the board is better educated with regards to genuine estimation of the firm than it is for the outcasts who are the financial specialists. The data asymmetry was said to be an aftereffect of fluctuating expenses because of extra outside financing, where speculators who are the investors see value financing as a type of outer financing that is acquiring more cost to the firm than obligation financing. The hypothesis accordingly recommends that the firm should try to beat these issues by making standard valuation of the firm so as to evade issues that may emerge because of impression of underestimating of firms resources emerging from data asymmetries. The hypothesis additionally recommends for paying more reference on utilizing inside assets to life partner their undertakings

toward the start of those tasks. This should be possible until the minute when interior financing is depleted, at that point firms may utilize obligation financing before moving into greater value financing.

The authors express that, Perking Order Theory is progressively pertinent to SME part as it is dependent upon more noteworthy possibility of rising issues because of data asymmetries. This is on the grounds that, because of their size, SMEs may be happy to extend their frame of reference by searching for progressively outer financing which may imperil their autonomy and control of the firm (Ibbotson, Sindelar and Ritter, 2001).

These variables, recommend that SME proprietors should source their capital from their inner sources before searching for outside financing. The inner sources may incorporate; individual reserve funds and held profit. At that point the hypothesis propose for different methods being to see transient borrowings; at that point long haul borrowings and least favored strategy is to search for other new speculators for value financing (Ou& Haynes, 2006). The discoveries in these examinations show that, little firms given their size ought to depend more on inner financing than outer financing through equity.

2.2.2 Credit Rationing Theory

This is among the significant theories/hypotheses which center on breaking down the finance gap confronting SMEs. The theory was created by Stiglitz and Weiss (1981) by building up the idea of office issues. They validated that, office issues which originates from the contentions between the administration and the investors. The board goes about as specialists, while investors are the proprietors of the firm. The issue of data asymmetries was said to be the significant explanation that influences SMEs to get to fund. Their contentions depended in light of the fact that, the ones with right data about the firm, its presentation and financing needs are the administration, simultaneously, speculators or investors who are the proprietors consider to have prevalent data about the firm which is data asymmetry, and they

have a view that the means being taken by the administration are less secure, hence they would want to keep up the overarching status.

In such manner, they contended that the chiefs are settling on choices under uneven data and need to work under good dangers and unfavorable determination hazard. In clarifying the decision among various financing sources under states of awry data and credit proportioning, Alfo and Trovato, (2006) called attention to that; lopsided data can prompt credit apportioning conditions through alteration of the hazard return dispersion. This contention proposes that, banks have been causing a difference between capital request and supply due to denying access to capital for most miniaturized scale ventures.

In such manner, little firms that are firing up are for the most part to be influenced by the asymmetry of data issues. As set forth by Deakins, et al., (2008), the impact of data asymmetries is progressively intense in innovation based recommendations. They further contended that, during the beginning periods, data is constrained and isn't constantly straightforward. In assembling firm and innovation based firms there is rigging or skepticism to give data on creation and activities to keep away from danger of being replicated or defeated by different firms because of the data they provide for general society.

Similarly, Gichuki, et.al.,(2014) contends that, there are a few MSEs that are probably going to confront extra challenges in accessing finance because of absence of satisfactory security. The most influence classifications incorporate the small business visionaries or the individuals who are denied and undermined. They further attested that, there might asymmetric information emerging from the location which is just within the firm. For example, SMEs working in remote and rustic regions are probably going to face troubles with access to bank loans. These are apportioned because of discernment that they will be they are more dangerous than other people who are in urban territories in spite of the way that they have all the necessary

capacities and ability to reimburse the advance including paying more for extra hazard remuneration however banks will in general deny them access to loans.

2.2.3 Relevance of the Applied Theories to the Study

The theories help to guide the study on the appropriate procedures to be followed when firms are seeking for financing needs. The theory also explains conditions applied by lenders to grant loans to borrowers, these conditions are very relevant for this study as they provide a basis through which the findings could be measured. The theory provides guidance where the findings have indicated that these procedures are relevant as they have been applied in the process of accessing finance by MSEs who participated in the study.

The pecking order theory relates to a company's capital structure in that, it helps explain why companies prefer to finance investment projects with internal financing first, debt second and equity last. The pecking order theory arises from information asymmetry and explains that equity financing is the costliest and should be used as a last resort to obtain financing.

Similarly, Credit Rationing Theory has been very useful to this study as it provides a basis through which banks use to set conditions for loans. In credit rationing, the lender supply of funds is less than borrower demand at the quoted contract terms. Credit rationing is being applied to safeguard lenders when there is excess demand than what they can offer. Thus with credit rationing, MSEs are cautioned not rely much on borrowed money to fund their capital requirements as they may end up getting less than expected.

2.3 Access to Finance

It is accepted that credit supports salary levels, expands work at the family unit level, and in this way helps to alleviate poverty among communities. Credit encourages needy individuals to triumph over their liquidity limitations and embrace some income generating activities and causes the poor to improve their living standards (Khandker, 1998). The improved utilization is an interest in the profitability of the

workforce or human capital. Thus, credit keeps up the profitable limit of rural poor families (Hulme and Mosely, 1996; Navajas et al, 2000). The absence of access to credit for the poor may have negative consequences for different poor families who are likely to suffer due to lack of support on agricultural activities, food security, , agro-processing, innovation, and welfare in general.

Access to formal credit is one of the recognized key limitations being looked by poor people; particularly in rural areas. Majority of communities in the production areas do not have any access to formal budgetary allocation and thus credit would be a gateway to their success (Helm, 2006). Stringent security requirements, credit apportioning, inclination for high pay customers and huge advances, bureaucratic, extensive methods of giving advances in the conventional part keep the vast majority of the poor individuals outside the limit of the development spheres.

Bank loaning is the most widely recognized source of external financing for some SMEs particularly micro- scaled business operators, which are regularly vigorously dependent on straight obligation to satisfy their start-up up, income and venture needs (OECD, 2016). SMEs, in any case, regularly end up off-guard concerning enormous firms in getting to credit financing. Most SMEs are constrained by administrative challenges, operational issues, including high exchange expenses, and SMEs' mistiness which limit access to credit by independent companies and new companies, specifically, which are frequently under-collateralized. These SMEs have limited record keeping and may come up short on the mastery and abilities to create advanced financial reports (OECD, 2013).

Entering into obligation funds is also increasingly difficult for companies with a higher risk return profile, such as research and development-based companies whose action plan may rely on intangibles and whose benefit designs are difficult to calculate on a regular basis (OECD, 2015). Subsidizing the gaps are often very gradually expressed in center and low-pay nations and are among the key barriers to independent venture formalization. Moreover, while a significant proportion of SMEs are not approaching formal credit, long-haul credit is considerably scarcer for

continuing speculation and advancement, which severely restricts growth opportunities (IFC, 2013)

2.4 Overview of SME Sector

The SME sector assumes a key role on the economic development of nations. Everywhere throughout the World, SMEs are perceived for their incredible potential to achieve social and financial advancement. As indicated by OECD (2006), these organizations ordinarily represent over 90% of all organizations outside the horticultural division, establish a significant source of work and produce critical local and fare income. In that capacity, SME advancement raisesas a key instrument in poverty alleviation endeavors.

Globalization and trade liberalisation have introduced new open doors just as challenges for SMEs growth. Currently, just a little portion of the SME sector can recognize and abuse these chances and manage the challenges. Most of SMEs in developing and transitional economies in any case, have been less capable or unfit to utilizethe advantages of globalization and, to add to the circumstance, are oftentimes under strain on the neighborhood or international markets from less expensive imports and outside rivalry. A significant target of work to advance the improvement of the SMEs part is in this manner to change the harmony between these two gatherings of SMEs and to prepare SMEs to all the more likely address the difficulties of globalization and to profit by its chances. SMEs, because of their size, are especially obliged by non-focused genuine trade rates, constrained access to finance, bulky bureaucratic systems in setting up, working and growing a business, poor condition of framework and absence of compelling institutional structures. The evacuation of these imperatives is an overwhelming work-up call for all, encompassing SME support (OECD, 2006).

2.4.1: Definition of SMEs

There have been numerous definitions about SMEs worldwide where the definitions vary depending on the context of that particular economy. In this regards, since there is no consensus on which is the appropriate definition of the SMEs, each country applies its definition depending on the development level of that country.

According to Pass, et al (2000), SMEs are defined as;

- i. A business that has an annual turnover of less than £ 11.2 million;
- ii. A business which has a gross assets of under £5.6 million; and
- iii. A business/company that has no more than 250 employees.

The criteria utilized in the definition given above, doesn't fit in the circumstance of SMEs working in Tanzania. The SME sector in Tanzania is utilized to incorporate Micro, Small and Medium Enterprises (MSMEs). The SME sector incorporates smaller scale and little undertakings extending from non-agrarian activities; high quality mining exercises; workmanship; carpentry; light assembling and exchange and administrations. A portion of the criteria applied by various nations in characterizing SMEs incorporates; number of workers, the degree of capital utilisation and income from sales revenues (Ngowi and Milanzi, 2006).

In the Tanzanian sense, according to SME Policy (2003), micro-enterprises include those that employ no more than four individuals, and whose capital does not exceed Tshs. Five million people. Many of the projects at this level are managed by members of the family and fall under informal sector. In Tanzania, they are classified as companies that hire people from 5 and 49 and that's from five million and two hundred million Tshs (US\$ 3,125-US\$ 125,000) capital investment

Most of these projects fall under the informal sector. Medium enterprise are those which employ between 50 to 99 people and have capital investment of Tshs. two hundred million to Tshs. Eight hundred Million (US\$ 125,000-US\$ 500,000). This information has been summarized in Table 2.1.

Table 2.1: Categories of SMEs in Tanzania

Category	Number of employees	Capital investments (Tshs.)
Micro- Enterprises	1-4	Up to Five Million
Small Enterprises	5-49	From Tshs 5 Million to 200 million
Medium Enterprises	50-99	From 200 Million to 800 Million
Large Enterprises	100 and above	More than 800 Million.

Source: URT, Ministry of Industry and Trade (2003)

NB: When there SMEs falls into more than one category, then level of capital investment is used to determine the correct category for an SME.

2.5. Characteristics of SMEs in Tanzania

In Tanzania, the small and medium-sized enterprises sector has a tremendous potential for job growth, revenue production, contribution to foreign exchange earnings and overall economic development and poverty alleviation. The sector has taken an important role in the country's job development since the 1990s, and has significantly contributed to the country's rise in GDP. The country statistics show that 30 per cent of GDP was estimated to have come from the SME sector by 2008. The contribution had risen from 30% in 2010, to 35% in 2011. It is estimated that the SME sector comprises about 20 per cent of the total labour force. SIDO' report in 2008 shows that 92% of school leavers (at all levels) are potentially absorbed by SME sector.

This shows that SMEs is a good option for absorption of unemployed individuals, school leavers, and college and university graduates in the country. Examples of some characteristics of SMEs were shown in the works of Muganda (2003) and Kitilya (2003). The details of these studies are presented and discussed below.

Outdated business practices: The response from numerous studies indicate that SMEs are characterized by the application of obsolete business practices. In their

studies of Muganda and Kitilya (2003) it was shown that the business owners failed to differentiate personal properties and business ownership. This view is supported by the fact that, SMEs mostly employ close relatives and friends for works that otherwise could have been performed by skilled persons in those fields. Most of the persons employed lack proper knowledge in record keeping and reporting. As a result, the reports of their financial statement carry mixed transactions of the personal matters with those of the business (Muganda, 2003).

Lack of competent skilled staff: SMEs are characterized by lack of skilled staff to run the businesses. The reason towards this problem includes high cost of training employees, retention, and hiring costs. In order to cut for such costs, SMEs have been employing person with little skills or lack the skill completely on the areas a person is being engaged to work so that they can pay lower salaries or wages. This practice, in turn has affected the performances of most SMEs where most them are less competitive than those which manage to employ competent and skilled employees (Muganda, 2003).

Limited linkages to Large Scale Enterprises (LSEs): SMEs face the challenges of poor linkages with large enterprises and thus cannot benefit from the opportunities available in these large firms. This is evidenced by very limited linkages between SMEs and large firms. Following this gap, SMEs fail to enjoy the available opportunities which are offered by large enterprises. In turn this has also denied mutual benefit between small and large enterprises due to lack of both back and forward linkages. The larger enterprises are in need of inputs that could be supplied by small firms, but due to several factors including capital limitations and poor records, these opportunities taken by just few SMEs and mostly taken by other large firms (Muganda, 2003).

Informal SMEs: Most of SMEs in Tanzania especially the micro enterprises operate informally. This means that they have not registered their businesses by appropriate authorities, they don't have appropriate address and they don't pay tax to the government. This in turn has serious repercussions to both the business operators and

the government. The government fails to get the required revenue through taxes, while the business operators fail to get the chances of getting formal support especially access to credit from banks and other financial institutions. According to Tesha (2000), reasons leading to failure of SMEs to formalize their businesses are many, but the common ones are those which are highly related to the excessive bureaucratic nature and high costs of the formalization process, and fear to register their business to avoid payment of taxes and other levies.

Tax evasion maltreatment: Tax evasion has been a characteristics of most SMEs where studies show that, most SMEs fail to pay the required tax and tend to evade some of the taxes due to problems related with a tax regime especially the tax officers and the municipal workers who have not used friendly ways to assess and collect tax from the small businesses. Many business operators argue that the taxation regime in Tanzania is not friendly to SMEs. Besides number of taxes and high rates, the mechanism to collect the same is not convenient to most SMEs. The use of violence involving police officer or municipal council security guards has been causing a lot of disturbance to SMEs. Tax officers have been using tax assessments methods which do not favour the SMEs and the best way to be safe has been tax evasion (Kitilya, 2003).

Poor Technology Levels: Most SMEs in Tanzania are also found to be using very low and outdated technology including labour intensive technologies which are very basic and sometimes requiring frequent repairs. The use of poor technology has caused poor production both in terms of quantity and quality and thus their products fail to meet the required standards in major markets. In turn, most SMEs product especially from developing economies fail to compete with those which are produced through modern and more efficient technologies such as computerized systems which results into importation of most products from China, Europe or America as they produced cheaply in those countries (Ngowi and Milanzi, 2006).

2.6 Overview of the Banking Sector in Tanzania

The Tanzanian banking sector is governed by the central bank (BOT). In Tanzania, as in many other developing countries, banks play a predominant role as regards mobilization and distribution of financial capital in the country's financial sector. However, the issue that needs attention is whether and to what degree international banks have played a constructive role in supporting the country's economy. Looking at this issue, this study states that the banking industry underwent a drastic change after the enactment of the Banking and Financial Institutions Act, 1991, which authorized the establishment of private banks in the country. The processes to liberalize this sector led to the development of multiple banks and MFIs leading to more than 800 Tanzanians being employed in seventeen projects that were approved by government authorities to carry on financial business, mainly in the banking sector, until 1998. On the other hand, the Bank of Tanzania reports that between 1990 and 1996 the sector contributed 4.0 per cent on average to the country's GDP (BOT, 2005)

As indicated by IMF report (2016), the Tanzanian financial system has various attributes normally observed in other low income nations (LICs). The financial system is generally little, occupied by banks, and has not been especially comprehensive. Access to finance stays bunched in urban areas as the absence of infrastructure (power, telecommunications, media communications) and the significant expense of "bricks and mortar" branches have obstructed the development of systems into rural areas, which is the place the majority of the population lives. By the by, through imaginative stages, particularly versatile cash and office banking, there has been a fast improvement in family units' entrance to back as of late with about 66% of grown-ups now revealing some access to the formal monetary financial systems. Costs identified with essential loan administrations (transfers, withdrawals, deposits) have likewise descended. In any case, in different areas, progress stays restricted: firms' access to credit stays an issue, access to the budgetary framework keeps on slacking and market improvement stays at a low level.

The IMF report (2016) further uncovers that, the financial sector in Tanzania has experienced numerous progressions in the course of the most recent five decades. A large portion of the banks were nationalized after independence and the banks were state-owned including NBC, CRDB, Tanzania Housing Bank, Tanzania Investment Bank and Tanzania Postal Bank. During this period, the whole financial sector was not steady as they were constrained to loan to other state-owned undertakings that were not well performing because of various factors including poor administration. This prompted amassing of non-performing loans from these undertakings. The presentation of market-based changes in the mid-1990s prompted the privatization of NBC and CRDB and opened up the financial sector to investments and community banks.

Over the most recent two decades, significant audits occurred as the BOT authorized more banks which began to work in the nation. Tanzania today has 57 authorized banks, more than in other East African nations. The biggest number of banks is larger part remote possessed. This incorporates a few universal banks, dish African banks, and various provincial banks. The household banks are overwhelmed by the individuals who were some time ago privatized in mid 1990s. The quantity of banks has been emerging including the rise of community-based banks and investments banks.

2.6.1 Credit Issuance Policies in Tanzania

Tanzania embarked on a series of financial reforms in the 1990s with a view to supporting the development of a market-based financial sector (Bank of Tanzania (BOT), 2011). With the reforms, the ratio of banks credit to the private sector to gross domestic product (GDP) increased from 4.1 percent in 2001 to 16percent in 2016 (Mbowe, 2018). Despite the achievement, the credit level is still far below that of comparable countries in the region. In 2017 for example, the share of credit to GDP for Kenya was 29.3 percent while those of Mozambique, Namibia, and South Africa were 25.64 percent, 63.76 percent and 147.7 percent, respectively. Compared with selected regional averages, the same situation reveals as Sub-Saharan Africa had 48.3 percent. Meanwhile, the lower middle-income group to which Tanzania has

graduated and the aspired middle-income group registered 43.7 percent and 99.3 percent of GDP, respectively (BOT,2018). In light of this development, Tanzanian government issued a National Microfinance Policy, 2017 which aimed at mainstreaming disadvantaged groups, gender and youth issues in accessing and usage of fair and affordable microfinance services and products.

Cihak and Podpiera (2005) attribute the limited extent of lending in Tanzania to high inter-mediation costs including interest rate spreads, which according to Manamba (2014), are significantly higher after the adoption of financial liberalization. The spreads have been much elevated since 1998 contributed by lending interest rates rigidity especially from 2003.

2.7 Empirical Literature Review

This part analyses various relevant literatures both at global and local levels to see the magnitude of the problems facing MSEs and what was found in these studies. It also shows the knowledge gap that need to be covered in the current study.

2.7.1 Loan Availability to MSEs

Rand et al (2008) in their study that covered a period between 2001 and 2005 indicated that only 39 percent of enterprises had an opportunity to apply for a bank loan. The study further revealed that, these firms experienced problems in accessing loans, while 19 percent were denied loan completely. The study further revealed that 30 percent of these enterprises did not apply for bank loan at all. The main reasons being, lack of adequate collateral, difficult processes to apply for loans, and high interest rates.

The study conducted by Hytines and Pajarines (2008) by examining the panel data for Finish SMEs in order to identify the factors which influence the performance of small enterprises The results indicated that there was an inverse relationship between the age of the firm and credit information of that firm. However they could not signify that the size of the firm is a proxy for capacity and reliability to meet particular obstacles in financing.

Also the study done by Voordecks et. al, (2006) indicated that, the key factors that could have been paid more attention than loan to SMEs is the perception that SME businesses are riskier than large firms. This has denied opportunities to small firms, while larger firms obtain fund in the formal market. In some cases, larger firm ahigh interest rate access credit in the formal market and then transfer the loan to smaller firms.

Grimsholin and Poblete (2010) did an investigation on factors influencing SMEs development, with a target of considering viewpoints influencing development of SMEs in Thailand; they found that there are number of components that influence Thailand SMEs to develop. The key components were absence of access to credit, rivalry, currency exchange challenges, management ability, and absence of skilled workers, low interest in innovative work and new technology.

Fatoki and Smit (2011) who directed their investigation on access to finance by SMEs in South Africa, highlighted factors as internal to SMEs, for example, administrative competency, security, systems administration and business information and those outside to SMEs, for example, full scale economy, crime, moral discernment, corruption and debasement limitation for new SMEs access credits.

2.7.2. Security Challenges Faced by MSEs in Accessing Loans

Vuvor&Ackah, (2011) in their study of challenges facing SMEs in accessing finance in Ghana, found out that, most SMEs in Ghana could not access credit from banks due to lack of reliable collateral. The SMEs also failed to produce audited financial statements as requirements from banks to access loans.

Matavire et al.,(2013),on access to finance challenges facing SMEs in accessing finance from financial institutions in Bulawayo, Zimbabwe. He found out that, SMEs could not access finance due to restrictive requirements from banks such as security requirements. They proposed for more interventions from the government by

creating a mechanism in which SMEs could be guaranteed to access loans from banks.

Malesky et al (2008) in their study about SME access to finance in Vietnam had indicated some challenges associated with how SMEs have the opportunity to access finance from banks. Their findings revealed that, the enterprises in Vietnam failed to access loans due to weak formal financial institutions. The problems was said to be caused by asymmetric information issues between borrowers on one hand and banks on the other hand. There was also a problem of insecure legal environment. Banks were paying more attention collateral rather than business opportunities.

2.7.3. Procedures Applied by Banks in Providing Loans to MSEs

According to Mori et, al., (2009) and Olomi et, al., (2008) access to credit in Tanzania is categorised into several options. These include loans from commercial banks, financing from semi-financial intuitions such as SACCOS and informal financial set-ups such as money lenders. They further argue that, despite these options, most SMEs opt for semi and informal financing because of their accessibility. The bank procedures are complicated and difficult to be met by majority of MSEs.

Fuseini (2015) also noted that banks procedures limits access to loans by majority of SMEs. He argues that, the barriers SMEs face include complex loan application process, unfavourable interest rate and high collateral requirement, complex application procedures small loan size and short loan maturity period. Other factors were said to be stringent lending criteria set by the bank; short loan repayment period; and lack of guarantors (Fuseini, 2015; Wang, 2016).

2.7.4 Level of satisfaction by MSEs on Bank Loans

Rodriguez et al.(2008)carried outon the study onbank financing to Small and Medium-Sized Enterprises (SMEs) in Colombia. The descriptive study aimed to shedlight on current trends and policy challenges in the financing of small-and medium-sized enterprises (SMEs) by banks in Colombia. The findings revealed that,

SMEs in Columbia were benefiting from banks services through loans since SME cement is becoming a strategic segment for Colombian credit institutions. The current business and risk management models for SME lending are still relatively underdeveloped, but greater sophistication is expected as the market matures.

Kariuki's, (1995) study on small and medium-scale firm's bank credit access in Kenya. A survey of 89 small and medium-scale firms in manufacturing and service industries, combined with secondary information from commercial banks, found that from 1985 to 1990 the average real volume of credit for the sample firms fell, except for the year 1986 which showed a marginal increase of 1.5 per cent. Several deterrents to utilizing formal credit were identified. Small scale borrowers were found to be faced with higher nominal interest rates at higher inflation rates in the latter half of the 1980s. Moreover, the explicit transactions costs of borrowing were found to be high in relation to interest costs.

Graham and Quattara (1996) carried out a study on financial challenges facing SMEs in South Africa. They carried out cursory analysis of survey and research results of SMEs in South Africa. Survey results revealed the common reactions from SME owners interviewed. When asked what they perceive as constraints in their businesses performance and especially in establishing or expanding their businesses, they indicated that access to funds is a major constraint. This is reflected in perception questions answered by SME owners in many surveys (Graham and Quattara, 1996).

2.8 Knowledge Gap

There have been numerous studies both within and outside the country examining key challenges facing the growth of MSEs. Most the studies indicate main reasons where limited access to finance emerge to be among the top challenges facing MSEs. The importance of MSEs to the community and the country economy is inevitable; its meaningful contribution to the economy depends largely on the health of the sector. Despite presence of a number of studies, most of them carry a general

perspective of the factors affecting the growth of SMEs. This study comes with a specification on the segment that includes only micro and small enterprises (MSES). This segment is likely to be the most affected from the SMEs category. In addition, the country specific study on access to finance being the key challenge in question is more relevant since most studies indicated that this was among the most key factors that limit the growth of most SMEs. This study realized this as the main gap in the literature that need to be filled by having most recent response from the stakeholders on how access to finance could be resolved in the community and thus enhance access to finance by most MSEs operating in the country.

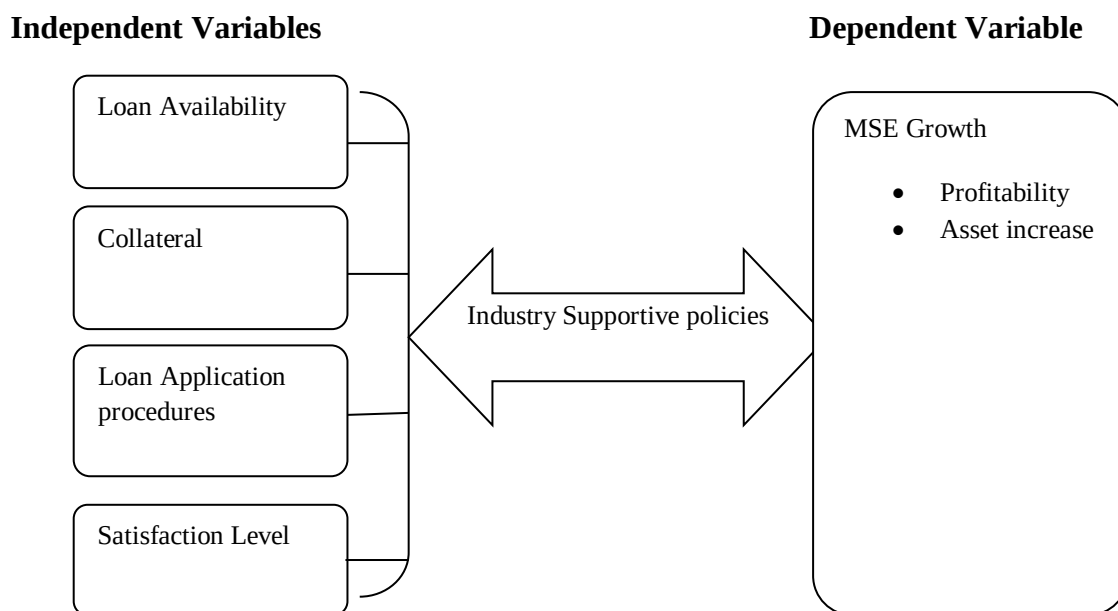
In addition, time eruption from previous studies calls for more recent studies due to changing of business environment from day to day. This study will be useful in filling up the time gap seen in other relevant studies.

2.9 Conceptual Framework

The conceptual Framework presents the variables in the study including the dependent and independent variables. The dependent variable in this study is growth which is dependent on other factors which are referred to as independent factors. These independent factors include; loan availability; collateral/security requirements; loan application procedures; and the rate of loan accessing by MSEs.

The following figure helps to illustrate the relationships between the dependent and independent variables.

Figure 2. 1: Conceptual Framework



Source: Author, 2019

The conceptual framework in Figure 2.1 has highlighted the relationships between independent variables and dependent variables as explained here under:

Loan Availability: Accessing loans is enhanced by the availability of that loan from banks or any other financial system. Finance plays a key role in determining the growth of the firm and its survival (ACCA, 2009). Finance helps firms to be able to utilise their maximum potentials by taking productive investments and make a significant contribution to the national economy through participation in various economic activities. Without proper access to finance these opportunities may be lost(Beck, Demirgüç-Kunt, 2006). Without finance, SMEs cannot expand to compete in international markets or even establish a linkage with large firms.

Collateral:Collateral is an asset that a lender accepts as security for a loan. If the borrower defaults on the loan payments, the lender can seize the collateral and resell it to recoup the losses (Beck, Demirgüç-Kunt, 2006).Most MSEs lack collateral to

back up their loans applications. Thus, access to credit remains a major challenge facing MSEs in developing countries (Wanjohi and Mugure, 2008).

Loan Application procedures: These are the processes applied by the bank in providing loans to the applicants. They include; loan application process, interest rate determination, collateral requirements, and lending criteria(Fuseini, 2015. When these procedures are too complicated, it becomes too difficult of MSEs to access bank loans.

Satisfaction Level: This refers to customers' approval on a particular product/service in relations to his/her expectation (Renato, 2013). The perception of MSEs towards bank services will depend on how they have been able to access loans from these banks. Loan accessibility and quality of banking services have a direct positive influence on the satisfaction of SMEs with commercial banks' business-oriented services (Wang, 2016).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction.

This part shows how the study was conducted by presenting the main methodology employed. The chapter shows the research design, area of study, population, sample and sampling techniques, data sources and types as well as methods of data analysis. In this study a combination of methods was used in collecting data and analysis. These include; documentary analysis through secondary data, personal interviews, questionnaires and participant's observation.

3.2 Research Design

The research design shows the type of study adopted. According to Kothari (2004), a research design refers the conceptual structure or the blue print through which the study is built. It constitutes a roadmap, collection, measurement and a design of analysis employed. In this study, a case study was used. The case study design was used because of the wide scope which it offers in finding data and the knowledge which the researcher has on the sector.

3.3 Area of Study

The study area is a political or geographical area including its history, geography, language, and general culture (Kombo and Tromp,2006).The study was done in Dar es Salaam region mainly at Kariakoo market. The MSEs that were available at the market were contacted. Kariakoo market was chosen because is where most of the businesses in Dare s salaam are found. The researcher found it easier to locate all the required category of MSEs within the same area which simplified data collection process.

3.4 Population of the Study

Polit and Hungler (1999) define population as an aggregate or totality of all the objects, subject members that conform to a set of specifications. The study targeted micro and small enterprises operating at Kariakoo market as a population of the study. The Kariakoo market is located in Ilala Municipal in Dar es Salaam which has a population of 9,405 (National Census, 2012). The name derives from a corruption of that of the British "Carrier Corps" which was based in this area. Today, Kariakoo is mainly known for its extensive market that spans several city blocks and contributes substantially to Dar es Salaam's food provision as well as small-scale economy. Traders from East Africa and some parts of Southern Africa converge at Kariakoo Market to buy wares for resale back home. Though originally designed to feature active wholesale, retail, agricultural produce and farm equipment to cater for the local market, literally anything and everything worth trading is found at the market.

According to Kariakoo Market Management (2019), the total micro and small enterprises operating at Kariakoo market are estimated to be 1000 but the study focuses on those with full registration and belong to MSEs category that are estimated to be 240. The businesses in operation are mainly in beauty shops, mobile phones and accessories vendors; clothes and shoe vendors; food vendors, barber shops and salons; and dealers in cereal crops..

3.5 Sample Size

According to Mugenda & Mugenda (2003), the sampling framework is part of the statistical practice that deals with selection of individuals or observations required to yield some knowledge about the given population. They argued that, a sample size of 10% is appropriate as long as the sample size is more than 30 (i.e, $n > 30$). From a targeted population of 240 MSEs, the study obtained the sample as follows;

The sample size was derived from the Slovin's formula (1960) as,

$$n = \frac{N}{1 + N(e^2)}$$

Where,

n = Sample size

N = Population size

e = Margin of error

e = 1 - Confidence level

The researcher used a confidence level of 95%, to decide on the sample size to be used in this study.

$$e = 1 - 0.95$$

$$e = 0.05$$

$$N = 240$$

Therefore,

$$n = 240 / (1 + 240(0.05)^2)$$

$$n = 240 / 1 + 240(0.05)^2 = 150$$

Therefore from a population of 240 MSEs, the study obtained a sample of 150 MSEs.

3.5.1 Sampling Techniques

Sampling techniques refers to approaches that help to minimize the amount of data that one has to obtain by considering only subgroup data rather than all possible cases or elements (Saunders, 2007). There are two sampling methods; one applies to probability samples in which each respondent's probability of selection is guaranteed. The other applies to samples with non-probability where the probability of selection is unknown (Saunders, et. al, 2009).

In this study a simple random sampling of the probability sampling technique was used for the selection of respondents from the MSEs at Kariakoo Market. With simple random sampling, there would an equal chance (probability) that each of the identified sample size of 150 MSEs could be selected for inclusion in the sample.

3.6 Data Collection Methods

3.6.1 Secondary Data

Kothari (2004) attests that, secondary data are those which are used by someone else and readily available for use. He argues that, using secondary data is risky but can be used when the information is reliable, suitable and adequate especially when available from authentic sources (Kothari, 2004). The use of multiple sources of data was encouraged as viable for cross-checking the authenticity of data (Kothari, 2005). Secondary data involved review of various documents that include; government publications, reports, journals, books and other publications so as to establish relationship between the available data and that which was collected from primary sources.

3.6.2 Primary Data

Kothari (2006) attests that, primary data are those which are freshly obtained from the source. He argues that, a primary data source is an original data source, that is, one in which the data are collected firsthand by the researcher for a specific research purpose or project. The researcher used structured questionnaires in data collection. Structured questionnaires were both open and closed ended questions in order to give a wide freedom for respondents to explain their concern at the same time limiting the study concepts. The questionnaires were administered to MSEs operators in all categories of vendors at Kariakoo Market.

3.6.3 Data Management and Analysis

According to Shamoo and Resnik (2003) Data Analysis is the process of systematically applying statistical and/or logical techniques to describe and illustrate, condense and recap, and evaluate data. In this study, the vast amounts of data collected were recoded through computer programme on SPSS version 20.0. The results were organized and summarized into tables, charts and figures. The study involves both quantitative and qualitative methods of analysis. Quantitative analysis

gave statistical results of the study while qualitative analysis provided information basing on researcher's observation and interpretation of the findings.

The questionnaire is designed to determine the satisfaction level of MSEs in accessing credit from commercial banks based on the Likert scale from 1 to 5:

1	-	Very unsatisfied
2	-	Unsatisfied
3	-	Neutral
4	-	Satisfied
5	-	Very Satisfied

The calculation of the scores for occupants' satisfaction is based on 5 parameters being measured from the questions in the questionnaire.

The formula generated to calculate the satisfaction score as adopted from Natasha (2008), is illustrated as follows;

$$SS = \frac{RS [N^5+N^4+N^3+N^2+N^1]}{FS [Total N^5]}$$

Where,	SS	-	Satisfaction Score
	RS	-	Relative Score
	FS	-	Full Score
	N	-	No. of respondents
$N^5+N^4+N^3+N^2+N^1$	-	(No. of respondents answered for Likert Scale) x (Likert Scale)	

3.7 Data reliability

Reliability is about consistency, it can be used by another study, typically if research design is accurate, and the same findings would be obtained (Saunders et al., 2009). To ensure reliability of data and compliance with study objectives, only relevant data was included in the study. Un-attended questions were removed during data

processing. Therefore, complete questionnaires were determined to ensure that only accurate data was obtained.

3.8 Data validity

Validity refers to the quality that a procedure or an instrument used in the research is accurate, true, meaningful and right (Saunders et al., 2009). In order to validate the data, questionnaires for this study were tested and exposed to some colleagues to cross-check if it captures the objectives of the study. A pilot study was carried out for the aim of checking clarity of the questionnaire. Respondents were issued with questionnaires; enough time was given to them to respond to questions more conveniently. However some respondents opted to fill the questionnaire on the spot by the help of the researcher.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents the findings from the field and its analysis. The findings were articulated in the context of study purposes through their objectives. The study used the data from both primary and secondary sources to respond to the study questions was at the outset given priority. Primary data were used to present the real picture from the field which guided the conclusions drawn from the study.

4.2 Demographic Profiles

4.2.1 Response rate

The researcher administered 100 questionnaires, where 85 were filled out completely and returned. This response gave up a rate of 85% as indicated in Table 4.1. This response was enough for the researcher to proceed with conducting data analysis. Usually, the response rate that every researcher should pursue is 100%. In reality, few researchers enjoy such a high figure. Standards for return rates abound, usually centering on 70% or 80% (Denis, 2003).

Table 4. 1: Response Rate

Response Rate	Frequency	Percent
Completed and returned	85	85%
Unreturned	15	15%
Total	100	100%

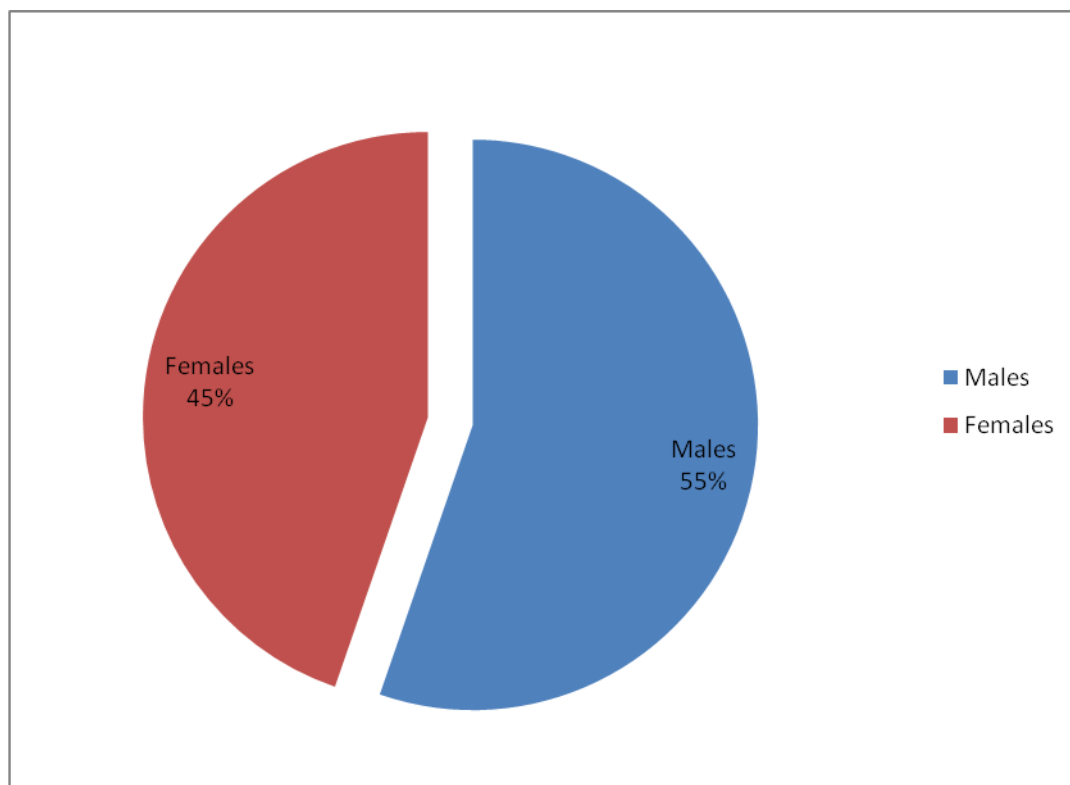
Source: Research Findings, 2019

4.2.2 Gender Profiles of Respondents

The researcher thought that gender was an important element to be included in the analysis. The researcher sought to show the response given in terms of gender

distribution so as to know whether the study was gender inclusive or not. The results are summarized in figure 4.1.

Figure 4. 1: Gender of the Respondents



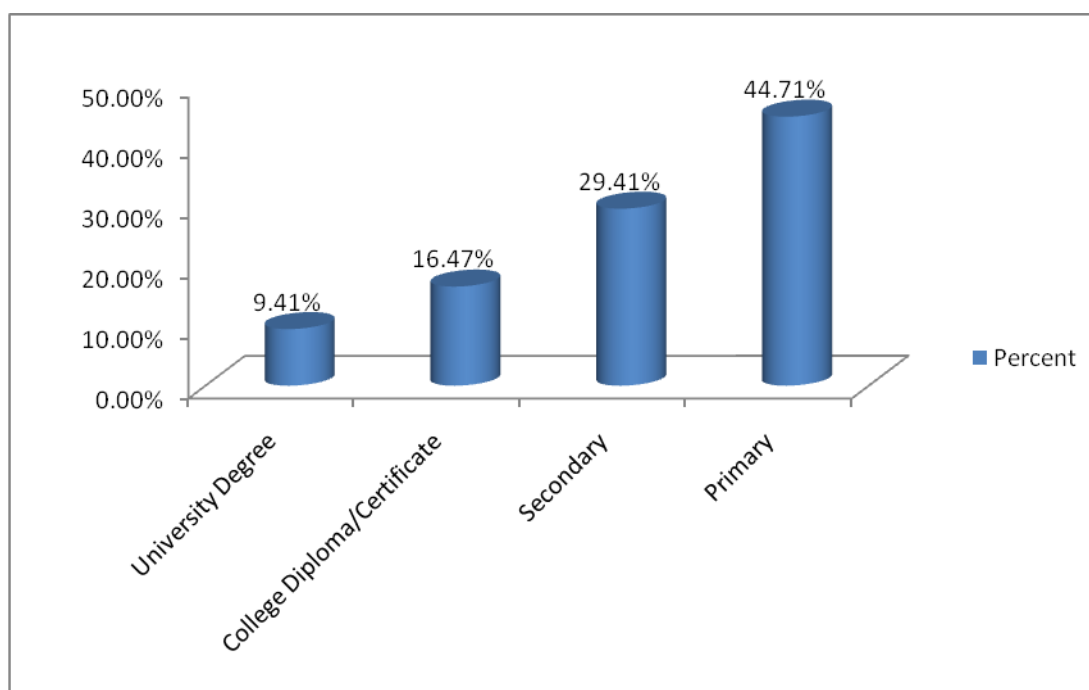
Source: Research Findings, 2019

The results from Figure 4.1 shows that males comprised of 55% of the total respondents and females were 45%. This indicates that majority of businesses at Kariakoo market are dominated by males though not by a large number as compared to that of females. This shows that, although the number of respondents indicates males' dominance, yet female representative in the business sector cannot be ignored. There is adequate female numbers in the business activities at Kariakoo market which is a good indicator that business in Tanzania are gender inclusive where both males and females have almost equal chances to participate in the business.

4.2.3 Educational Levels of Respondents

The study also considered the level of education of respondents as an important aspect to be included in the study. Identifying levels of education helped the researcher to determine the dominance level of education in the small business in the country. This may help policy makers to see whether there are interventions needed in terms of making education accessible to many people including small business operators. The results on the education level are presented in Figure 4.2.

Figure 4. 2: Education Levels of Respondents



Source: Research Findings, 2019

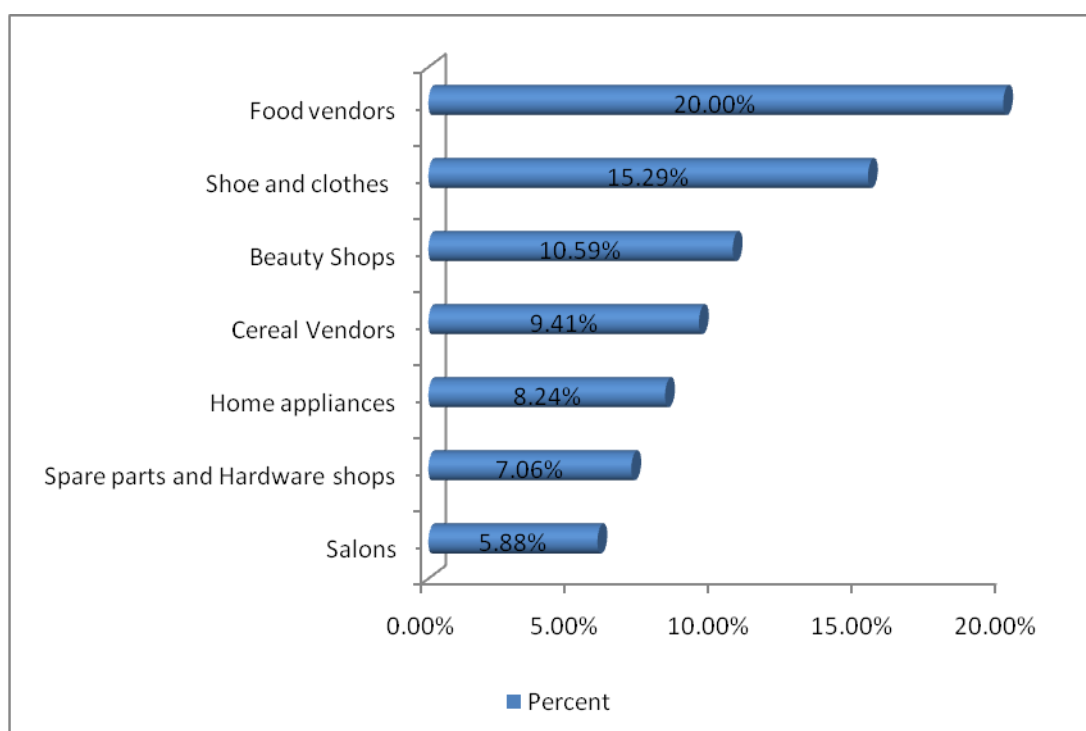
The results in Figure 4.2 show that, majority of the respondents had primary school education level equivalent to 44.71%. These were followed by respondents with secondary school education level who were 29.41%. The respondents with college diploma/certificates were 16.47%; while those with university degree were 9.41%. This distribution shows that majority of small businesses in Tanzania are operated by individuals with low levels of education. The number of graduates participating in small businesses are rear which indicates that they have employment alternatives

while for those with low level of education have no alternative than to embark on business dealings at all levels.

4.2.4 Business Activities of Respondents

The researcher wanted to determine the business activities of respondents so as to to way the response in relation to the nature of the business. It is importance to have this description, since there are different business activities carried out at Kariakoo market, thus having opinions from different categories of business helps to augment the problems facing each category. Figure 4.3 Show the business activities of respondents.

Figure 4. 3: Business Activities of Respondents



Source: Research Findings, 2019

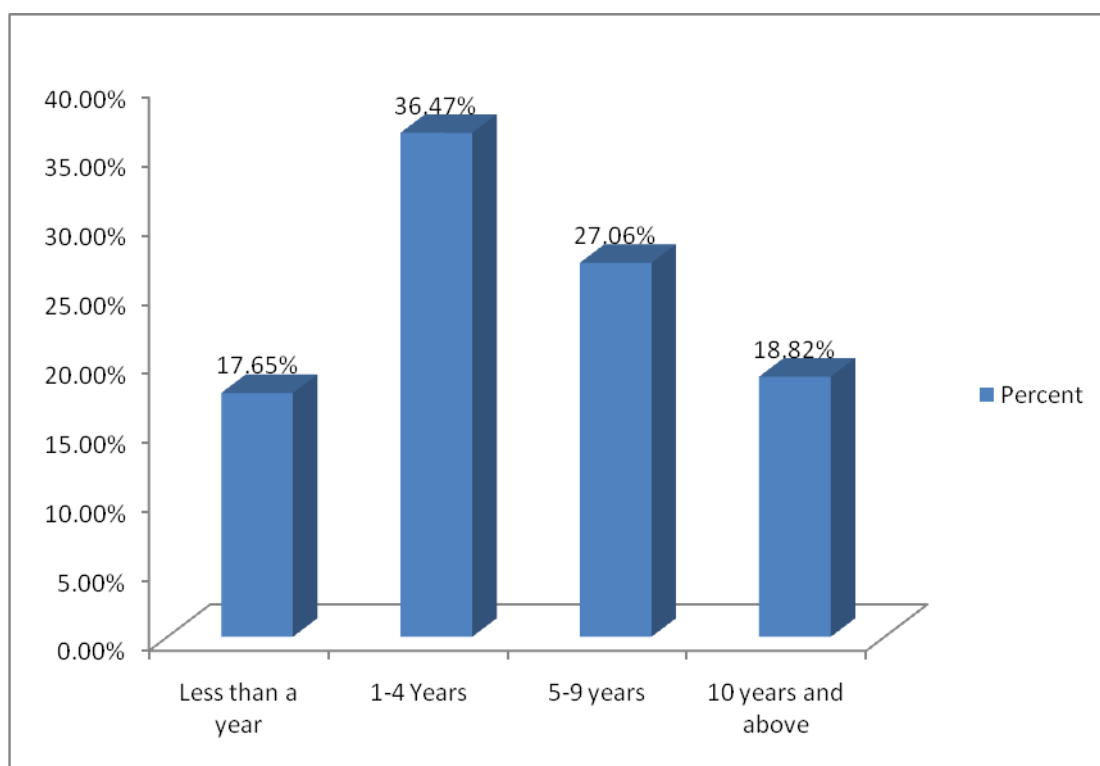
The analysis from figure 4.3 show that majority of the respondents belong to the food vendors' category, where 20% of the respondents came from this category. These were followed by those who are dealing with shoe and clothes who recorded 15.29% of the respondents. The respondents in the beauty shops were 10.59%; those in

cereals business were 9.41%; those who deal with selling home appliances were 8.24%; those who deal with spare parts and hardware were 7.06%; and those with salon businesses were 5.88%.

4.2.5 Number of years in business

The researcher also thought it was important to assess the number of years the respondents had been in the business. This helped to assess whether the respondents understood in details the magnitude of the problems identified from practical experience. The response from more experienced respondents on a sector is likely to reflect the actual situation than those with less experience. The figure 4.4 shows the response on the number of years the respondents stayed in the business.

Figure 4. 4: Numbers of Years in Business



Source: Research Findings, 2019

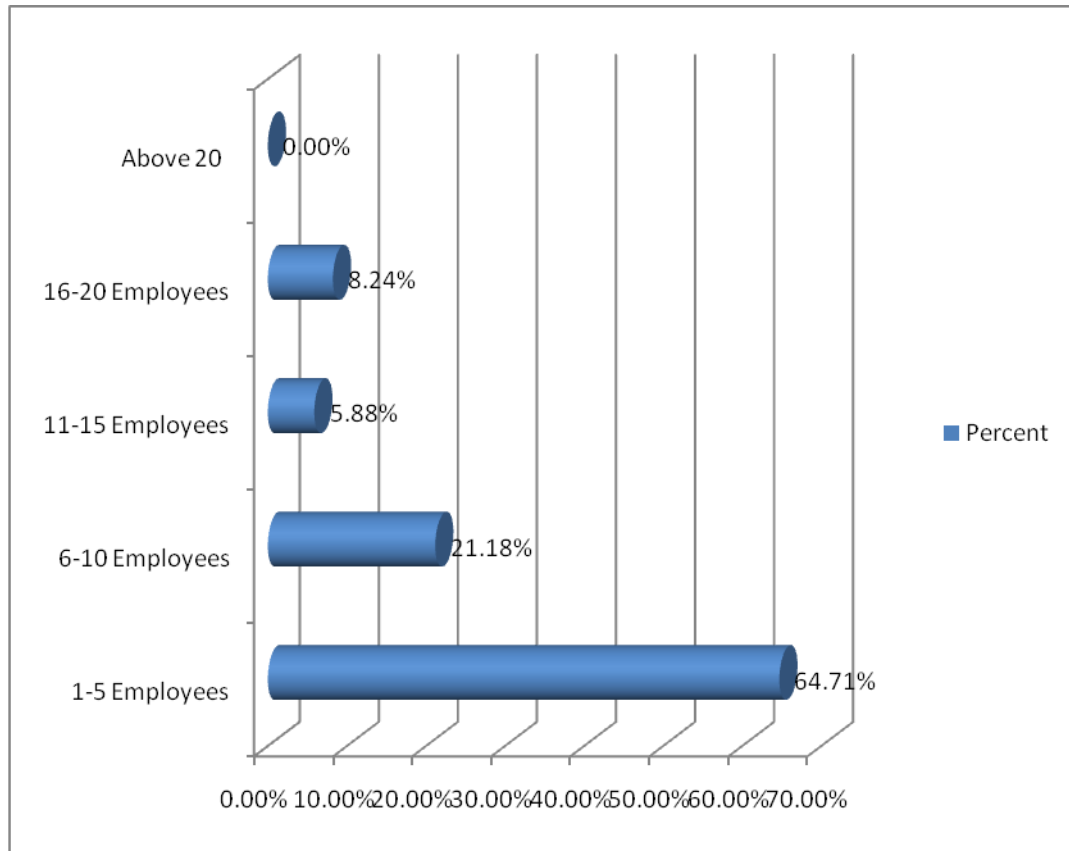
The response in figure 4.4 shows that, majority of respondents that is 36.47% had been in the business for a period between 1-4 years; those who stayed in business for a period between 5-9 years were 27.06%; those who had been in the business for a

period of 10 years and above were 18.82%; and those who had been in the business for less than a year were 17.65%. These response indicate that, although there a few respondents who had been in the business for a period less than a year, majority had been in business for a period more than a year which shows that they had adequate information concerning their businesses which shows that the results a true reflection of what takes place in the market.

4.2.6 Size of the Business

The size of the business by looking at the number of e employees was another factor that the researcher looked at. The study focuses on the factors limiting access to finance by micro and small businesses, therefore understanding the size of the business is paramount to the study findings. The size of the business was determined by looking at the number of employees the business had. Figure 4.5 shows the response on the size of the business.

Figure 4. 5: Size of the Business as per Number of Employees



Source: Research Findings, 2019

The response from figure 4.5 shows that, majority of businesses equivalent to 64.71% at Kariakoo market employs 1 to 5 employees; followed by 21.18% of businesses that employ between 6-10 employees; those who employ between 16-20 employees were 8.24%; those who employ between 11-15 employees were 5.88%; while none of the respondents indicated to have employees above 20. These responses suggest that, most of the contacted business belong to the Micro and Small Enterprises (MSEs) who are targeted in this study.

4.3 Availability of Loan Facilities to MSEs in Dar es Salaam

This was the first objective of the study which sought to identify how MSEs could access loans from banks. In order to have complete information on this aspect, the study looked at sources that businesses use as start-up capital; whether they accessed any loan from the bank; and factors that influenced them to have access to bank loan or challenges they faced on accessing loans from banks. The study also wanted to know whether respondents had adequate information on availability of loan facilities from banks and how to access them.

4.3.1 Sources of Start-Up Capital for MSEs at Kariakoo Market

The research sought to determine the main sources of capital for starting up businesses at Kariakoo market. The respondents were asked to tell the means through which they had obtained their initial capital to start their businesses. They had to show whether they obtained through personal funding, or borrowing from bank or any other lender. The response is summarized in the Table 4.2.

Table 4. 2: Sources for Start-up Capital

Source	Frequency	Percent
Personal savings	38	44.71%
Friends	4	4.71%
Family and other relatives	14	16.47%
Borrowings from non bank institutions	25	29.41%
Bank Loan	4	4.71%

Total	85	100.00%
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Source: Research Findings, 2019

The analysis in Table 4.2 shows that, majority of the respondents that is 38 (44.71%) obtained their start-up capital from their own personal savings; those who obtained their start-up capital through borrowings from MFIs that are non banks were 25 (29.41%); those who obtained from family members and other relatives were 14 (16.47%); those who obtained their start-up capital through borrowings from friends were 4 (4.71%) while those who obtained banks loans to start their businesses were also 4(4.71%). This response indicates that, majority of businesses consulted fail to utilize bank loans as sources of their capital to start a business.

4.3.2 Access to Bank Loans

The respondents were requested to indicate whether they had ever applied for a loan from banks other than those from non bank institutions. This helped the researcher to know the extent at which small businesses at Kariakoo market could access loans from banks. The responses are summarized in Table 4.3.

Table 4. 3: Application for Bank Loan

Response	Frequency	Percent
Yes	47	55.29%
No	38	44.71%
Total	85	100.00%

Source: Research Findings, 2019

The response from Table 4.3 shows that, majority of respondents who were 47 (55.29%) had at one time applied for bank loan to expand their businesses; while 38 respondents equivalent to 44.71% did not apply for the loan from banks. The respondents wanted to know the factors that influenced those who had access to the loan from the banks and challenges faced by those who could not access loans from banks.

Table 4. 4: Factors that Influence/Limit Access to Credit from Banks

Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
There is adequate information on where and how to access credit	25	21	11	12	16	85
	29.41%	24.71%	12.94%	14.12%	18.82%	100.00%
Cost of credit is too high	5	4	3	42	31	85
	5.88%	4.71%	3.53%	49.41%	36.47%	100.00%
Collateral requirements are too difficult to meet	2	7	8	35	33	85
	2.35%	8.24%	9.41%	41.18%	38.82%	100.00%
I don't have the skills to prepare financial records	16	12	14	17	26	85
	18.82%	14.12%	16.47%	20.00%	30.59%	100.00%
I don't have the skills to prepare a business plan	11	15	6	25	28	85
	12.94%	17.65%	7.06%	29.41%	32.94%	100.00%

Source: Research Findings, 2019

The response from Table 4.4 indicate respondents perception on the predefined statements which the researcher used to get an insight on the factors that influence or limit access to credit from banks. Respondents were asked to indicate the level of agreement to the statements explained hereunder:

There is adequate information on where and how to access credit: Majority of the respondents that is 25 equivalents to 29.41% strongly opposed the statement; 21 respondents equal to 24.71% disagreed; those who strongly agree were 16 (18.82%); 12 respondents equal to 14.12% agreed with the statement. On the other hand, 11 respondents equal to 12.94% were indifferent as they neither agreed nor disagreed with the statement. These results shows that, those who disagree with the statement find it difficult to access information on where and how credit from banks could be accessed. Those who agree indicate that they are fully aware on how to access credit from banks and they know where to go and who to meet. While those who are neutral may signify that they have not tried to look for alternative financing through a bank loan, in this case they fail to understand whether information are readily available or not.

Cost of credit is too high: The response on this statement is also mixed as well. Those who agree were 42 respondents equivalent to 49.41%; those who strongly agreed were 31 equal to 36.47%; those who disagree were 5 equal to 5.88%; those who strongly disagreed were 4 equal to 4.71%. The respondents who were neutral were 3 equal to 3.53%. These response shows that the cost of credit is considered to be high by majority of business operators making them fail to apply for bank credit services.

Collateral requirements are too difficult to meet: The response on this statement is shows that majority of respondents that is 35 (41.18%) agree to the statement where 33 (38.82%) strongly agree. The respondents who disagree were 7 equal to 8.24%; those who strongly disagreed were 2 equal to 2.35%. The respondents who were neutral were 3 equal to 3.53%. These response shows that the conditions set for collateral is too difficult to be met by most businesses at kariakoo market. This could be the case in other areas with similar nature of business operations.

Skills to prepare financial records: Most of respondents indicated to lack the appropriate skills to prepare financial record as majority who were 28 (32.94%) strongly agreed that don't have such skills; 25 equal to 29.41% agreed with the statement; The respondents who disagree were 15 equal to 17.65%; those who strongly disagreed were 11 equal to 12.94%. Those who were neutral were 6 equal to 7.06%. The results indicate that most business operators lack the skills to prepare business plan no wonder that is why they fail to access credits from banks.

Skills to prepare a business plan: in response to the statement whether respondents had the knowledge and skills to prepare a business plan indicated that most of them lack the appropriate skills to prepare a business plan where majority who were 26 (30.59%) strongly agreed that don't have such skills; 17 equal to 20% agreed with the statement; The respondents who strongly disagree were 16 equal to 18.82%; those who disagreed were 12 equal to 14.12%. The respondents who were neutral were 14 equal to 16.47%. The results indicate that most business operators lack the skills to prepare financial statements.

4.4 Security Requirements in Order for MSEs to Access Loans From Banks

This was the second objective of the study, to assess the security requirements in order for MSEs to access bank loans. The respondents were requested to indicate whether the conditions set by bank as collateral requirements were a limiting factor for them to access credit from banks. They were required to indicate the level of satisfaction to the statements that sought to seek information on the collateral requirements

4.4.1 Level of Satisfaction of the Collateral Requirements

The respondents were requested to indicate their opinions on the statements that show the level of satisfaction on the statements shown in Table 4.5

Table 4. 5: Level of Satisfaction on the Collateral Requirements

Statements	Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied	Total
Requirements to have a guarantor before a loan are issued.	26	28	5	12	14	85
	30.59%	32.94%	5.88%	14.12%	16.47%	100.00%
Requirements to have fixed assets as a collateral	23	22	7	18	15	85
	27.06%	25.88%	8.24%	21.18%	17.65%	100.00%
The basis used to assess the value of collateral being pledged	31	24	5	16	9	85
	36.47%	28.24%	5.88%	18.82%	10.59%	100.00%
Requirements that each type of loan be backed up by a collateral	23	26	5	16	15	85
	27.06%	30.59%	5.88%	18.82%	17.65%	100.00%

Source: Research Findings, 2019

The response on the Table 4.5 shows that, majority of the respondents are not satisfied on the collateral requirements as indicated through the following results:

Requirements to have a guarantor before a loan is issued: Majority of respondents were not satisfied with this requirement of having a guarantor before a loan is issued. The response shows that 28 of the respondents equal to 32.94% were

dissatisfied with the statement; and 26 (30.59%) were very dissatisfied. The respondents who were very satisfied were 14 equal to 16.47%; 12 respondents equal to 14.12% were satisfied; where 5 respondents equivalent to 5.88% were neutral to the statement.

Requirements to have fixed assets as collateral: The response on this statement show that majority who were 23 equivalent to 27.06% very dissatisfied with this statement; 22 respondents equivalent to 25.88% were dissatisfied; 18 respondents equivalent to 21.18% were satisfied by the statement; and 15 respondents equal to 17.65% were very satisfied with the statement. The respondents who indicated to be neutral to the statement were 7 equivalents to 8.24%.

The basis used to assess the value of collateral being pledged: The response indicates that, majority of respondents who were very dissatisfied with this statement were 31 equivalent to 36.47%; those who were dissatisfied were 24 equal to 28.24%; those who were satisfied were 16 respondents equal to 18.82%; the respondents who were very satisfied were 9 respondents equal to 10.59%; and where 5 respondents equivalent to 5.88% were neutral to the statement. These responses signify that, the bases which are used by banks to assess and evaluate the assets being pledged as collateral are not mutually agreed upon between the bank and their customers.

Requirements that each type of loan be backed up by collateral: The response on this statement show that majority who were 26 equivalents to 30.59% were dissatisfied with this statement; whereas 22 respondents equivalent to 25.88% were very dissatisfied. The respondents who were 16 respondents equivalent to 18.82% were satisfied by the statement; and 15 respondents equal to 17.65% were very satisfied with the statement. The respondents who indicated to be neutral to the statement were 5 equivalents to 5.88%. This response show that the banks have set a condition that each type of loan is backed up by collateral the requirement that is not satisfactory to most of the respondents.

4.5 Main Procedures Applied by MSEs in Accessing Loans from Commercial Banks

This was the third objective of the study. It shows whether the means employed by commercial banks to grant credits to MSEs are satisfactory or not. The respondents were requested to indicate the procedures that they use in accessing loans.

The following Procedures were laid down and respondents were required to indicate the degree of agreement to the procedure.

Table 4. 6: Preparation of Bank Loan Documentation

Response	Frequency	Percent
Yes	79	92.94%
No	6	7.06%
Total	85	100.00%

Source: Research Findings, 2019

The results summarised in Table 4.6 shows that, majority of respondents agree that they must prepare documents required to access bank loans. This view was supported by 79 respondents equal to 92.94%. The respondents who said No were 6 respondents equal to 7.06% of the total respondents. Those who agree indicated that the banks needed important documents to be prepared and submitted at the bank before a loan is issued. They indicated that, banks typically request a number of documents as a means to assess their credit worthiness. The interview results from a Mr. Omary Shaban a respondent who is a dealer of electronic appliances at Kariakoo Market had this to say;

When you go to the bank for loan application, we are required to present a number of documents which include; Personal financial statement and income tax returns from at least one to three years; projected start-up cost estimates; Projected balance sheet and income statement for at least a year; Projected cash flow statements for at least one year; evidence indicating ownerships in assets including leases, contracts and collateral; A business plan explaining the planned activities and specific use of the requested fund and how it shall be repaid; and any assumptions used to develop financial statements.

In response to whether the small businesses have been able to meet all the requirements from the bank, He had this to say:

In most cases we fail to meet all the requirements, as most small businesses lack the skills to prepare financial records as per standards acceptable by banks, very few succeed to submit all these documents. In this regards, only few businesses manage to access bank loans while majority fails.

The respondents also indicated that, depending upon the specific type of loan applied, the borrower should also address certain issues connected to that loan type. For instance, if money is requested for working capital, then the business owner must provide some documents to justify the request as respondents by Ms. Salome Msuya a lady in a cosmetics business at Kariakoo market:

It took me a number of days to access a loan from a commercial bank as I was required to submit a number of documents which I didn't have so I had to ask someone to prepare for me.

4.6 Loan Utilisation Level of MSEs from Commercial Banks

This was the fourth objective of the study, where the researcher sought to identify whether the MSEs had been utilising the entire requested loan into business activities or there are some diversions. Table 4.7 show the summary of the response on how the requested loan was used.

Table 4. 7: Loan Utilisation Level of MSEs

Response	Frequency	Percent
100% utilised in the intended business	30	35.29%
Partly used in the indented business	18	21.18%
100% diverted	0	0.00%
Not accessed loan from bank	37	43.53%
Total	85	100.00%

Source: Research Findings, 2019

The research findings on Table 4.7 show that 37 respondents equal to 43.53% had not accessed any loan from bank. Those who accessed bank loan and fully utilised it for intended business were 30 equal to 35.29%. The respondents who accessed bank loan and used just part of it to in the intended business were 18 equivalents to 21.18%; while there was none of the respondents who completely diverted the bank loan. This response shows hardships in accessing bank loan by some MSEs, where almost half of the respondents failed to access bank loans.

In response to whether business owners stick to their original plans after accessing loans, Ms. Naomi Manda who is a supplier of soaps and detergents indicated that it is very difficult to stick to the original plan since they get less than the requested amount. She was quoted as follows;

Most of business owners deviate from their original plans after getting loans from banks due to the fact that, we normally receive less than the expected amount. Taking an example of myself, I requested TZS 10 million so that I could buy a modern machine for making detergents, but I ended up receiving TZS 2 million only. On this scenario, how could I stick to the original plan?

She asked and continued to narrate on how she manages to service her loans provided that she deviated from her original plans:

In order for me to stay in the market and be able to service the loan I keep on with my retail business by buying from other producers until when I get enough capital, then I will be able to start making my own soaps and detergents, but for now I am just a retailer.

4.6.1 The Effects of Bank Loan on Business

Respondents who had accessed loans from banks were required to indicate whether there have been any improvements in their businesses in terms of growth by utilising the bank loans. The response are summarised in Table 4.8

Table 4. 8: The Effect of Bank Loan on Business

Response	Frequency	Percent
The loan helped to improve performance of the business	15	17.65%
The status of the business remained the same	20	23.53%
Business declined after accessing bank loan	13	15.29%
Not accessed loan from bank	37	43.53%
Total	85	100.00%

Source: Research Findings, 2019

The response on Table 4.8 show that, for those who had accessed bank loans, majority who were 20 equivalents to 23.53% indicated that their businesses remained the same despite that they had used bank loans to finance some of their operations. The respondents who had the view that their businesses have been improved due to bank loan were 15 equal to 17.65%. Those who indicated that their businesses declined despite having bank loans were 13 which is equal to 15.29%. This response shows that, majority of MSEs who can access bank loans still face challenges to improve the status of their businesses.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS

5.1 Introduction

This chapter discusses the main findings of the study as presented and analysed in the previous chapters. This part also compares the findings of the current study to the previous ones in order to find any conformity that validates the results obtained. The discussion is led by the study objectives which are: To assess the availability of loan facilities to MSEs; to assess security requirements in order for MSEs to access loans from banks; to examine main procedures applied by MSEs in accessing loans from commercial banks; and to determine the loan utilisation level of MSEs from commercial banks.

5.2 Availability of loan facilities to MSEs

The study looked at sources that businesses use as start-up capital; whether they accessed any loan from the bank; and factors that influenced them to have access to bank loan or challenges they faced on accessing loans from banks. The study also wanted to know whether respondents had adequate information on availability of loan facilities from banks and how to access them.

Sources of Start-Up Capital for MSEs

The findings reveal that, majority of the respondents obtained their start-up capital from their own personal savings. Some of them obtained their start-up capital through borrowings from MFIs that are non banks; others obtained from family members and other relatives. There are also those who obtained their start-up capital through borrowings from friends. Very few obtained their startup capital from banks loans. This response indicates that, majority of businesses at Kariakoo market fail to utilize bank loans as sources of their start-up capital. The findings reveal that, most contacted MSEs at Kariakoo market obtained their start-up capital from personal savings, family members and relatives. They indicated that it was easy for them to

access capital from the sources without strict requirements especially collateral requirements and higher repayment costs. These results suggests that the country has not done enough efforts to ensure that business operators are not affected by problems especially those which are associated with access to finance.

The findings in this study conform to that of Olomiet. al., (2008) who found out that, SMEs traditionally was facing difficulties in obtaining formal credit or equity in Africa. In addition (Beck & Demirguc-Kunt, 2006; Mori et al., 2009 added that, most of MSEs use their own financing which is limited and hence fail to fully utilize their potentials. They further argued that, using own funds, loans from friends and family, money lenders, relatives, rotating savings and credit groups may not be sufficient to raise the required capital amount (Beck & Demirguc-Kunt, 2006; Mori et. al., 2009).

Access to Bank Loan

The findings reveal that, majority of respondents (55.29%) had accessed loans from the banks for their business expansion plans; while 44.71% did not apply for the loan from banks. The researcher wanted to know the factors that influenced those who had access to the loan from the banks and challenges faced by those who could not access loans from banks. There could be various reasons behind this limitation, but from the study findings when they were requested to indicate the reasons for not accessing the bank loans, the following factors were shown to be the factors that influenced some of them to access loans, at the same time other factors hindered some MSEs to success bank loans. This response shows that, although majority was able to access loans, yet a great number are left out from the sphere of bank loans. These limitations have always resulted in negative consequences as MSEs cannot utilize their rising opportunities that require immediate and huge sums of funds. In this regards, easy access to loans from banks and other financial institution with favourable terms could a major push towards success of these enterprises.

Inadequate information on where and how to access credit: Majority of the respondents (54.12%) indicated that there were inadequate information that will help them to know where to get the credit and how to go about it except only a few of those who had access to bank loans. Those who said there was enough information were 32.94%; while those who are neutral were 12.94%. The response from those who were neutral may signify that they have not tried to look for alternative financing through a bank loan, in this case they fail to understand whether information are readily available or not. The findings further revealed that, information availability on finance had influence on how these firms accessed credit.

The findings conform to the study by Kinyanjui (2006) who carried out a survey in Kenya on access to finance by micro and small enterprises. He noted that, majority of small enterprises failed to access the loans from banks, the main problem being difficulties to indicate their reliability by showing a proof that they are trustworthy by showing their credit history. However, this requirement was not well communicated to them before. Since information is lifeblood of an organization, the banks should ensure that they provide their information in a way that majority of beneficiaries can be able to access it and make use of it.

Cost of credit is too high: The findings reveal that, majority of respondents that is 85.88% admitted that the cost for credit is too high. They argued that the interest rate was too high for them to bear, where for some banks interest ranges between 25-30% per annum which was considered to be very high for them. Although there were some who denied that the cost were too high (8.24%) and other remaining neutral (5.88%), but the response from majority indicates that the costs of credit were not satisfactory to majority of MSEs. These response shows that the cost of credit is considered to be high by majority of business operators making them fail to apply for bank credit services. The study revealed that out of the main challenges that affect the access of credit by MSEs, high cost of repayment was among the top factors, followed by high cost of processing loan and very short repayment period. The cost of credit has always been high in most parts of Africa, and Tanzania in particular.

This tendency has been shutting a door to most MSEs to look for loans from banks as they are afraid of their assets being taken upon failure to repay the required amounts.

These findings are in line with that of Mwangi and Bwitha (2013) in their study to assess the challenges facing small entrepreneurs in accessing finance from banks in Makuyu Kenya. Their findings revealed that, most of the small entrepreneurs especially the youth entrepreneurs had serious challenges on accessing finances from banks and other financial institutions. The main reason were due to high cost of the credit through processing fees, high legal fees , insurance and high interest rates as well as he cost incurred during the process of making a follow-up for the credit. Making affordable interest rates could attract a lot of borrowers at the same time make them be able to repay their dues upon maturity.

Collateral requirements are too difficult to meet: The findings reveal that, majority of respondents that is 80% had the view that collateral requirements were a hindrance to them to access credits from banks. There were also some respondents (16.47%) who denied that collateral requirements were not a problem and those who were neutral (3.53%), but the response of majority and researcher observation indicated to be a problem in collateral requirements. These response shows that the conditions set for collateral is too difficult to be met by most businesses at kariakoo market. This could be the case in other areas with similar nature of business operations. The major challenges on collateral were cited to be due to strict collateral requirements, getting less than the requested amount due to collateral valuation procedures, some people not willing to become their guarantors; lack of adequate collateral.

Skills to prepare financial records: The findings reveal that, majority of respondents that is 52.94% indicated to lack the appropriate skills on preparation of financial records. However, there were also some respondents who had the relevant skills in preparation who amounted to 43%. Those who were neutral were 6 equal to 7.06%. The results indicate that most business operators lack the skills to prepare business plan no wonder that is why they fail to access credits from banks.

Skills to prepare a business plan: The findings reveal that, majority of respondents that is 50.59% indicated to lack the appropriate skills on preparation of financial records. However, there were also some respondents who had the relevant skills in preparation who amounted to 42.35%. Those who were neutral were 7.06%. The results indicate that most business operators lack the skills to prepare business plans that are why they fail to access bank loans.

In order to improve availability of loan facilities, several measures were suggested such as lowering the interest rates, review of the collateral requirements and increase awareness level among the community on the availability of banks loans and trainings to enhance the skills of MSEs on how to keep records and make simple financial projections. These recommendations supports the findings from Barry (2000) who suggested measures to improve access to credit through lowering interest rates, increase the length of time of repayment, review of the collateral policies and expand on customer outreach.

5.3 Security Requirements in Order for MSEs to Access Loans from Banks

The respondents were requested to indicate whether the conditions set by bank as collateral requirements were a limiting factor for them to access credit from banks. They were required to indicate the level of satisfaction to the statements that sought to seek information on the collateral requirements. The findings reveal that, majority of the respondents are not satisfied on the collateral requirements as indicated through the following results:

Requirements to have a guarantor before a loan is issued: Majority of respondents were not satisfied with this requirement of having a guarantor before a loan is issued. The response shows that 63.53% of the respondents were dissatisfied with the statement; the respondents who were satisfied were 30.59%; where 5.88% were neutral to the statement. The study revealed that the requirements to have a guarantor were a major problem to MSEs who could not access bank loans since some of the guarantors could agree on the fear that they might be required to repay back the loan in case the borrower defaults.

Requirements to have fixed assets as collateral: The response on this statement shows that majority who were 52.94% were dissatisfied with this statement. Those who were satisfied were 38.83%. The respondents who indicated to be neutral to the statement were 7 equivalents to 8.24%. This problem seem to have affected majority of MSEs as most of them indicated to lack the required fixed assets that could be used as collateral. Most of the businesses at Kariakoo are operated in rented premises which they cannot use as collateral for the loans from banks.

The report by Small Business Administration (SBA) (2016), suggests that, property that can be used for collateral includes buildings, equipment, fixtures, inventory, homes, and vehicles. These are all tangible hard assets already owned by the business or the business owner. Hard assets require more work to liquidate, and their value is less certain. Because of these additional risks, your lender will discount the value of this collateral to a greater degree than paper assets. In some cases, the hard asset will need to be appraised and its value certified by the lender or a third party. In this regards, assets that be easily liquidated are more preferable such as deposit accounts, followed by negotiable securities-paper assets, like Treasury debt, certificates of deposit (CDs), stocks, and corporate bonds.

The basis used to assess the value of collateral being pledged: The study findings revealed that majority of respondents were not satisfied on how the banks have been assessing and making valuation of the pledged assets. The results shows that a total of 64.71% of respondents were not satisfied; 29.41% indicated to be satisfied on the basis of assets valuation methods applied by bank; 5.88% were neutral to the statement. These responses signify that, the bases which are used by banks to assess and evaluate the assets being pledged as collateral are not mutually agreed upon between the bank and their customers. It was revealed that, most of the time the banks have been coming up with a value that is below market value of the assets, as a result the requested amount is reduced to meet the face value of the collateral.

Requirements that each type of loan be backed up by collateral: The study findings revealed that, the banks required that each type of loan to be backed up by collateral. This sounds very prohibitive to small businesses, as some of them required just a small amount of financing but the collateral conditions puts them out of the bank sphere. The response shows that, majority who totalled to 56.47% were dissatisfied with this statement; the respondents who were satisfied with the statement were 37.65%. While those who indicated to be neutral to the statement were 5.88%. This response show that the banks have set a condition that each type of loan is backed up by collateral the requirement that is not satisfactory to most of the respondents.

These findings conform to that of Matavireet. al., (2013) whose study focused on SMEs challenges in Bulawayo Zimbabwe. The main problem however, was cited to be non access to finance as these SMEs failed to fulfill loan requirements set by banks in Zimbabwe, the major obstacle being collateral requirements.

From the analysis above, it is clear that the problems of access to fianance are persisting among MSEs in Tanzania. Given that small businesses account for the majority of establishments in the country, it is unavoidable to take appropriate steps to address the challenge of limited access to finance as echoed in the SME development policy (2003). As for lenders, they should view micro and small businesses as potential for their profitability if they effectively incorporate them into their strategies. Issues like collateral requirements and loan guarantee should be reviewed to ensure that majority of MSEs access their services. For MSEs, in order to gain an understanding of the decision criteria used by financial institutions, they need to carefully study and understand the requirements set by banks when borrowing to increase the likelihood of having their loan applications approved by adequately fulfilling the necessary criteria.

5.4 Main Procedures Applied by MSEs in Accessing Loans from Commercial Banks

The findings show that, majority of respondents indicated that they must prepare documents required to access bank loans. This view was supported by 79 respondents equal to 92.94%. The respondents who said No were 6 respondents equal to 7.06% of the total respondents. Those who agree indicated that the banks needed important documents to be prepared and submitted at the bank before a loan is issued. They indicated that, banks typically request the following documentation for small businesses: Personal financial statement and personal federal income tax returns from at least one to three years; projected start-up cost estimates; Projected balance sheet and income statement for at least a year; Projected cash flow statements for at least one year; evidence indicating ownerships in assets including leases, contracts and collateral; A business plan explaining the planned activities and specific use of the requested fund and how it shall be repaid; and any assumptions used to develop financial statements; A personal résumé or a written explanation of relevant past business experience; Letters of reference that recommend a borrower to be reputable and trustworthy for loan considerations.

The findings further revealed that, if the amount required was for working capital; the following documents must be prepared: The amount that will be used for accounts payable, along with an accounts receivable aging report to disclose the current amounts overdue 30 to 60 days or older; the amounts that will be used for inventory and any increase in the number of days that inventory on hand will be held; the statement of cash flow indicating how your cash balances will be increased; and a contingency amount that is equal to at least 10 percent but preferably 25 percent.

From these findings it was revealed that, MSEs spend a lot of time to complete these documents. The study revealed that, in case the loan application is rejected, it is a huge blow to the MSEs as they spend a lot of time to organise and prepare these paper works. The findings are supported by Infosys (2018) who had the view that, SMEs spend over 25 hours simply on their loan request paperwork, and have to approach

numerous banks with their applications. In order to avoid wastage of time, MSEs must conduct safe assessment as to how these procedures could not be in vain by making sure that they prepare all the important documents needed.

McCarthy (2019) supports these views where he argues that, on average small business owner has to approach multiple banks and spend about three to four full days of man hours filling out applications before they can find a bank willing to lend to them.

The Forbes Magazine (2012) also insists on the importance of conducting a self assessment for small businesses before applying for a loan. The report highlights three important steps that small businesses need to take before going to the bank for loan application. They highlighted these procedures in steps as follows:

Step 1: Start before the loan is needed. It is critical to build a relationship with the people at the lender before the business actually needs the loan. Let the key contacts get to know the company before asking for anything. Remember, people do business with who they know, like, and trust. Lenders work the same way.

Step 2: Decide what the money is needed for. There are good and bad reasons for business loans. Good reasons include financing a piece of equipment, real estate, long term software development or large seasonal sales variances. Bad reasons include financing ongoing losses, office build outs, or acquiring non-essential business assets.

Step 3: Decide how much money the company needs. Most small businesses don't ask for a large enough loans. Underestimating the amount of money can lead to problems with a lack of working capital sooner than planned. Overestimating can make lenders question the business owner's assumptions and credibility. Have a well thought out budget that is supported by financial projections (profit & loss statement and a cash flow statement) that is reasonable and shows that the research was done.

The above analysis shows that the processes used by banks and other financial institutions are time-consuming and refuse access to financing to much micro-enterprises most of the time. The findings of this study show that, considering its importance to the country's economy, banks pay little attention to the MSE sector in the provision of credit facilities. A World Bank study (2015) found that, relative to other sectors, most financial institutions perceive MSEs to be a more volatile market. This has forced most commercial banks to provide the MSE sector with very little financing, which is a burden rather than a supporting tool for them. Nevertheless, if serious steps were taken to uplift the sector, banks and other financial institutions could run after the MSEs to capture many opportunities in the sector.

5.5 Loan Utilisation Level of MSEs from Commercial Banks

The study sought to identify whether MSEs had ever accessed the loan from banks and whether they have been utilising the entire requested loan into business activities or there are some diversions. This helps to know whether the requested loan had been effective in business operations or not.

The response on whether MSEs had accessed loan from banks indicated that, (37) 43.53% of respondents had not accessed any loan from bank. Those who accessed bank loan and fully utilised it for intended business were 30 equal to 35.29%. The respondents who accessed bank loan and used just part of it to in the intended business were 18 equivalents to 21.18%; while there was none of the respondents who completely diverted the bank loan. This response shows hardships in accessing bank loan by some MSEs, where almost half of the respondents failed to access bank loans. From these findings it is clear that majority of MSEs fail to access loans from banks. This shows that there are still impediments for MSEs to access loans from banks.

The findings in this study conform to those of Holes (2006) who found out that, access to formal sector credit is one of the identified key constraints being faced by the poor, especially in rural areas. Most people in the developing world -do not have any access to formal financial services. He argued that, collateral, credit rationing,

preference for high-income clients and large loans, bureaucratic, lengthy procedures of providing loans in the formal sector keep most of the rural people outside the boundary of the formal sector financial institutions in developing countries.

The response on the effects of the bank loan indicates that, for those who had accessed bank loans, majority who were 20 equivalents to 23.53% indicated that their businesses remained the same despite having used bank loans to finance some of their operations. The respondents who had the view that their businesses have been improved due to bank loan were 15 equal to 17.65%. Those who indicated that their businesses declined despite having bank loans were 13 which is equal to 15.29%. This response shows that, majority of MSEs who can access bank loans still face challenges to improve the status of their businesses. The study findings show that majority of respondents indicated the importance of training and education MSEs to enhance their entrepreneurial skills so that they should understand how to run their business professionally and benefits from loan when they get.

The above study indicates that only a handful of MSEs have been able to receive funding from banks and other financial institutions. Non-access to finance has been a roadblock for both start-ups and grown-ups. They both need funding to finance their activities and to start a new company. Due to high interest rates or very complex criteria that only a handful of MSEs can fulfil, the majority of MSEs can hardly reach the sources of those finances. Even the MSEs that can access these funds face many obstacles, including complex application processes and collateral criteria, as demonstrated from the results of this report. As access to finance is at the heart of every business, it is vital that this issue is correctly addressed.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter provides a summary of the findings, conclusions and policy implications drawn from the study; and a direction for future research works.

6.2 Summary

The main objective of the study was to assess the challenges facing MSEs in accessing finance from commercial banks in Dar es Salaam region in Tanzania. The study used Karikaoo market as a case study. The study specifically sought to examine the following: Specifically the study looks into the following; To assess the availability of loan facilities to MSEs in Dar es salaam; to assess security requirements in order for MSEs to access loans from banks; to examine main procedures applied by MSEs in accessing loans from commercial banks; to determine the loan utilisation level of MSEs from commercial banks.

6.2.1 Availability of Loan facilities to MSEs

The findings both from the reviewed literatures and the field findings indicate that, MSEs at karikaoo market have been facing difficulties in accessing loans from banks. Majority of MSEs fail to get loan from banks to facilitate their start-up businesses. Te study revealed that, majority of the respondents obtained their start-up capital from their own personal savings. Some of them obtained their start-up capital through borrowings from MFIs that are non banks; others obtained from family members and other relatives. There are also those who obtained their start-up capital through borrowings from friends. Very few obtained their startup capital from banks loans. The findings revealed that, it was easy for them to access capital from the sources without strict requirements especially collateral requirements and higher repayment costs. Getting a loan or assistance from the brother or a friendly might be cheaper with less strict conditions, however this might be costful as well as it

depends to conditions attached to the kind of assistance or loan. Since the conditions for the financing are not regulated in this scenario, the most convenient place to access financing could be at the bank or any financial institutions where all the conditions are well structured and clearly defined according to financial regulations and laws of the country.

Given their potentials in the economy, SMEs have a greater capacity to contribute significantly to country's economy through creation of employment opportunities, provisions of goods and services, providing a linkage with larger firm in order to improve the value chain in the country in various sectors. With access to credit made readily available, the MSEs have shown the potential to improve their productivity as findings in this study have indicated.

The findings were in line with that of Olomi et. al.,(2008) who found out that, SMEs traditionally faced difficulties in obtaining formal credit or equity in Africa. The findings of Beck & Demirguc-Kunt, (2006) and that of Mori et al., (2009) also indicated that, most of MSEs finance their activities using own funds, loans from friends and family, money lenders, relatives, rotating savings and credit groups.

6.2.2 Access to Bank Loan

Despite the fact that a majority number of respondents (55.29%) had at one time accessed bank loan to expand their businesses; The MSEs were said to have not benefited much from the loan as it was costly due to high processing fees and interest rates; getting less than the requested amount due to collateral valuation procedures which led to some businesses to divert from their original plans as the fund was not enough to finance their original plans.

The study revealed that, for those who failed to access any of the bank loan indicated that they faced a challenge due to the following factors: Inadequate information on where and how to access credit, where majority of the respondents (54.12%) indicated that there were inadequate information that could help them to know where to get the credit and how to go about it except only a few of those who had access to

bank loans. The findings further revealed that, availability of information on finance influenced access to credit facilities only to a small extent. These results support the findings of the study conducted by Kinyanjui, (2006) who attested that some entrepreneurs had a feeling that it was so difficult for them to access credit from banks due to lack of information.

Another challenge was reported to be collateral requirements which too difficult to meet. The findings reveal that, majority of respondents that is 80% had the view that collateral requirements were a hindrance to them to access credits from banks. The major challenges on collateral were cited to be due to strict collateral requirements, getting less than the requested amount due to collateral valuation procedures, some people not willing to become their guarantors; and lack of adequate collateral.

Other challenges were reported to be lack of skills to prepare financial records and business plans. The findings revealed that, most business operators lack the skills to prepare business plan no wonder that is why they fail to access credits from banks. In order to improve availability of loan facilities, several measures were suggested such as lowering the interest rates, review of the collateral requirements and increase awareness level among the community on the availability of banks loans and trainings to enhance the skills of MSEs on how to keep records and make simple financial projections. These recommendations support the findings from Barry (2000) who suggested measures that could be adopted by banks to increase access for finance from small enterprises. These measures include; review of the collateral policies, lengthening of the repayment period, lower interest rates and expansion of product portfolio.

6.2.3 Security Requirements in Order for MSEs to Access Loans from Banks

The findings revealed that, majority of the respondents are not satisfied on the collateral requirements. Majority of respondents were not satisfied with this requirement of having a guarantor before a loan is issued. The study revealed that the requirements to have a guarantor were a major problem to MSEs who could not

access bank loans since some of the guarantors could agree on the fear that they might be required to repay back the loan in case the borrower defaults.

Also the findings revealed that, the requirements to have fixed assets as collateral has affected majority of MSEs at Kariakoo market. Most of them indicated to lack the required fixed assets that could be used as collateral. It was also revealed that the basis used to assess the value of collateral being pledged was not friendly to most MSEs. These responses signify that, the bases which are used by banks to assess and evaluate the assets being pledged as collateral are not mutually agreed upon between the bank and their customers. It was revealed that, most of the time the banks have been coming up with a value that is below market value of the assets, as a result the requested amount is reduced to meet the face value of the collateral. The study findings also revealed that, the banks required that each type of loan to be backed up by collateral. This sounds very prohibitive to small businesses, as some of them required just a small amount of financing but the collateral conditions puts them out of the bank sphere.

The findings were in line with those of Matavire et. al., (2013) who studied on challenges facing SMEs in accessing finance from financial institutions in Bulawayo, Zimbabwe, where they found out that SMEs fail to secure loans because of restrictive requirements, top among them being collateral security.

6.2.4 Main Procedures Applied by MSEs in Accessing Loans from Commercial Banks

The findings show that, majority of respondents indicated that they must prepare documents required to access bank loans. They indicated that, a bank will typically request some important documentation for small businesses. The main documents include; Personal financial statement and personal federal income tax returns from at least one to three years; projected start-up cost estimates; Projected balance sheet and income statement for at least a year; Projected cash flow statements for at least one year; evidence indicating ownerships in assets including leases, contracts and collateral; A business plan explaining the planned activities and specific use of the

requested fund and how it shall be repaid; and any assumptions used to develop financial statements; A personal résumé or a written explanation of relevant past business experience; Letters of reference that recommend a borrower to be reputable and trustworthy for loan considerations.

From these findings it was revealed that, MSEs spend a lot of time to complete these documents. The study revealed that, in case the loan application is rejected, it is a huge blow to the MSEs as they spend a lot of time to organise and prepare these paper works. The findings are supported by Infosys (2018) who had the view that, SMEs spend over 25 hours simply on their loan request paperwork, and have to approach numerous banks with their applications. In order to avoid wastage of time, MSEs must conduct a safe assessment as to how these procedures could not be in vain by making sure that they prepare all the important documents needed.

McCarthy (2019) supports these views where he argues that, on average small business owner has to approach multiple banks and spend about three to four full days of man hours filling out applications before they can find a bank willing to lend to them.

6.2.5 Loan Utilisation Level of MSEs from Commercial Banks

The study revealed that 43.53% of respondents had not accessed any loan from bank, where 56.07% had accessed it. Those who accessed bank loan and fully utilised it for intended business were 35.29%. The respondents who accessed bank loan and used just part of it to in the intended business were 21.18%; while there was none of the respondents who completely diverted the bank loan. This response shows hardships in accessing bank loan by some MSEs, where almost half of the respondents failed to access bank loans.

The findings in this study conform to those of Holes (2006) who found out that, access to formal sector credit is one of the identified key constraints being faced by the poor, especially in rural areas. Most people in the developing world- do not have any access to formal financial services.

6.3 Conclusion

Access to finance to MSEs was an important aspect looked at in this study. The study concentrated on the micro enterprises by taking a case of Kariakoo market in Dar es Salaam. The market is highly congested and various traders are found in the market due to presence of many customers both across the country and nearby countries of Zambia, Malawi, Congo, Rwanda, and Burundi. With the presence of the huge market, MSEs in this area have the opportunity to tap the growing market by making sure that products of different types are made available. Several studies have noted the importance of this sector to ensure availability of goods and services to the society, employment creation and facilitating linkages with larger enterprises.

Despite these potentials, MSEs are yet to be fully developed as they face a number of challenges where access to finance becomes a great challenge to them. They obtain huge amount of orders from different customers but they cannot utilise these opportunities due to limitations in the financing. Given its potentials, MSEs need to be equipped with necessary tools that will help them grow and utilise their full potentials. Majority of the consulted MSEs fail to access loans from banks due to a number of reasons including high cost of credit, lack of adequate information on where to go and how to apply for loans, lack of skills on keeping financial record and business planning. The study findings show that majority of respondents indicated the importance of training and education for MSEs to enhance their entrepreneurial skills so that they should understand how to run their business professionally and benefit from loan ones they get.

6.4 Recommendations

Based on the study findings, the respondents had suggested a number of interventions from various stakeholders in order to improve the status of small business and improve access to finance in the sector. The following recommendations are suggested:

- Improve training and education to MSEs by ensuring that they obtain relevant knowledge and skills that will enable them to effectively manage their businesses and be able to make financial projections.
- Review of collateral requirements by banks. It was suggested that collateral issue is the main hindrance for MSEs to access bank loans. If banks desire to transact with a number of MSEs they need to review the requirements they have set on collateral to ensure that different forms of collateral may be accepted such as stocks or invoices and other forms.
- There is a need for the government to increase budget allocation specifically for the MSEs group by increasing interventions measures including market facilitation, linkages and facilitating learning.
- A multiple stakeholder forum is needed to come together and discuss the issues then come up with joint solutions that will help to improve the status of small business in the country.
- There is a need to streamline the curricular into academic institutions that will ensure that the entrepreneurship culture is built among majority of Tanzanians.
- The MSEs sector is still infant and a lot of challenges are rising from time to time. There is a high need that, research institutions and academia to conduct more research on these areas and find possible solutions to the rising problems. Research and Development is one of the core areas that will enable the country solve a lot of financial problems that are faced by MSEs.

6.5 Suggestions for Future Research Works

Due to time limitations and resources, the researcher focused only at Kariakoo market. Similar studies could be carried out to different areas of the country and different sectors in order to come up with more studies and hence more solutions to the problems. Future researcher's also needed to consider coming up with studies that will assess the impact of credit to the small businesses. These studies will help to see, what the society could expect from the proposed interventions.

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APPENDIXES

Appendix 1: Questionnaire

QUESTIONNAIRE

This questionnaire intends to collect information for the study titled; **Analysis of Challenges Facing Micro and Small Enterprises in Accessing Finance from Commercial Banks: The Case of Kariakoo Market**, by **Jackline Charles** of Mzumbe University, Dar es Salaam Campus who is pursuing Master of Business Administration. The information that has been provided shall be strictly treated as confidential and used only for the purpose of this study.

Part A: Demographic Profile

Please fill in the space provided by filling with a correct answer or tick the most appropriate answer

- 1) Age.....
- 2) Sex.....
- 3) Education Level.....
- 4) Name of the Company.....
- 5) What type of business are you in?
.....
- 6) How long have you been working in this company?
.....
- 7) What is a size of your business?
 - a. 1-5 employees
 - b. 6-10 employees
 - c. 11-15 employees []
 - d. 16-20 employees
 - e. Above 20 employees

Part B: Availability of loan facilities to MSEs in Dar es Salaam

1. What is the source of your start-up capital?

.....

.....

.....

.....

2. Have you ever applied for a bank loan?

a. Yes [] b. No []

Part C: Factors that Influence/Limit Access to Credit from Banks

Please indicate your level of agreement with the following statements by ticking one of the responses.

Factors	Responses					Comments
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
There is adequate information on where and how to access credit						
Cost of credit is too high						
Collateral requirements are too difficult to meet						
I don't have the skills to prepare financial records						
I don't have the skills to prepare a business plan						

Part D: Level of satisfaction on Collateral Requirements

Please indicate your level of agreement with the following statements by ticking one of the responses.

Factors	Responses					Comments
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
Requirements to have a guarantor before a loan are issued.						
Requirements to have fixed assets as a collateral						
The basis used to assess the value of collateral being pledged						
Requirements that each type of loan be backed up by a collateral						

Part E: Procedures Applied by MSEs in Accessing Loans from Commercial Banks

1. Are you required to prepare any document before accessing a loan?

a. Yes [] b. No []

2. If Yes, what type of documents do you prepare?

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

Part G: Loan Utilisation Level of MSEs from Commercial Banks

1. What was your loan utilisation level based on the following statements?
 - a. 100% utilised in the intended business
 - b. Partly used in the indented business []
 - c. 100% diverted
 - d. Not accessed loan from bank

Part H: The Effects of Bank Loan on Business

1. What was the effect of the loan you accessed from bank?
 - a. The loan helped to improve performance of the business
 - b. The status of the business remained the same []
 - c. Business declined after accessing bank loan
 - d. Not accessed loan from bank