

**ROLE OF CREDIT GUARANTEE IN PROMOTING SMEs
DEVELOPMENT IN MOROGORO MUNICIPALITY: A CASE OF
CRDB BANK PLC IN COLLABORATION WITH PASS**

**ROLE OF CREDIT GUARANTEE IN PROMOTING SMEs DEVELOPMENT IN
MOROGORO MUNICIPALITY:**

A CASE OF CRDB BANK PLC IN COLLABORATION WITH PASS

By

Mary Assey

**A Dissertation submitted in Partial fulfilment of the Requirement for the Award of
the Degree of Master of Business Administration (MBA-Corporate Management)
of Mzumbe University**

2015

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **Role of credit guarantee in promoting SMEs development in Morogoro municipality: A case of CRDB Bank Plc in collaboration with PASS**, in partial/fulfilment of the requirements for award of the degree of Masters of Business Administration (MBA-CM) of Mzumbe University.

Major Supervisor

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Accepted for the Board of School of Business

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AND

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

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DEDICATION

This work is dedicated to my lovely mom Mrs. Bibiana Assey for her mentorship, encouragement and support.

LIST OF ABBREVIATIONS AND ACRONYMS

APT	Arbitrage Pricing Theory
BOA	Bank of Africa
CAPM	Capital Asset Pricing Model
CG	Credit Guarantee
CGS	Credit Guarantee Scheme
EMH	Efficient Market Hypothesis
FAST	Canada's Finance Alliance for Sustainable Trade
FIs	Financial Institutions
GDP	Gross Domestic Product
ILO	International Labour Organisation
MFIs	Microfinance Institutions
MIGA	Multilateral Investment Guarantee Agency
MPT	Modern Portfolio Theory
MSMEs	Micro, Small and Medium Enterprises
NMB	National Microfinance Bank
OECD	Organization of Economic Cooperation and Development
SME's	Small and Medium Enterprises
TIB	Tanzania Investment Bank
TSH	Tanzanian Shillings
UNDP	United Nations Development Programme
URT	United Republic of Tanzania

ABSTRACT

SMEs contribute to employment, Gross Domestic Product (GDP) enhancement, innovations, human resource development and poverty alleviation. It has been found that it is not only the big businesses that provide the foundations of the nations economies, but small enterprises also play significant role in developing the economies of nations. However, the pace shown among SMEs that accessed credit guarantee is not promising. The general objective of the study was to examine the role of credit guarantee in promoting SMEs development through CRDB Bank in collaboration with PASS in Morogoro municipality.

Case study research design was utilized in the methodology. A sample size of 50 respondents including SMEs owners and manager were used in the study. Data collected were analysed using excel software to obtain frequency and percentage distribution as major variables.

The findings indicated that 80% of respondents argued that they have knowledge on how to access credit guarantee from financial or private sector trusts as assisted by PASS after collaborating banks accept the client with the PASS business plan and the way partial credit guarantee from PASS enable SMEs to top up in case of inadequate collateral. Likewise, 87% of respondents stated that loan conditions direct the management of the SMEs to influence the credit guarantors or lenders to either give or deny the applications from the SMEs. This has be so from the fact that, without showing the ability to access and utilize the loan well the credit guarantee would be deemed to nothing while channelling funds to the wrong client. Furthermore, 80% of respondents reported that regulatory framework on accessing guarantee seemed to hinder SMEs to access credit easily. With these conditionalities some SMEs unable to access the credit guarantee.

It is concluded that SMEs' needs framework that has profound effect on their performance as the situation and conditions of the borrowing SMEs and loan characteristics impinge SMEs to access loans and ultimately non-repayments.

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CHAPTER ONE

BACKGROUND INFORMATION

1.0 Introduction

This chapter states and explains how this study was carried out while examining the role of credit guarantee in promoting SMEs development with the facilitation of CRDB Bank PLC in collaboration with PASS in Morogoro municipality. It further describes the background of the problem; statement of the problem, research objectives and questions, significance and organisation of the study.

1.1 Background of the problem

The role of SMEs in the economic development of a country cannot be over-emphasized. SMEs contribute to employment, Gross Domestic Product (GDP) enhancement, innovations, human resource development and poverty alleviation (Bani, 2003). It has been found that it is not only the big businesses that provide the foundations of the nations economies, but small enterprises also play significant role in developing the economies of nations (Bateman and Chang, 2009). Cook and Nixon (2000) outlined numerous merits of SMEs including the basis for entrepreneurship; utilising labour intensive technologies and thus having impact on employment generation; encouraging the process of both inter- and intra-regional decentralisation. In addition, they put forth that SMEs have become a countervailing force against the economic power of larger enterprises; and finally the development of SMEs is seen as accelerating the attainment of social and economic objectives, including female unemployment, poverty alleviation especially in rural Africa (Keith, 2006). However, they are constrained by access to credit (Akorsu and Agyapong, 2010). SMEs are assumed to be a special risk group with vulnerability, insufficient funds of their own, dependence on a few clients, lack of collateral or credit history. In lieu of this bankers offer higher interest rates reflecting the cost of risk and management. Yet, in view of

their crucial role, some developed and developing countries have initiated strategic, financial and counselling programmes to support them (Edmiston, 2007).

SME and micro borrowers together with other credit rationed groups such as farmers, rural industries, and women have particular difficulty in developing countries around the world in obtaining formal sector credit (Keith, 2006). When they do obtain such credit, it is often on comparatively disadvantageous terms. The collateral requirements of banks can pose a serious challenge for farmers or rural micro- and small entrepreneurs trying to source funding for business or farming (Bani, 2003). Credit guarantees supported by donor and/or government subsidies have been recommended as a means of addressing these difficulties (Baldock and Whittam, 2008). Aryeetey and Quartey (2005) state that, given the difficulties experienced in arranging traditional forms of loan security, such as land or chattel mortgages, various collateral substitutes have been proposed. Among the substitutes for traditional collateral is the loan/credit guarantee. Guarantee systems for loans have been proposed, planned and implemented in various countries (Mensah, 2004). The assumption made by proponents of such a service is that the guarantee organization is either better informed about the risk of the loan than the lender or it is better structured financially to be able to manage the risk (Gudger, 1998).

In many countries around the world, credit guarantees are implemented as a partial substitute to conventional collateral. The design of guarantee systems has evolved to address the new and changing needs of intermediary financial service providers in areas such as portfolio concentration risks and the capital requirements for cushioning against lending risks (Dalberg Global Development Advisors, 2011). At the public policy level, guarantee systems are an instrument for facilitating lending to specific sectors considered to be policy priorities. Taken together, credit guarantee systems hold promise and provide attractive features for borrowers, financial institutions and policy-makers alike (Kang and Heshmati, 2008). Moreover, banks require collateral to manage this risk (Tagoe *et al.*, 2005). Such collaterals are used by financial institutions to assess the likelihood of business failure and payment default. That is a way to avoid adverse selection by the financial institutions (FIs) as well as to prevent moral hazard. Due to

their high risk consciousness, FIs at any point in time find ways to protect themselves from future negative outcomes (Gudger, 1998). Notwithstanding these, SMEs look at financial soundness being their ability to achieve business targets and success and try to predict and portray future positive outcomes to satisfy repayment times in seeking for such funding. So that in times of seeking debt funding, the risk of failure is the last thing the SME owner would want to consider. In addition, external causes such as high cost of compliance with regulation, fierce competition, and difficulty in obtaining external funding are likely to lead to the failure of the venture (Accounting Web, 2003).

Private Agricultural Sector Support (PASS) is a facility established in Tanzania in the year 2000 and registered in 2007 in order to stimulate investments and growth in commercial agriculture and related sectors (PASS guideline, 2008). It offers business development and financial services on commercial and subsidized services including; business development services which include preparation of feasibility studies and business plans for investment proposals, capacity building organisation of farmers into member-based groups for marketing and contract farming arrangements, as well as marketing and development of market linkages. Financial services which include financial linkages without credit guarantee (CG), financial linkages to financial institutions with CG and through hire purchase and leasing schemes. PASS collaborates with banks such as CRDB, TIB, BOA, NMB etc in risk sharing and issues credit guarantee certificate to the collaborating bank in order to serve SMEs. Up to 2014 PASS had committed the fund to SMEs through CRDB Bank PLC amounting 1.9 billion Tanzania shillings (Tshs) while the overall committed fund through various banks amounted to 4.5 billion (Tshs) (PASS report, 2014). However, an evaluation of developing country schemes conducted by Meyer and Nagarajan (1996) led them to suspect that CGS has a history of collapse. It seems CGS can generate positive short-run outcomes for SMEs, but their long-term developmental outcomes are debatable (Bateman and Chang, 2009). For example, the 1998-2001 Japanese CGS resulted in no overall increase in SMEs loans as banks ‘misused’ it to substitute their non-guaranteed loans for guaranteed loans. Apparently appropriate measures were not in place. CGSs

required monitoring to ensure they are administered for their intended purpose (Uesugi *et al.*, 2010).

Studies done in Tanzania by Ngowi (2010) found that with low level of technological support (i.e. because they are unable to finance technological resources) SMEs cannot get adequate amount of production and subsequently sales and profits. This obviously leaves small business in a vicious cycle of financial constraint. In view of this, it is often imperative that external capital injections in terms of credit guarantee are necessary to help boost small business performance. Besides, several empirical studies have recognised the issue of financial constraint as the main problem thwarting the speedy growth of small businesses in developing economies (Baldock and Whittam, 2008). Other studies have in developing economies found funding as the major problem of SMEs. These studies have made varying recommendations, but SMEs continue to be constrained by funding (Keith, 2006). Whereas some countries have set up small business equity markets to help raise equity capital, others have set up state grants, credit guarantees and develop a list of business angels to assist small businesses. It is from this background that this study examines the role of credit guarantee in promoting SMEs development through CRDB Bank in collaboration with PASS in Morogoro municipality.

1.2 Statement of the Problem

Access to finance has become increasingly difficult, particularly for new SMEs without tangible assets to use as security (Edmiston, 2007). SMEs and most of the poor population in Sub-Saharan Africa have very limited access to deposit and credit facilities and other financial services provided by formal financial institutions. For example, in Ghana and Tanzania, only about 5–6 per cent of the population has access to the banking sector (Basu *et al.*, 2010). According to HFC Bank (2004), SMEs in Ghana tend to be marginalised or have limited access to credit. Coupled with the fact that few informal supports exist by way of business angels and personal savings, this tends to affect their ability to adopt modern technology (UNIDO, 2002). It has been found that only few of

these businesses are financed from commercial bank loans, government assistant programs, credit guarantee from private sector trusts such as PASS or other informal sources. It should be noted that the availability of funds could improve SMEs' access to other resources such as human, information and physical resources (Ngowi, 2008). Yet, SMEs contribute significantly to the economic development of the country in the area of employment, creativity and entrepreneurship (Kang and Heshmati, 2008). In the course of setting up and operating, they face financial and non financial challenges. Although both challenges have the tendency to slow down the growth of these businesses, the one that is often highlighted is that of access to finance (Ngowi, 2008). In order to deal with the problem of funding, institutions and different governments have put up some intervention measures but still the problem persists. SMEs have had to rely on FIs as an alternative source of funding. However, these FIs would not grant credit to SMEs until collateral is provided. Even though society usually discern on FIs for such conduct, FIs are also trying to manage their risk as way to sustain institutional survival.

Advocates (2008) advance six arguments in favour of public sector investment or donor involvement in developing and operating credit guarantees to SMEs (Ngowi, 2008). These are as follows: guarantees can overcome collateral constraints, offset the risks of lending to SMEs and micro borrowers, address information constraints, compensate for low profit margins, modify intrinsic characteristics of small business and induce learning. Historically, perceived risk has been seen as the main deterrent to banks' lending to SMEs (Eyiah, 2001). Reported high failure rates (Kang and Heshmati, 2008) and perceived intrinsic high risks associated with SME lending, further exacerbate financial institutions' reluctance (Eyiah, 2001). Moreover, credit guarantee offered by a third party is both secure and liquid. Should the loan default, the guarantee is easily and quickly called by the lender under the terms of a legal contract that specifies how the lender can recover his money (Gudger, 1998). This is what PASS has been doing in collaboration with CRDB Bank PLC to farmers and other SMEs in Morogoro municipality. However, the pace shown among SMEs that accessed credit guarantee is no promising. This study examines the role of credit guarantee in promoting SMEs

development through CRDB Bank in collaboration with PASS in Morogoro municipality.

1.3 Research Objectives

The research objectives of this study are divided into two main categories, that is; general objective and specific objectives as given hereunder.

1.3.1 General Objective

The general objective of the study is to examine the role of credit guarantee in promoting SMEs development in Morogoro municipality

1.3.2 Specific Objectives

The current investigation has outlined the following specific objectives:

- i) To analyse the SMEs owner's knowledge on credit guarantee provided by PASS in collaboration with CRDB Bank in Morogoro municipality.
- ii) To examine the effect of loan conditions on SMEs development in Morogoro municipality
- iii) To identify factors influencing the effectiveness of credit guarantee on SMEs development in Morogoro municipality.

1.4 Research Questions

- i) How are SMEs owners knowledgeable on credit guarantee provided by PASS in collaboration with CRDB Bank in Morogoro municipality?
- ii) What is the effect of loan conditions on SMEs development in Morogoro municipality?
- iii) What are the factors influencing the effectiveness of credit guarantee on SMEs development in Morogoro municipality?

1.5 Significance of the study

Credit guarantee is used in many countries to alleviate the constraints facing SMEs in accessing finance. They can play a catalysing role where the SMEs financing gap is envisaged. Therefore, CG can be a part of a counter-cyclical public policy toolkit to support lending to SMEs.

Findings from the study may help SMEs and the entire citizens engaging in business undertakings to realise the need to seek for credit guarantee for the better support of their business.

Furthermore, this study can serve as a reference for other researchers studying on a related subject in order to enhance their work.

1.6 Organisation of the study

The study consists of five chapters. The first chapter is the Background Information. The second chapter presents the Literature Review, the third chapter discusses the Research Methodology, the fourth chapter presents and analyses the research findings and the fifth chapter presents the Conclusions and Recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter highlighted ideas from different authors, previous researches and other studies which have a linkage with this study. It is categorized into three main parts namely, theoretical and empirical literature review, and conceptual framework.

2.1 Theoretical Literature Review

2.1.1 Definition of key terms

i) SMEs

The term SMEs has been severally defined by institutions, regions and based on number of people employed, sales or assets (Mensah, 2004). According to the World Bank, a venture employing up to 300 people with US\$15 million in annual revenue, and US\$15 million in assets is an SME. But to the Inter-American Development Bank, an SME is a business employing up to 100 employees and earning not more than US\$3 million in revenue (Dalberg Global Development Advisors, 2011). Furthermore, European Union defines SMEs as a venture that employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. Small and medium enterprises are thus defined as firms with 10 to 250 employees, as and more than 10 million euro turnover or annual balance sheet total (Akorsu and Agyapong, 2012). The UNIDO defines SMEs in terms of number of employees by giving different classifications for industrialized and developing countries. The definition for industrialized countries is given as follows; a) Large - firms with 500 or more workers; b) Medium - firms with 100-499 workers; c) Small - firms with 99 or less workers and the classification given for developing countries is as follows; a) Large - firms with 100 or more workers; b) Medium - firms with 20-99 workers; c) Small - firms with 5-19 workers; d) Micro - firms with less than 5 workers (UNIDO, 1999). It is

clear from the various definitions that there is no a general consensus over what constitutes the SME (Ayyagari *et al*, 2006). Definitions vary across industries and also across countries. SMEs include a wide range of businesses, which differ in their dynamism, technical advancement and risk attitude. Many are relatively stable in their technology, market and scale, while others are more technically advanced, filling crucial product or service niches. Others can be dynamic but high-risk, high-tech “start-ups” (Mensah, 2004).

In Tanzania, SMEs are those engaging up to four people and in most cases the family members under informal sector with capital investment of up to five million Tanzania shillings; while the Small enterprises are mostly formalized businesses engaging five to forty nine employees or with the capital investment from five to two hundred million Tanzania Shillings (URT, 2003). The SMEs are categorized as shown in the table below according to Tanzanian perspective:

Table 2.1: Categories of SMEs in Tanzania

CATEGORY	EMPLOYEES	CAPITAL INVESTMENT (TShs.)
Micro Enterprise	1 – 4	Up to 5 million
Small Enterprise	5 – 49	Above 5million to 200million
Medium Enterprise	50 – 99	Above 200million to 800 million
Large Enterprise	100+	Above 800 million

Source: SMEs Policy, 2002

As presented in the Recommendation 2003/361/EC in Europe, the category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. To check if an entity is an SME the first step is to verify if it is an enterprise and if it fits to the following three criteria: staff headcount, annual turnover and annual balance sheet total. The main categories of SMEs, based on their relations with other enterprises are autonomous – by far the most common category – a partner or linked enterprises. The calculations for each of the three types of enterprise are different and will ultimately determine whether the enterprise meets the various ceilings established in the SME definition and later if or not benefits of special financing programs, created both by the

European Union and by national governments. The ceilings apply to the figures for individual firms only. A firm which is part of larger grouping may need to include employee/turnover/balance sheet data from that grouping too (European Commission, 2003).

The main factors determining whether a company is an SME are: number of employees and either turnover or balance sheet total.

Table 2.2: The SMEs definition in Europe

COMPANY CATEGORY	EMPLOYEES	TURNOVER	BALANCE SHEET TOTAL
Medium sized	<250	≤ € 50 m	≤ € 43 m
Small	<50	≤ € 10 m	≤ € 10 m
Micro	<10	≤ € 2 m	≤ € 2 m

Source: “User Guide and Model Declaration”, 2004, p. 14

ii) Credit guarantee

Credit guarantee is the substitute given by guarantor to a lender in order to resolve partial repayments. A credit guarantee simply substitutes part of the collateral required from a borrower; if the borrower fails to repay, the lender can resort to partial repayment from the guarantor (Abor and Quartey, 2010). The guarantor can be a separate company or other form of distinct legal entity, or part of a multi-purpose service set-up, usually provided by the public sector or development projects. The lender can be any type of financial service provider, or a participant in agricultural value chains as a buyer or seller of agricultural produce and commodities. The borrower profile in this study is mainly farmers, agriculturists and rural based micro- and small enterprises (Baldock and Whittam, 2008). However, CG extends to credit guarantee schemes as a CGS is any formal scheme whereby an independent third party provides an effective guarantee to lenders. Three parties are involved: a borrower who lacks collateral, a lender providing the loan or overdraft facility, and a guaranteeing agency (O’Bryan, 2010).

According to Keith (2006), SMEs may self-finance but typically have very limited capital and rely on external finance. When seeking external finance, most SMEs rely on the FIs. But these FIs would not grant credit without relying on credit scoring methods (Abor and Quartey, 2010). Credit guarantees are comparatively new instruments in agricultural development finance. Following the introduction of credit guarantee systems (CGS) in Japan in 1937, their use spread first throughout Europe and the Americas in the 1950s, and then to Africa, Asia and Oceania in the 1960s and 1970s. A recent count found 2,250 CGS in almost 100 countries. Newer forms of CGS cover not only individual end borrowers, but also parts of the entire loan portfolio, with exposures in areas of interest to policy-makers and development banking practitioners. For small and dispersed rural and microfinance institutions, the guarantee cover may be applied to the entire loan portfolio. Other new forms of guarantees include bond guarantees and portable guarantees (O'Bryan, 2010). On the other hand, credit guarantees are one of a pool of instruments for risk mitigation and credit enhancement measures (Keith, 2006). These range from very simple to complex arrangements using a blend of structured finance instruments, such as subordination and portfolio concentration limits. Credit enhancement measures mainly include credit derivatives of different sorts that are treated in similar ways to credit guarantees. Credit guarantees can operate at different levels, with the top levels in many cases taking the form of investment guarantees rather than loan guarantees. Of the 23 largest microfinance investment funds, three offer investment guarantees on MFI or SME loan portfolios. In other cases, a donor uses a guarantee as an instrument to finance one or more recipient financial service providers. For microfinance alone, it is estimated that the amount of loan guarantees outstanding to support MFIs is at least US\$500 million (Ahamad, 2007).

Proponents argue that guarantees compensate for: inadequate registries for collateral and the high costs for registering collateral; absence of secure land titles; slow, costly and corrupt legal systems that impede the realization of collateral by a lender; destruction or deterioration of the collateral whether accidental or intentional and borrowers' disposal

or hiding of collateral; and social and political pressure to not vigorously collect loans (O'Bryan, 2010).

i) Types of guarantee

The four main types of guarantee, which have many variations and overlaps, are as follows according to Akorsu and Agyapong (2012);

- i. Individual guarantees for loans: This archetypical form of guarantee provides partial coverage for the underlying principal loan amount, with both parties to the transaction – borrower and lender – clearly identified.
- ii. Guarantee on an investment facility: Some guarantee agencies offer a variation of the standard model for partially guaranteeing a bond issue. This type of guarantee is useful when a developing economy already has functioning capital markets in place, and medium- to long-term placements of investment funds are needed. It ultimately results in a lengthening of assets as placements in the money market, thus helping to deepen and stabilize emerging capital markets.
- iii. Portfolio guarantees: In this case, lending to a specified priority development sector is supported by providing a partial guarantee for a number of loans – one lender with many borrowers.
- iv. Portable guarantees: In some cases, other forms of guarantee are applied that do not have a major impact on agricultural finance at present. Portable guarantees are an example. FAST (2011) define a portable guarantee as one that has a specific and identified borrower who can compare competing loan terms and offers from various lenders. Borrowers become more attractive and, through the guarantee, have enhanced opportunities to create a relationship with lending institutions. The main advantage of the portable guarantee is its ability to link the guarantee process with specific results for a specific actor. However, it is not a common form of guarantee in development finance, and has the disadvantage of comparatively high transaction costs for borrowers and lenders alike (when lenders are dealing with a new and unknown applicant).

ii) Importance of SMEs

SMEs help create bulk of the jobs as well as contribute to the national revenue by way of tax revenue, but also improve upon national income (Abor and Quartey, 2010). Kayanula and Quartey (2000) and Aryeetey (2001) found among others that SMEs are sources of employment generation, help conserve foreign exchange, increase exports through the non-traditional commodities exports as well as contributes to economic growth and development through innovation and creativity. These businesses are also considered by Abor and Quartey (2010) as providing about 85% of employment in the manufacturing sector and are believed to contribute about 75% to countries' GDP and also account for 92% of businesses. They have often been described as improving the efficiency of domestic markets and making productive use of scarce resources, and thus facilitating long-term economic growth in poor countries (Aryeetey and Ahene, 2005). According to Buame (2004), SMEs are very important to an economy because they make more efficient use of resources, act as a source of skill creation, cradle of entrepreneurship, utilises financial resources that are otherwise dormant like family savings, innovative, have a much lower cost per job created, wider geographic spread, wider presence in rural areas, and higher capacity for absorbing labour.

SMEs are often found to have some advantages over large firms. Large firms have been found often to have undesirable working conditions, such as weaker autonomy, stricter rules and regulations, less flexible scheduling, and a more impersonal working environment (Edmiston, 2007). Also, SMEs are seen to rely on a personalised, tailor-made service. Moreover, they tend to provide quicker services, quality products, fair prices as well as providing both formal and informal after sales service. As Vossen (1998) opined, while large-firm strengths are mostly material in nature, small-firm strengths are mostly behavioural. Perhaps the most critical strength is the lack of an entrenched bureaucracy that often characterizes larger firms. An entrenched bureaucracy can lead to long chains of command and subsequent communication inefficiency, inflexibility, and loss of managerial coordination (Edmiston, 2007). Further, SMEs to the extent that they operate in more competitive environments, may have a greater

incentive to innovate so as to stay ahead of rivals. Finally, because ownership and management are more likely to be intertwined at smaller firms, the personal rewards of potential innovators are higher. As a related factor, smaller firms may be better able to structure contracts to reward performance (Zenger, 1994). But despite such advantages SMEs continue to face especially financial difficulties because they often start with inadequate capital. So in society where fewer bureaucratic firms exist, and given the significant role of SMEs in job creation if strategies are devised in solving their (SMEs') problems, they could contribute more to the development of the society (Mensah, 2004).

2.1.2 SMEs Challenges and Implications to SMEs Growth

i) Market Access

According to Tanzania policy position paper on SMEs (2009) on market access through private and public procurement it was highlighted that; the government being the largest spender in terms of procurement fails to support SMEs in respect of market access from its various public procurements as a result most SMEs participating as suppliers to the government are very limited; hence have failed to penetrate the market and hence slow growth.

ii) Cost Effective System

There is lack of specific affirmative programmes by the government in favour of SMEs which will create a cost effective system of encouraging and promoting SMEs in a wide spectrum of public services (Ngowi, 2006). For example, there is a need to revise the Public Procurement Act of 2004 as to eliminate issues like; a need for bid securities, performance bond or guarantee since SMEs have limited finance capital, management skills and technology.

iii) Low competitiveness ability

Due to the high operating costs such as power (e.g. current power, water rationing) all over the country, limited access to public infrastructure services (e.g. serviceable roads) place a major constraint to indigenous SME survival (Darroch and Clover, 2005), high

tax rates which reduce the profit incentive drastically (Ahweireng-Obeng and Piaray, 1999), poor quality products/services due to limited skills in product development, use of outdated production technologies and low economies of scale lead the SMEs unable to compete with large enterprises nationally or internationally.

iv) Limited Access to Finances

Majority of SMEs depend on loans from the banks or financial institutions to finance their activities. Banks are reluctant to give loans to SMEs because they consider them as risky. Stringent loan conditions from the financial institutions during start up and for survival including high interest rate, tax, need for security/guarantee and bureaucracy hinder the easy accessibility of finance capital.

v) Human Capital

Due to lack of finance SMEs tend to employ cheap and unskilled labour. Quality management is another challenge to SMEs sector as management skill is key growth factor. Sustenance of growth in the SME sector largely depends on the availability of quality human resource available to a firm. This measure is indicative of entrepreneurial management skills available for growth and success of a firm (ILO, 2000).

vi) Business Management Training

According to Bouri (2011) business management training programmes for SMEs should impart a package of skills needed in the current business environment. For start-ups, this includes training in formulating business plans, identifying markets, hiring skilled workers and complying with government regulations which has a positive relationship with SMEs profitability. For more established SMEs, it might comprise developing skills in marketing and exporting; product development and process improvements; identification and use of new technology, including information and communication technologies (ICT); increasing co-operation among staff and promoting internal teamwork; enhancing networking with suppliers, clients and other firms; and generally improving adaptability and flexibility to respond to changing market conditions and client needs (Oni, 2012).

Upgrading the skills of all types of workers, including managers, is central to firm performance and profitability in knowledge-based economies (Olagunju, 2004). The quality of management is particularly important for small and medium-sized enterprises (SMEs), which must be able to adapt quickly to evolving markets and changing circumstances, but which often have limited resources. Such constraints also put limits on their ability to engage in training, even though studies indicate that there is a positive correlation between the degree of management training and the bottom-line performance and profitability of an SME. Ayyagari *et al.*, (2006) argue that there is preliminary evidence that formal management training can reduce the failure rates of small firms, which are far more likely to fail than larger firms, particularly in the early years.

2.1.3 Theories of SMEs development

The SMEs development has its foundation from three theories – the social network theory, social exchange theory and the theory of large numbers according to Jorgensen and Ulhoi (2010).

i) Social Network Theory

The Social Network theory is of the view that actors are not as significant as the relationships (ties) and contacts with other actors in the network (Borgatti and Li, 2009). The theory focuses on the assessment of social relationships between or among actors in a network. The SME Network Fund model is based on this premise that once SMEs pool resources they can have adequate funds to be given to one at a time. Besides, fund manager(s) can invest the pool in short term securities to enable it appreciate.

ii) Social Exchange Theory

In addition, according to the social exchange theory, humans in social situations choose behaviours that maximize their likelihood of meeting self interests in those situations. This theory assumes that the individuals (owners of the venture) are rational and engage in costs-benefits analysis in social exchanges. This implies that they act as both actors and reactors in social exchanges (Nomaguchi and Milkie, 2003). But at the core of social

exchange theory are the concepts of equity and reciprocity; where the group in this network, pool resources and give it to a member at a time. This theory has been applied in various economic and social relationships (Monge and Contractor, 2003). Although some weaknesses have been reported e.g. Miller (2005), several empirical works (Liu and Deng, 2011) have reported gains from its application.

iii) Theory of Large Numbers

The theory of large numbers (the law of large numbers) is a financial risk management practice often used in insurance and for individuals with little funds to invest. The law of large numbers is simply pooling little resources into the fund (Miller, 2005). Although SMEs are deemed to be cash starved, they can periodically make little contributions into the fund. As per the model proposed, together with contribution by other stakeholders, SMEs could have access to funding and at a cheaper rate than other lenders. In terms of management, if necessary, a fund manager can be employed to manage such a fund (Borgatti and Li, 2009).

2.1.4 Theories of Financial Schemes and Financial related issues

Financial theories are the building blocks of today's corporate world. The basic building blocks of finance theory lay the foundation for many modern tools used in areas such as asset pricing and investment. Many of these theoretical concepts such as general equilibrium analysis, information economics and theory of contracts are firmly rooted in classical microeconomics (Oaktree, 2005). This study discusses five financial theories and how they impact business decisions made by financial managers. The theories include; Modern Portfolio Theory, Tobin Separation Theorem, Equilibrium Theory, Arbitrage Pricing Theory (APT), and the Efficient Markets Hypothesis (Spear, 2005).

i) Modern Portfolio Theory (MPT)

The Modern portfolio theory (MPT) proposes how rational investors will use diversification to optimize their portfolios, and how an asset should be priced given its risk relative to the market as a whole. The basic concepts of the theory are the efficient frontier, Capital Asset Pricing Model and beta coefficient, the Capital Market Line and the Securities Market Line (Money chip, 2002). MPT models the return of an asset as a random variable and a portfolio as a weighted combination of assets; the return of a portfolio is thus also a random variable and consequently has an expected value and a variance. Risk in this model is identified with the standard deviation of portfolio return (Oaktree, 2005). Rationality is modelled by supposing that an investor choosing between several portfolios with identical expected returns will prefer that portfolio which minimizes risk (Wikipedia, 2005).

However, using the MPT overtime risk assets will provide a higher expected rate of return, as compensation to the investors for accepting a high risk (Orion, 2002). The high risk will eventually lower collecting asset classes to the portfolio, thus reducing the volatile risk, and increasing the expected rates of return. Furthermore the purpose of this theory is to develop the most optimal investments portfolio which would yield the highest rate of return while ascertaining the risk for the individual or corporate investor (Money chip, 2002). This theory impacts global and domestic financial managers by basing their portfolio using capital market line, capital asset pricing, and securities as a foundation for investments. When used, the MPT establishes investment portfolios, which are used by companies such as Fidelity or Scott Trade for both long-term and short-term strategies (Spear, 2005).

ii) Tobin Separation Theorem

Tobin (1958) in his study stated that if you hold risky securities and are able to borrow-buying stocks on margin-or lend-buying risk-free assets - and you do so at the same rate, then the efficient frontier is a single portfolio of risky securities plus borrowing and lending. Tobin's Separation Theorem states that you can separate the problem into first finding that optimal combination of risky securities and then deciding whether to lend or borrow, depending on your attitude toward risk. It then showed that if there is only one portfolio plus borrowing and lending, it's got to be the market (Money chimp, 2005). Moreover, as you try to build an optimal portfolio for your risk tolerance; and as before, it will lie somewhere on the straight line joining the cash rate to some optimal mix on the efficient frontier. However, high risk investors can and will buy on margin, with money borrowed at the low rate; so the problem of building an optimal portfolio is "separated" into somehow finding the optimal mix and then combining it with cash to give the desired risk tolerance. Tobin's Separation Theorem can be applied on a global scale by financial managers. One concern, however, would be to determine if it is the market increasing the risk in the security or the risk is resulting from the security itself (Money chimp, 2005).

iii) Equilibrium Theory

Spear (2005) argued that the general equilibrium theory focuses on the question of how a market economy allocates resources. This theory provides an analysis that builds on the theories of consumer and producer behaviour developed in the study of microeconomics by examining how the interactions of economic agents determine equilibrium in the markets for all goods simultaneously (Spear, 2005). The theory also attempts to give an understanding of the whole economy using a bottom-up approach, which starts with individual markets and agents. An example of this theory is that both the prices of goods and their production are inter-twined. For example, the change in the price of one good (e.g. bread) may affect another price, for example, the wages of bakers. If bakers differ in tastes from others, the demand for bread might be affected by

a change in bakers' wages, with a consequent effect on the price of bread. Calculating the equilibrium price of just one good, in theory, requires an analysis that accounts for all of the millions of different goods that are available (Fact, 2005).

iii) Arbitrage Pricing Theory (APT)

This theory is derived from a factor model by using diversification and arbitrage to manage risk and increase returns. It illustrates that the expected return on any risky asset is a linear combination of various risk factors (Orion, 2005). In a single-factor model, this is expressed as: $R = R_a + \beta F + E$; Where: R is the actual return of the asset; R_a is the expected return on the asset; β is the beta representing the security's responsiveness to factor F ; F is the market risk factor; and E is non-systematic risk (Orion, 2005). In essence, the APT takes multiple factors into consideration, such as inflation, changes in taxes, and global market factors where as the Capital Asset Pricing Model considers only one factor. This theory can be applied to business decisions by financial managers in an effort to consider multiple factors which may affect their particular investment (Oaktree, 2005).

vi) Efficient Markets Hypothesis

The Efficient Market Hypothesis (EMH) asserts that stock prices are determined by a discounting process such that they equal the discounted value (present value) of expected future cash flows. It illustrates that stock prices already reflect all known information and are therefore accurate, and that the future flow of news (that will determine future stock prices) is random and unknowable (in the present). The EMH is the central part of Efficient Markets Theory (EMT). Both are based partly on notions of rational expectations (Orion, 2002). The efficient market hypothesis implies that it is not generally possible to make above-average returns in the stock market by trading (including market timing), except through luck or obtaining and trading on inside information (Wikipedia, 2005).

The EMH comes in three forms. The weak version (which stands up pretty well, though not perfectly, to empirical testing) that it is impossible to predict future movements in asset prices on the basis of past movements, in the manner supposedly done by share market chartists, Elliot wave theorists and so forth. The strong version, which almost no-one believes that asset prices represent the best possible estimate taking account of all information both public and private. For policy purposes, the important issue is the semi-strong version, which states that asset prices are at least as good as any estimate that can be made on the basis of publicly available information (Spear, 2005). In recent years, many financial economists have come to question the efficient market hypothesis. At least ex-post, there seem to be several instances where market prices failed to reflect available information. Moreover, periods of large-scale irrationality, such as the technology-internet "bubble" of the late 1990s extending into early 2000, have convinced many analysts that the efficient market hypothesis should be rejected. In addition, financial econometricians have suggested that stock prices are, to a significant extent, predictable on the basis either of past returns or of certain valuation metrics such as dividend yields and price-earnings ratios (Malkiel, 2005). Moreover, understanding and utilizing the previously mentioned financial theories enables financial managers and individual investors the ability to identify and determine levels of risks, resulting from investments, with more accuracy on both a domestic and global scale (Money chip, 2002).

All these theories help in building the study with the aim of facilitating actors in business to see the importance of networking, reciprocating resources and managing risks in order to prosper. In lieu of this, they are of vital and lead to promoting SMEs.

2.1.5 Effectiveness of credit guarantee and loan conditions on SMEs

The effectiveness of CG can be influenced by a host of factors such as regulatory framework, financial situations of the lending banks, situations of the borrowing firms, scheme's own features, input and output markets. The success and efficiency of credit guarantee largely depend on their design and how well they are implemented (Panetta,

2012). Among others, clarity of objectives or desired outcome, incentive features (for lenders), risk sharing arrangements, procedure of extending guarantee, eligibility criteria, pricing, human resources, internal reporting and control system play a critical role. Saldana (2000) suggests that for a CG to be effective, it has to generate an economic incentive for the creditor to lend to targeted beneficiaries. In designing CGs effort should be made to align the motives and incentives of the guarantor and the creditors. Green (2003) notes that incentives for lenders and borrowers to participate depend on the scheme's marketing efforts, distribution of risks, additional services offered, fees and other costs, credibility of the guarantor and the relations between the guarantor and the lender.

Tunahan and Dizkirici (2012) note that a serious challenge of the guarantee programs established in developing countries is convincing the banks to participate in the program. Although banks express interest in participating in a CGS, they fail to make real use of the fund (Deelen and Molenaar, 2004). This could be mainly attributed to the attitude, experience and competence of staff and financial positions of the banks. Tunahan and Dizkirici (2012) suggest that involvement of many banks whereby each one has only a few number of guaranteed loans can cause complications and increase the cost, and the recommendation is thus to include bigger banks with larger shares in the market. However, such an approach can be viewed to be biased against innovative emerging banks. Lack of financial and business management capacity among the borrowing firms can preclude access to and effective usage of finance (Hansen *et al*, 2012). Hansen *et al*, (2012) concur on the critical importance of integrating technical assistance and capacity building services both for the borrowers and lending banks in to the guarantee program. Hansen *et al*, (2012) proposed that SMEs' needs framework which has profound effect on their performance. These include access to markets, finance, people and training, and enabling business environment.

Guarantee funds are not tools to solve the problems of weak entrepreneurship or poorly performing banks and these funds cannot possibly turn a bad investment into a viable (Panetta, 2012). CGs are only likely to be successful when the four Ps are all present:

well-prepared entrepreneurs who present good projects to well performing banks that have professional staff to handle the process (Deelen and Molenaar, 2004). DFID (2005) identified a range of key success factors for CGs to effectively promote financial sector deepening. The factors for success and failure were categorized as macro and micro level factors, and largely related to the banking environment; monetary and regulatory environment; business environment; political and legal frameworks; approach to scheme design;

2.2 Empirical Literature Review

A study carried out by ADB (2007) found that, market failures in the credit markets for SMEs have led to the formulation of more than 2,250 CGS in almost 100 countries. The CGS have served the larger public policy objectives of promoting entrepreneurship in the country by providing credit to SMEs – which commonly lack the kind of collateral required by banks – while reducing the credit risk to lenders. It was argued that well-designed, well funded and well-implemented CGS can improve SMEs’ access to credit and their integration into formal financial markets; assist SMEs in obtaining finance for working capital, fixed assets and investment at reasonable conditions; and enable smaller firms to improve their competitiveness and extend their economic activities. These advantages ultimately translate into improved business performance and job creation. It was also found that in some countries, a high proportion of SMEs are serviced by guaranteed loans, such as Japan (38 percent), the Republic of Korea (20 percent) and Taiwan Province of China (20 percent). However, it was found that most national CGS have little impact on the SME sector at the international level, servicing only 1 to 2 percent of the world’s SMEs. Moreover, the study could not analyse the SMEs owner’s knowledge with regards to credit guarantee for development.

A study done by Dalberg Global Development Advisors (2011) in Tanzania found that there is limited knowledge on success in the utilisation of Credit Guarantee Schemes (CGS) by Banks particularly those schemes which have been established to support the Micro, Small and Medium Enterprises (MSMEs). The objective of this study was to

explore the factors that may have contributed to this slow pace by banks in utilising CGS. A case study design was used and a qualitative approach was chosen whereby semi structured and in-depth interviews were conducted. Judgemental sampling was adopted to select the interviewees and both primary and secondary data was collected. The study covered four Credit Guarantee Schemes namely; SME CGS, Microfinance CGS, Juhudi CGS and PASS CGS. From the study it has been observed that Banks find comfort in utilising those guarantees which are packaged with products other than the guarantee. Lending to small businesses was recognised by banks as having many inherent risks for which collateral alone cannot mitigate. These risks include limited financial expertise, asymmetry of information, unsupportive legal framework which makes the enforcement of collateral difficult, volatile revenues and lack of track records. Furthermore, it was observed that the banks have limited knowledge in micro financing hence employ standardised procedures for lending irrespective of the size of the borrower. It was recommended that in order to induce banks to participate more actively in these schemes; improving the information sharing mechanism, revising and introducing policies, capacity building by banks on micro financing, enrichment of the CGS package, establishment of a Code of Good Practice and institutionalisation of trusted confidence were vital. However, the study could not examine the effect of loan conditions on SMEs development in various areas.

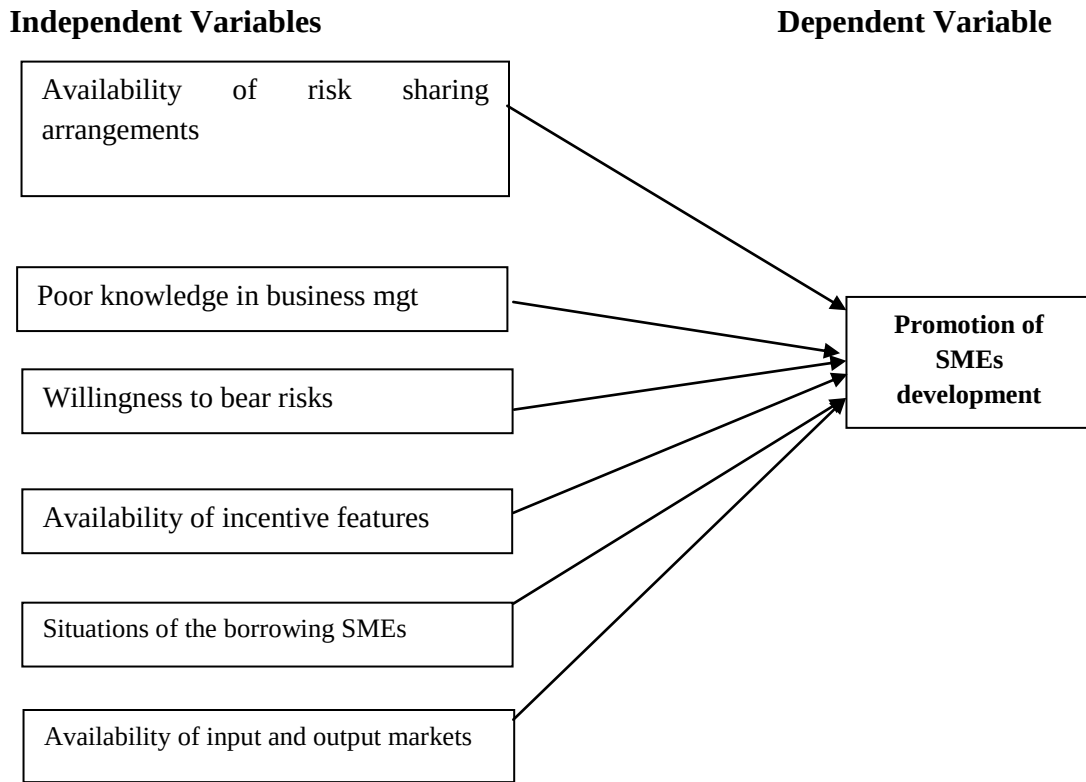
Beck *et al.*, (2008) in their study on World Bank's review of 76 partial CGS from 46 developed and developing countries generated a detailed data set of credit guarantees and stressed CGS' contribution to the start-up and development of micro- and small enterprises. This survey found that commercial bankers view CGS as the most effective way of promoting additional flows of funds to micro- and small entrepreneurs worldwide. A second publication, by the World Bank Independent Evaluation Group (2009), covers guarantees issued by the bank's Multilateral Investment Guarantee Agency (MIGA) subsidiary and also evaluates those issued by IFC and the International Bank for Reconstruction and Development (IBRD). This document sheds interesting light on how the guarantee instrument operates within the different institutions of the

World Bank Group. It highlights the multifaceted use of the instrument, mostly for large-sized lending transactions in corporate and industrial finance. Moreover, these studies could not identify factors influencing the effectiveness of credit guarantee on SMEs development.

2.3 Conceptual framework

Figure 2.1 provides the conceptual framework. It gives the relationship between the dependent and independent variables. Promotion of SMEs development is the dependent variable while the independent variables include Credit guarantee variables such as; availability of risk sharing arrangements; poor knowledge in business mgt; willingness to bear risks; availability of incentive features; situations of the borrowing SMEs; and availability of input and output markets.

Figure 2.1: Conceptual Framework model



Source: Researcher's Own Modelling, (2015)

Figure 2.1 show that promotion of SMEs development is associated with the availability of risk sharing arrangements as coordinated by PASS. Moreover, poor knowledge in business management seems to be an obstacle towards SMEs growth. Again, SMEs have little willingness to bear risks due to the situation they encounter in accessing finance. Moreover, SMEs need to have incentive features and the availability of input and output markets that would enable them to perform well. All these need to be enhanced as each step SMEs put is accompanied with challenges.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter provides the methods used in the study. It highlights the research design, study area, population and sample size, and the sampling techniques used. The chapter also gives the methods of data collection as well as the data analysis methods. Finally, the chapter outlines the ethical considerations taken.

3.1 Research design

Case study research design was used in this study. This involved collecting empirical data, generally from only one or a small number of cases. It provides rich details about those cases (Ndunguru, 2006). A case study generally aims at providing insight into a particular situation and often stresses the experiences and interpretations of those involved. It uses direct observation to give a complete snapshot of a case that is being studied. It is useful when not much is known about a phenomenon (Bryman, 2004).

The research design was allocated with exploratory approaches (going into the roots of the problem and coming out with relevant answers) and inductive (exploring issues from small cases to large cases) to seek for new insight by asking questions and assessing the phenomena in a new light (Ndunguru, 2006).

3.2 Study Area

The study was conducted at Morogoro Municipality. The area was selected because despite, credit guarantee offered by a third party is both secure and liquid. Should the loan default, the guarantee is easily and quickly called by the lender under the terms of a legal contract that specifies how the lender can recover his money. This is what PASS has been doing in collaboration with CRDB Bank PLC to farmers and other SMEs in Morogoro municipality. However, the situation shown among SMEs that accessed credit

guarantee was not promising. This study examined the role of credit guarantee in promoting SMEs development through CRDB Bank in collaboration with PASS in Morogoro municipality.

Morogoro Municipality is one of the 6 districts in Morogoro region. The municipal council lies between 07° 00' and 10° 00' south and between 37° 40' and 38° 22' east at the central part of the Eastern Arc of Mountain Uluguru. It covers an area of 531 square kilometres. It is bordered by Morogoro Rural district to the East, Mvomero district to the North West and South West. In the South it is bordered by Uluguru Mountains around Morogoro municipality. Morogoro municipality has 302, 622 population (National census, 2012). Morogoro municipal council has one division called Morogoro Urban. This division is divided into 29 wards, which in turn are sub divided into sub wards commonly known as hamlets (*mitaa*). There are 295 hamlets.

3.3 Population and sample size

According to Sekaran, (2005) population is a group of individuals, objects or items from which samples are taken for measurement or it is an entire group of persons, or elements that have at least one thing in common. Population is whatever you are counting: there can be a population of people, a population of households, a population of events, institutions, transactions, and so forth (Bryman, 2004). Anything you can count can be a population unit. But if you can't get information from it, and you can't measure it in some way, it's not a unit of population that is suitable for survey research (Yin, 2003).

The population comprised of SMEs in Morogoro municipality which have accessed credit guarantee. However, according to CRDB Bank and PASS credit guarantees report of 2014, there were about 106 SMEs who accessed the fund through credit guarantee.

The sample size of 50 respondents was selected from whom information required for the study was obtained. These are the classification, out of 50 sample size; 25 were obtained from SMEs Managers and 25 from SMEs Owners. Sekaran (2003) argues that too large sample size could become a problem and recommends the sample size to be between 30

and 500. Similarly, Enon (2002) recommends that a minimum number of samples for research should be 30. Based on the above literatures, the sample size of 50 respondents was selected for inclusion in this study. Table 3.1 below shows the distribution of respondents.

Table 3.1: Distribution of respondents

Category of Respondents	Population	Sample size
SMEs owner/managers		
SMEs Owners	67	25
SMEs Managers	39	25
TOTAL	106	50

Source: Research data, 2015

3.4 Sampling Techniques

The sampling technique used in the study was purposive sampling to seek for experiences respondents have in dealing with business undertaking in the study area.

This method was used to select (25) SMEs managers whereby the personal experience of each respondent regarding the role of credit guarantee in promoting SMEs development was sought. Also the same procedure was used to select (25) SMEs Owners. Therefore, SMEs managers and owners were selected by using this method believing that they possess key information regarding the matter. Thus respondents were selected purposively in order to attain the study objectives.

3.5 Methods of data collection

Data collection refers to the process of gathering specific information aimed at providing or refuting some facts (Kombo and Tromp, 2006). This study utilized both primary and secondary data collection methods to get information from respondents and other sources.

3.5.1 Primary data collection methods

Primary data are those collected afresh from the field for the first time. They happen to be original in character. Therefore, primary data collection methods were used by the researcher to collect data from the field whereby interviews and questionnaires were employed.

i) Interview

The researcher used face-to-face interview to (25) SMEs managers in order to solicit information regarding the role of credit guarantee in promoting SMEs development (Appendix 2). Yin (2003) affirms that the interview tool is very important source of getting information and it is helpful in handling case study related matters as the research design indicates. The advantage of using interviews is demonstrated by the fact that it is a quick method in gathering information and the researcher could know whether the respondents understand the questions or not.

Pilot study was done to ascertain the reliability and validity of the instrument used for collecting data. A pilot study was carried out using 6 SMEs [3 from SMEs owners and 3 from SMEs managers]. This exercise determined the time needed to carry out the study and the time required to interview one respondent. After the pilot study, certain items that seemed unclear were altered or eliminated.

ii) Questionnaires

Structured and semi-structured questionnaires were used to obtain information from SMEs owners in Morogoro municipality. The information asked included; SMEs owners' knowledge on credit guarantee, effect of loan conditions on SMEs development and factors influencing the effectiveness of credit guarantee on SMEs development (Appendix 1).

Copies of questionnaires were prepared based on the essentials of a good questionnaire, i.e. short and simple, and organized in a logical sequence moving from relatively easy to

more difficult issues. Technical terms, vague expressions and those affecting emotions of the respondents were avoided.

3.5.2 Secondary data collection method

i) Documentary Review

The researcher used different documents in order to access accurate and reliable data. The documents included; personal profiles (for SMEs on credit guarantee), policies and regulations (regarding SMEs development), books and journals (used as literatures) and performance reports (quarterly and annual reports) on loan repayment.

3.6 Data Analysis Methods

Data collected were analysed both qualitatively and quantitatively. These were summarized, coded and analyzed by using excel software to obtain frequency and percentage distribution as major variables.

Qualitative data from interviews were analyzed using content analysis focusing observer impressions. Content analysis involved recording the verbal discussions with respondents which were followed by breaking the recorded information into meaningful smallest units of information, subjects and tendencies and presented them as text. However, coding which is an interpretive technique that seeks to both organize the data and provide a means to introduce the interpretations of it into quantitative methods were also employed along with Hermeneutical Analysis which serves on interpreting the meaning of the context.

3.7 Ethical considerations

In order to ensure ethical conduct in the study all respondents were informed about the study in order to have willingness to corporate (i.e. informed consent was given). The information provided by respondents was treated as confidential and for academic purposes only. This enabled respondents to corporate with minimum risk. Other ethical considerations included; briefing the respondents as to the purpose of the research, their

relevance in the research process and expectations from them. Again plagiarism, fabrication of data was avoided, privacy was maintained and anonymity of respondents was ensured.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF RESULTS

4.0 Introduction

This chapter presents and discusses results arising from the data analysis regarding the role of credit guarantee in promoting SMEs development in Morogoro municipality with reference to CRDB Bank Plc in collaboration with PASS. The findings are presented and discussed under four main sections namely; the first section presents the background information; the second section analyses the SMEs owner's knowledge on credit guarantee provided by PASS in collaboration with CRDB Bank; the third section examines the effects of loan conditions on SMEs development; and the fourth section identifies factors influencing the effectiveness of credit guarantee on SMEs development in Morogoro municipality.

4.1 Respondents' background information

The respondents' background information were grouped in two; i) entrepreneurs' characteristics that included age, sex, work experience in running business, level of education and ii) characteristics of SMEs that included; origin of enterprise, length time in operation, size of enterprise and capital source.

4.1.1 Entrepreneurs' characteristics

As presented above the entrepreneurs' characteristics included age, sex, work experience in running business and level of education. Table 4.1 provides the results as follows.

Table 4.1: Respondents' characteristics

No	Entrepreneurs' characteristics	Groups	Frequency	Percentage
1	Age	18-20 years	07	14
		21-30 years	10	20
		31-40 years	17	34
		41-50 years	09	18
		>51 years	07	14
2	Sex	Male	35	70
		Female	15	30
3	Work experience	Yes (1-5 years)	40	80
		Never (Starting i.e. 0-1 year)	10	20
4	Level of education	No formal education	06	12
		Primary education	16	32
		Secondary education	15	30
		Diploma	08	16
		Higher education	05	10

Source: Research data, 2015

The findings in table 4.1 indicate that the age distribution (in years) were between 1 to 51 years and above. Those who were between 18 to 20 years occupied (14%), those between 21 to 30 years occupied (20%). Likewise, those who were between 31 to 40 years occupied (34%), those between 41 to 50 years occupied (18%) and those with 51 years and above occupied (14%). Most of those who were between 18 to 40 years of age reported to have little knowledge on how to access credit guarantee something that could not enable them access credit guarantee as it seemed that disclosure of information was minimal. Moreover, those who were above 40 years of age had knowledge on credit guarantee and it was found that some had obtained partial credit guarantee from PASS that enabled them to enhance their business although the amount charged by PASS became a burden to SMEs.

The sex distribution included male and female. Those who were male occupied (70%) and female occupied (30%). It was found that most of those who accessed credit guarantee were male with little female. Moreover, men claimed that there has been tighter repayment terms that hinders SMEs to prosper something that needs to be accommodated by the collaborating banks and PASS while women claiming that the risk

sharing arrangements have not been clearly known among the SMEs, hence a need for knowledge provision is vital.

The work experience of respondents consisted of those who had 1 to 5 years occupying (80%) and those who were at the starting point between 0 to 1 year occupied (20%). It was found that those who worked for a quite number of years proved to have good management of credit and enhanced their characters that enabled the collaborating banks to have trust on them and continue making business with them compared to those who were in the starting point. However, information provision among SMEs regarding credit guarantee was lacking leaving SMEs in dilemma when in need to access credit guarantee.

With regard to the level of education of respondents; (12%) had no formal education, (32%) primary education, (30%) secondary education, (16%) had diploma education and (10%) had attained higher education. Those who had no formal, primary and secondary education had difficulties in accessing credit guarantee from the fact that the procedures and the situation of the borrowing SMEs hindered them to access credit; while those who had diploma or higher education were in a good position to understand and sometimes collaborate thoroughly with PASS by presenting their financial situation and laying down the risk sharing arrangements something that enabled them to enter into agreement with full knowledge of the issues.

4.1.2 Characteristics of SMEs

As provided, the characteristics of SMEs included the origin of enterprise, length time in operation, size of enterprise and source of capital. The findings are given in Table 4.2

Table 4.2: Characteristic of SMEs

No	Characteristics of SMEs	Frequency	Percentage
1	Origin of enterprise		
	Established	36	72
	Inherited	09	18
	Other	05	10
2	Length time in operation		
	Older player (>5 years)	31	62
	New comer (<5 years)	19	38
3	Size of enterprise		
	Large	23	46
	Small	27	54
4	Capital source		
	Personal savings	20	40
	Joint venture with colleagues/friends	07	14
	Family investment	18	36
	Bank	05	10

Source: Research results, 2015

The findings in table 4.2 indicate that origin of enterprise that was established by the entrepreneur occupied (72%), inherited (18%) and other which were neither established nor inherited occupied (10%). It was found that most of the inherited enterprises were in the position to access credit guarantee from the fact that they had in most cases the preliquisites needed by collaborating banks. Those categorised as other and established enterprises benefited from PASS and collaborating bank through the knowledge provision regarding entrepreneurial matters something that raise their concerns towards credit guarantee accessibility. Although not all benefited; but some reported to have been assisted something that raised their business undertakings.

Length time in operation regarding older players who operated for more than 5 years occupied (62%) and those who were new comers operating below 5 years occupied (38%). The older players claimed to have accessed credit guarantee that enabled them to carry out their business as they were conversant on the purpose, repayment and management of loans given through PASS from collaborating banks. However, new comers possessed little knowledge on credit guarantee something that necessitated PASS to carry out trainings to them for the purpose of facilitating them with credit to boost their business.

The size of enterprise considered those which were large (46%) and small in size (54%). Large sized enterprises and small ones had the same avenues to access credit guarantee. It was found that the provision of credit went hand in hand with the scheme's own features, procedures and risk sharing arrangements the SMEs had to adhere to. Thus, those who proved to have relevant requirements for credit guarantee were in a position to access credit guarantee (PASS report, 2012).

With regard to the source of capital, the ones from personal savings occupied (40%), those from joint venture from colleagues/friends occupied (14%), those supported from family investment occupied (36%) and those supported by banks occupied (10%). These respondents' background information had important contribution towards SMEs success from the fact that the amount of the loan applied by SMEs influenced the lender to either give or deny the application along with the willingness to bear the risks.

4.2 SMEs owner's knowledge on credit guarantee

The first objective of this study was to analyse the SMEs owner's knowledge on credit guarantee provided by PASS in collaboration with CRDB Bank in Morogoro municipality. To obtain the information, the researcher asked the respondents to tick and add some issues according to their understanding and perception while the analysis being presented in terms of agree or disagree. Table 4.3 summarises as follows.

Table 4.3: SMEs owner's knowledge

Owner's knowledge	Percentage %	
	Agree	Disagree
Possession of knowledge on how to access credit guarantee from financial or private sector trusts	80	20
Knowledge obtained from PASS training on entrepreneurial related matters	85	15
Assistance provided by PASS on how to access loan facilities via appraisal of loan write up linked to CRDB Bank	75	25
The amount charged by PASS necessitate a real burden to SMEs owners or managers	70	30
Partial credit guarantee from PASS enable SMEs to top up in case of inadequate collateral	80	20
Availability of information on procedures and ways of facilitating SMEs investment through credit guarantee	85	15

Source: Research data, 2015

The results in Table 4.3 indicate that 70% of respondents reported that they had a knowledge on the amount charged by PASS that necessitate a real burden to SMEs owners or managers upon accessing loans. The charges according to respondents include; commitment fee, feasibility study/business plan fee of 2% of the requested loan and other business development services that are charged at actual market cost. These charges are paid to PASS after pre-appraisal of investment. All in all these charges proved to add burden to SMEs. Likewise, 75% of respondents argued that they had knowledge regarding the assistance provided by PASS on how to access loan facilities via appraisal of loan write up linked to CRDB Bank. This affirmation was cemented by the role played by PASS as the coordinator for SMEs for its priority to those SMEs that have a big impact on value chains for agricultural commodities.

On the other hand, 80% of respondents argued that they have knowledge on how to access credit guarantee from financial or private sector trusts as assisted by PASS after collaborating banks' accept the client with the PASS business plan and the way partial credit guarantee from PASS enable SMEs to top up in case of inadequate collateral. It was found that further communication between PASS and collaborating bank focuses on risk sharing between PASS and collaborating bank to take a decision regarding the loan. Upon agreement on amount of credit guarantee, PASS will issue credit guarantee

certificate to headquarters of the collaborating bank whereby disbursement of loan with payment schedule is given. Thus, PASS monitors repayment schedule by visiting the client regularly to enable a thorough repayment. One of the respondents had a comment on that;

“The problem of SMEs has been lack of collateral needed by collaborating bank, that’s why PASS chips in to boost SMEs access capital for their survival and development. This being the case; a lot of SMEs especially those dealing with agricultural related activities have succeeded to obtain credit guarantee towards the enhancement of business undertakings”

Moreover, 85% of respondents stated that they have knowledge on the availability of information on procedures and ways of facilitating SMEs investment through credit guarantee and the knowledge obtained from PASS training on entrepreneurial related matters. An interview with respondents revealed the following necessary as follows;

“With managerial skills, some small entrepreneurs in the municipality have managed to raise their total value of sales accepted by customers, reduced complaint levels that existed before and level of assurance that incoming materials meet specifications needed by customers. By doing so, profitability has been obvious and small entrepreneurs have been able to retain or increase their market share”.

However, the availability of information on procedures has enabled SMEs to search for credit guarantee that could not be awarded elsewhere. This was facilitated by the trainings that are taking place in various areas from the support of PASS. It was further insisted by respondents that;

“Small entrepreneurs were able to allocate resources, respond to customer needs and adapt to market changes thereby monitoring the production and exploring new markets after being facilitated by PASS in that regard”.

The argument stresses what Mujuru (2014) emphasized with regards to assistance provided through government guarantee regarding SMEs that participate in priority areas such as agriculture while possessing poor marketing and strategic skills due to low education that tend to limit entrepreneurial competencies hence, poor performance in business something that seem to be absent in the study area.

It could be noted that SMEs possessed little capital to expand their business undertakings, possess inadequate customer care skills something that make them undertake their business without focusing the tastes and preferences of customers. The availability of PASS with its education caption has necessitated SMEs to have avenues for expanding knowledge, hence being able to compete equitably with others. The instance revealed need to be solved in order to enable every SME to succeed in business undertaking as to raise their income.

4.3 Effects of loan conditions on SMEs development

The second objective of the study was to examine the effects of loan conditions on SMEs development in Morogoro municipality. For this purpose, the respondents were asked to identify them by ticking what was right and presented in terms of Yes or No replies as shown in Table 4.4 below.

Table 4.4: Effects of loan conditions

Effect	Percentage %	
	Yes	No
Character of SMEs influences the credit guarantor or lender to either give or deny the application from the SME	90	10
Ability to pay of SMEs influences the credit guarantor or lender to either give or deny the application from the SME	85	15
Purpose of the loan applied by the SMEs influences the credit guarantor or lender to either give or deny the application from the SME	80	20
Amount of loan applied by the SMEs influences the credit guarantor or lender to either give or deny the application from the SME	85	15
Repayment terms and insurance of SMEs influences the credit guarantor or lender to either give or deny the application from the SME	80	20
Management of the SMEs influences the credit guarantor or lender to either give or deny the application from the SME	87	13
Willingness to bear risks influences the credit guarantor or lender to either give or deny the application from the SME	92	08

Source: Research data, 2015

The results in table 4.4 indicate that 80% of respondents reported that the purpose of the loan applied by the SMEs influences the credit guarantor or lender to either give or deny the application from the SME while repayment terms and insurance of SMEs

influencing the credit guarantor or lender to either give or deny the application from the SME. This is true from the fact that if the conditions of loan provision are not fulfilled the lender would deny the application. In order to avoid this incidence, PASS has been hand in hand in making sure that the client is registered with it and a commitment fee is paid in order to ascertain what would happen if no commitment is reached between the SMEs and PASS. It was found that upon commitment fee payment as well as application form acceptance, regular visits are done to assess the business opportunity and the way collateral can be issued without jeopardizing into a big risk.

In addition, 85% of respondents argued that loan conditions have enabled SMEs to assess their ability to pay something that influences the credit guarantor or lender to either give or deny the application from the SME. Yet, the amount of loan applied by the SMEs influences the credit guarantor or lender to either give or deny the application from the SME because what the client wants should be in line with what could be guaranteed in order to reduce the risk. This in line with Keith (2006) who stated that SMEs may self-finance but typically have very limited capital and rely on external finance. When seeking external finance, most SMEs rely on the financial institutions (FIs). But these FIs would not grant credit without relying on credit scoring methods as supported by Abor and Quartey, (2010). One of the respondents stated that;

“If the valuation report is positive, PASS will enter into a formal contract with the client to provide the requested services. But at this stage the client has to pay all fees and after that PASS can go ahead with preparation of business plan. However, the collaborating bank retains the final decision to finance it or not”

Furthermore, 87% of respondents stated that loan conditions have ensured the management of the SMEs to influence the credit guarantor or lender to either give or deny the application from the SME. This has be so from the fact that, without showing the ability to access and utilize well the loan the credit guarantee would be deemed to nothing while channelling funds to the wrong client. However, 90% of respondents argued that loan conditions have ensured the character of SMEs to influence the credit guarantor or lender to either give or deny the application from the SME from the fact

that, those SMEs with bad credit history would utilize the loophole to mismanage the loan given, thus proper scrutiny need to be undertaken. Moreover, 92% of respondents reported that loan conditions have necessitated SMEs to have the willingness to bear risks that influence the credit guarantor or lender to either give or deny the application from the SME. In addition, external causes such as high cost of compliance with regulation, fierce competition, and difficulty in obtaining external funding are likely to lead to the failure of the venture. One of the respondents stated that;

“Provision of continuous overall credit control oversight carries out independent reviews on credit related processes and controls in place and recommend enhancement of existing or new controls in place to mitigate credit risk exposures”

It could be stated that loan conditions have effects on SMEs when accessing credit guarantee from PASS with collaboration banks. That’s why PASS with collaborating banks insist on visiting clients to enforce loan repayment and additional remedial measures could be instituted in agreement between the bank and PASS if necessary. It is from that background that if all these steps fail, the pledged collateral would be disposed in accordance with credit guarantee agreement between the bank and PASS.

4.4 Factors influencing the effectiveness of credit guarantee on SMEs development

The third objective of the study was to identify the factors influencing the effectiveness of credit guarantee on SMEs development in Morogoro municipality. However, the factors were analyzed in terms of agree or disagree as there were no uncertain responses. Table 4.5 below summarizes the results.

Table 4.5: Factors influencing the effectiveness of credit guarantee

Factors	Percentage %	
	Agree	Disagree
Poor knowledge in business management	85	15
Regulatory framework on accessing guarantee	80	20
Financial situation of the lending bank	83	17
Situation of the borrowing SMEs	75	25
Scheme's own features	85	15
Input and output markets	90	10
Risk sharing arrangements	83	17
Procedure of the existing guarantee	70	30

Source: Research data, 2015

The results in table 4.5 indicate that 70% of respondents reported that procedures of the existing guarantee influence the effectiveness of accessing credit guarantee. It was found that it takes a quite long time to process and obtain the credit guarantee from PASS facilitated by the collaborating bank. This involves lodging the application with a commitment fee, feasibility study, business plan making, risk assessment evaluation in lieu of collateral pledged and disbursement of funds from the collaborating bank. Some SMEs do not afford to fulfil these procedures, hence fail to access funds. Likewise, 75% of respondents stated that the situation of the borrowing SMEs influence the effectiveness of credit guarantee because some SMEs do not possess the required obligations as supported by Beck *et al* (2008). One of the respondents stated that;

“Guarantees can overcome collateral constraints, offset the risks of lending to SMEs and micro borrowers, address information constraints, compensate for low profit margins, modify intrinsic characteristics of small business, induce learning, and produce additionality. However, when they do obtain such credit, it is often on comparatively disadvantageous terms”.

On the other hand, 80% of respondents reported that regulatory framework on accessing guarantee seemed to hinder SMEs to easy access credit. It was found that in order for the SMEs to get guaranteed registration as well as collateral lodging were essential. Although some SMEs could have inherited facilities that could assist in accessing credit guarantee; being in the name of the owner was an obligation. With these conditionalities

some SMEs become unable to access the credit guarantee. One of the respondents in an interview commented that;

“Most of SMEs do not have access to credit facilities and are constrained by huge payments made to income tax. It was found that, in order to realize business potential growth, there is a need for the government to create conducive legal environment for small entrepreneurs to enable them get assistance through credit guarantee”.

This argument is in line with Onugu (2005) who stated that the growth and development of small entrepreneurs indicate that SMEs’ growth and development depends mainly on access to finance and firm size, environmental factors such as infrastructure, business legal status and legal registration.

Moreover, 83% of respondents reported that there have been the risk sharing arrangements between PASS and collaborating bank that is facilitated by the financial situation of the lending bank. It was found that on risk sharing arrangements, when the SMEs fail to repay the loan, the collateral put is taken. An interview with one of the respondents revealed that;

“The collateral requirements of banks can pose a serious challenge for SMEs trying to source funding for business or farming. Credit guarantees supported by donor and/or government subsidies have been recommended as a means of addressing these difficulties”.

Furthermore, 85% of respondents stated that the scheme’s own features and poor knowledge in business management influenced the effectiveness of credit guarantee on SMEs development as the features were not well known among SMEs and some SMEs possessed little knowledge on business management. That being the case the accessibility of credit guarantee seemed to be a thing to pass by among SMEs. It is from that background that Hansen *et al*, (2012) proposed that SMEs’ needs framework which has profound effect on their performance. These include access to markets, finance, people and training, and enabling business environment. Finally, 90% of the respondents argued that input and output markets were among the factors that influenced the effectiveness of credit guarantee on SMEs development. It was found that SMEs had

little commodities to offer something that hindered them to compete in the market. Moreover, one of the respondents in an interview stated that;

“Apart from encountering high interest rates, there has been tax harassment among SMEs without considering the income they get. The taxes include; income tax, capital gain tax, sign board levies, house rents, service levy, business licences and others”.

These when put in totality necessitate poor performance of SMEs. The affirmations above are in line with McMahon (2001) who argued that SMEs do not all progress through the life cycle stages at the same rate, with some operating at low growth rates in a traditional SME model, others at a moderate pace in a capped growth model, and a third group at a high growth rate in an entrepreneurial model of SME. Whereas some countries have set up small business equity markets to help raise equity capital among SMEs, others have set up state grants, credit guarantees and develop a list of business angels to assist small businesses.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the conclusion and recommendations arising from the study findings. It commences with the conclusion followed by the recommendations thereafter suggests a need for further research.

5.1 Conclusion

Based on the empirical findings from the study, it is concluded that, SMEs make more efficient use of resources, act as a source of skill creation, cradle of entrepreneurship, utilises financial resources that are otherwise dormant like family savings, innovative, have a much lower cost per job created, wider geographic spread, wider presence in rural and urban areas, and higher capacity for absorbing labour. In lieu of that it was envisaged from the study that SMEs had knowledge regarding the assistance provided by PASS on how to access loan facilities via appraisal of loan write up linked to CRDB Bank. This affirmation was cemented by the role played by PASS as the coordinator for SMEs with regards to credit guarantee provision. Those SMEs that have a big impact on value chains for agricultural commodities and possessed knowledge on how to access credit guarantee from financial or private sector trusts were assisted by PASS after collaborating banks' accept the client with the PASS business plan and the way partial credit guarantee from PASS enable SMEs to top up in case of inadequate collateral.

In addition, it was found that loan conditions have enabled SMEs to assess their ability to pay something that influences the credit guarantor or lender to either give or deny the application from the SME. Yet, the amount of loan applied by the SMEs influenced the credit guarantor or lender to either give or deny the application from the SME because what the client wants should be in line with what could be guaranteed in order to reduce the risk. Although SMEs may self-finance, it was found that they have very limited capital and rely on external finance.

Furthermore, it was reported that there have been the risk sharing arrangements between PASS and collaborating bank that is facilitated by the financial situation of the lending bank. But on risk sharing arrangements, when the SMEs fail to repay the loan, the collateral put is taken. Thus, whereas some countries have set up small business equity markets to help raise equity capital among SMEs, others have set up state grants, credit guarantees and develop a list of business angels to assist small businesses. However, credit guarantee funds are not tools to solve the problems of weak entrepreneurship or poorly performing SMEs, but CGs are only likely to be successful when the four Ps are all present: well-prepared SMEs who present good projects to well performing banks that have professional staff to handle the process.

5.2 Recommendations

From the above findings, the researcher proposes the following recommendations.

It was found that SMEs that have a big impact on value chains for agricultural commodities and possessed knowledge on how to access credit guarantee from financial or private sector trusts were assisted by PASS. It is recommended that PASS should not be the sole collaborator for CRDB as others need to chip in order to enhance competitions, hence better services to SMEs.

It was found that loan conditions have enabled SMEs to assess their ability to pay something that influenced the credit guarantor or lender to either give or deny the application. And there was a need to increase the ration on credit guarantee so as to get high profit when investing. But, while charges/interest rates are very high, the security required has complications and the commission fees charged are also high something that need to be looked upon in order to boost SMEs business undertakings.

Regarding risk sharing arrangements, it was found that when the SMEs fail to repay the loan, the collateral put is taken. It is recommended that SMEs' needs framework that has profound effect on their performance as the situation and conditions of borrowing and

loan characteristics impinge SMEs to access loans and ultimately non-repayments. These include access to markets, finance, training, and enabling business environment.

5.3 Areas for further research

The study examined the role of credit guarantee in promoting SMEs development through CRDB Bank in collaboration with PASS in Morogoro Municipality. It is recommended that further studies be done on the following issues;

- a) To what extent has PASS facilitated credit guarantee among SMEs in Morogoro municipality?
- b) Does social networking contribute to venturing new markets among SMEs in their business undertakings?

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APPENDICES

Appendix 1; Questionnaires for SMEs owners

PART A: Background information

1) Entrepreneurs' characteristics (tick where appropriate)

Variable	Put a tick
a) In which category of Age do you belong?	
1-20 yrs	
21-30 yrs	
31-40 yrs	
41-50 yrs	
> 51 yrs	
b) What is your gender/sex?	
Male	
Female	
c) Work experience in running business	
I have experience in running business (1-5 years)	
I have never run a business (starting)	
d) What is your highest level of education?	
No formal education	
Primary education	
Secondary education	
Diploma	
Higher education	

2) Characteristics of SMEs (tick where appropriate)

Variable	Put a tick
a) Origin of enterprise	
Established	
Inherited	
Other	
b) Length time in operation	
Older player (>5 yrs)	
New comer (< 5 yrs)	
c) Size of enterprise	
Large	
Small	
d) Capital source/source of capital	
Personal savings	
Joint venture with colleagues/friends	
Family investment	
Bank	

PART B; SMEs owner's knowledge on credit guarantee

- Do you have a good knowledge on how credit guarantee is accessed from financial or private sector trusts? A. Yes [] B. No []
- If the answer in 1 is Yes, who provided you with that knowledge? specify
.....
.....
.....
- If the answer in 1 is No, what steps do you take to have this knowledge? Specify
.....
.....
- It is stated that since PASS establishment has been providing credit guarantee to various individuals, associations or companies. Are you among those who benefited from them? A. Yes [] B. No []
- If the answer is Yes, what activity enabled you to benefit from this credit guarantee? Specify,
.....
.....
.....
- Were you assisted by PASS to access loan facilities via appraisal of loan write up and linked to CRDB? A. Yes [] B. No []
- If the answer is Yes, does the amount charged by PASS necessitate a real assistance of a burden to SMEs owners or managers? A. Yes [] B. No []

8. Were you assisted by PASS to access partial credit guarantee in collaboration with CRDB to top up inadequate collateral? A. Yes [] B. No []
9. If the answer is Yes in 8 above, were you informed of the procedures and the ways of facilitating your investment? A. Yes [] B. No []
10. What do you think PASS and CRDB Bank must do in order to enhance the services among SMEs? Specify

.....

.....

.....

PART C; Effect of loan conditions on SMEs credit guarantee and development

11. Do you think that the following conditions have effects on SMEs being provided with credit guarantee; thus development? *(Tick where appropriate).*

No	Condition	Yes	No
1	Character of SMEs influences the credit guarantor or lender to either give or deny the application from the SME		
2	Ability to pay of SMEs influences the credit guarantor or lender to either give or deny the application from the SME		
3	Purpose of the loan applied by the SMEs influences the credit guarantor or lender to either give or deny the application from the SME		
4	Amount of loan applied by the SMEs influences the credit guarantor or lender to either give or deny the application from the SME		
5	Repayment terms and insurance of SMEs influences the credit guarantor or lender to either give or deny the application from the SME		
6	Management of the SMEs influences the credit guarantor or lender to either give or deny the application from the SME		
7	Willingness to bear risks influences the credit guarantor or lender to either give or deny the application from the SME		

12. What other effects of loan condition do you know. Specify

.....

.....

.....

PART D; Factors influencing the effectiveness of credit guarantee on SMEs development

13. Please indicate your agreement or disagreement regarding the factors as follows; 1) A=Agree AND 2) D=Disagree.

Factor	Agree	Disagree
Poor knowledge in business management		
Regulatory framework on accessing guarantee		
Financial situation of the lending bank		
Situation of the borrowing SMEs		
Scheme's own features		
Input and output markets		
Design and how well they are implemented		
Incentive features		
Risk sharing arrangements		
Procedure of the existing guarantee		
Internal reporting and control system		

14. What are the other factors do you know? (specify)

- i).....
- ii).....
- iii).....

Appendix 2; Interview guide for Managers

1. Why did you choose this type of business? Are you passionate about this particular business or just about being in business? How did it come about?
2. What is your level of education and experience in line with the business you are in?
3. Are you aware of what a business plan is? Do you feel it would have been useful to have it or have you ever needed one?
4. How do you choose the people you work with and what type of people you consult about different issues regarding your business?
5. Did you have any difficulties in finding finances either for start up or expansion?
6. Do you keep any records? And what is your volume of sales if I may ask?
7. Is your business registered? (If not, why if I may ask?)
8. What type of modern tools/technology you apply in your business to keep it up to date and competitive in line with the current technological era?
9. How is your business doing from the point you started it up until now?
10. What are the challenges you come across within your line of business?
11. What are your plans for the future, where do you see yourself and your business say in 5 years time?
12. Do you possess the knowledge in securing credit guarantee from financial institution?
13. What would be the effects of loan conditions on you SME development?
14. What are the factors that influence the effectiveness of credit guarantee on SMEs?