THE IMPACT OF CREDIT INSTITUTIONS ON THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN TANGA CITY: THE CASE OF NMB BANK (MADARAKA BRANCH)

By

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A Dissertation Submitted to the School of Business in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration (MBA-Corporate Management) of Mzumbe University

2014

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **"The impact of credit institutions on the development of small and medium enterprises",** in partial fulfillment of the requirements for award of the degree of Master of Business Administration of Mzumbe University.

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DEDICATION

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ABSTRACT

Development of a vibrant economy depends on how entrepreneurial the people are, and though some believe that entrepreneurs are born but the fact is that entrepreneurs are made. A strategic thinking is how to consistently develop the capacity of making entrepreneurs. Business development is about seeing opportunities and developing the best ways of tapping those opportunities to ones advantage. Tanzania is blessed to have quite a number of natural resources that are worthless until when they are exploited and transformed into other consumable products to be marketable. The Government supports initiatives to develop capacities to effect the transformation.

The aim of this study was to determine the impact of credit institutions on the development of small and medium enterprises in Tanga city.

To accommodate the sampling procedure, this study used stratified probability sampling techniques. The reasons for this selection is that with probability sampling each population element has equal chance of occurrence(kothari,1990) The sample of this study was only Tanga city where all data concerned to this were gathered. The sample size constituted 35 respondents.

The government has to put in place good operational environment for SME development and growth. It fully supports strategies, programmes and projects aimed at contributing to the development of SMEs.

It is my sincere belief that active participation of all stakeholders in this noble development course will increase the pace of business creation, chances of survival and success, create jobs, increase income and contribute to the improvement of general people's well being. And emphasizing to all small and medium entrepreneurs to go school which will help them in their business management increasing sales.

ABBREVIATION

SME's- Small and medium Enterprises

MSME,s- Micro Small Medium Enterprises

GDP-Gross Domestic Product

NMB- National Microfinance Bank

MU- Mzumbe University

MBA- Masters of business administration

MFI- Micro Finance Institution

SACCOS- Savings and Credit Cooperative Organizations

R&D- Research and Development

URT-United Republic of Tanzania

IFC- International Finance Cooperation

GDP- Gross Domestic Product

ISIC- International Standards for Industrial Classification

IDA- International Development Association

ADB- African Development Bank

SAP- Structural Adjustment Program

PHDR-Poverty and Human Development Report

LDC- Less Development Countries

MIGA- Multilateral Investment Guarantee Agency

IBRD- International Bank for Reconstruction and Development

UNIDO- United Nations Industrial Development Organization

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CHAPTER ONE

INTRODUCTION AND PROBLEM SETTING

1.1 Introduction

This chapter explains the background information, the statement of the problem, research objectives, research questions, significance of the study, and scope of the study and limitations of the study.

1.2 Background Information

Over the past twenty years or so Tanzania has constantly been embarking on a long process of political, economical and social reforms to improve the business environment, promote economic growth and reduce poverty in the country. The economic hardship the country has been facing has been attributed to a lot of factors among them being the underdeveloped private sector which accounts for over 80% of employment (IFC 2006). Unemployment has been a chronic problem in the country. Today the unemployment rate stands at a staggering 12.7% (NBS 2009 est.) forcing a large number of the working population to opt for self employment. But due to a number of reasons the newly formed businesses fail to operate on profits and eventually close down or continue operating without a good return on investments constrained from growth and expansion. Recent studies on Small and medium enterprises by Mfaume R and W. Leonard(2003) and Kuzilwa J.A (2003), all of which were undertaken in Tanzania have identified the factors limiting the success of small and medium sized businesses among them being corruption, lack of education and training, government policy, in-access to finances and many more to be revised later on in this particular study. This study will focus on reviewing previous studies made on the subject in question both in and out of Tanzania and later on drawing conclusions are relevant to the context in Tanzania.

There is consensus among policy makers, economists and business experts that small and medium enterprises (SMEs) are drivers of economic growth. A healthy SME

sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. According to Bashir Ahmad Fida (2008), SMEs are the first step towards development in economies towards industrialization.

The dynamic role of SMEs in developing countries positions SMEs as engines through which the growth objectives of developing countries can be achieved – a role that has long been recognized. One of the significant characteristics of a flourishing and growing economy is a vibrant and blooming SME sector. SMEs play a pivotal role in the development of a nation. They contribute to socio-economic development in various ways; namely, by creating employment for a rural and urban growing labor force and providing desirable sustainability and innovation in the economy as a whole. Fayad (2008) propounds that most of the current multi-million dollar enterprises have their origin in SMEs. Nevertheless, SMEs in developed andless developed countries (LDCs), as in other countries, are still facing a number of difficulties and obstacles that are impeding and complicating their operations and growth.

The value of the small business sector is recognized in economies world-wide, irrespective of the economy's developmental stage. The contribution towards growth, job creation and social progress is valued highly and small business is regarded as an essential element in a successful formula for achieving economic growth (Vosloo, 1994 :) It is estimated that SMEs employ 22% of the adult population in developing countries (Daniels, 1994; Daniels & Ngwira, 1992; Daniels & Fisseha, 1992; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson). UNIDO (1999) estimates that SMEs represent over 90% of private business and contribute to more than 50% of employment and of GDP in most African countries.Tanzanian Small and Medium Enterprise (SME) sector was said to contribute about one-third of the GDP (Olomi, 2006:1). In 2010, the small businesses were estimated to contribute about 27% of the GDP to the Tanzanian economy (URT, 2012b:16).

However, Government of Tanzania understanding of the importance of SMEs in economy development has complemented entrepreneur's efforts by designing and implementing a number of policies and fund to cultivate the entrepreneurial spirit. For example Micro-finance policy (2000), SME Development policy (2003), import support fund, National empowerment programme phase1 commonly known JK billions The loan finance is a major source of financing SMEs development for the purpose of boosting economy growth and alleviation of poverty. Currently very few SME's obtain source of finance from capital venture, thus works as challenges towards development of SME's in Tanzania. For SMEs to develop in Tanzania they need capital, education for their business sustainable environment, hence the efforts of government and the entrepreneur must be combined to achieve the goals.

1.3 Statement of the Problem

The goal of loan is to meet organizations or to make entrepreneur to move the ground, grow or expand. Loans are important to help entrepreneur to lower the level of poverty and open the doors of opportunities.The aim of this desertation is to determine the factors that limit the success and growth of small businesses in Tanzania and eventually make suggestions on how to deal with the factors limiting small business growth. Taking into account the author's interest in starting a small business in the future, this knowledge puts him in a better position to overcome the threats that stand along the way while doing business in the future. Moreover, by identifying the possible solutions to the problems, it will not only help the author as an entrepreneur but it could be of great advantage to the Tanzanian business community and the government as a whole. In addition entrepreneurs normally lack guarantee scheme to back up loans from bank due to high cost of screening and administering small loans/ inability of these borrowers to prepare and present applications that meet loans institutions requirements,high interest rate, age, lack of education that meet loans institutions requirements, lack of collateral problems which exclude them to acquire credit from commercial banks.Despite these hindrances, the opinion of many people is that financial support in terms of loans can contribute to

the development and growth of these SMEs. As there is limited empirical evidence particularly in Tanga city this study intends to bridge the gap.

1.4 Research Objectives

The general objective of the study was to examine the impact of loan to the development of SMEs.

The specific objectives are:

1. To determine the contribution of the various loan products in SMEs development in Tanga City
2. To establish the constraints and challenges pertaining to SMEs development in Tanga City
3. To ascertain the effective strategies for the development of SMEs in Tanga City

1.5 Research Questions

The following are some of the questions that need to be answered when reviewing this problem of the study.

1. What is the contribution of various loan products to the development of SMEs in Tanga city?
2. What are the SMEs constraints and challenges for their development of SMEs in Tanga City?
3. What strategies can be laid down to develop SMEs in Tanga City?

1.6 Significance of Study

The study has reflected the factors which contribute to the development of SME, s after securing loan.

This study will be of benefit to MFIs, policy makers, SMEs and the community at large. The study explores and recommends potential areas that MFIs need to put more efforts when delivering their services. On the other hand, policy makers will also benefit in the sense that, the findings provide informed suggestions on how policy can be improved. With improved and easy to implement policies, more SMEs and the community at lar1ge will be able to access and benefit from the services of MFIs. Also it provides a reference to other researchers who wish to conduct a research on the same title.

1.7 Limitations of the Study

Certain Limitations were encountered in the course of this study. Key among these includes:

1. Unavailability of Data

One of the greatest challenges the researcher encountered in this study relates to access to and collection of hard data due to extreme data gaps and paucity. This compelled the researcher to limit the study to Small and Medium Scale Enterprises thus excluding Cottage and Micro Enterprises whose challenges though comparable, could be fundamentally different from those of SMEs.

2. Coverage
Only SMEs served by NMB were covered as a case study.

3. Willingness to Respond
The willingness to respond to SMEs operator due to secrecy and lack of proper record keeping was another problem

4. Time

The time provided for the researcher to complete this task was too short

5. Financial Problem

Finance problem faced the researcher during conducting this study.

1.8 Scope and Delimitations of the Study

The study was carried out at Tanga City under NMB Bank and it focused on the exploring the potential impact of loan to the development of small and medium enterprises .The researcher came up with valid data in spite of limited time.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides the theoretical literature review, empirical literature review and the conceptual framework.

2.2 Theoretical Literature Review

2.2.1 Conceptual Definitions

The researcher tried to explain some concepts relating to the problem. These included meaning of loan concept, small and medium enterprises. In order to obtain the meaning of these terms, the researcher had to read as many books, Journals, newspapers etc.

2.2.1.1 Small and Medium Enterprises

While the importance of the SME sector and the informal sector is acknowledged internationally, defining an SME is a challenging task, as every country has its own definition. There is no single, uniformly accepted definition of a small firm (Storey, 1994). Firms differ in their levels of capitalization, sales and employment. Hence, definitions which employ measures of size (e.g. number of employees, turnover, profitability and net worth) when applied to one sector might lead to all firms being classified as small, while the same size definition when applied to a different sector might lead to a different result.

This section provides a broad overview of small enterprise definitions used across the globe with the objective of understanding what an SME really is. This

understanding will go a long way in comparing and benchmarking results from different studies.

SME definitions can be broadly categorized into two, “economic” and “statistical” definitions. Under the economic definition, a firm is regarded as small if it meets the following three criteria: (1) it has a relatively small share of their market place; (2) it is managed by owners, or part owners, in a personalized way and not through the medium of a formalized management structure; and (3) it is independent in that it is not part of a larger enterprise.

The “statistical” definition, on the other hand, is used in three main areas: (1) quantifying the size of the small firm sector and its contribution to GDP, employment and exports; (2) comparing the extent to which the small firm sector’s economic contribution has changed over time; and (3) in a cross-country comparison of the small firms’ economic contribution. These definitions, however, have a number of weaknesses. For example, the economic definition, which states that a small business is managed by its owners or part owners in a personalized way and not through the medium of a formal management structure, is incompatible with its statistical definition of a small manufacturing firm which might have up to 200 employees. According to UNIDO, the definition of SMEs is a significant issue for policy development and implementation and depends primarily on the purpose of the classification. For the purposes of policy development, UNIDO generally advises countries to take into account the quantitative and qualitative.

Small and Medium Enterprise Development Policy (2003) of Tanzania defines SME’s as the SME’s nomenclature is used to mean micro, small and medium Enterprises. It is sometimes referred, to as micro, small and medium enterprises (MSME’s). 2.2.1.2 Loan

Loan can be treated as credit since it is money owned and must be paid back with or without interest to an individual, group of people or organization.

2.2.1.3 Development

Development means move from one stage of development to another. Normally development means move from lower stage to high stage. According to Rodney (1972), Development in human society is a many– sided process. At the level of the individual, it implies increased skill and capacity, greater freedom, creativity, self – discipline, responsibility and material well – being. Some of these are virtually moral categories and are difficult to evaluate – depending as they do on the age in which one lives, one's class origins, and one's personal code of what is right and what is wrong.

Dickson (1997) defined the term development as a progressive change, which improves and sustains the quality in human society. This process is different according to the temporal and cultural environment it develops in.

Todaro (2003) defined the term development as a multidimensional process involving major change in society structure, popular altitudes and national instructions as well as the acceleration of economic growth, the reduction of inequality and ear deception of poverty.

Seers (1995) Development means creating the conditions for the realization of human personality. Its evaluation must therefore take into account three linked economic criteria: whether there has been a reduction in (i) Poverty (ii) unemployment (iii) inequality. G.N.P can grew rapidly without any improvement on these criteria, so development must be measured more directly.

The basic objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives.

2.2.1.4 Human Development

According to seers (1995) [6]defined human development is a process of enlarging people's choices. In principles, these choices can be infinite and charge over time. But in all levels of development, the three essentials one's are for people to lead a long and health life, to acquire knowledge and to have access to resources needed for a decent standard of living. If these essentialschoices are not available; many other opportunities remain in accessible.

Report on human development (1990)[7] suggests that the measurement of human development should for the time being focus on the three essential elements of human life – longevity, knowledge and decent living standard.
For the first component – longevity – life expectancy at birth is the indicator. The importance of life expectancy lies in the common belief that a long life is valuable in itself and in the fact that various indirect benefits (such as adequate nutrition and good health) are closely associated with higher life expectancy.

For the second key employment-knowledge-literacy figures are only a crude reflection of access to education, particularly to the good quality education so necessary for productive life in modern society.
The third key component of human development command over resources need for a decent living – is perhaps themostdifficult to measure simply. If requires data one access to land credit, income and other resources
A further consideration is that the indicator should reflect the diminishing returns to transforming income into human capabilities. In other words, people do not need excessive financial resources to ensure a decent living.

2.2.2 The Role of SMEs

Copious literature exists on Small and Medium Enterprises (SMEs) written by various authors and in different languages and for various purposes. This fact underscores the essence, importance and relevance of this sub-sector in the development of any given economy. The experiences of developed economies in

relation to the roles played by SMEs buttresses the fact that the relevance of SMEs cannot be overemphasized especially among the Less Developed Countries (LDCs) or rather Developing Countries. In order to highlight the significance of SMEs in relation to the growth and development of a given economy, SMEs have been variously referred to as the “engine ofgrowth”. This stems from the fact that almost all countries that have focused on the SMEs sector and ensures its vibrancy have ended up succeeding in the significant reduction and its attendant enhancement in the quality and standard of living, reduction in crime rate, increase in per capita income as well as rapid growth in GDP among other salutary effects.

There is a consensus that if all stakeholders are to show seriouscommitment to the development of the SMEs sub-sector, it follows that the economy must necessarily witness meaningful transformation and prosperity. A dynamic SME sub-sector is vital and imperative for the overall economic development of the country. Aside from providing opportunities for employment generation, SMEs help to provide effective means of curtailing rural-urban migration and resource utilization. By largely producing intermediate products for use in large–scale companies, SMEs contribute to the strengthening of industrial inter-linkages and integration.

A vibrant, efficient and effective SME sub-sector generates many resultant benefits for stakeholders, employees, customers, employers as well as the entire economy’s benefits. Employeesrequire new skills and knowledge to improve their performance on the job andto compete with their counterparts in other parts of the world. Customers on their part tend to enjoy personalized service and attention because of the keen competition, focus and innovation, which characterize the operations of SMEs. Employers or rather SME entrepreneurs on the other hand are either motivated or compelled by competition to learn and broaden their knowledge and skills in order to meet up with the challenges of maintaining good relationship with their financiers (banks and other financial institutions),auditors, regulators and even their competitors. They achieve this by belonging to and participating actively in the activities of appropriate chambers of commerce, trade groups, various forums, exhibitions, etc where ideas, new concepts and knowledge are shared and discussed.

The bottom line of all these is that the relevant SME would remain efficient and profitable and hence contribute to the growth and development of the entire economy.

Many International Development Agencies, organizations, and financiers not only appreciate the great roles played by SMEs in poverty alleviation andoverall economic development, but also invest a significant percentage of their resources in them (SMEs). A review of World Bank Operations revealed that it invested a whopping $1.597 billion in SMEs in 2004 fiscal year, with Africa getting a sizeable share of over $89 million. This sum was channeled through the four major development arms of the bank: the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA). Nigeria, Kenya and Uganda benefited from part of the new joint pilot programme executed by IFC and IDA for SME development in 2004 to the tune of $70million. The 2004 annual review of the IFC's Small Business Activities indicate that the IFC and IDA began SME project development in Nigeria worth $32 million.

In Kenya and Uganda, $22 million and $16 million were also respectively invested in similar projects. In recognition of the crucial role SMEs play in economic growth and development, the Bank of Industry generated over sixty percent (60%) of the entire loans it granted in 2004 to SMEs, the relatively high default rate notwithstanding. The Managing Director of the Bank of Industry, Dr. Lawrence Osa-Afiana also confirmed that twenty nine (29) of the 594 loan applications received by the bank since 2001 received approval adding that N20.8 million or 19.1 percent of the total approved loans went to the SME sub-sector. The Bank of Industry is also intensifying efforts to source cheaper funds from Development Financial Institutions (DFIs) such as the African Development Bank (ADB), African Export-Import Bank, European Development Bank, etc so as to on-lend to SMEs at concessionary rates and thus maximize their value addition. SMEs have no doubt been indeed recognized as the main engine of economic growth and development, a major variable for

promoting private sector, development and partnership. Various governments, development agencies and experts as well as multilateral institutions do appreciate this fact such that they positively respond to any occasion and situations, which could permit their contributing to or creating opportunities for promoting the lot ofSMEs.

The SME sub-sector not only contributes significantly to improve living standards but they also bring about substantial local capital formation and achieve high levels of productivity and capability. From a planning perspective, SMEs are increasingly viewed as a major means for achieving equitable and sustainable industrial diversion and dispersal. Employment or job opportunity wise, SMEs account for well over half of the total share of employment, sales and value added in most countries. One major drawback in Nigeria's quest for industrial development over the past years has been the absence of a strong, vibrant SME sub-sector. Given a population of well over 120million people, vast productive and arable land, rich variety of mineral deposits, as well as enormous human and other natural resources, Nigeria should have been a haven for Small and Medium Enterprises with maximum returns as it also has the location advantage as a marketing hub for the West and even East African Countries.

A number of reasons have been adduced as to why the expectations from the SMEs have not been met. If anything, the performance of the SMEs in
Tanzania has been rather dismal. First and foremost, the little progress made by the courageous and entrepreneurial efforts of the first generation of indigenous industrialists were almost virtually wiped out by the massive devastation, dislocations and indeed traumatic devaluation, which resulted from the Structural Adjustment Programme (SAP). The underlying policies and good intentions of SAP, which were based on the neo-classical theory of efficient, perfect and competitive markets whose assumptions were unfortunately out of sync with the prevailing circumstances, constraints and operating environment of SMEs in a developing economy like Tanzania. The SAP era thus represented the anti-climax of the thriving, flourishing period for SMEs in Tanzania over the past decade and the economy of the country has been on the decline with no appreciable real growth. People had

gradually moved out of the farms into urban areas for lack of agricultural incentives. Even in the urban areas and cities, infrastructure had continued to deteriorate, roads uncared for, water supply was irregular, power outage was a regular phenomenon, and even for people who could afford to use electricity-generating sets, petroleum products to power them might not be available as when needed. Instability and high turnover had negatively affected the performance of primary institutions responsible for policy enunciation, monitoring and implementation resulting in distortions in the macroeconomic structure and its attendant low productivity. These and other problems constitute drawbacks to the development of SMEs, which to all intents and purposes provide the critical building blocks for sustainable industrialization and economic growth. In developing countries like Tanzania, there is the dire need to create an enabling environment for the nurturing and development of SMEs so that they could play the crucial roles expected of them in economic transformation. The key roles of

SMEs include mobilization of domestic savings for investment, significant contribution to Gross Domestic Product (GDP) and Gross National Income (GNI), harnessing of local raw materials, employment creation, poverty reduction and alleviation, enhancement in standard of living, increase in per capita income, skills acquisition, advancement in technology and expert growth and diversification. This can however only be realized with the existence of a responsive and vibrant industrial policy and involving governments overall economic development strategies which will involve all stakeholders and ensure the effective and efficient harnessing, coordination and utilization of economic resources.

2.2.3 Factors Contributing To Entrepreneurs' Success

SMEs as part and parcel of entrepreneurs venture need some characteristics which will foster development of business. Some of the characteristics contributing to entrepreneurs' success are as follows:

1. Personal characteristics Exhibit certain characteristics and make good choices about which business to pursue.
2. Commitment and determination Decisive, tenacious, disciplined, willing to sacrifice and able to immerse themselves totally in their enterprises
3. Leadership They are self –starters, team builders, superior learners and teachers.
4. Opportunity obsession they have an intimate knowledge of customers needs, are market driven and are obsessed with value creation and enhancement.
5. Tolerance of risk, ambiguity and uncertainty they are calculated risk takers, risk minimizes, tolerant of stress and able to resolve problems.
6. Creativity self-reliance and ability to adapt.
   They are open-minded restless with the status quo, able to learn quickly, highly adaptable, creative, skilled at conceptualizing and attentive to details
7. Motivation excel They have a clear results orientation set high but realistic goals, have a strong drive to achieve, know their own weaknesses and strengths.

2.2.4 The Role of Loan in Growth and Development of SMEs

2.2.4.1 The Importance of Loan to Business Development

According to MC Laney E.J (1994)[1] a loan can be treated as a credit since it is money owned and must be paid back with or without interest. Loan is a sum of money that is lent at an interest or non interest to an individual, group of people or organization and has to be paid back (Oxford advanced learners dictionary).[2] David Cox and Michael Faldon (1989)[3] explain the importance of loan to business development, given the condition that it will be repaid in right time and proper conditions.

Loan helps business enterprises to build up their capital base hence able to operate business in large scale.

- Enable business undertakings to meet short – term needs like buying specific business assets.
- Loan provided working capital, which is important for financing day – to-day expenses of business.

2.2.4.2 Loan Considerations

Compton (1993) explains the important factors in consideration before loan is disbursed. This referring as five C's of credit.

1. Capital The borrower's capital position is also important. it is a cushion against problems and loses.
2. Capacity. Lenders and investors must be convinced of the firm's ability to meets its regular financial obligations and to repay loans and thus takes cash.
3. Collateral includes any assets an entrepreneur pledged to a lender as security for repayment of a loan.
4. Character Before extending a loan to or making an investment in a small business, lenders & investors must be satisfied with an entrepreneur character. The evaluation of character frequently is based on intangible factors such as honesty, integrity, competence, polish, determination, intelligence and ability. Although the qualities judged are abstract this evaluation plays a critical role in the decision to put into a business or not. Lenders and investors know that most small businesses fail because of in - competent management and they try to avoid extending loan to high – risk entrepreneurs
5. Conditions. The conditions surrounding a funding request also affect an entrepreneur's chance of receiving financing. Lenders and investors consider factors relating to a business's operation such as potential growth in the market, competition, location, strengths weaknesses, opportunities and threats.

2.2.4.3 Loan Constraints to Small and Medium Enterprises

According to a recent IMF report, factors constraining access to financial services in sub-Saharan Africa include - Widespread of poverty - A large agricultural base - High banking charges for opening and maintaining a deposit account make access to the bank services more difficult for small scale savers (business times April 20-26,2007) [4]

Also on Tanzania investment reported factors constraining access to credit. They indicated that higher bank lending rates and limited availability of credit undermines the level of their activities. Lending rates above 20 percent have no relation with the low inflation rate of 6 percent and deposit rates of 3 to 5 percent during 2000, implying imperfections in market high lending rates have led to market segmentation whereby only large corporate investors can access the credit at lower cost.

Banks on their part insist that high interest rates result from high – risk borrowers, high operational cost and the weakness in land law and the judicial system, which make the process of registering mortgage and loan recovery cumbersome. Government needs to address the above factors in its efforts towards the financial sector reforms

2.3 Empirical Literature Review

2.3.1 SMEs inTanzania

It has been mentioned by Olomi (2005) that 'according to the 2003 SME Development Policy, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to US$ 5,000 majority of which fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from US$ 5,000 up to US$ 200,000. Medium enterprises employ between 50 and 99 people or use capital investment from US$ 200,000 to US$ 800,000'. He also further

claimed that 'the sector is however dominated by informal micro enterprises with an extremely low incidence of graduation to formal small and medium size. The enterprises remain marginal players, creating and sustaining low quality jobs and unable to effectively contribute to economic competitiveness, exports, tax revenue and economic growth' (Olomi, 2005:1-2). The Table 1 displays the categories of SMEs in Tanzania with the number of employees and capital investments based on Government of Tanzania's categorization. This official classification is considered relevant for our purpose.

Table 1: Categories of SMEs in Tanzania with capital investments

Category	**Employees**	**Capital investment in machinery (Million Tshs)**
Micro enterprise	1-4	Up to 5
Small enterprise	5-49	Above 5 below 200
Medium enterprise	50-99	Above 200 below 800
Large enterprise	100+	Above 800

Source: Omar (2008:6) and URT (2012b:23)

The Tanzanian Poverty and Human Development Report (PHDR) 2011 stated that 'survey of the manufacturing sector has shown that out of the 25,000 manufacturing enterprises operating in the country, 88% are microenterprises that engage 1-4 persons (60.3% engage 1-2 persons and 27.7% engage 3-4 persons). The PHDR 2011 further admitted that broad-based growth can only be realized through the effective participation of MSEs in the growth process. However, it also lamented about the entrepreneurship culture in Tanzania. It claimed that the under-developed enterprise culture in Tanzania for both enterprises and facilitators of MSEs is partly owing to the system that lasted for 20 years in which enterprise culture was suppressed in favor of building a socialist society (URT, 2012a:146).

A recent (2013) review of the Tanzania SME Development Policy 2003 has provided the basic data about the SMEs in Tanzania. According to this review, SMEs constituted vast number of businesses: there were estimated to be more than 3 million SMEs (de facto MSEs) employing more than 5.2 million people in Tanzania of which some 45% were located in urban and the remainder in rural areas; the industrial sector encompassed some 25,000 enterprises, 97% of which had less than ten employees (compared to 40 large manufacturing enterprises with 500+ employees, covering about one third of employment in industry). The estimated size of the informal economy as a percentage of GDP had decreased over time: from 62.5% in 1991 to 43.6% in 2005 and 39.7% in 2010; the estimated size of the informal sector as a percentage of GDP excluding agriculture is lower and moved from 43.1% in 1991 to 30.1% in 2010 and 27.4% in 2010 (showing a gradual trend from informal to formal) (Oyen and Gedi, 2013: 10).

It is also claimed that 'since SMEs tend to be labour-intensive, they create employment at relatively low levels of investment per job created'. Further, it was considered that through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industries requirements. Moreover, they were expected to serve as a training ground for entrepreneurship and managerial development and enable motivated individuals to find new avenues for investment and expanding their operations (Economic and Social Research Foundation, 2009:68-69).

A survey of MSEs in Tanzania conducted in 2011 has brought out the status of small enterprises with regard to the various sectors. Based on their main activities, their main products and services, and their location, these small enterprises were allocated to various sectors according to the International Standard for Industrial Classification (ISIC). Table 2 shows the number of enterprises and their relative percentage in the different ISIC categories. The categories were then aggregated to the broad sectors of trade (T), services (S) manufacturing (M), and other (O) services.

It could be seen that wholesale, retail trade, repair of motor vehicles constituted the highest MSMEs in Tanzania i.e. 55.4% out of the total 3,162,887. This was followed by accommodation and food service activities which constituted 26.4% of the total MSMEs.

Manufacturing accounted for 13.6% MSMEs. It has also been found out that there were significantly more micro enterprises than small or medium sized ones in all broad sectors. Out of 3,162,887 MSMEs, an overwhelming 3,074,736 amounting to 97.2% had 0-4 employees (micro-enterprises). Trade (1,710,884), Services (942,596), Manufacture (406,426) and Others (14,830) were the sectors among these micro enterprises. Only 88,150 enterprises had five or more employees.

Table 2: MSMEs in Tanzania by sector

International Standard for Industrial Classification (ISIC) sector	Number	Percentage	Broad Sector
Agriculture, forestry, and fishing	13178	0.4	O
Mining and quarrying	3684	0.1	M/O
Manufacturing	429050	13.6	M
Electricity, gas, steam, air conditioning supply	9849	0.3	S
Water supply, sewerage and waste management	1843	0.1	O
Wholesale, retail trade, repair of motor vehicles	1750897	55.4	T
Transportation and storage	14404	0.5	S
Accommodation and food service activities	836564	26.4	S
Information and communication	1791	0.1	S
Professional scientific and technical activities	9845	0.3	S
Administrative and support service activities	8742	0.3	S
Public administration, defense, social security	2670	0.1	S
Other service activities	80370	2.5	S
Total	3162887	100.0	

Source: URT (2012b), Micro, Small and Medium Enterprises in Tanzania,

National Baseline Survey Report, Ministry of Trade and Industry and Financial Sector Deepening Trust, Dar es Salaam

According to this survey, the regional distribution of small business sectors indicated that the numbers of trade, manufacturing, and service enterprises are higher in rural areas than in Dar es Salaam, other urban areas, and Zanzibar. The highest business densities were found in Mbeya (46%) and Dar es Salaam (45%), and the lowest in Kagera (14%) and Manyara (17%) (URT, 2012).

2.3.2 Characteristics of SMEs in Tanzania

A major characteristic of Tanzania's SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs is either sole proprietorships or partnerships. Even where the registration status is thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business. Other common features of Tanzania's SMEs include the following among others.

1. Labour–intensive production processes
2. Concentration of management on the key man
3. Limited access to long term funds
4. High cost of funds as a result of high interest rates and bank charges
5. High mortality rate especially within their first two years
6. Over-dependence on imported raw materials and spare parts
7. Poor inter and intra-sectoral linkages - hence they hardly enjoyeconomies of scale benefits
8. Poor managerial skills due to their inability to pay for skilled labour
9. Poor product quality output
10) Absence of Research and Development
11) Little or no training and development for their staff
12) Poor documentations of policy, strategy, financials, plans, info, systems
13) Low entrepreneurial skills, inadequate educational or technical background

14) Lack of adequate financial record keeping
15) Poor Capital structure, i.e. low capitalization
16) Poor management of financial resources and inability to distinguishbetween personal and business finance
17) High production costs due to inadequate infrastructure and wastages.
18) Use of rather outdated and inefficient technology especially as it relates toprocessing, preservation and storage.
19) Lack of access to international market
20) Lack of succession plan

21) Poor access to vital information

2.3.3 Importance of Small and Medium Enterprise

The significance of the SME's sector in Tanzania can be seen in terms of contribution towards economic growth, employment creation poverty reduction and development of an industrial base. Specific importance of SME's was as follows as mentioned in SME development policy of 2003.

- It is estimated that about a third of the GDP originates from the SME sector. According to the informal sector survey of 1999, micro enterprise more than 1.7 million business engaging about 3 million persons that was, about 20% of the Tanzania labor force.
- Since SME's tend to be labor – intensive, they create employment at relatively low levels of investment per job created.

SME's tend to be more effective in the utilization of local resources using simple and affordable technology. SMEs play a fundamental role in utilizing and adding value to local resources.

Through business linkages partnerships and subcontracting relationships, SME's have great potential to complement large industrial requirements.

A strong and productive industries structure and large enterprise not only co-exist but also function in a symbiotic relationship

2.3.4 Causes of Business Failures

Most of start up businesses hardly survives for two years after commencement they collapse. The businesses fail despite government efforts towards better businesses under umbrella of the Business Environment strengthening for Tanzania (BEST).

According to surveys conducted in America in 1981, it was established that, out of 100 enterprises that were started, 65 died within three years, and the remaining businesses die in the following two years. This means that only 18% of the enterprises exist beyond the first 5 years. What is the status in Tanzania?

In Tanzania some of the businesses once established are not sustainable due to the following reasons.

- Insufficient capital
- Inadequate business knowledge and skills
- Poor business management (selfishness, law integrity etc)
- Wrong business location
- Unexpected business competition
- Unfriendly laws
- Bankruptcy - Lack of customer focus - Hazards and calamities (source TRA– Norms of doing business)

2.3.5 Review of Related Studies

Marwa (2005)[8] has provided the following conclusion on her research report, "Development of SME contribute a lot in the reduction of the country subject poverty due to the fact that most Tanzanians with no formal employment engage themselves in this sector as a result 20% of the country employment & one third of the country GDP is from this sector. Hence for the country economic stability, both financial institutions and the government must support this sector. With regard to the research findings, NMB as one of the financial institute plays a great part in building the country economic development by supporting SME in terms of transferring of funds, credits, training, overdraft facility, reservation of deposit, with draw of cash". According to Tarimo (2006)[9] on his research report concluded as the study showing that MUCOBA is effective in supporting the society in poverty reduction.

From 1999 to 2005 a good number of people got financial support (loans) from the bank under different categories. Loans were given to all people in need and for business they proposed. The lowest debtor got a loan of Tshs 30,000/= and the highest got Tshs 20,000,000/= in addition to that, the bank has improved in mobilizing deposits from clients in such a way that people save their money in the bank. Both normal and fixed savings accounts have improved in recent times.

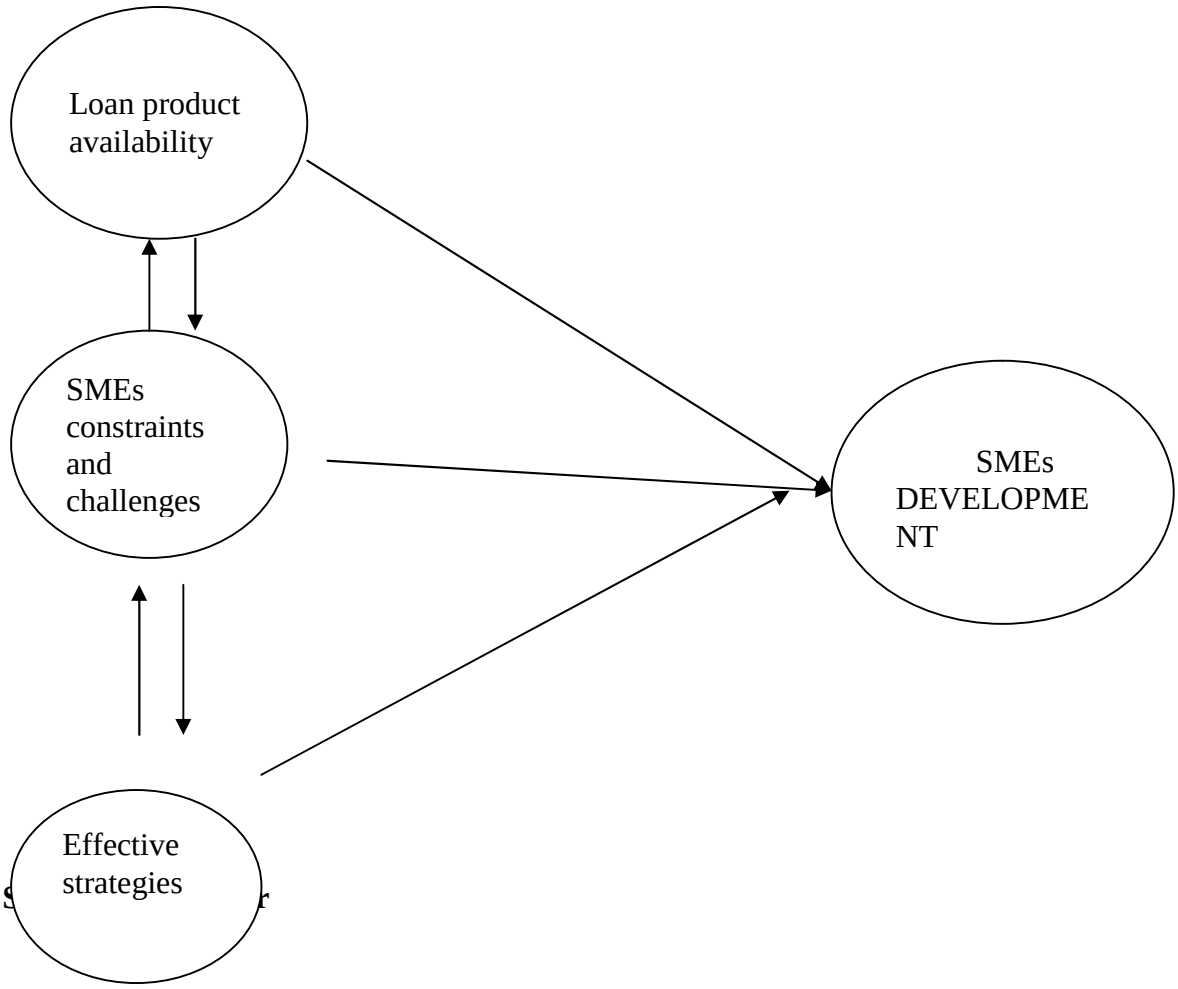
Hence, the mentioned researchers conducted their study in relationship between financial institutions and SME's. Thus, there is room to be filled which is the study of impact of loan to the development of SME's. However, as President Mkapa once said 'there is one room that will never be full. And that is the room for improvement'. So there is still room for more study on the area of SME's development because it shows bright future or promising future in the area of business.

2.4 Conceptual Framework

Independent Variables **Dependent Variable**

The diagram below illustrates variables which are independent variables and dependent variables. Independent variables are loan product availability, SMEs constraints and challenges, Effective strategies while dependent variable is SMEs development. Therefore as the diagram illustrates SMEs development depends on the three factors which are independent variables.

Figure 2.1: Conceptual Framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

According to Kothari (1990) research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done systematically. The methodology provides guide for analysis and interpretation of data. The process includesresearch design, population of the study, sampling procedures, nature of data, data collection, as well as the procedures for analysis and interpretation of data.

3.2 Research Design

Survey design was employed in this study. This is because is more flexible and it allows exploratory, descriptive and diagnostic research study (Kothari, 1990). Descriptive study includes survey and facts findings enquiry of different purpose.

3.3 Area of the Study

The study was conducted at Tanga city where data were collected from chosen people. This has been chosen by the researcher because it is accessible hence easy to collect data and information required with limited time available. Also the budgeted money was enough for conducting the study.

3.4 Units of Inquiry

The study covered the management/ staff and clients served by NMB bank Madaraka branch as a source of information.

3.5 Sampling Procedure and Sample Size

To accommodate the sampling procedure, this study used stratified probability sampling techniques. The reasons for this selection is that with probability sampling each population element has equal chance of occurrence(kothari,1990) The sample of this study was only Tanga city where all data concerned to this were gathered. The sample size constituted 35 respondents.

3.6 Data Collection Methods

In dealing with real life problem it was found that at hand inadequate and hence it becomes very necessary to collect appropriate data Due to the nature study, scope and desire degree of accuracy these study has employd five types of data collection instruments. These are interviews, questions, documentary, review, checklist and observation. This is because by using more instruments it helped the researcher to supplement information provided. Hence facilitate the validation of the information of data relevance to all categories.

The researcher used Swahili and English language when collecting data because not all the people in area know English language.

3.6.1 Interview

The study employed personal interview structured interview and focused interview, by explanations, personal interview means asking questions generally in a face to face contact to the other persons. Structured interview involve the use asset of predetermined question and highly standardized techniques of recording Non-structured, the interview is allowed much greater freedom to ask in a case of need supplementary questions. Focused interview on the other hand means to focus attention on the given experience of the respondent and its effect. These methods was involved semi-structured interview so that to have flexibility in asking questions depending on the situation on the loan takers, so the interview were mainly be directed to the loan takers chosen. Despite of having the variation in interview-techniques, the major advantages and weakness of personal can be enumerated in a general way. The chief merits of the interview methods are as follows.

1. More information and data that have greater depth can be obtained.
2. Interviews which involve the skill of the researcher can overcome resistance.

3.6.2questionnaires

This method of data collection is quite popular, particularly in case of big enquires. Due to this the researcher was also be administered to this study. More over this method is free from bias and the answers are in respondent own words, thus the respondent had adequate time to give well explanation to his/her answers. So through this method employed to the SME's that are chosen may at last provide supplementary information to the researcher.

3.6.3 Observation Method

Observation method provided direct observation information for the researcher, through observation record sheet was used for the assessment of the traders as well as firms physically environment.

3.6.4 Documentation

This method was used to obtain data from various documents. Thus a researcherwas needed to explore on Annual budget, publication, previous research report and any other relevant document.

3.7 Data Analysis

The data after collection was processed and analyzed in accordance with the outline laid down for the purpose of the time of developing the research plan. This is essential for a scientific study and for ensuring that the researcher have all relevant data for making contemplated comparisons and tabulation of the collected data so that they are amenable.

CHAPTER FOUR

RESEARCH FINDING AND ANALYSIS

4.1 Introduction

This chapter presents the findings, analysis as well as discussion on the answers to the research questions. The information discussed had been obtained from borrowers of NMB Bank Madaraka branch at Tanga city.

4.2 Profile of the Respondents

This sub section- begins with an analysis of respondents characteristics. It gives general information on gender, education, experience of the respondents and number of employees.

4.2.1 Gender

From table 4.1 below men are 60% of all respondents and women constitute 40% of the respondents.

Table 4.1: Gender of the Respondents

Gender	Frequency	Percentage
Men	21	60 %
Women	14	40 %
Total	35	100 %

4.2.2 Owners Education

For the purpose of this work, the education levels reached are presented in the table below in ascending order.

Table 4.2: Owners Education

Education	Frequency	Percent
Primary	7	20.0
Secondary	18	51.4
Vocational Trainings	8	22.9
Higher Education	2	5.7
Total	35	100

Source Survey Data 2014

The findings showed that 20 percent of the owners or leaders of these business ventures had only basic primary education and 51 percent which is above half had secondary education. 8% of them had attended vocational trainings and the remaining 2% had higher education from colleges and universities. The findings showed that majority of the owners in these business ventures have only primary and secondary education and a very small number of them at least go to vocational training. This shows that most of these ventures are survival oriented and education is not perceived as an important assert to the business by many of the owners. It shows that 71% of these entrepreneurs had only primary and secondary education but still innovation activities did take place. The findings showed that all the MSE studied had either adopted or modified ether their products or production process or the way they market themselves or even the way they organized their work. This finding is similar to that of Thomas (2011) where he found that entrepreneurs who

did not attend vocational trainings were also innovative even more compared to those who attended the vocational trainings.

4.2.3 Experience of the Owners

Table 4.3:Experience before Starting Business

Experience	Frequency	Percent
Had experience	5	14.3
No experience	30	85.7
Total	35	100

Source survey data 2014

Finding showed that only 14.3% of the owners of these business ventures had prior experience in the business before starting the current business. The remaining 85.7% had no prior experience in the business.

When asked why they engaged themselves in the business 49% said that they did not have enough education qualification to get employment and 12% said they did not want to get employed but wanted to employ others. The remaining 37% had other reasons including responses like the education attained from the vocational training gave them an incentive, earning an additional income, hobbies and also tiredness of sitting idle as one mentioned that she was just tired sitting at home and hence wanted to meet different people and hence started the business venture. This implies that many of these small and medium entrepreneurs started the enterprises from reasons that were mostly social oriented rather than business oriented and this had an effect on how strong the drive for innovation activities was.

Looking at the basic information of the entrepreneur a lot could be drawn on the link to the innovativeness of the enterprise. Example, when looking at owner's education, the findings revealed that those enterprises with owners that have attended school higher than secondary school complained less on the amount of loan attained. They

had been able to attain loan that was big enough to stir innovative activities like modifications of the imported machinery in their enterprises. This was due to the fact that they had better awareness, they could express themselves better to the micro finance institution and also they had better business proposals.

4.2.4 Number of Employees

Table 4.4: Number of Employees

Employees	Frequency	Percent
1-5	25	71.4
6-10	2	5.7
11-20	3	8.6
Above 20	5	14.3
Total	35	100

Source data survey data 2014

Findings showed that the majority of these enterprises had between 1 and 5 employees by 71%. Those with above 20 employees occupied 14%. The enterprises with 6 to 10 employees and those with 11 to 20 employees were 7% and 9% respectively. Observation showed that the majority of the enterprises (71.4) had 1 to 5 employees and followed by those which have been in the business for a long time (above 20 years) which has 14.3. A bigger number in employees allows specialization and division of labor which is a recipe for improved ways in which work is organized. Lower number of employees indicates the possibility of low organizational innovation and this is what was evident in the enterprises visited.

Start up capital

The entrepreneurs had different sources from which they obtained their startup capital as indicated in table below:

4.2.5 Startup Capital

Table 4.5: Start Up Capital

Capital	Frequency	Percent
From Family	10	28.6
From Bank	9	25.7
From Friends	3	8.6
From own savings	13	37.1
TOTAL	35	100

Source survey data 2014

When asked about the source of the startup capital only 26% had obtained capital from the banks. These banks included NMB. The rest (74%) had obtained startup capital from other source like from family, from friends and from own savings. 29% got capital from family and more than half of them specifically got the capital from their spouses, 9% from friends and 37% from own savings. This has a positive relation with the pecking order theory discussed by Myers and Majluf in 1984 where they stressed that firms or enterprises prioritize their source of funding by first exhausting internal fund and after that it is when they can shift to external funding like loans. In order to effect massive innovation, a higher investment is needed (Schumpeter, 1912) and since these can be attained from the financial institution, the use of capital from other sources like friends and family members did not affect massive kind of innovation since the capital was small(less than one million).

4.2.6 Criteria of Securing Loan at NMB Bank

Table 4.6: Criteria of Securing Loan at NMB Bank

1	Small Business loan Individual loan	1) Borrower's business must be his principal activity/occupation; provide a living wage, and have been in continues operation for more than one year.

		2) Can be used for both operation support and equipment investment.
2	Small Business loan	1) Each person of the group must own a business that is at least six month old, and provides a living wage. 2) Can be used for both operation support and equipment investment. 3) Each group must consist of 3 and 5 person.
3	Group's loan	1) Group business activities must have been in continuous operation for at least the last six month. 2) NMB must obtain the registration of the group or an official reorganization from the legal authorities. 3) Offered to women. 4) Lower interest rate for women's group.

From the interview attained from the respondents it was revealed that the entrepreneurs of Tanzania by taking NMB BANK as case of study at Tanga city have lot of problems in their business environment. The small and medium enterprises related problems were as follows:

4.3 The Contribution of Loan Products to the Development of SMEs

Availability of loans products havecontributed to the development of SMEs due to funding of small and medium sized enterprises, and represents a major function of the general business finance market in which capital for different types of firms are supplied, acquired, and costed or priced. Capital is supplied through the business finance market in the form of bank loans and overdraft.

SME growth means increase in size or improvement of the business development process.Various indicators both qualitative and quantitative were used to measure SME growth. They include;

-outcome indicators-profit

-output indicators-e.g. sales volume, number of employee etc

-capacity based indicator-value of assets,capital invested

-Qualitative indicators-structure, managementpractice, degree of formalization etc

NMB Bank have different loan products for their customers such as individual loans, group loans, car loans, house loans these all are for small and medium entrepreneurs.

4.3.1 Loan Products

NMB currently offers several microfinance loan products each tailor-made to suitevery type of our customer. In broad terms, the features revolve around both thetraditional group and individual loan methodologies. Besides these, and by virtue ofbeing a full-fledged commercial bank, it alsooffers consumer lending andcorporate loans and overdrafts.

Group micro loans

Under this scheme, customers are able to borrow as little as TZS 50,000 and as muchas TZS 5 million with no tangible securities other than their savings and theguarantees that members of the group give to each other. The total portfolio sizecurrently stands at TZS 800 million. Total of 4000 customers have been served under this approach.

Individual micro loans

This is the product that serves many micro entrepreneurs in thiscountry. Since its launch May 2001 in one branch, it has grown at a faster pace thanany other loan product over the past two years, from just above 700 active loans in December 2001 to 8500 today. Out of the current outstanding total loans andadvances portfolio of TZS 18 billion, TZS 4 billion is made up of individual microfinance loans. NMB individual micro loan is characterized by quick turnaround time and flexible loan terms more flexible than any of the products offered byits direct competitors. The minimum loan amount is TZS 200,000 and the maximumcurrently stands at TZS 10

million. Beyond this, customers graduate to SME loansand further to corporate loans and overdrafts depending on their working capitalrequirements.

Consumer Loans

As with the individual micro finance lending, NMB was the pioneer of consumerlending in Tanzania having introduced the product in December 2000. It was littlewonder that the portfolio and the total asset base of the bank grew very rapidly duringthe early days of its launching. Competition has however since set in with all themainstream banks now aggressively offering salary based loan products similar to NMB s. In spite of this, and because of our constant innovations, flexibility, andgood market intelligence, rather than lose our market share, the number of borrowershave continued to grow from 1200 in 2002, to 8300 today borrowing just over TZS 50 billion.

SME and post loan changes

In this section general profile is provided for the sample of enterprises that were provided credit by NMB commercial bank in terms of some key variables and the post loan changes in these variables. Also the uses of the loans and how these have affected the enterprises is discussed.

Sectoral composition:

Sectoral composition of NMB bank borrowers of the sample shows the high extent of concentration of NMB bank on traders (retail and wholesale). No clear pattern is visible among the different categories of borrowers, i.e. new, repeat and dropout, in their sectors of business except for a slightly higher share of manufacturing among the repeat borrowers than new, with which it has supported various micro enterprise activities such as food vending, fish mongering, groceries, mitumbas (sale of second hand clothes), small scale diary cattle keeping, retail and distribution, tailoring, carpentry, masonry works, internet cafes, stationery shops, secretarial services, barber shops, hair salons,and small scale agriculture etcBusiness experience of entrepreneurs:

NMB Bank SME borrowers have a fair degree of experience in their respective businesses. Majority of the borrowers are involved in the business for more than 10 years. This conforms to the fact that the NMBbank look for customers with some amount of experience. Though majority of the borrowers took SME credit for the 7 business already about 9 years old, some 17 percent of the borrowers received credit for the businesses they had been doing for not more than 3 years. This suggests that Nmb Bank is providing credit facility to new entrants on selective basis, because entry and exit in trading is relatively high. Average age of manufacturing units is significantly lower than trading units among the SME borrowers. Though these figures of years give the idea of length of operation of the businesses, the experience of the entrepreneurs might be higher. In fact, 30 percent of the borrowers have previous business experience of same sort or other. Not surprisingly, probability of having previous business experience in other enterprises is higher for those entrepreneurs who have been granted credit for relatively newly established enterprises compared to others. This suggests bias against start ups which is a common feature in SME lending. According to ownership pattern of the ventures, two third of the enterprises are proprietorships while the rest are family business.

4.3.2 Contribution of Loan Products on Capital Portfolio

Personal and family savings account for more than three quarter of the capital in the surveyed SMEs. It is not surprising that enterprises with higher capital were granted larger amounts of loan. It is interesting to note that before loans, the size of average capital was almost the same for trade, service and manufacturing sectors. Enterprises in trading sector have managed to increase the size of their capital, more rapidly than enterprises in other sectors. Only 3.4 percent of all the enterprises reported capital erosion and over 40 percent managed to more than double their capital after taking loan. There is no clear difference among the three groups of enterprises. However, it is important to note that this increase in capital may not solely be driven by the SME loan. In the words of a client, “SME loan only adds momentum to already expanding business.” On average, SME loans constitute 37 percent of the total capital of the

borrowers. These figures for the new and repeat borrowers are 31 and 44 percent respectively.

4.3.3 Contribution of Loan Products to Value of the Business

Average value of the businesses, measured by the amount for which the entrepreneur can sell the business, was Tsh 1.84 million before taking loan. Presently, the average value of the business of these enterprises is Tsh 2.49 million. Increase in value of enterprises has been higher for repeat borrowers than new borrowers, as expected, since they are operating for longer durations. However, value of enterprises of the dropout clients has also increased and their initial values were higher than others. Figures of average growth in values by types of enterprises show that manufacturing units have observed the highest growth and agro processing firms grew at the least pace. However, SME loan is not the only factor behind this growth of business. After all, SME loan constitutes only 24 percent of working capital on average.

4.3.4 Contribution of Loan Products to Sales Volume

Average yearly gross sales of the new, repeat and dropouts were Tsh 4.29, 5.61 and Tsh 6.47 million before taking loan. Since NMB Bank is providing much needed working capital to these enterprises, volumes of sales have increased for almost every borrower. On average, present sales of these enterprises are respectively 40, 67 and 26 percent higher compared to pre-loan period.

4.3.5Uses and Impact of Loan

The single most important use of NMB bank SME loans is in the form of working capital. 89 percent of the clients reported that they used their loan for increasing working capital. Although the loan is used less for investment in fixed capital, discussions with clients revealed a demand for financing fixed investments, which will typically require a gestation period before the investment generates enough cash flow for repayment. According to the SME borrowers, given that the NMBBank instalment scheme is not suitable for fixed capital investment, almost all of it is used for working capital. In increasingly competitive markets, SMEs are under pressure to

grow and diversify in order to hold on to their share of the market. One client drew a comparison between his enterprise with a balloon saying that after receiving loan from nmb Bank, his business expands like a balloon, but eventually shrinks down to its original size by the end of the loan tenure. Other uses of loan included buying vehicles, repairing shops, building houses and repaying previous loans.

When asked about the positive impacts of the loan on their businesses, clients in the SME loans came up with a list of areas. In order of importance, these were increased working capital, cash purchase, profits, sales, diversification of goods and services. Moreover, clients claimed that increased transactions facilitated by the loans have improved their status in the business community.

Clients claim that increased working capital has direct impact on the volume of sales. They are able to increase stocks and varieties and benefit from availing market opportunities. Many retailers expand business by starting up wholesale transactions. Transactions in credit are also facilitated due to the availability of cash. This allows entrepreneurs to purchase raw materials and goods for sale at lower prices, and also improve their relations with their buyers by offering sales on credit. Expansion of business and cash purchasing increases their status as businessmen, which facilitates future business deals. Interestingly, none of the clients mentioned having recruited new employees as an important impact of the loans. According to them, the labour hours is increased only by the entrepreneur himself, as he feels extra pressure for repaying the loan on time. As part of an exercise, clients were asked to rank the eight listed effects by order of importance. Increased efforts from the entrepreneur turned out to be the most important effect of the loan in almost all cases. Clients felt that they would not be putting in so much effort if they hadn’t taken the loan.

The following customers who take loan from NMB have the following suggestions on how loans they take from NMB Bank have lead to their development.,

Mr. Shedrack who is selling suflet bags at street 14 at Tanga city says that different loans products which he get from NMB Bank have helped him to grow his business he says that before taking loan he was only buying his suflet bags in retail because he

had small capital but after securing loan from NMB now he can buy in bulk and get profit from his business another customer

Mr. William who is selling sodas at Kange says that he is happy now since he started taking loan from NMB because his business have grow and now he can buy in bulk.

Also Mama Eliza a SME customer from Makorora how is selling food says that taking loan from NMB have given him a good experience because her capital have increased and also profit have increase.

Therefore from above customers suggestion shows that the contribution of loans products has lead to the development of small and medium enterprises andinnovations in addressing the credit market failures faced by poor households through microfinance have been a major development breakthrough of recent times. Micro and small enterprises have been shown in several studies to be largely underserved, giving rise to the term 'missing middle' in the literature. Yet, this is a critical market segment to support for both growth and poverty alleviation through employment generation. As a response to this demand and supply side changes in the traditional microfinance market, which has become significantly more 'crowded' in recent times, many microfinance providers in Tanzania have started providing enterprise finance targeted at the small enterprises. Some formal banks have also started operating in this market. NMB bank established in 1999 with a view to support small and medium enterprises and since 2002 has been providing small and medium enterprises credit.

4.4 Constraints and Challenges for the Development of SMEs

The results of the interviews conducted were presented with the major constraints/ challenges outlined which were discussed in depth in the discussion part of this particular work.After obtaining the results from the interviews conducted, the researcher saw it as a merit to group the factors/challenges limiting small firm's success/growth into two groups; first is the factors thatoriginate from within the firm

(in other words they are internal to the firm) and the second group is factors that originate from outside the firm (these are external to the firm).

4.4.1 InternalFactors Limiting Small Firm Growth

These have to do with the characteristics and attitude of the entrepreneur(s) and the firm as a whole. These factors can be impacted by the decisions made in the firm either by the entrepreneur(s) or the staff in the firm. These factors are as listed below:-

- Lack of motivation and drive
- Lack of background and experience in the business
- Capital constraint
- Lack of a proper business plan/vision
- Theft/cheating and lack of trust in doing business
- Poor management
- Running informal/unregistered businesses
- Lack of proper record keeping
- Inadequate education and training
- People factor/lack of needed talent
- Improper professional advice and consultation

Table No 6. Showing Internal Factors Limiting Small Business Growth

Internal Factors	Frequency	Percentage
Lack Motivation and Drive	1	12.5
Background and Experience	4	50
Capital Constraints	4	50
Lack of a Proper Business Plan	5	62.5
Theft/Cheating and Lack of Trust	6	75
Poor Management	3	37.5
Informal/Unregistered firm	3	37.5
Lack of Proper Record Keeping	5	62.5
Education and Training	4	50
People Factor	6	75
Number of Firms from which the data was collected	8	100

4.4.2 External Factors Limiting Small Firm Growth

These factors have to do with decisions, rules and policies that affect a small firm directly, and in response the firm has not really control over the decisions made but an influence to a change of their existence is possible. These factors originate from outside the firm. They are as follows:-

- Corruption
- Competition
- Government policy
- Technological barrier
- In access to finances/funding

- Bureaucratic processes
- Unfavourable economic factors

Table No 7. Showing External Factors Limiting Small Business Growth

Enternal Factors	**Frequency**	**Percentage**
Corruption	5	62.5
Competition	4	50
Government Policy	8	100
Technological Barriers	4	50
In access to finances	4	50
Bureaucratic Processes	5	62.5
Unfavourable Economic Conditions	7	87.5
Total Number of Firms Involved	8	100

4.4.3 Discussionson both Internal and External Factors Limiting SMEs Growth

After mentioning above the internal and external constraints and challenges the researcher attempt to analyze the data/results presented in the previous chapter, by basically critically examining, summarizing and providing interpretations in relation to the research question posed earlier. The following below is the discussion of the results obtained;

1. Motivation and drive

Starting with the lack of motivation and drive, this has to do with the main reason(s) for the entrepreneur(s) establishing the business and the relationship of this with the growth of the firm. It is clear that there are positive and negative motivations for starting a business and it is quite obvious that positive motivations of the entrepreneur(s) are more likely to establish a business that grows than those with negative motivations. Positive motives include such things as the perceptions of high

demand for a product and market opportunities while negative motives include such things as dissatisfaction with an existing employer. Also included here are the entrepreneurs starting a business with no clear visions for their business meaning they are just about being in business to earn normal income to meet their basic human needs? Even though the results in this study show only one respondent whose business is constrained by lack of motivation and drive, it has been proven that this is a major constrain to many small business owners. A study by Bark ham (1992) shows a positive relation between the motivation of the entrepreneur(s) and the growth of the firm; in other words the more positive motivation of the entrepreneur(s) the more likely the business will grow.

2. Background and experience

Adding to the above element is the second factor which is the lack of background and experience in the business. This factor is closely related to the first factor. With prior experience in the same business; higher motivation and drive are involved when establishing or getting involved in a new business (and the vice versa is true). It is hypothesized that background and experience are likely to be associated with more rapid growth of the small firm. This is so because experience automatically gives the entrepreneur(s) or manager(s) adequate managerial capabilities to handle and overcome more easily the problems which are experienced as the new business grows. Background and experience in this context implies prior self employment, prior employment in the same business and prior business failures. It is shown in the results that four of the interviews linked lack of background and experience as a factor limiting small firm growth.

3. In-access to finances and capital constraint

The third factor is in-access to finances which can be linked to capital constraint. The difference here is that capital constraint is failing to raise funds to start or establish a business while the in-access to finance refers to in accessibility of funds for expanding/ running or maintaining a business undertaking. Capital constraint and inaccessibility to finances are obviously the most discussed by many as major factors limiting business growth.

4. In-access to finances

In the finance industry where this study was undertaken, it is argued that there are a few things that arise making it hard for entrepreneur(s) to be able to have access to proper financing. These things are such as collateral constraint, inadequate business plan, state of the economy and bureaucratic procedures in applying for loans/finances. Collateral constraint and bureaucratic procedures being cited mostly as major factors; these constrain the attainment of funding from financial institutions (Kuzilwa J.A 2005). In a poor country like Tanzania, it is quite hard to find an average citizen owning valuable land or other property that can be used to secure loans; if they do own one, most average Tanzanians don't find it a merit to have title deeds citing the difficulties of plot valuing and measuring as reasons for not seeking title deeds for their lands.

5. Capital constraint

Despite the constraint of raising funds from financial institutions being raised by the business owners, it is indeed a surprise as to why other sources of financing are overlooked; these being for example selling shares or part ownership to other parties such as business angels or financial institutions or venture capitalizing. A study by Kuzilwa A.J 2005 suggests that small entrepreneurs are reluctant to sharing ownership which leaves them opting to short term debt financing which may constitute a constraint upon the growth of the business. It has been argued that the businesses which shared or were willing to share part of their ownership with other parties were likely to grow or have grown rapidly than the businesses which didn't

share equity (Kinsella et al 1993). In the results, four respondents pointed out capital constrain as a limiting factor to small firm growth and in access to finances was mentioned by four interviews. The significance of finances as a constraint to small business growth cannot be overlooked since capital is a major factor of production.

6. Lack of business plan/vision for the business

Coming down to the matter of lack of a proper business plan/vision for the business, it is evident that firms which have no proper business plans at start face the most challenges during the course of their lives. It is emphasized that a formal plan for a business is needed in order for proper goals and objectives of the firm to be laid out in the open so that the team in the organization/firm works together for the same goals in their minds. Also the business plan is important since it is helpful in monitoring the extent to which these plans are successful in terms of materialization and it provides the opportunity to review reasons as to why the plans and outcomes differ. In addition a business plan is an important tool in securing loans from financial institutions as evident in the interview with David Gaston of D's pharmacy.

7. Theft, cheating and lack of trust

Theft/cheating and lack of trust in doing business on the other hand seem to have prevailed in the Tanzanian small business community. As evident in the study 5 interviewees have had a case of theft/cheating and lack of trust in his/her particular business. This can be linked to the fact that the economy of the country isn't as good and therefore salaries of normal Tanzanians aren't really enough to meet daily human needs. A study on small entrepreneurship in Tanga by Irene conducted in 2014 shows a close relationship between poverty, theft/cheating to corruption and bribery in affecting small business growth. This is as such that people working in these small firms normally are looking to make money above their normal pay even if it means that they receive black money. People are ready to go as far as bankrupting the owners business so long as they are in a position to do so and earn a better living for them and their respective families.

8. Corruption

As a constraint, corruption prevents fairness to prevail and therefore it is to a large extent a cost/ expense to a business owner or individual, the community and the government as a whole. As corruption deprives people of their rights, this means businesses cannot be established by deserving individuals; customers and buyers of products are reaped off (prices become high) since businessmen want to compensate for the money paid out as bribery, productivity is lowered, customer loyalty and demand falls as a result and then therefore growth of small firms affected in a negative way. The problem of corruption has been raised by five interviewees as a barrier to growth in business.

9. Poor management

Another factor mostly cited by many researches is poor management. Poor management can be categorized in two parts these being poor management experience and lack of management training. It is argued from a theoretical perspective that management experience and continuous training provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship (Casson 1982). With adequate education mixed with management experience and training puts a manager in a better position to make tough decisions and fore castings under conditions of uncertainty which in turn with those competencies making these particular managers perform better than untrained individuals. Research conducted in 2007 about determinants of small business growth in Nigeria by Okpara, John O., Wynn and Pamela shows that firms which provide management training are more likely to grow faster than the firms with no management training. Here it is argued that prior experience of the manager in dealing with particular type of tasks is likely to supplement the expertise of the entrepreneur and enable business objectives to be more easily achieved. It is funny enough though in the results of this study only three interviews raised the issue of poor management with no clear linkage to small firm growth.

10. Running informal/unregistered businesses

Running informal/unregistered businesses is the eighth factor limiting small business growth. It is not very clear how it does so but it is obviously linked to the characteristics of the business itself and the relationship it has with other parties. One of the things that can be associated here is the businesses' own legal formality. For example a limited liability company is more likely to grow faster than a sole proprietorship or partnership because of the limited liability and the credibility a particular business has with its customers and banks. Running unregistered/ illegal or rather call them informal businesses prevents it from benefiting from government SME's packages (An example being the SME guarantee scheme by the government of Tanzania) catered to develop the sector. Also there is un-ease of getting finances from financial institutions and adding to that the incapability of it to create and enjoy customer loyalty; all these constraining a particular business from developing/growing.

11Improper record keeping

The improper record keeping comes as a result basically of inadequate education and training in business; because of this a firm loses track of its cash flows and in turn leading to cost control and liquidity problems just to name a few. If the records of the transactions a business undertakes are not kept properly, growth cannot be achieved since the firm loses track of where it is heading.

12. Competition

Competition on the other hand has been mentioned by small business owners also as a barrier to growth. The nature of the market into which a firm operates is a key influence upon its growth (Storey et al. 1987); it is argued also here that the low growth firms seem to have the poorest understanding of their competitors. Hence subjective estimates on the part of firms of the nature of the competition which they

experience may tell the researcher as much about the firm's own understanding of their market place as anything else. In this particular study competition has been raised five times in the interviews, but no clear relationship can be drawn of competition limiting small firm growth. Instead in the writer's opinion competition should be a driving force for small firms to strive to perform better than their rivals hence favoring growth.

13. Government Policy

Moreover, there is a matter of government policy concerning SME's, policies are there but they aren't really benefiting the majority in developing countries. Taking the case of Tanzania, the government has discovered the importance of small firms in boosting the economy and therefore it has an SME reform policy. In this policy the main aim is to provide government support promoting growth to SME's in the form of loans at subsidized interest rates, free or subsidized information and advice, ensuring smaller firms get shares of government contracts and so on and so forth. Many organizations have been established to ensure these activities run smoothly for example SIDO, TCCIA etc. But the major problem remains that many small owners are not made aware of these services and surprising enough the minority ones benefiting from these schemes or services are the large scale businessmen. In this study, some eight interviewees raised government policy as a constraint to small firm growth. It is not yet clear how government policies boost growth of small firms' theoretical wise since there aren't so many researches done on the area, but the fact remains that if these schemes and policies are put into use for the benefit of the majority, positive results will be achieved.

4.5PROBLEM FACING SMALL AND MEDIUM ENTREPRISES

Introduction

4.5.1 General Problems mentioned by SME Customers

i) **Collateral**

Collateral includes any assets an entrepreneur pledged to a lender as a security for the repayment of the loan. Some of the entrepreneurs can't afford the collaterals because they are very high compared with their wealth.

ii**) Lack of Education**

Most of entrepreneurs have not gone to school so they face challenges of reading and writing were as documentation is a big problem to them when they are doing sales.

iii**) Fees on Granted loans**

The fees for loans are high compared to the business they want to do. Fee paid by customer secured a loan from NMB is 0.5% of total loan. so the one who is doing the business works for findings the fees rather than getting the profit.

iv**) High interest and Determination of installments**

The small and medium enterprises pay high interest charge compared to the profit they get, so the money they get is used for the payment of the interest rather than expanding their business.

v**) Fines and Penalty forthe Late Repayment**

Due to the high interest and short period of payment of installments these results to the late payment of loan which leads them to pay fines and getting penalties.

vi.) **Lack of Cooperation**

Lack of cooperation in families thus arise conflicts and cause the business to collapse in small enterprises.

vii.)**The problem of unlimited liability to most of the enterprises.**

Most of the enterprises seemed to fail paying all debts and that caused them to run away from their home for fear of being bankrupted by the creditors,(NMB)

viii) **Lack of benefits**

Lack of benefits from specialized due to the reason that an entrepreneur have a large jobs to do and unable to break up the operation through division of labor

viii) **Health problem**

When then entrepreneur of small and medium enterprises got health problem or any emergencies he or she has to close the business.

ix**) Failure to buy in large quantities**

The small and medium enterprises fail to buy in large quantities compared to large Firms. So the entrepreneurs of Tanzania failed to get discount on the products bought.

x) **Death**

The problem of death of the small entrepreneurs being the death of the business

4.5.2 The Opinions fromthe Entrepreneurs

-The opinions from the entrepreneurs depending on the interviewed questioner. These were as follows.

Ms Irene a small entrepreneur whose age is 30 yrs involved herself in selling Vitenge as her Business, she said that she faces problems of high interest charge which she cannot pay because business don't give profit due to the delays of the payments from the customers.

Also she said she faces the problem of getting initial capital which she got it from her husband and also she said that she is not satisfied with the loan which is provided by NMB.

-Another entrepreneur Ms Lily who sells fish was interviewed said how she got her initial capital, she got it from her relatives before she join with NMB. And also she explained the problems encountered her when she wanted to apply loan from NMB which are Sponsors and Collateral.

When applying loan from NMB the respondent must have three sponsors who must fill the form of recognition and also the one who is applying for the loan must have assets which are immovable like house or shamba.

She also explained the problems facing her business like rotten of fish, there is seasonal variation which leads to decrease of fish.

Mr. Rafael a business man who is having a retail shop near his home.
He explained how he obtained his loan; he said that he got his loan from NMB at Tanga city. He also explained problems he faced when getting the loan from NMB. Also he has little education on running his business.

In addition to that he said that he has encountered the problem of not getting discount on the goods he bought because of buying in small quantities compared to big firms.

- And lastly it was Mage who is trading on clothes after being interviewed by the researcher she explained the problems facing her business, firstly she said there is problem of getting raw materials for his tailoring work and also she said that there are delays of payment for her customers who buy clothes in credit. And also the researcher asked if she is dong business without any support? Also the researcher asked if she gets any education from the place she obtains her loan and the answer was no she don’t get any education from the place she get loan.

4.5.3 Researcher Observation

From the researcher observation the problem observed from the most entrepreneurs who were interviewed by the researcher, the problem of lack of education on the business is the main problem. This was due to the fact that some of the entrepreneurs explained that they have only completed primary education.

Due to that problem they failed to record well the revenues and their daily expenditures and detect the benefits or losses of their business. All these caused a lot of debts and due to unlimited liability their business collapsed.

Table 4.7: The statistics of the entrepreneur's sales when they experienced problems and when there is no problem during the year.

No	Names	Sales When There are Problems	Sales When There are No Problem
1	Ms Irene	3200000	5000000
2	Ms Lily	2000000	4500000
3	Mr Rafa	4000000	7000000
4	Ms Mage	6500000	9000000
5	Mr Pasua	2500000	5000000
6	Ms Eva	1500000	3500000
7	Ms Mary	5000000	10000000
8	Ms Cecy	3000000	5500000
9	Mschaurembo	6000000	11000000

10	Ms Paulin	8000000	10000000
		41,700,000	**70,500,000**

From the statistics above it shows that when the entrepreneurs faced some problem they get low sales compared when they have no problems. That made the researcher to accept that non existence of the problem faced the entrepreneurs facilitated the efficiency of their business and failed to accept that non existence of the problem faced the entrepreneurs did not facilitate the efficiency of their business.

4.6 The Strategies which can be laid to develop the SMEs

There are strategies where NMB bank have arrangedto help SMEs customers to solve the challenges facing them example in collateral it's not necessarily to use your own house you may use another ones collateral .also NMB bank provides education during business clubs which are conducted once in every year. The strategies laid by the bank to develop SMEs include developing country specific strategies, developing a supporting legal and regulatory framework, strengthening the financial infrastructure, effective government support mechanism, addressing specific market niches and provision of entrepreneurial education.

4.6.1 Developing Country Specific Strategies

The development of an effective SME finance strategy for an individual country should ideally be based on a comprehensive diagnostic of its SME finance gap and the quality of its SME finance architecture.

4.6.2 Developing a Supporting Legal and Regulatory Framework

An effective legaland regulatory framework promotes competition by avoiding overly restrictive licensing requirements and allows international and regional banks with better SME lending tools to enter the market. Competition among financial sector players can be promoted further by introducing technological platforms in key areas, facilitating a variety of financial products and services, driving down the costs of financial access, and reaching previously untapped markets. Mexico's platform for reverse factoring and Brazil's information platform for venture capital are good examples of government interventions that can mobilize private resources for SME finance.

4.6.3 Strengthening the Financial Infrastructure

Establishing a solid financial infrastructure (auditing and accounting standards, credit registries/bureaus, collateral, and insolvency regimes) should be a priority in financial development. The aim should be to develop a comprehensive credit reporting system that covers both personal and commercial credit information, and can cover MSMEs and help lenders better manage credit risk and extend access to credit. Some countries, such as India, have introduced SME rating agencies as an additional institution designed to provide more information to prospective lenders. Moreover, a well-functioning collateral regime characterized by a wide range of allowable collaterals (immovable and movables), the establishment of clear priority rankings of claims over collateral, efficient collateral registries making priority interests publicly known, and effective enforcement of collateral in the case of default can further enhance risk acceptability of SME customers for financial institutions.

4.6.4 Effective Government Support Mechanisms

In all cases, government interventions should be carefully designed and better evaluated with a view to accurately measure their achievements in terms of outreach and leverage. Partial credit guarantee schemes should remain an important form of intervention. Key guiding principles on such schemes should contain guidelines on eligibility criteria, coverage ratios, scalable credit approval mechanism, fees, payment rules, use of collateral/down-payment, and equity ratios, among other parameters.

4.6.5 AddressingSpecific Market Niches

Promoting female entrepreneurship and enhancing sustainable energy finance is crucial. Experience across different developed markets has shown that women have a better repayment record and yield a higher cross sell ratio for financial institutions. Women Entrepreneur Package by Garanti Bank in Turkey and M-Power Package by Access Bank in Nigeria are good examples of how outreach was increased to women in business. In addition, sustainable energy finance provides opportunities for SMEs to reduce costs as well as increase environmentally friendly operations.

4.6.6 Provision of Entrepreneurial Education

Education is a key constituent of the human capital needed for business success. It is argued that education and training provides the basis for intellectual development needed by entrepreneurs in business to be successful. Moreover, they provide the entrepreneurs with confidence to deal with clients. (D.J. Storey 1994). As seen in the study, the educated entrepreneurs showed more promising results in terms of how their business is doing. It is always argued also that business ownership is not an intellectual activity rather entrepreneurship is an opportunity for the less academically successful to earn high incomes. It may even be that individuals with the highest academic attainment are likely to be insufficiently challenged by many of the mundane tasks associated with business ownership (Mike Simpson et al 2004).

Those are strategies which will help the entrepreneurs to move from one stage of development to another as case study on NMB bank there are strategies for helping SME customers.

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CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the conclusion and recommendations based on research objectives and research findings.

5.2 Conclusion

According to the study findings it has been established that there is an impact on loan provided on the development of SMEs in Tanga city. The various bank products provided to SMEs were found to contribute to their growth and development. Among the identified problems or constraints to SMEs development include lack of collateral, corruption, entrepreneurial education, government policy and competition. In taking these problems the bank has laid down appropriate strategies which includedeveloping a supporting legal and regulatory framework and strengthening the financial infrastructure. Innovations in addressing the credit market failures faced by poor households through microfinance have been a major development breakthrough of recent times. Micro and small enterprises have been shown in several studies to be largely underserved, giving rise to the term ‘missing middle’ in the literature. Yet, this is a critical market segment to support for both growth and

poverty alleviation through employment generation. As a response to this demand and supply side changes in the traditional microfinance market, which has become significantly more 'crowded' in recent times, many microfinance providers in Tanzania have started providing enterprise finance targeted at the small enterprises. Some formal banks have also started operating in this market. Nmb bank established in 1999 with a view to support small and medium enterprises and since 2002 has been providing small and medium enterprises credit. This paper is an early assessment of Nmb bank lending to small and medium enterprises with respect to foster growth.Percentage of enterprises graduating from microfinance into small enterprises increased by 20% in average but in varied percentage between manufacturing, trading and agro processing enterprises. Trading is significantly higher than that of manufacturing and agroprocessing. It is noteworthy that more than fifty percent of the new jobs are created by increased enterprises as result of borrowing.Thus the importance of sustained access to finance appears to be important from growth perspective of SMEs.

However growth of SME is not necessarily a function of microfinance other variable such as availability of market, government regulations, education and inflation could equally affect growth of SMEs.

Financing SMEs as a core business is still relatively new for formal financial providers in Tanzania. This is fundamentally different to microfinance, which is essentially providing households with better money management facilities (Rutherford, 2001). Nmb bank's SME financing has quickly become its core product line and our analysis suggests that it is successfully financing growth of the SMEs supported, which in turn is generating employment. However, the product characteristics still appear to be more suitable for financing growth of relatively established trading based enterprises. Most of the investment being made is also in terms of increasing working capital. Future challenges of Nmb bank SME lending operations would be to develop the right types of products to lend to manufacturing enterprises, and supporting fixed capital investments of SMEs. Such diversification

would have greater potential of supporting growth and generating sustainable employment opportunities

5.3 RECOMENDATION

The researcher after studying what was so called “The impact of credit institutions on the development of small and medium enterprises” he comes with some recommendations to the entrepreneurs themselves as well as government.

5.3.1Recommendations to the Entrepreneurs

They must be careful with the loans, must use the loans as required rather they use the loan in their daily life.

They must also prepare the business plan before starting the business this will help them to control their business.

Furthermore the entrepreneurs have to get on business. This can be through the colleges or business consultants or through dialogues which help the entrepreneurs to improve their business.

Being careful with the debts so as to avoid bankruptcy, they must be care in paying the debts in time in order to avoid misunderstanding with the place where they get their loans.

To increase good relationship with other entrepreneurs, this will help them improving their business.

They need also to be serious with their business and to reduce unnecessary expenditures in order to save money for their business.

Lastly to save the money they get from their business in banks rather than keeping them at home to avoid unnecessary expenditures.

5.3.2 Recommendations to the Government

The researcher recommends government to provide business education to the entrepreneurs. The reason was that business has been first employment in most citizens.

Moreover the government has to emphasize the financial institution to provide loans to the entrepreneurs and also the financial institutions to reduce conditions to the entrepreneurs because most of the entrepreneurs are small and medium so they are poor and they come from poor family.

Also government must improve loans for women and youth which will help them to improve their life standard.

The government has to increase financial institutions which can accommodate all entrepreneurs. The government is also advised to increase working tools to the place where they provide loans in order to take many entrepreneurs to help them in improving their business and life in general.

This will at most enable the entrepreneurs to uplift there business and life in general.

5.4Areas for Further Research

From the standpoint of academic scholarship, two particular lessons stand out from the study as basis for further research. One is on factors that hinder credit institutions in lending for innovation investments to the micro and small enterprises. The other lesson is on the role of government in ensuring workable practices of banks in fostering innovation.

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QUESTIONARES

Appendix I: bank customers

Dear responds.

My name is Victor Banda pursuing my master's degree in cooperate management. Am doing a research concerning loan to small and medium enterprises.

So this questionnaires are for academic purpose and is only specifically for data collection, which will help the researcher to come up with right conclusions. Your information will not be used for any purpose other than above mentioned.
I would like to question you the following questions.

NB: The question can be interpreted in Kiswahili because not all respondents know English.

A: GENERAL PARTICULARS

1. Your Name ……..
2. Sex ……..
   (a) Male (b) Female
3. Age …….
   (a) 18-29 (b) 30-45 (c) 45-60 (d) 60- and above

4. Marital Status …….
   (a) single (b) married (c) others (divorced/separated)

B: OBJECTIVE 1

CONTRIBUTION OF LOAN PRODUCT TO THE DEVELOPMENT OF SMEs

1. Where did you get your initial capital?
2. (a) From your relative/friends (b) Your self-capital (c)) Credit from Saccos
2. How much loan have you borrowed lately?
   (a) 16m-50m (b) 51m-100m (c) 101-200m (d) 201-500m

3. Was the above loan able to support your business?

4. What is the tenor for your current loan?

(a) 6 (b) 12 (c) 24 (d) 30

5. Was the tenor conducive to enable you repay and grow your business?

(a) Yes (b) no

6. How do you perceive the interest rate charged?

C: OBJECTIVE: 2

CONSTRAINTS AND CHALLENGES FACING DEVELOPMENT OF SMEs

1. What are the challenges did you encounteredduring the loan processing application?
2. Were you provided with loan education?
3. Do you have dedicated staff for your business?
4. Do you have good management?
5. Did you get any problem in getting collateral?
6. Does any government policy hinder your business?

D: OBJECTIVE 3

EFFECTIVE STRATEGIES FOR THE DEVELOPMENT OF SMEs.

1. What arrangement can the bank make to ease the lack of collateral?
2. What can be done on interest rates charged by the bank to assist on business?
3. Why do you think there is a need to revise the amount of loan on SME category?
4. Do you think you are given an appropriate period to repay your loan?
5. What is your perception on the loan documentation process?
6. How do you rate the customer care and loan education during loan application and servicing?