

**ASSESSMENT OF FUNDING ARRANGEMENTS FOR SMALL AND  
MEDIUM ENTREPRISES (SMEs):  
THE CASE OF ILEMELA DISTRICT, MWANZA**

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**By**

**Emmanuel, Mwenda T.**

A Dissertation Submitted In Partial Fulfilment of the Requirements for the Award of Degree  
of Master of Business Administration (MBA - Corporate Management) of Mzumbe  
University

**2013**

**CERTIFICATION**

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2013

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **Assessment of Funding Arrangements for Small and Medium Scale Enterprises (SMEs): The Case of Ilemela district, Mwanza** in

partial/fulfillment of the requirements for award of the degree of Master of Business Administration of Mzumbe University.

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**DEAN, BOARD OF SCHOOL OF BUSINESS**

### **DECLARATION**

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

Signature\_\_\_\_\_

Date\_\_\_\_\_

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## **DEDICATION**

To my beloved mother, the late Magdalena Mwenda, who passed away on 11<sup>th</sup> February 2011, laid down the foundation of my education.

## ACRONYMS

ASEDETA	Association of Seed Development of Tanzania
BRELA	Business Registration and Licensing Authority
BDS	Business Development Services
BOT	Bank of Tanzania
CGS	Credit Guarantee Scheme
EEC	The European Economic Commission
GDP	Gross Domestic Product
ILO	International Labour Organization
LDC	Less Developed Countries
ME	Micro Enterprises
MEDA	Mennonite Economic Development Associates
MFI	Microfinance Institution
MSME	Micro Small and Medium Enterprise
NEDF	National Entrepreneurship Development Fund
NIGP	National Income Generating Programme
NGOs	Non- governmental organizations
NMB	National Micro Finance Bank
ROI	Return on Investment
SACCOS	Savings and Credit Cooperatives
SEDA	Small Enterprise Development Agency
SELF	Small Entrepreneurs Loan Facility
SIDO	Small Industrial Development Organization
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Science
SSE	Small Scale Enterprises
TCCIA	Tanzania Chamber of Commerce Industry and Agriculture
TPB	Tanzania Postal Bank
TPSF	Tanzania Private Sector Foundation
TRA	Tanzania Revenue Authority
TVET	Technical and Vocational Education and Training
UNDP	United Nations Development Programme
UNIDO	United Nation Industrial Development Organization
URT	United Republic of Tanzania
USD	United States Dollar
VETA	Vocation Education Training Authority
VICOBA	Village Community Bank
WEBS	World Business Environment Survey
WDF	Women Development Fund
YDF	Youth Development Fund

## **ABSTRACT**

The main objective of the study was to assess the funding arrangements available to SMEs in Ilemela district Mwanza region. Specifically the study assessed the source of funds that exists for the start-up and expansion of SMEs in Ilemela District, outlined the main challenges to credit for start up and expansion of SMEs in Ilemela District, identify sustainable sources of funding start up, expansion and development of SMEs in Ilemela district and Identified ways of improving credit availability, accessibility and delivery to SMEs in Ilemela district.

A cross sectional research design was adopted, 80 SMEs from eight villages/streets of Ilemela district were randomly selected. Key informants were randomly selected from commercial bank, focus group discussions were also done in the selected villages. Data were collected in selected villages through administration of questionnaire and checklist. Secondary data was collected from Library books and publications from the internet and the ministry of Industry and Trade, Tanzania Chamber of Commerce and SIDO. Data were analysed using Statistical Package for Social Science software to obtain frequencies and percentages in order to summarize results. Qualitative data collected through focus group discussion and key informant interview method were analysed using structural function content analysis method.

The findings of the study show that the sources of funds for SMEs were mainly Personal savings and contribution of friends and relatives, only a small percent comes from business loans, government support and donors contributions. The study revealed that lack of collateral, bureaucracy of bank officials and long procedures were the major challenges of getting loans to SMEs in Ilemela district. The study identified ways of improving credit delivery to SMEs; these include reduced interest rate, introduce loan guarantee schemes and reduced loan requirements such as collateral.

It was recommended that there is a need of improving SMEs access to credits, by encouraging private sector to open up more financial institutions and existing ones to increase its networks, this will increase credit availability to SMEs and makes its delivery sustainable. Financial institutions should revise their lending procedures and reduce loan Interest rate to enable SMEs to break even and repay their loans earlier. Also it is recommended that the government and private sector should establish loan guarantee schemes to increase access to credits to start up and expansion of SMEs in Ilemela district.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background Information

Tanzania remains one of the poorest countries in the World. According to African Economic Outlook, Gross domestic product (GDP) per capita was USD 1,700 in 2012. Tanzania's economy is expected to grow by 7.1 percent in 2013, compared with an estimated 6.8 percent in 2012, an anticipated pick up in global and sub-Saharan African growth. Small to medium enterprises play a very crucial part in the economy of Tanzania. SMEs operating in Tanzania informal sector, account for 47 percent of the country's GDP and employs around 42.24 percent of the labour force. Formal SME account for about 17 percent of the country's GDP and employs around 32 percent of the labour force (URT, 2012).

The contribution of SMEs in Africa is evident in the sense that it plays a major role in economic development in every African country. Studies indicate that in both advanced economies and developing countries SMEs contribute on average 60 percent of total formal employment in the manufacturing sector (Ayyagari *et al*, 2007). For African economies; the contribution of the SME sector to job opportunities is even more important. Taking into account the contribution of the informal sector, SMEs account for about three-quarters of total employment in manufacturing (Ayyagari *et al*; 2007).

A crucial element in the development of the SME sector is access to finance, particularly to bank financing, given the relative importance of the banking sector in serving this segment. Firm-level data collected by the World Bank show that access to finance is perceived as one of the main obstacles to doing business (World Bank, various years). A number of studies have shown that financing is a greater obstacle for SMEs than it is for large firms, particularly in the developing world, and that access to finance adversely affect the growth of the SME sector more than that of large companies (Schiffer and Weder, 2001; Beck *et al*, 2005; Beck *et al*, 2006). It is, therefore, unsurprising that the international development community has listed SME access to finance as an important policy priority.

In spite of the importance of the topic, relatively little research exists on whether, why and how banks finance SMEs around the world. This is compounded by the fact that comprehensive data on SME finance is still to be more consistently collected and monitored over time. Nonetheless, existing studies show that, contrary to the conventional perception that financial institutions are not interested in dealing with SMEs, banks consider the SME segment strategically important. Yet institutional constraints remain and the market is far from saturated.

Beck *et al* (2008; 2010) provide the first attempt to understand SME financing from the supply side. Based on a survey of 91 banks in 45 countries, the authors provide a characterization of bank financing to SMEs and find that banks perceive the SME segment to be highly profitable and serve it through a number of lending technologies and organizational setups. The authors observe few differences in the extent SMEs are reached out by banks based on their ownership structure (i.e. public, private or foreign-owned). However, they find significant differences across banks based in developed and developing economies, and conclude that the enabling environment is more important than the size of the firm or bank ownership in shaping bank financing to SMEs.

De la Torre *et al* (2010) investigated banks' approach to SMEs in terms of business models and risk management systems. Based on surveys for 48 banks and one leasing company in 12 countries, the authors find that all banks in the sample are interested in serving the SME segment. To do so, almost all have separate organizational units and offer a wide range of products, applying different transactional technologies such as credit scoring or risk-rating. Ongoing efforts to study SME financing from a supply-side perspective are particularly relevant for Sub-Saharan Africa. According to enterprise-level data collected by the World Bank (various years), SMEs in Sub-Saharan Africa are more financially constrained than in any other developing region. Only 20 percent of SMEs in Sub-Saharan Africa have a line of credit from a financial institution compared, for example, with 44 percent in Latin America and Caribbean, and only 9 percent of their investments are funded by banks versus 23 percent in Eastern Europe and Central Asia. These findings alone provide the rationale for investigating the structure of the SME lending market in the area, with the aim of understanding the main drivers and obstacles to SME financing as well as banks' operational approaches.

Obstacles to SME lending are perceived differently across the countries and perceptions are also influenced by the nature and ownership structure of the bank concerned. SME-specific factors are the most serious obstacle to the development of SME lending. In particular, a large majority of banks in the region (88 percent) consider the lack of adequate information the most important deterrent to their involvement with the SME segment. Amongst Kenyan banks, the lack of quality information was the biggest SME-specific hindrance and obstacle to SME lending, cited by 100 percent of the banks. Such is the perceived extent of the problem that some of the banks mentioned that they have allocated internal budgetary resources to assist SMEs through the extension of training services. Family management was also mentioned (50 percent) as a hindrance in Kenya as most SMEs are family-owned. Inability to standardize scoring models also came up from 50 percent of the banks, especially amongst those which have automated their SME lending systems (Calice *et al*, 2012).

According to Calice *et al* (2012) all the Tanzanian banks lack information as the biggest hindrance to SME lending. This affected the quality of information provided by SMEs, amongst other things, with 75 percent of Tanzanian banks has a significant obstacle to their dealings with SMEs. Also the issue of the lack of third-party guarantees to address collateral issues is among the hindrance to doing business with SMEs.

Therefore it is now increasingly recognised that the Small and Medium Enterprises (SMEs) play a crucial role in employment creation and income generation in Tanzania. SMEs all over the world and in Tanzania in particular, can be easily established since their requirements in terms of capital; technology, management and even utilities are not as demanding as it is with the large enterprises. These enterprises can also be established in rural settings and thus add value to the agro products and at the same time facilitate the dispersal of enterprises. Indeed SMEs development is closely associated with more equitable distribution of income and thus important as regards poverty alleviation. At the same time, SMEs serve as a training ground for emerging entrepreneurs (Calice *et al*, 2012).

In Tanzania, the full potential of the SME sector has yet to be tapped due to the existence of a number of constraints hampering the development of the sector. They include: Slowness in implementation of issues raised in the SMEs policy and initiatives by the Government, cumbersome business registration and licensing procedures, high taxation rates to SMEs,

cumbersome tax collection procedures, corrupt practices by tax officials coped by low knowledge of SMEs owners on taxation matters, broad base of tax levied by both central and local government authorities, cost of credit, bank collateral requirement on credit facility, limited formal regulated financial institution to serve the SMEs located in rural areas, lack of business formalization, putting off most financial institution to support SMEs, Lack of supporting facilities to guarantee lenders, lack business development services in many areas to build up their capability of conducting business, poor quality physical infrastructure, lack of appropriate technology and equipment (Kipilyango, 2012).

The Government of Tanzania enacted the SMEs development policy (2003-2013) with the aim of fostering job creation and income generation through creation of new SMEs and improving the performance and competitiveness of existing SMEs. Additionally, National Strategy for Growth and Reduction of Poverty II (NSGRP II) has set targets to reduce poverty in both rural and urban areas in Tanzania from 33.6 percent 2007 to 24 percent in 2015. Development of SMEs has been identified to be one among the key strategies to attain the targets of reducing poverty (URT, 2010).

According to Tanzania SME National Policy of 2002 “Strategies for implementing the SME development policy focus on three main areas, namely, the creation of an enabling business environment, developing financial and non-financial services and putting in place supportive institutional infrastructure. The SME Policy takes into account the special constraints and opportunities faced by this sector and aims at strengthening institutions which will address these constraints and maximise exploitation of the opportunities.

Tanzania SME National Policy also indicates that SMEs all over the world are known to play a major role in social economy development. This is apparently the case of Tanzania, where SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas. It is estimated that about one third of the GDP originates from the SME sector. According to the Tanzania Investment Centre (2012) SMEs are estimated to contribute 30 per cent of the country's GDP and it's the second employer after agriculture. In Tanzania SMEs have employed between four and five million of the country's total labor force of 20 million people. Currently there are 2.7 million enterprises across the country which has played a key role in promoting the economy..

Since SMEs tend to be labour-intensive, they create employment at relatively low levels of investment per job created. Unemployment Rate in Tanzania decreased to 10.70 percent in 2011 from 11.70 percent in 2007. Tanzania Unemployment Rate averaged 11.9 Percent reaching an all time high of 12.9 Percent in December of 2001 and a record low of 10.7 Percent in October of 2011. The total number of labor force population is estimated at 22,152,320 persons, of whom 19,783, 648 are estimated to be employed, among the employed, 2,502,327 persons are estimated to be employed in the informal sector activities. (NBS, 2012).

Various initiatives towards improving the infrastructures and especially roads do provide an added opportunity for SME development. Furthermore, there are several ongoing schemes aimed at strengthening SME service providers such as Small Industries Development Organisation (SIDO), Vocational Education Training Authority (VETA), Micro Finance Bank (NMB) and various Industrial Support Organisations. These interventions do provide opportunities for growth of the SME sector. The National Micro Finance Policy covers the provision of financial services to small and micro enterprises in rural areas as well as in the urban sector that are engaged in all types of legal economic activities.

There are numerous financial mechanisms and empowerment funds that are currently available to SMEs in Tanzanian; these include the Mwananchi Empowerment Fund (MEF) which provide loans to SMEs under a credit guarantee or non guarantee scheme. The National Economic Empowerment Fund or President's Fund for Small Entrepreneurs provides concessional loans through normal banking procedures to empower SMEs and provides credit guarantee for loans to entrepreneurs, through SACCOS as well as CRDB and NMB. The Small Entrepreneurs Loan Facility (SELF) aimed at increasing accessibility to financial service for Tanzanians mainly in the rural areas. The project issues concessional loans through microfinance institutions (MFIs), including NGOs, SACCOS and community banks. National Entrepreneurship Development Fund (NEDF) and a Regional Fund (operated in collaboration with SIDO and the East African Development Bank) make loans available to SMEs. The Rural Financial Services Programme aimed at improvement managerial capacity and performance of grassroot MFIs; rural financial systems development; empowerment of the rural poor; monitoring and evaluation; and management and co-ordination (OECD, 2013).

Therefore, this study attempt to asses funding arrangement to SMEs in Ilemela district.

## **1.2 Statement of the Problem**

Despite the fact that there are numerous potential sources of finance but SMEs encounter problems in accessing them. This has been due to stringent conditions including the need to be formalized, high interest rates, lack of collateral and highly bureaucratic loan procedures. SMEs are owner-financed and/or financed by informal money-lenders and consequently a relatively low capital base (Ngowi *et al*, 2006). Unequal access to finance between SMEs and large enterprises has undermined the role of small scale business firms in the economic development of Tanzania (Mushi, 2007). Studies indicate that in a list of SMEs applying for bank loan; merely fifty percent or more fail to access the loan (Pandula, 2011).

Despite the importance and positive contribution of SMEs to the growth of the Tanzanian economy, enough has not been done by the government and commercial banks who are the key stakeholders in supporting SMEs. From the foregoing, we can deduce that the SMEs are faced with credit constraint to start-up and expand their operations. The government policy inconsistencies for the sub-sector have hampered its viability, sustainability and competitiveness in the global market. Also, the power supply situation in Tanzania has made the SMEs sub-sector to operate at a higher cost thus, creating an unfavourable environment to operate resulting to the inability of the sector to contribute meaningfully to the economy.

Limited access to external finance for SMEs is a phenomenon that need not be taken for granted. If firms face limited access to external finance they may be unable to invest, despite their willingness to do so unless internal sources of finance are available. This leads to the situation where economy is losing some of the potential benefits of potentially good projects that will not be implemented because of the lack of funds. As the result, financially constrained firms may not only miss opportunities to keep individual firms from growing, but if large numbers of firms are constrained country level growth can suffer, hence hamper their contribution to employment creation and poverty alleviation.

Most studies have been investigating the problem of bank loan inaccessibility to SMEs on the demand side and little has been exploited on the supply side, this indicates a gap of knowledge on the supply side. If this problem is not well investigated and addressed especially on the supply side, the Tanzanian economy is likely to lag behind in its growth since SMEs contributes almost fifty percent of its economy. Therefore, this study aimed at assessing funding arrangements for SMEs on the supply side.

### **1.3 Overall objective**

The main objective of this study is to:

Asses the funding arrangements available to SMEs in Ilemela district, Mwanza.

#### **1.3.1 The specific objectives**

The specific objectives of the study were to:

- i. Assess the sources of funds that exist for the start-up and expansion of SMEs in Ilemela District
- ii. Find out the main challenges to credit for start up and expansion to the SMEs in Ilemela District
- iii. Identify sustainable sources of funding start up, expansion and development of SMEs in Ilemela district
- iv. Identify ways of improving credit availability, accessibility and delivery to SMEs in Ilemela district.

### **1.4 Research Questions**

In view of the funding arrangements available for SMEs in Tanzania, the following basic research questions are raised:

- i. What are the major sources of funds for start up and expansion of SMEs in Ilemela district?
- ii. What are the main challenges of credit accessibility to start up and expansion of SMEs in Ilemela District?
- iii. What are the sustainable sources of funding start up, expansion and development of SMEs in Ilemela district?
- iv. What is the best mechanism of improving credit availability, accessibility and delivery to SMEs in Ilemela district?

### **1.5 Significance of the Study**

Small and Medium Enterprises (SMEs) have long been recognised as a very important source of self employment, job creation, innovation and economic development. However, funding constraints in finance markets can both limit entry of new firms and development of existing enterprises, thus affecting economic growth. Businesses not well served by the formal financial market often try to exploit other resources such as savings, relatives or friends' loans or even local money lenders. Although savings and loans from friends and relatives can provide start-up funding, they are not always appropriate for enduring business problems, such as smoothing cashflow and local money lenders can charge extortionate interest rates. Globally, many policy initiatives have been introduced to widen the formal funding opportunities for small firms but it is clear that the problem continues. This study is aimed at making contribution of additional knowledge to SMEs sub sector, commercial banks, researchers in related studies and other stakeholders in this particular field. The study also provide inputs to policy makers in planning development of SMEs in areas of financing start up and expansion of SMEs in the country.

### **1.6 Scope of the Study**

The study assessed the funding arrangements currently available for SMEs with a view to explore a more sustainable way of credit delivery to SMEs in Ilemela district. The scope of this study focused on SMEs businesses across Ilemela District especially in the areas of manufacturing, food processing and service. The findings of this study can be generalised to other districts and regions as SMEs in Tanzania operate under similar environment.

### **1.7 Limitations of the study**

The following were limitations associated to the study:

- a. Data inaccessibility; this was because most of the government institutions and banks were reluctant in publishing their information which are up to date to the fullest exposure.
- b. Irresponsible respondents; some respondents were reluctant in responding to the data collection methods used.

## **1.8 Organization of the research**

The study was divided into five chapters as follows; Chapter one presented background information, research problem, research objectives and research questions, significance of the study and the organization of the research work. Chapter two discussed theoretical literature review, empirical literature on funding arrangements for SMEs and conceptual framework. Chapter three covered the methodology of the study. Chapter four presented results and discussion of the findings and chapter five presented summary of the major findings of the study, conclusions, and policy implication.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter discusses theoretical and empirical literature review of other scholar's writings and studies related to SMEs and conceptual framework.

#### 2.1 Definition of Concepts

According to Tanzania National SME Policy; SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services. There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. In the context of Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalised undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million.

**Table 1: Classification of SMEs**

Country	Employment			Capital			Turn over		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
Tanzania	1-4	5-49	50-99	5m	5-200m	200-800m	n.a	n.a	n.a
Taiwan	<5	10-499	n.a	n.a	n.a	n.a	n.a	n.a	n.a
South Korea	5-19	20-199	n.a	n.a	n.a	n.a	n.a	n.a	n.a
UK	0-9	10-49	50-249	1.4 m £	5.6 m £	n.a	2.8 m £	112m£	n.a
E E C	<10	<50	<250	n.a	n.a	n.a	<2m £	<10m£	<50m £
ILO/UNDP	<5	5-20	21-99	n.a	n.a	n.a	n.a	n.a	n.a

Source: Ekpenyong (1997); Hallberg (1999); Aryeetey (1995); IFC (2002)

Given this overview of SME definition by the industrialized and newly industrialized countries, the general consensus has been that the statistical definition of SMEs differs by country and mostly based on the number of employees or the value of assets. However, one should be overly concerned about the lack of consistency in employment based SME definitions, since the number of employees, viewed in isolation from the size of markets or the economy, may be misleading. For example, a 50 employee firm in the U.S. would be considered 'smaller' (relative to the size of the U.S. economy) than a 50 employee firm in Bolivia or Taiwan. Moreover, other characteristics of the firm, such as the degree of informality or the level of technological sophistication, may matter more than the number of employees as a segmentation factor in advanced countries.

The study also examines other definition of SMEs in the context of the African countries for the sake of clarity. In Ghana, the Ghanaian Enterprise Development Commission defined a small industry as one requiring a loan of not more than USD 250,000 (if the borrower's equity were 30 percent including land and building). The Bank of Ghana, which operated a Credit Guarantee scheme (CGS), defined a small scale business by its sales volume (turnover) and by size of its investment in plant and equipment. To qualify for the CGS, an enterprise must have annual turnover not greater than c300,000 (three hundred thousand cedis) and plant and buildings valued at no more than c 100,000 in 1988. The National Board for Small Scale Industry in Ghana defined Small scale enterprise as a company having an asset valued at c10,000 (excluding land, building and vehicle) and employ 9 persons or less (Okraaku and Croffie, 1997).

## **2.2 Theoretical Literature Review**

### **2.2.1 Introduction**

Development strategists have advocated the progressive use of small and medium enterprises (SMEs) to accelerate the pace of economic growth especially in the developing countries of the world (Daodu, 1997). Most African countries are basically agrarian societies with the majority of the populace engaging in agro-related activities such as farming, livestock rearing, agro forestry and fishing (Osinowo, 1997).

With little capital to invest, it seems obvious that the process of industrialization should be based on the development of the SMEs to link agricultural production with manufacturing

activities. This requires specific incentives to assist in the development of the SMEs sub-sector, which include among others easy accessibility to credit, provision of infrastructural facilities, industrial extension services and development of production capacity based on locally developed or adapted technology and locally designed equipment and spares (Ekpenyong, 1992; 1997).

### **Sources of funds for the start-up and expansion of SMEs**

There are two sources of finance available to SMEs; the internal and external sources, with internal sources as the dominant source of finance for most small-scale businesses. A survey conducted by the World Bank (1995) on business environment in transitional economies showed that the share of internal funding is significantly lower in advanced reforming countries as follows: Estonia 33 percent; Poland 34 percent; and Lithuania 37 percent. In the United States of America, the SMEs of less than two years old, internal finance constitute 54 percent of total financing. And for most businesses, internal sources of finance constitute retained earnings for the period including provisions made for depreciation which is essentially a book transfer.

The external sources of financing constitute bank finance and other forms of institutional credit. World Bank (1995) asserts that in India, the sources of external finance include informal channels, credit unions, and commercial banks which play an equally important role in the provision of external finance. These sources are certainly not dissimilar to the complement of sources of external finance available to most businesses in Tanzania. External source of finance must also include public equity and debt sourced through the Dar es Salaam Stock Exchange.

Raising finance for start-up requires careful planning. The finance needs of a start-up should take account of these key areas: Set-up costs (the costs that are incurred before the business starts to trade), Starting investment in capacity (the fixed assets that the business needs before it can begin to trade), Working capital (the stocks needed by the business –e.g. raw materials allowance for amounts that will be owed by customers once sales begin), Growth and development (e.g. extra investment in capacity). One way of categorising the sources of finance for a start-up is to divide them into sources which are from within the business (internal) and from outside providers (external) (Jim, 2012).

As an alternative to borrowing from formal financial institutions, SMEs are said to borrow from informal money lenders that include friends and relatives. The amount of money that is made available to SMEs from these sources is rather small and hardly documented (Ngowi, 2006). Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities (Kauffmann, 2005; OECD, 2005b).

### **Challenges to credit for start up and expansion of SMEs**

The potential of small and medium scale enterprises (SMEs) in promoting economic growth and poverty alleviation in both developed and developing countries is widely accepted and documented by both scholars and policy makers. Limited access to credit for these SMEs, especially in developing countries, has been identified as a major bottleneck in realising this potential. Bank credit is one of the major ways of addressing the challenge of inadequate funding that exists in the SME sector, however, studies conducted in Tanzania shows that SMEs have limited access to bank credit (Martha, 2012).

Beck *et al* (2005) using firm level data from World Business Environment Survey (WEBS) in 1999, the survey shows that firms rank the bank corruption as greater obstacle of accessing external finance. Olomi (2009) notes that SMEs operators and some of bank officials acknowledge that corruption exists in the banking sector and some bank officers deliberately delay processes until they are promised something.

Bougheas *et al.* (2005) contend that collateral is an important factor for SMEs in order to access bank finance. Collateral reduces the riskiness of a loan by giving the financial institution a claim on a tangible asset without diminishing its claim on the outstanding debt. Coco (2000) point out that collateral is the lender's line of defence. Collateral can solve problems derived from asymmetries in valuation of projects, uncertainty about the quality of projects and the riskiness of borrowers, and problems related to the cost of monitoring or supervising borrowers' behaviour.

The SME sector in Tanzania has limited access to finance due to the following factors: the sector is perceived as a high risk one; improper record keeping, inability of the SME operators to fulfil the collateral requirements; most banks do not operate an SMEs financing window, some of the banks operate in limited geographical areas, inexperience of Bank Staff in issues related to Micro-finance, lack of a guarantee scheme to back up banks financing SMEs, high cost of screening and administering small loans spread over big areas and inability of borrowers to prepare applications that meet bank's requirements (Kimei, 2001).

According to Bank of Tanzania (BOT) the Challenges faced by SME include overexposure due to the low level of capital leading to suspension of issuance of new guarantees. According to Tanzania Chamber of commerce while the demand for finance is unlimited and lack of it is said to be a major scare to businesses development after crime, yet SMEs are excluded from obtaining the funds. This is due to High interest rate.

Therefore it was noted that most SMEs do not enjoy many products that formal financial institutions offer. They normally do not borrow from institutions such as banks. This is due to many factors including strict conditions set by these formal financial institutions when SMEs seek access to their services. Among the common barriers to SMEs' access to formal banking services is the informality of most SMEs. Informal SMEs' properties are effectively legally and economically invisible and cannot be used as security (collateral) against a loan. As an alternative to borrowing from formal financial institutions, SMEs are said to borrow from informal money lenders that include friends and relatives. The amount of money that is made available to SMEs from these sources is rather small and hardly documented (Ngowi, 2006).

In survey of 136 small firms in Tanzania, Satta (2003) found that 63% of them consider difficulties in accessing finance from financial institutions as the major constraint to their development. Ayyagari *et al.*, (2006) using sample of 80 countries including Tanzania they found that access to finance is an important constraint to firm growth. They suggest for further investigation of country and firm level determinant of financing obstacles for future work. Maliyamkono (2006) noted that total credit during 2006 stood at 36% of commercial banks deposits and was concentrated on large firms. Likewise, Olomi (2009) noted that,

studies consistently show that over 70% of SMEs in Tanzania perceive finance to be the most serious impediment to the establishment and development, although banks in Tanzania generally do not have liquidity problems.

Under information asymmetry there are significant amounts of discretions possessed by lending officers such as types of collateral and maturity they may accept. This discretion creates room for corruption. Beck *et al.*, *aswevfn* (2005) using firm level data from World Business Environment Survey (WEBS) in 1999, the survey shows that firms rank the bank corruption as greater obstacle of accessing external finance. Olomi (2009) notes that SMEs operators and some of bank officials acknowledge that corruption exists in the banking sector and some bank officers deliberately delay processes until they are promised something.

A number of barriers, differing from country to country, make it difficult for businesses to expand and prosper. Small enterprises are suffering the most from a poor business environment. They face the biggest constraints in access to markets, energy, transport and not least to investment finance (Africa Commission, 2009). Enterprise are in short supplies of adequately skilled labour. There is a need to make secondary education more relevant for the skills requirements of the private sector, where school leavers will seek employment, and improve technical and vocational education and Training (TVET).

The financial system in most of Africa is under-developed however and so provides few financial instruments. Capital markets are in their infancy, shareholding is rare and no long-term financing is available for SMEs. Non-bank financial intermediaries, such as microcredit institutions, could be a big help in lending money to the smallest SMEs but they do not have the resources to follow up their customers when they expand (Kauffmann, 2005; OECD, 2005b).

### **Sustainable sources of funds for SMEs**

The current reforms in Tanzania have resulted in liberalization of the financial sector to a great extent. This has led to establishment of a number of banks including the National Micro-Finance Bank, liberalization of financial rates and establishment of a stock exchange market. In spite of all these, the SME sector is facing a major constraint in accessing finance. This limits their capacity to survive, increase capacity, upgrade its technologies

and even in many cases, expand their markets and improve management or raise productivity and eventually increase incomes (Kimei, 2001).

### **Financial Institutions in Tanzania**

Institutions that supply financial services in Tanzania can be classified into five main categories:

1. Formal financial institutions: banks that are subjected to banking laws and regulation who provide individual lending (practiced by NMB Bank, CRDB Bank, MEDA, NBCall community banks and ACB) and wholesale lending where credit is extended to microfinance institutions which in turn lend to retail clients (practiced by CRDB Bank, SELF Project and NIGP).
2. Semi-formal financial institutions: registered entities. Included here are SACCOS and financial NGOs.
3. Savings and Credit Cooperative Societies (SACCOS): Legalized under the Cooperative Department of the Ministry of Cooperative and Marketing (BOT 2002). SACCOS are dominating the industry, especially in rural areas. Most SACCOS offer limited products, only credit and compulsory savings as a condition for getting loans. Many SACCOS still lack capacity and face serious governance problems. Interest rates are generally about 5%.
4. Financial NGOs: donor supported NGOs offering financial services to low-income customers (PTF, FINCA, PRIDE, SEDA, POVERTY AFRICA and TGT). The used methodology is mostly group lending whereby peer pressure becomes a substitute for collateral, interest rates are 20-40% and loans need to be repaid in short periods of time.
5. Informal financial institutions: money lenders and traders, self-help groups and family and friends networks. Although there are many, each group operates on a very limited scale (Olomi 2009).

### **Ways of improving credit delivery**

There has been an increasing financial need of SMEs which have attracted government attention in the last three decades in Tanzania. The government as a result has put in place measures that will facilitate credit availability to the SMEs sub-sector. The government had also sought collaborative effort with bilateral and multilateral agencies and non- governmental organizations (NGOs) in supporting SMEs in Tanzania.

It is worth noting that several financial institutions in Tanzania, including the Bank of Tanzania, CRDB Bank, Barclays Bank, Euro African Bank, Standard Chartered Bank and a number of Micro Financial Institutions (MFIs) have come up with various products that aim at improving SMEs' access to and affordability of finance from these and other institutions. One recent development in this area is the "SME score-card", a tool for examining loan applications so as to ensure that banks in the East African region lend to those most likely to repay, even if they lack the conventional supporting requirements. Interestingly, one of the marks of a business that is likely to repay loans is its record of utility bill payment (Ngowi *et al*, 2006).

According to TPSEF; in order to improve access to credit from the banking system the Government has established the Export Credit Guarantee Fund managed by the Bank of Tanzania. SME Credit Guarantee Fund has recently been operationalized as the Bank of Tanzania and Treasury have finalized the Operational Guidelines. The Land Amendment Act was passed by Parliament in April 2004 after consultations with the various stakeholders including the private sector. The objective was to make land desirable collateral by the banking institutions so as to extend credit to the various sectors of the economy. For this to be a success, improvement in the land registration office is imperative.

### **2.2.2 Review of Theoretical Literature**

The governments in both industrialized and developing countries provide a wide variety of programs to assist SMEs. Despite the success of SME strategies in a few countries, the majority of developing countries have found that the impact of their SME development programs on enterprise performance has been less satisfactory. Many countries both developed and developing have come to realize the role of SMEs in the economic development process. They are seen to be characterized by dynamism, witty innovations, efficiency, and their small size allows for faster decision making process. The government has formulated public policies to encourage, support and fund the establishment of SME's. Development in SMEs is a *sin quo non* for employment generation, solid entrepreneurial base and encouragement for the use of local raw materials and technology. The SMEs operations are propelled by the dynamic theory, which makes them efficient and prone to constant change (Akabueze, 2002).

UNIDO (1999) pointed out that the private equity and venture capital funds established in Tanzania are few and cater primarily the needs of expansion of established business and privatisations, although some are increasingly paying attention to fast growing SMEs. The main institutions and programs that constitute the current support framework of financial services are the following:

- Small Industries Development Organisation (SIDO)
- The National Income Generation Program (NIGP)
- Pride Tanzania
- Mennonite Economic Development Associates (MEDA)
- Savings and Credit Co operatives (SACCOs)
- National Micro finance Bank (NMB)
- CRDB Ltd
- Other Micro finance Schemes

Easing Access to Credit, Equity and Guarantees Rural and Micro Finance Policy is addressing the need of creating a sound and sustainable financial sub sector specialised on savings and credit facilities for very small entrepreneurs. However, two important areas deserve the attention of SME Policy include Credit Guarantee Schemes and Venture Capital Funds for SMEs (Calcop and Massawe,1999).

### **2.3 Empirical Evidence**

Recent study on evaluation of funding arrangement conducted by Patricia (2008) in Nigeria revealed that most of the government instituted agencies set up to provide credit to the SMEs have performed poorly in terms of credit delivery, providing barely one percent of the credit to the SMEs. This finding seem to correlate with Odetola (1997) and Cowrie Consultants (1996) suggesting that owners savings, family and friends still constitute a major source of financing especially micro and small scale enterprises in Nigeria and other informal institutions. Most of the SMEs do not have access to the credit giving by financial institutions, government agencies, NGOs or International Donor Agencies.

Gavin (2000) investigated the dynamics of small business financial structure using empirical evidence from three years of detailed primary sourced data on one hundred and fifty new business start-ups in Scotland. The investigation tested the dynamic theory of small firms with emphasis on debt and equity relationships, and their modification, as the small firm goes through various stage of growth. The research concluded that predicted trajectories for key financial variables depend largely on both debt and equity.

Oliveira and Fortunata (2005) investigation, which utilized unbalanced panel data in Portuguese manufacturing (surviving) firms over the period 1990-2001 reported an overall result which suggests that the growth of Portuguese manufacturing firms is finance constrained.

Oreoluwa (2011) assesses specific financing options available to SMEs in Nigeria and contribution with economic growth via investment level, he also indicated that there is significant positive relationship between SMEs financing and economic growth in Nigeria via investment level.

Study conducted by Maziku (2012) assess credit rationing for Small and Medium Scale Enterprises in Tanzania, the finding reveled that small firms' access to loans from commercial bank is constrained by opacity of their operations and inadequate collateral. The results also shows that 63.8 percent firms were rationed mostly small and young firms, female owned firms and firms operating in trading and service sector.

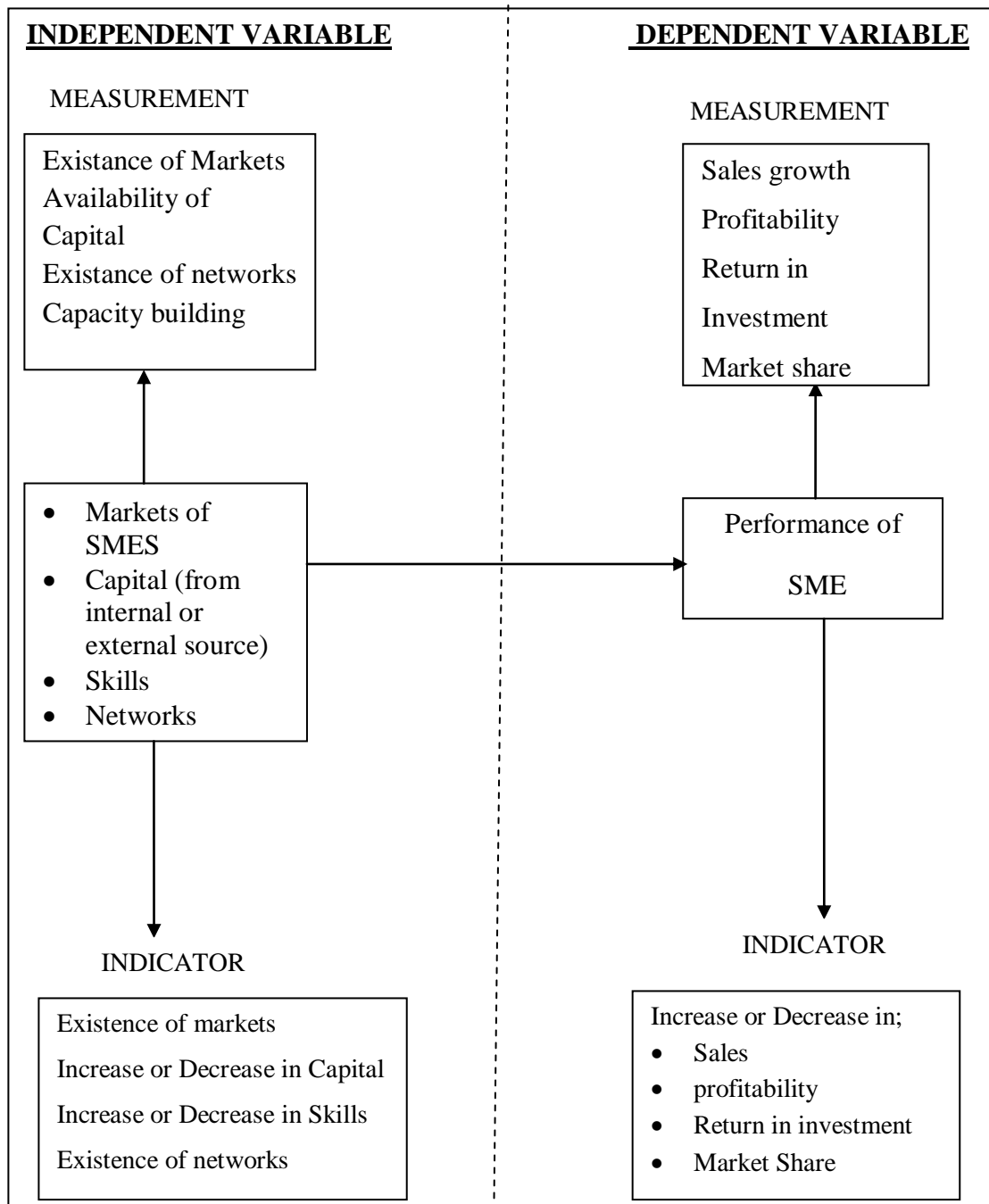
Even though the aforementioned studies provides empirical evidence on SMEs credit constrain, credit rationing and its determinants, there are still some gaps which need to be addressed. The studies focused on the supply side of access to debt finance and very little is done on the demand side. A comprehensive study to examine the obstacles to credit as perceived by SMEs and financial institutions and available funding arrangements for SMEs could help to further confirm the findings of the previous study, and pave the way for the successful implementation of funding arrangements for SMEs in Tanzania.

## **2.4 Conceptual Framework**

Performance of SMEs depends on a number of variables including capital, skills, networks and markets. According to the conceptual framework; capital, Market, Networks and skills is conceptualized as the independent variable whereas, firm performance is the dependent variable. According to the model independent variables are measured according to existance of market, availability of capital, existance of networks and capacity building. Performance of SMEs (dependent variable) is measured in regard to sales growth, profitability, Return on Investment (ROI) and Market share.

The major indicators for independent variable include increase or decrease in capital, existance of markets, existance of networks, and increase or decrease in skills. Whereas, the indicators of performance of SMEs include increase or decrease in; sales, Profitability, Return on Investment and increase or decrease in Market Share (See Figure 1).

**Figure 1: Conceptual Framework**



*Source:* Adapted from Kikula (2002).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

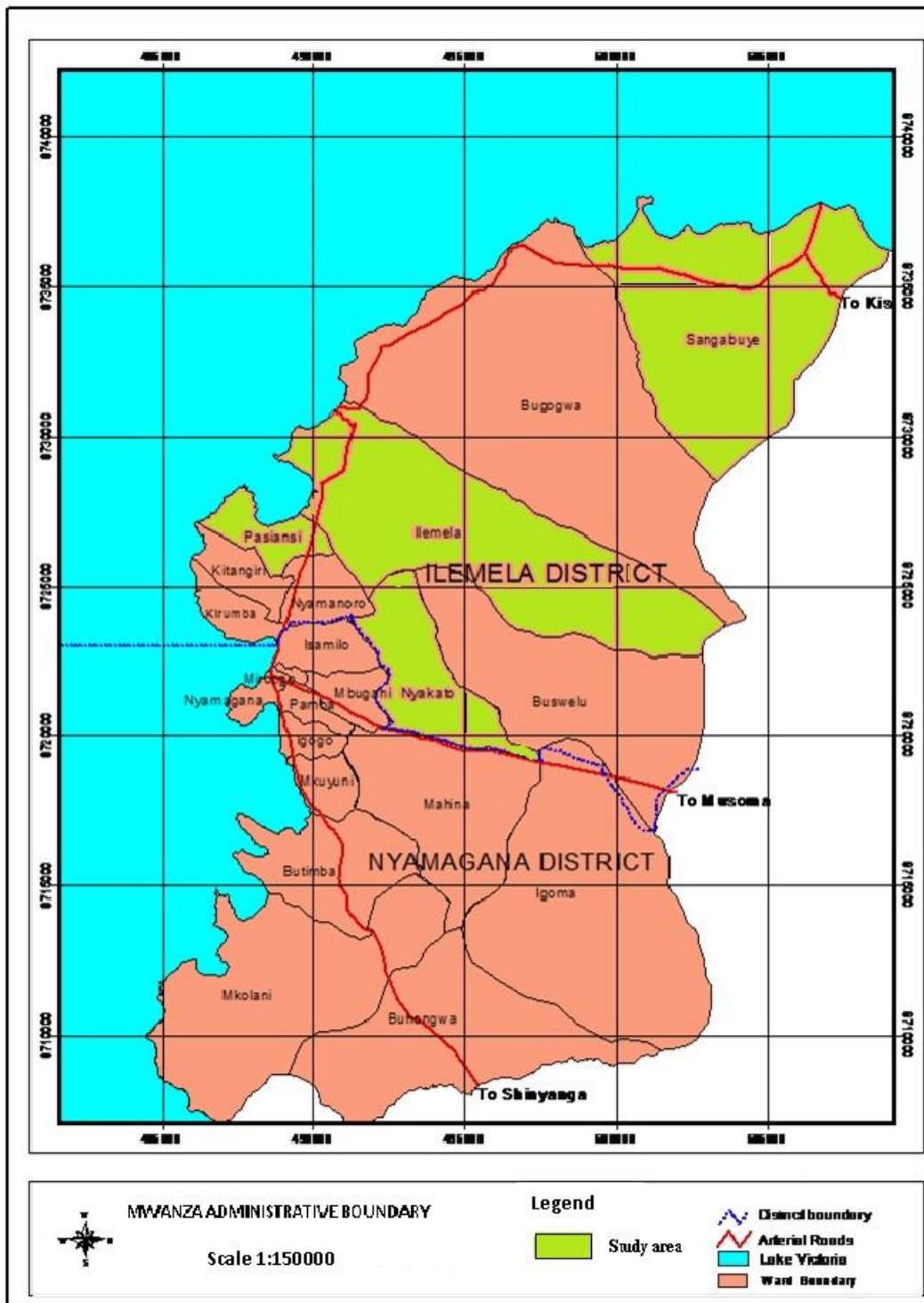
This chapter outlines the methods used by the researcher in order to attain the objectives of the research. The chapter therefore explains the research design, area of the study, population and sample, sampling techniques, data collection methods and data analysis.

#### **3.1 Area of the Study**

The study was carried in Ilemela district located in Mwanza city, Lake zone region in Tanzania. Geographically Ilemela district is located on Latitude 2°26'52.2" (2.4478°) south and Longitude 33°1'54.4" (33.0318°) east, with average elevation of 1,261 meters (4,137 feet). Ilemela District is one of the 8 districts of the Mwanza Region of Tanzania. It is bordered to the North by the Nyamagana District, to the South and East by the Misungwi District and to the West by Lake Victoria.

Administratively the district has eleven (11) wards and 147 streets/villages. According to the 2012 Tanzania National Census, the population of the Ilemela District was 343,001. Ilemela district is occupied by various ethnic groups which include Wasukuma, Wakerewe, Wakara and Wazinza.

According to the profile of Mwanza city council; the major economic activities in the Ilemela district include; - Manufacturing and food processing, major SMEs include cotton seed oil industries, breweries, soft drink, bakeries, milling machine, fabricating workshops and soap factories. Fishing in the lake Victoria; where major species found include Tilapia and Nile Perch; Agriculture: The area produces both food and cash crops production, major crops cultivated includes Maize, Rice, Vegetables, Fruits and Cotton. Other economic activities include timber making and beekeeping.



Source: Mwanza City Council, 2013.

Figure 2: Map of Ilemela district showing the study area

### **3.2 Research Design**

The study employed a cross sectional research design. The design allowed data to be collected in a single point in time (Bailey, 1998; Kothari, 2004), not only that but also the research design pointed out the data to be collected and the types/categories of respondents or units of inquiry.

### **3.3 Population of the study**

A population is a group of individuals who have one or more characteristics in common (Denzin and Lincoln, 1994). Lead (1998) defines population as the aggregate of all the cases that conform to designated set of specifications. In this case the population were 6100 SMEs in Ilemela district.

### **3.4 Sample Size and sampling procedure/technique**

#### **3.4.1 Sample size**

Data were collected from 80 SMEs owners from eight villages/streets of Ilemela district, which among other things included officials from commercial banks serving SMEs.

#### **3.4.2 Sampling procedures**

The study employed both probabilistic and non probabilistic sampling procedures. In probability sampling procedure a simple random technique was applied. Purposive sampling technique in the context of non-probabilistic sampling method were used to get the key informants responsible for SMEs in the area and bank officials.

Before reaching the sample for the study, multistage sampling procedures were used to select divisions, wards and villages. Four wards were selected of which two villages from each ward were randomly selected to make a total of eight villages. In each village 10 SMEs were randomly selected.

### **3.5 Unit of Inquiry**

The researcher interviewed owners of Small and Medium Enterprises (SMEs) in Ilemela district or when the owners were not around then managers of SMEs, Loan Officers and Bank Managers were interviewed to get data on bank criterias used for lending, Government leaders and Managers from SIDO and TCCIA were interviewed in order to get information on the alternative funding arrangements available for SMEs in Ilemela district.

### **3.6 Data Collection**

Both primary and secondary data were collected.

#### **3.6.1 Primary Data**

Both quantitative and qualitative data were collected. For quantitative data, a questionnaire method was used. For qualitative data, focus group discussions and key informant interview methods were used in collecting the data.

##### **(i) Questionnaire**

A questionnaire formulated of both open-ended and closed ended questions were used as a tool for the method. The questionnaire was administered to the owners of SMEs. A person in-depth approach was used during the administration of the questionnaire. The questionnaire were pre tested in order to verify the relevancy of the questions and the quality of the information for research, this allowed researcher to verify the appropriateness and clarity of the questions for both the interviewers and interviewees, measure the time needed to fill out each questionnaire and also make corrections on the difficulties or challenges encountered during interviews.

##### **(ii) Focus Group Discussion method**

In each selected Street/villages, one focus group discussions was made. The group were formed by about 7 to 12 SMEs owners of various sex and age. A size of group allowed free participation by the actors. In addition one group of entrepreneurs per division were made. During the discussion, a well structured check list was used to guide the discussion.

### **(iii) Key informant interview**

Key informants were purposively selected because they are knowledgeable about various issues related to financial arrangements available for SMEs in the study area. Government officers, NGO's officials, politicians, community leaders, village leaders, and researchers formed this part of data collection method. Well structured checklist questions were used during the interview.

### **3.5.2 Secondary Data**

Secondary data were collected from different books, journals, papers, presentations and articles, publications from the internet and other supporting documents. Other secondary data were collected from the ministry of Industry and Trade, Tanzania Chamber of Commerce and SIDO.

### **3.6 Data Analysis**

Both quantitative and qualitative data analysis methods were used. Primary data collected through questionnaire were coded and processed with the help of computer program named Statistical Package for Social Science (SPSS). For qualitative data collected through focus group discussion and key informant interview method were analysed using structural function content analysis method. The appropriate information were summarised and recorded for reporting.

### **3.7 Reliability and Validity**

Reliability and validity are the basic principles of social research. The former refers to the ability of an instrument to produce consistent results. It is also characterized by precision and objectivity. Validity means the ability to produce accurate result and to measure what is supposed to be measured. A valid measure produces true results that reflect the true situation and condition of the environment it is supposed to study (Sarantakos 1998). A number of strategies were employed to minimize bias, to ensure the reliability, and to improve the validity.

### **i. Validity**

To ensure validity the study applied the triangulation technique using interviews, questionnaires and secondary data analysis. The data collection instruments were designed in such a way that they measured opinions of respondents towards available funding arrangements for SMEs to the maximum degree possible. Issues developed from conceptual framework were compared with issues obtained during interview and answers obtained from questionnaires so as to ensure construct validity.

### **ii. Reliability**

Data reliability is a cornerstone of making a successful and meaningful study. In order to collect reliable data, the researcher designed the interviews and questionnaires through an elaborate procedure which involved a series of revisions. Also quotes from interview and statement from questionnaires were used as references to ensure reliability. Researcher used checklist of questions during interviews with respondents so as to achieve data consistency and completeness. Furthermore, to maximise reliability of the instrument used, the research was constructed as follows: 1) the questionnaire were pre tested in order to verify the relevancy of the questions and the quality of the information for research 2) each question was framed succinctly to reduce ambiguity and minimize bias.

**CHAPTER FOUR**  
**RESULTS AND DISCUSSION**

**4.0 Introduction**

This chapter presents the analysis and interpretation of data collected with regards to the objectives of the study.

**4.1 Background Characteristics of the Respondents**

**Table 2: Background characteristics of respondents**

n= 80		
Variables	Frequency	Percentage
<b>Sex</b>		
Male	52	65
Female	28	35
<b>Total</b>	<b>80</b>	<b>100</b>
<b>Age (Years)</b>		
18-25 years	16	20
26-35 years	28	35
36-45 years	22	27.5
Over 45 years	14	17.5
<b>Total</b>	<b>80</b>	<b>100</b>
<b>Marital Status</b>		
Single	13	16.25
Married	62	77.5
Widows/Widower	5	6.25
<b>Total</b>	<b>80</b>	<b>100</b>
<b>Education Level</b>		
Primary education	31	38.75
Secondary education	37	46.25
College education	9	11.25
Non formal education	3	3.75
<b>Total</b>	<b>80</b>	<b>100</b>

**Source:** Field data, 2013.

**4.1.1 Gender of Respondents**

Out of 80 respondents, 65% were male and 35% were female. Male entrepreneurs represent about two thirds of all respondents while females represent one third of all respondents (Table 2). This implies that majority of SME owners and managers were males. These results

therefore, indicate that the majority of males in Ilemela district own SMEs as compared to females.

The findings were consistent with World Bank survey (2004) which pointed out that there is only a slight difference in ownership between men and women. Men own 48 % of businesses and women own 42.9%, while about 8% are jointly owned between husband and wife.

#### **4.1.2 Age of Respondents**

The study findings indicate that 20.0% of respondents were aged 18 - 25 years. About 35.0% of respondents were those aged between 26-35 years. 27.5% were those aged between 36-45 years, and only 17.5% of respondents were those aged more than 45 years (Table 2). This shows that the respondents aged between 26 and 45 years comprised about two thirds of the total entrepreneurs in Ilemela district. The implication of this is that the businesses owners of SMEs in Ilemela district had immersed by large number of working age group.

Other studies such as Kidiru (2009) shows that age affects experience, wealth and decision making on how an individual works, and therefore in return influence individual productivity; Others suggest that young business people like age group 32-42 years earn higher profits by adopting more techniques especially moving long distance to find inputs to their business (Singh *et al.*, 2003).

#### **4.1.4 Marital Status of Respondents**

The findings indicates that the majority (60%) were married, Furthermore, the results of the study show that 21.25% of all respondents were single, and 18.7% were widows/widowers. This indicates that two third of SMEs owners/managers in Ilemela district were married (Table 2).

#### **4.1.5 Education Level of Respondents**

Table 2 shows the respondent level of education. 38.75% of respondents revealed that they had up to primary school education. About 46.25% of the respondents attained a secondary level of education, while 11.25% of the respondents revealed that they had college level of education. Furthermore, the results from the study area revealed that only 3.75% of the respondents had never gained formal education. This implies that majority of respondents can

read and write and hence they can put records of purchasing and selling prices and evaluate their business products.

The finding is consistent with data from UNIDO (2012) where about half of the population of entrepreneurs has completed primary school; one-third secondary school; less than 10% obtained technical training after secondary school or pursued higher education. Some 70% did not receive training before the start of the business.

King and McGrath (2002) pointed out that education is one of the factors that impact positively on growth of firms. Those entrepreneurs with larger stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments.

## 4.2 Business Information

### 4.2.1 Type of Business operated by SMEs

**Table 3: Types of Business under SMEs**

<b>n = 80</b>		
<b>Type of Business</b>	<b>Frequency</b>	<b>Percentage</b>
Food processing	13	16.25
Manufacturing	17	21.25
Motor vehicles/garage	4	5
Garment/textile	7	8.75
Food, beverages	9	11.25
Basic metal, Iron and steel	8	10
Wood/Wood product (Furniture)	9	11.25
Wholesale	4	5
Service	6	7.5
Electrical and electronics	3	3.75
<b>Total</b>	<b>80</b>	<b>100</b>

**Source:** Field data, 2013.

The study identified various businesses operated by SMEs in Ilemela district; Results on the types of business operated by SMEs is presented in Table 3; where the majority 21.25% of SMEs were engaged in the manufacturing industry. About 16.25% of all SMEs in Ilemela district engaged in the Food Processing Industry, 5% engaged in Motor vehicle repair/garage, 8.75% engage in garment/textile industry, 11.25% engaged in the food/beverage industry, 10% engage in the wood/wood product, 5% engaged in the wholesale, 7.5% engaged in the

various service businesses such as Internet, secretarial, cleanness etc., and 3.75% engaged in electrical and electronics. Result implies that majority of SMEs in Ilemela district concentrate in the manufacturing and food processing industry.

The findings were consistent with World Bank study (2004) where SMEs operate in all sectors but the most dominant were trade (54%) and services (34%). 68% of the SMEs were found in urban areas. The most of these enterprises (54.2%) were in trade, followed by services (35%). Only about 11% of SMEs were engaged in manufacturing activities. In the trade sector, activities that were prominent include trade in agricultural products (13.9%) and general retail trade (19.1%). The services sector were dominated by food and restaurants, both accounting for 30% of all the SME activities. Other studies done by Hall *et al.*, 2000 indicated that the industry in which a firm operates does not influence the firm's capital structure directly but might do so indirectly through the composition and nature of the firm's assets. The association that exists between industrial classification and employment of debt in the capital structure originated from a theory which stated that industry classification is a substitute for business risk (Barbosa & Moraes, 2004). The concept lay in this theory indicate the firms operating in the same business sector, the environment and economic features tend to suffer the same impact face the sector which might influence earnings and growth. Hall, Hutchinson and Michaelas (2000) advocated that even though particular firm features are sensitive to structural features of industry still financial strategy variables posse very important influence over industrial specific effects on the firm's operations. Abor (2007) evidenced that SMEs operate in the agricultural industry has strongest capital structure and asset structure whereby wholesale and retail industry demonstrated the weakest asset structure as well as debt ratio.

#### 4.2.2 Position of Respondents in the Business/SMEs

**Table 4: Position of respondents in the business**

n = 80		
Position in the Business	Frequency	Percentage
Chairman (Board)	2	2.5
Director	35	43.75
Manager	32	40
Employee	11	13.75
Total	80	100

**Source:** Field data, 2013.

Table 4 indicates position of respondents in the SMEs, whereby 2.5% were board members of the SMEs, 43.75% were Directors of SMEs, 40% were Managers of SMEs and 13.75% were Employees of SMEs. Result indicates that majority of respondents were from higher position in the SMEs, further it implies that respondents of this study had positive influence as far as SMEs financial arrangements process is concerned.

#### 4.2.3 Business Experience of the SMEs

**Table 5: Business experience of SMEs**

N=80		
Age of SME	Frequency	Percentage
< 1 year	8	10
1-2 years	21	26.25
2-5 years	35	43.75
>5 years	16	20
Total	80	100

**Source:** Field data, 2013.

Table 5 indicates that 43.75% of respondents revealed that their SMEs had business experience of between 2-5 years, 26.25% of the respondents revealed that their SMEs were between 1-2 years of business experience, 20% of the respondents revealed that their SMEs had more than 5 years of business experience, only 10% of the respondents revealed that their SMEs had less than a year of business experience. The findings indicate that most of the SMEs had some past business experience, though about two third were less than 5 years old.

The findings were consistent with the findings of World Bank survey (2004) where most SMEs were fairly young businesses; over sixty percent were less than five years old. Study conducted by Klapper *et al.*, (2010) pointed out that, firms with less than 5 years (younger firms) in operation are less likely to rely on debt financing from lenders. Ngoc, Le and Nguyen (2009) supported the argument that younger firms face hardship and more costs in accessing external financing from lenders. Findings of the World Bank survey (2004) further pointed out that most of the SMEs in Tanzania don't exist very long, with over half of them (54.6%) having been in operation for up to three years. This is an age category when start-up and operational constraints force many SMEs to close. This may be attributed to the fact that until 1986, Tanzania followed a socialist economic model which discouraged private sector

participation. As a result, Tanzanian SMEs are the youngest in the region. This is an important finding as it affects their ability to access capital from formal markets.

**4.2.4 Business Registration and Legal Status of SMEs**

**Table 6: Business Registration and Legal Status of SME**

<b>Business Registration</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	74	92.5
No	6	7.5
Total	80	100
<b>Legal Status</b>	<b>Frequency</b>	<b>Percentage</b>
Sole proprietorship	49	61.25
Partnership	13	16.25
Limited company	11	13.75
Cooperatives	1	1.25
Total	74	100

**Source:** Field data, 2013.

Table 6 indicates that many SMEs (92.5%) have been registered; only 7.5% of SMEs were not registered. Registered business possessed business licence from Local government Authority and some SMEs were registered by Registrar of Business Names and Licensing Agency (BRELA).

The findings were consistent with data given by UNIDO (2012); which indicates that in the period 1996/97 – 2011/12 there has been a steady in increase in the number of registered companies (from around 2000 to 7000/year) as well as in the registration of business names (from some 2500 to more than 15000/year). Still, most small businesses are sole proprietors, many are not registered (only about 4% of small business is registered with BRELA), and few have a tax identification number (TIN).

Respondents were also asked to indicate forms of business ownership, where 61.25% were sole proprietors, 16.25% were partnership of two or more people, 13.75% were limited companies, and only1.25% were cooperatives as shown in Table 6. Result indicates that majority of SMEs in Ilemela district were under sole proprietorship, further it implies that majority of SMEs had simple type of business structure that were owned and operated by the

same person; however this form of legal ownership are relatively easy to start up. On the other hand, sole proprietorships can be risky because there is no separation between the owner and the business.

Other studies conducted by Coleman and Cohn (2000) and Fatoki and Asah (2011) evidenced presence of a positive association between debt financing and legal formation of business organization. Dietmar *et al.*, (1998) point out that firm with limited liability (incorporated) possess development attributes than firm with unlimited liability. Cassar (2004) found out that lenders observe incorporation as a good indicator for firm’s trustworthiness and commitment to operational laws. Abor (2008) stated that the form of business organization has an effect on equity – debt decisions on SMEs operations. The owners of limited firm have limitations to answer against losses generated by the corporation whereby the owners of unlimited forms of organization (sole proprietorship and partnership) are liable up to their personal assets to cover for business losses. Therefore, limited companies prefer to use the equity to finance their projects than debt financing while unlimited form of business organizations (sole proprietorship and partnership) the only option available to finance their projects is debt financing.

**4.2.5 Tax Payment of SMEs**

**Table 7: Tax Payment status of SMEs**

<b>N = 80</b>		
<b>Tax payment status</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	54	67.5
No	26	32.5
Total	80	100

**Source:** Field data, 2013.

Table 7 shows that 67.5% of all SMEs in Ilemela district pay tax to the government, while 32.5% do not. Tax payment status of SMEs translates into ability of SMEs to meet its legal obligations. However one can conclude that more than half of SMEs in the area do not pay taxes to the government.

This is consistent with the study conducted by Baurer (2005) which indicated that SMEs in developing countries often face difficulties when dealing with tax matters. It would be rare

indeed not to hear complaints about the complexity and/ or ambiguity of the tax laws, high tax rates and the lack of an integrated fiscal strategy that takes social taxes, and local taxes and fees into account when determining the overall tax burden placed on the business community.

**4.2.6 Number of Employees of SMEs**

**Table 8: Number of Employees of SMEs**

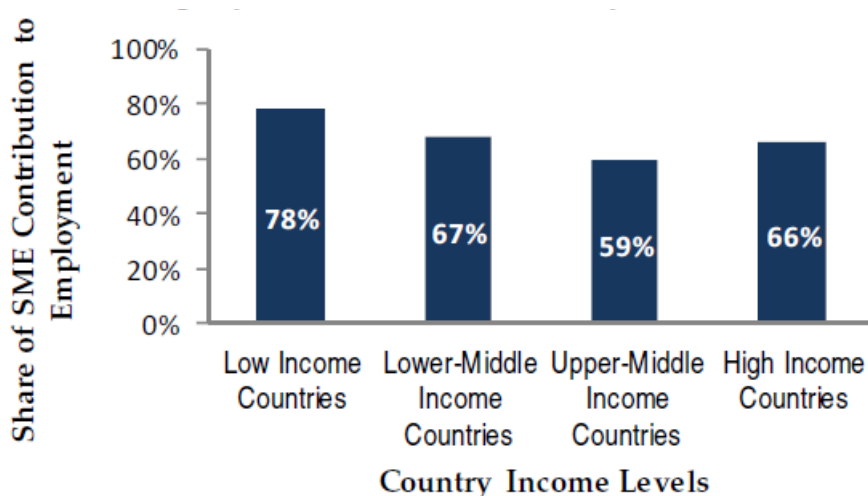
<b>N =80</b>		
<b>Number of employees</b>	<b>Frequency</b>	<b>Percentage</b>
1-4 employees	47	58.75
5-49 employees	31	38.75
50 - 99 employees	2	2.5
Total	80	100

**Source:** Field data, 2013.

Table 8 indicates that majority of SMEs (58.75) had about 1- 4 employees which implies that more than half of SMEs in Ilemela district are micro SMEs as per SMEs development policy of 2002. “SMEs” include also micro enterprises, as the latter category covers a large proportion of enterprises in Tanzania; therefore, even if the term “SMEs” is used, this implicitly covers also the micro segment (hence the Policy’s coverage is de facto “MSMEs”). Beside, 38.75% have about 5 - 49 employees and only 2.5% of SMEs have about 50 - 99 employees. The findings were inconsistent with World Bank survey (2004) where more than (98 %) of enterprises were micro enterprises.

According to USAID (2002) the standard measure of growth used in studies of SMEs firms is the change in the number of workers since start up. Liedholm and Mead (1999) contend that job creation is an important social goal and development objective and policies to support small enterprises are frequently justified on their supposed employment effects. The definition of employment includes working owners (entrepreneurs) because of job creation for owners may be equally valuable as jobs created for others from a social welfare point of view. Workers on external contracts are also included. It also includes paid part-time and full time family members. On the other hand, unpaid family helpers and apprentices are excluded, because their relationship is more frequently part time and casual and because they cannot be reliably measured in all years (USAID, 2002). Study conducted by Dalberg (2011) indicated

that SMEs has a great contribution to employment in low income countries like Tanzania, the extent of contribution per region is shown in figure 3.



Source: Dalberg, 2011.

**Figure 3: Employment Contribution by SMEs on the basis of country income level**

Study done by Hossain (1988) pointed out the generation of self-employment in the MSEs requires investment in working capital, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans can help the poor to accumulate capital and investment in employment generating activities.

#### 4.2.7 Average Sales of SMEs

**Table 9: Average total sales of SMEs per annum**

N = 80		
Sales per year in (Tshs)	Frequency	Percentage
< 5 million	12	15
5 m -20 million	23	28.75
20 m - 50 million	32	40
50m -100 million	5	6.25
100m - 500 million	4	5
> 500 million	2	2.5
Not aware	2	2.5
Total	80	100

Source: Field data, 2013.

Table 9 shows that 15% of all SMEs in Ilemela district have less than Tshs. 5 million average sales per annum, 28.75% have average of Tshs. 5 – 20 million, 40% of all SMEs in Ilemela district have average of Tshs. 20-50 million per annum, 6.25% have average sales of Tshs. 50 -100 million, 5% of SMEs have average sales of Tshs. 100 -500 million and only 2.5% of SMEs have average sales of over Tshs. 500 million; However 2.5% of respondents were not aware of average sales of SMEs per annum.

Average annual sales for SMEs in the study area were generally low; the findings corresponds to the fact that majority of SMEs in Ilemela district were micro SMEs. Sales record has an impact on the amount of credit offered by financial institutions. This implies that due to lower average annual sales of SMEs in the study area the access to credit from formal financial institutions might be difficult.

The findings were consistent with World Bank survey report (2004) which pointed out that the majority (66%) have annual sales of less than \$2.000 dollar annually and are operating largely survival type of business. Aususto et al. (2009) pointed out that Banks generally define SMEs in terms of average annual sales, with thresholds that vary by country according to the size of the economies and structure of the corporate sector. BIS (2012) poited out that there has been deterioration in the credit quality of businesses due to lower sales.

### 4.3 Existing Financial Arrangements for SMEs

#### 4.3.1 Amount of Start up Capital of SMEs

**Table 10: Amount of Start up capital of SMEs**

<b>n = 80</b>		
<b>Amount of start-up capital (Tshs)</b>	<b>Frequency</b>	<b>Percentage</b>
< 5 million	56	70
5 - 200 million	19	23.75
200 - 800 million	2	2.5
Do not know	3	3.75
Total	80	100

**Source:** Field data, 2013.

Results in Table 10 revealed that 70% of all SMEs in Ilemela district started their businesses with less than Tshs. 5 million, 23.75% of SMEs started business with capital of Tshs. 5 - 200 million, 2.5% started their business with between Tshs. 200 -800 million, however 3.75% of respondents were not aware of the initial capital of their SMEs. The study therefore indicate that majority of SMEs more than half fall under micro enterprises during their start up period, and few SMEs were small and medium enterprises during their start up as per categories of SMEs outlined in the National SMEs policy (Tanzania) of 2012.

#### 4.3.2 Source of Funding for Start up SMEs

**Table 11: Source of funding for start up of SMEs**

**n = 80**

<b>Source of funds</b>	<b>Frequency</b>	<b>Percentage</b>
Owner savings	45	56.25
Friends/relatives	11	13.75
Donors	1	1.25
Bank loan	6	7.5
Government support	2	2.5
Bank loan and owner savings	6	7.5
Owner savings and friends	9	11.25
Total	80	100

**Source:** Field data, 2013.

Respondents were asked where they got capital to start their businesses; 56% of respondents used their own savings to start their businesses/SMEs, 13.75% of respondents received some assistance from their friends and relatives, 1.25% of respondents received donors support to start their business, 7.5% of respondents used bank loans to start their business, 2.5% of respondents received government support to start their businesses, however 7.5% of respondents used a combination of both bank loan and personal savings as shown in Table 11.

Results correspond with findings from key informant interview and focus group discussion where it was revealed that owner savings and other informal sources such as friends, relatives, family members, self help groups and friends networks were the major sources of financing start up SMEs.

The findings were consistent with studies done by Luoga (2005) which indicated that more than 50% of micro-enterprises were started due to clients own savings, friends and relatives.

This implies that majority of the clients commence their business by using their own capital since they can get assistance from their family members, relatives and friends. Therefore, it reveals that the individual to have access to loan should have already operating business. This suggests that initial capital can be the hindrance factor for people with no capital to access loan in order to start their business in poor countries, Tanzania inclusively. Demirquc - Kunt et al. (2006) pointed out that the main source of external financing for SMEs is equity and debt. Shane (2008) observed that external equity from stock exchange (capital markets) usually never exists for SMEs.

### 4.3.3 Source of Capital for Expansion of SMEs

**Table 12: Source of capital for expansion of SMEs**

n = 80		
Source of Capital	Frequency	Percentage
Owner savings	35	43.75
Friends/relatives	17	21.25
Donors	2	2.5
Financial institutions	14	17.5
Government support	3	3.75
Bank Loan and owner savings	4	5
Owner Savings and Friends	5	6.25
Total	80	100

**Source:** Field data, 2013.

The study also assesses the sources of capital for expansion and development of SMEs in Ilemela district, results indicates that 43.75% were the owner savings, 21.25% were friends and relatives, 2.5% were donors, 17.5% were financial institutions, 3.75% were government support through government agencies, 5% were bank loan and owner savings, and 6.25% were combination of personal savings and assistance from friends as indicated in Table 12. Results from focus group discussions and key informants interview indicates the same response on the sources of capital for expansion and development of SMEs.

Results on the sources of funding for expansion of SMEs were relative similar to those of start-up SMEs, however for expansion purpose SMEs used much more loans from financial institutions compared to start up SMEs, this might be due to increased in relation with financial institutions and trend of business performance, also there were slightly decrease on the use of owner savings for expansion of businesses.

Previous studies indicated that accessibility to external finance is essential to solve shortage of SMEs cash flows (Pretorius and Shaw 2004). Financing is required for SMEs' to set up and enlarge their business operations, new product development, research and development, human resource development and acquirement of up-to-date production equipments and technology. Most of SMEs rely on *internal finance*, since they can't afford external finance easily only prioritized source become internal finance but still internal finance is inadequate for SMEs' development and profitability. Most SMEs failures to access debt financing result into an inadequate capital structure.

#### 4.3.4 Alternative source of financing SMEs

**Table 13: Alternative source of financing SMEs (N =80)**

Alternative Source of financing SMEs	Frequency	Percentage
Owner savings	11	13.75
Friends/relatives	12	15
Donors	7	8.75
Financial institutions/loan	15	18.75
Government support	9	11.25
Bank Loan and owner savings	12	15
Owner savings and friends	11	13.75
Cooperatives	3	3.75
Total	80	100

**Source:** Field data, 2013.

Results in Table13 shows response of respondents on the alternative sources of financing their SMEs, where 13.75% indicated owner savings as an alternative source of financing their SMEs, 15% were friends and relatives, 8.75% were donors funding, 18.75% were financial institutions, 11.25% were government support, 15% were combination of bank loan and owners savings, 3.75% were cooperatives. However the alternative source of financing SMEs does not differ much with the current sources of financing start up and expansion of SMEs in the study area.

However results from key informants interview indicated that the government of Tanzania implemented various financing programs to support SMEs as an alternative means of financing SMEs in the study area. One of the initiatives were Business Development Gateway (BDG) planned by the Prime Minister's Office in 2003 and supervised by the Tanzania Private Sector Foundation (TPSF) in partnership with Small Industrial Development

Organization (SIDO). BDG released Tshs. 1.3 billion to 400 start up and existing SMEs in Mwanza city. But due to large number of SMEs in the city it is difficult for one to appreciate the initiative.

The findings above indicates that still SMEs trust the formal financial insitutions and Government as the alternative means of financing their SMEs for both start up and development of SMEs.

**4.3.5 Type of Institutions financing SMEs**

**Table 14: Type of institutions financing SMEs (N=80)**

Source of Loan	Frequency	Percentage
SACCOS	17	21.25
VICOBA/Worth program	18	22.5
Microfinance Institutions	24	30
Commercial Banks	12	15
Government Institutions i.e. SIDO	9	11.25
Total	80	100

**Source:** Field data, 2013.

Respondents were asked to mention the major institutions providing credits to SMEs in the study area, results indicated that 21.25 % were SACCOS, 22.5 % were Village Community Banks (VICOBA) and Worth Program implemented by Non Governmental organizations (NGOs), 30 % were Microfinance Institutions, 15 % were Commercial banks and only 11.25% were the government through its agencies such as SIDO as shown in Table 14.

Results corresponds with findings from focus group discussion and key informants interview, where it was revealed that commercial banks deliver very little funding to SMEs in the study area. On the other hand microfinance, cooperatives and informal financial institutions seems to contribute positively to the growth of SMEs subsector though they have limited funding. Financial institutions declared that they had very low coverage; almost all financial institutions concentrated in urban areas due to poor infrastructure in rural areas, however the market for financing SMEs is potential and due to high competition every institution is currently targeting them.

The findings were consistent with study done by Chijoriga (2000) where he pointed out that Microfinance institutions (MFI’s) provide a broad range of services including deposits, loans,

payment services, money transfer and insurance to the poor/low-income households and their enterprises. Kessy and Urio, 2006 contented that the introduction of MFI's in Tanzania is seen as the best alternative source of financial services for low income earners and their MSEs as a means to raise their income, hence reducing their poverty level and contributing in the country economy.

#### 4.3.6 Loan Requirements

**Table 15: Conditions of getting Loans (N=80)**

<b>Conditions</b>	<b>Frequency</b>	<b>Percentage</b>
Collaterals	46	57.5
Operating Bank Account	14	17.5
Business Plans	9	11.25
Guarantors	11	13.75
Total	80	100

**Source:** Field data, 2013.

The study also assessed requirements used by financial institutions to provide loans to SMEs in the study area. Table 15 below indicates necessary conditions for one to acquire loan from financial institutions whether for start up or expansion of business; where 57.5% were collaterals, 17.5% were operating bank account, 11.25% were availability of business plans, and 13.75% were availability guarantors.

However more results were revealed during key informants interviews (with bank officials); who indicated that SMEs need to have proper documentation/good record keeping, proper investment outlay, good relation with financial institutions and security in order to acquire loan/credits from financial institutions. List of credit institutions, terms and conditions on credits attached as Appendix 3.

Coco (2000) indicated similar results where collateral were the lender's protection incase default happened by a borrower, in that perspective collateral is the insurance that lender's contract will be honored and respected. Collateral solves the information asymmetry problems in the evaluation of investment project, the worthiness of the project and risk that might be involved by a borrower as well as the cost related to supervision of borrower's characters.

## 4.4 Challenges in getting loan for start up and expansion of SMEs

### 4.4.1 Challenges in getting loan for start up SMEs

**Table 16: Challenges in getting loan for start up SMEs (N =80)**

Challenges	Frequency	Percentage
Lack of relation with financial institutions	15	18.75
Lack of Collaterals	48	60
High Interest rate	12	15
Bureaucracy	5	6.25
Total	80	100

**Source:** Field data, 2013.

Table 16 respondents mentioned some of challenges in getting loans/credits for start up of their businesses; where 18.75% were lack of previous relation with financial institutions, 60% were lack of collateral, 15% were high interest rate given by most of financial institutions, and only 6.25% were bureaucracy created by Bank officers in approving loans.

Similar results were revealed during focus group discussion and key informants interview, where financial institutions do not trust start up businesses due to lack of previous financial records. Others suggested that financial institutions perceived SMEs to be too risky due to lack of reputation.

Chandler (2009) pointed out similar results where firms at the early stage of operation used to experience difficulties in access to debt finance because of informational disparities. The firm starts to operate and grows with business performances on a trade which create a reputation on credit history. Credit reputation reduces the moral hazard dilemma hence create a path to access debt finance.

Other studies conducted by Ogawa and Suzuki (2000) pointed out that bank do not want to offer loans to MSEs because the nature of loans required is too small and those banks find it more expensive to offer such loans. Financial problem of most MSEs arise due to poor financial management; existence of information asymmetry and bank credit rationing Chijoriga and Cassimon (1999). From the above findings it can be concluded that access to capital from financial institutions mainly for start up SMEs were not easy, the major challenge were lack of collateral.

#### 4.4.2 Challenges in getting Loan for expansion of SMEs

**Table 17: Challenges of getting loan for expansion of SMEs**

N=80		
Challenge of getting loan	Frequency	Percentage
Long procedures	23	28.75
Lack of collaterals	29	36.25
Credit rationing	11	13.75
Bureaucracy	17	21.25
Total	80	100

**Source:** Field data, 2013.

The study examined major challenges faced existing SMEs to acquire loans from financial institutions. Results indicated that 28.75% were long bank procedures, 36.25% were lack of collaterals, 13.75% were credit rationing and 21.25% were bureaucracy from officers of financial institutions during loan processing as shown in Table 17.

Results from focus group discussion and key informants interview indicated that most of SMEs had poor documentation which makes banks unable to assess their credit worthiness, some of SMEs were engaged in sectors which were perceived as too risky by banks, limited knowledge on financial management by SMEs, SMEs lacks enough information on different products offered by different banks and lack of proper security to cover their loans were the major reasons behind banks reluctant to provide loans to SMEs.

The findings were consistent with the study conducted by Bougheas, Mizen, and Yalcin, (2005) pointed out that the requirement of collateral is a crucial aspect for SMEs to succeed in accessibility of external financing from lenders. Barbosa and Moraes, (2004) and Fatoki and Asah, (2011) suggested that operators of SMEs have to own more tangible assets that can create higher value on their firm to accelerate borrowing security. Because, the higher the value of assets the lower the interest rates of the debt to be secured by those assets. Consequently, it is hypothetical existence of a strong positive relationship between collateral and access of debt financing by SMEs.

Therefore it can be concluded that SMEs in the study area faces difficulties to access external finances for their investment projects because of lack of assets to be pledged as collateral. In

that perspective SMEs fail to grow due to lack of collateral to pledge to access external sources of finance.

## 4.5 Business Development Services to SMEs

### 4.5.1 Institutions offering financial Services to SMEs

**Table 18: Institutions offering financial services to SMEs (N=80)**

Name of institutions	Frequency	Percentage
NMB	14	17.5
CRDB	11	13.75
MKOMBOZI BANK	6	7.5
POSTAL BANK	4	5
SACCOS	11	13.75
PRIDE	12	15
SEDA	9	11.25
FINCA	11	13.75
EQUITY BANK	1	1.25
ACCESS BANK	1	1.25
Total	80	100

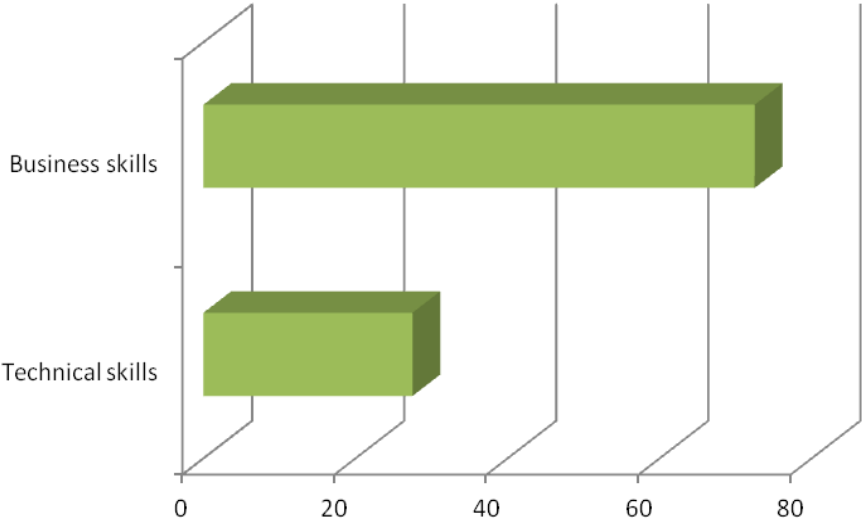
**Source:** Field data, 2013

The study revealed that there are many institutions offering financial services to SMEs in the study area. Institutions offering financial support to SMEs include 17.5% NMB, 13.75% CRDB, 7.5% Mkombozi Bank, 5% Tanzania Postal Bank, 13.75% SACCOS, 15% were PRIDE, 11.25% were Small Enterprise Development Agency (SEDA), 13.75% were FINCA, 1.25% were EQUITY BANK, 1.25% were ACCESS BANK. Results are shown in Table 18. However the above findings shows institutions known by respondents to provide financial services in the study area, and it did not meant they access financing from those institutions. These institutions can be categorized as Microfinance institutions and commercial banks as per type of institutions presented in Table 14. This finding is important because it provides information that despite the large number of financial institutions in the study area but there is low access to finance for SMEs.

Survey done by the Bank of Tanzania (2005) pointed out that the credit based institutions number between 80 and 100 out of which 42 are registered members of the Tanzania Association of Microfinance Institutions (TAMFI), the local microfinance network. The main

microfinance institutions can be categorized as non governmental organizations (NGOs), Cooperative based institutions namely SACCOs and SACCAs while the third category is banks. It is estimated that there are close to 8 million small and micro entrepreneurs who need financial services and the number is growing by 4% annually, the majority of whom are found in the rural areas. It is estimated that all the MFIs in Tanzania put together serve a combined client population of about 400,000 SMEs, which is only around 5% of the total estimated demand. Commercial banks including community banks account for around 50,000 while the NGO category accounts for the an estimated population of 220,000 clients. PRIDE Tanzania being the largest single player accounts for about 29% of the market share in this category or 16% of the existing total market share.

**4.5.2 Other support provided to SMEs**



**Figure 4: Type of support provided to SMEs**

Figure 4 shows response of respondents on the type of support received by SMEs in the study area, where 27.5% of SMEs in the study area received training on Technical skills in areas of product specification and health hazard, while 72.5% of SMEs received business skills to help them improve business performance in terms of unit sales, revenues and profits.

According to UNIDO (1999) the acquisition of relevant vocational, technical and business skills is one of the critical factors for success in small enterprises. The Government has a central responsibility for education, training and experience transfers, which is shared with a wide range of institutions, including churches, NGOs, and the private sector. In specific fields

of SME operations, SIDO has been very active in providing training, first through the training cum production programme and currently through training to groups of micro-borrowers.

Training must become more sector-specific, focusing on the particular needs and practical problems of SMEs. Topics such as business management, financial management, accounting, marketing, and personnel management must be covered by a number of institutions to help managers find best mechanisms of financing their SMEs.

**4.5.3 Organizations offering business and technical support to SMEs**

**Table 19: Organizations offering business and technical support to SMEs**

n = 80		
Organization	Frequency	Percentage
SIDO	31	38.75
NGOs (Asedeta)	6	7.5
TCCIA	19	23.75
VETA	15	18.75
Financial Institutions (Pride, Finca, Seda, NMB)	9	11.25
Total	80	100

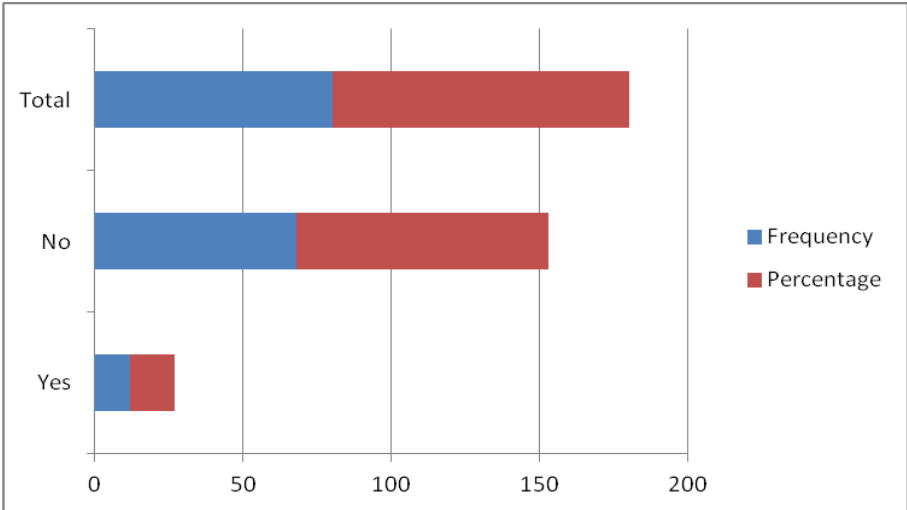
**Source:** Field data, 2013

Respondents were asked to mention organizations that offer business and technical support to SMEs in the study area; where 38.75% received business support from SIDO, 7.5% received technical support from NGOs such as ASEDETA, 23.75% received technical support from TCCIA, 18.75 % received technical support from VETA, and only 11.25% received business skills from financial institutions as shown in the Table 19.

A 2003 SME Mapping of Tanzania report pointed out that existing Business Development Services (BDS) services offered by professional consulting firms at high prices. Furthermore, among MSEs, there is very limited awareness of and access to BDS, including training, consultancy and advisory services, marketing assistance, information, technology development, and promotion of business linkages. This awareness was reported as being well below 25 per cent in the Swisscontact (2003) report. Consequently, less than 10 per cent of the SMEs in the Swisscontact survey reported having received any of these services.

Despite the fact that SMEs received some form of business and technical support from various organizations; there is little contribution from financial institutions, if financial institutions could play its role in provision of trainings to SMEs then lending to this specific market segment could be higher.

**4.5.4 Government support/ Contribution to SMEs**



**Figure 5: Government support/ contribution to SMEs**

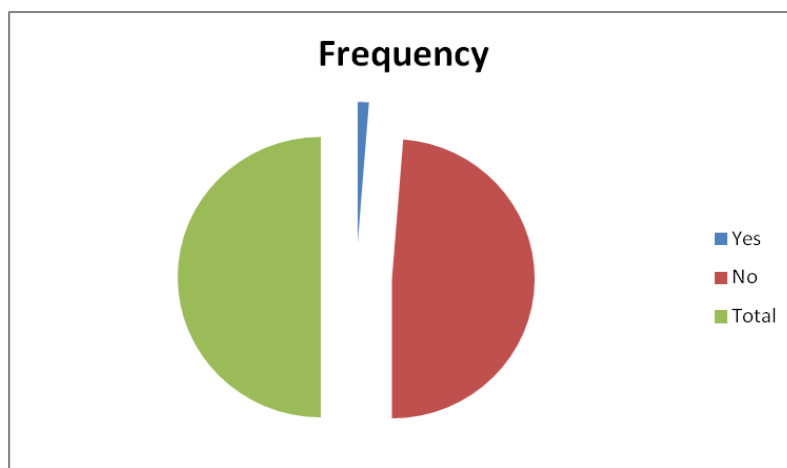
Respondents were also asked whether they receive financial support from the government, where majority of SMEs in Ilemela district 85% does not receive any government support, while only 15% appreciate government support as shown in Figure 5. This implies that various government efforts has not realized by SMEs in the researched area, may be because most of projects implemented by government failed to perform as expected.

Erick (2000) pointed out that the Government of Tanzania initiated various programs to support SMEs which include “*Hire Purchase Programme*” implemented by SIDO in urban, rural, women and micro credit schemes aimed at the provision of a meaningful assistance to the small and micro enterprises sectors. Under the Urban Hire Purchase Programme, the entrepreneur is assisted with machinery and working tools. Credit terms include a down-payment of between 10 and 25%, and a grace period of up to five years. These loans attract an interest rate of about 30% (i.e. marginally above the inflation rate) and amounts disbursed range from 100,000 to 6,000,000 Tanzanian shillings.

In addition URT (2002) indicated a number of initiatives designed by the Government to set up funding mechanisms and schemes to address poverty and employment related problems through promoting SMEs. Such funds include National Entrepreneurship Development Fund (NEDF), Youth Development Fund (YDF) which is managed by the Ministry of Labour, Youth Development and Sports and the Women Development Fund (WDF) which is managed by the Ministry of Community Development Gender and Children. Apart from these, there are other related programmes that were established through Government/donor joint efforts including the Small Entrepreneurs Loan Facility (SELF), National Income Generating Programme (NIGP), Presidential Trust Fund and Community Development Trust Fund. Another initiative towards this direction has been the establishment of the National Micro-finance Bank (NMB), meant to cater specifically for micro enterprises.

Therefore conclusion from the findings of this study indicates that government programs and initiatives were not realized in the study area as two third of SMEs didnt received funding from all government initiatives and one can question the sustainability of those programs.

#### 4.5.5 Business Insurance



**Figure 6: Business Insurance to SMEs**

Majority of SMEs in Ilemela district had not insured their businesses, out of 80 respondents 97.5% of SMEs were not insured and only 2.5% of SMEs have insured their business as shown in figure 6.

Study conducted by Africa Agribusiness Academy (2012) indicated that lenders have tendency of asking for insurance cover, something which most borrowers lack and thus find it difficult to get loans.

Insurance is an equitable transfer of the risk of a loss, from one entity to another in exchange for payment, It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Therefore majority of SMEs in the study area were not sure to remain solvent if unexpected events occurred due to lack of insurance cover and limited their access to loans from financial institutions.

**4.5.6 Prospects of the Business in the Medium to Long term growth**

**Table 20: Prospects of the Business in the Medium to Long term growth**

n = 80

<b>Prospects</b>	<b>Frequency</b>	<b>Percentage</b>
Growth	36	45
Not sure	31	38.75
No response	13	16.25
Total	80	100

**Source:** Field data, 2013.

Respondents were asked to mention the prospect of their business in the medium and long term. The aim was to measure the respondent’s perception on growth pattern of their businesses over time. This is due to the fact that most of businesses especially in Less Developed Countries (LDCs) often face growth challenges. Results indicate that 45% were confident that their SMEs will survive, 38.75% were not confident that their business will grow, 16.25% had no response on the future of their business as indicated in Table 20.

Other studies done by Mika, Andrew and Shiv (2012) documented that majority of the enterprises in Shinyanga (47%) perceived not to grow as planned, and were slightly higher for Small Scale Enterprises (SSEs) 46% as compared to Micro Enterprises (MEs) for which the percentage was 44%.

Survey conducted by Dalberg (2011) pointed out that every year new SMEs enter the market, representing 5 to 20% of the existing number of firms. Smaller firms are often the most dynamic and innovative, and can be a test ground for new business ideas. Although

nearly half of all start-ups will fail within 5 years, a few of them grow to become large firms, and replace incumbents. The major reasons for failure of SMEs to survive in the market include lack of funds to finance growth of SMEs.

**4.5.7 Business Challenges**

**Table 21: Business Challenges Business Challenges**

<b>n = 80</b>		
<b>Business challenges</b>	<b>Frequency</b>	<b>Percentage</b>
High operating costs	35	43.75
High tax and levies	12	15
Lack of capital	33	41.25
Total	80	100

**Source:** Field data, 2013.

Respondents were asked to mention the challenges of their business; 43.75% said high operating risk, 15% said high tax and levies imposed by the government authorities such as Municipal council and Tanzania Revenue Authority (TRA), and 41.25% said lack of capital is a big challenge to their businesses as indicated in Table 21. Therefore one can conclude that capital is among the biggest challenge to performance of SMEs in the district.

SMEs face challenges in making decision on financing choices because of adverse selection problem which hinder their access to credit and it’s expensive to solve the problem. Ernest & Young (2009) pointed out key challenges pertinent to Tanzania including cumbersome business registration and licensing procedures, high taxation rates to SMEs, cumbersome tax collection procedures, corrupt practices by tax officials coped by low knowledge of SMEs owners on taxation matters, broad base of tax levied by both central and local government authorities, and cost of credit.

However, the SMEs policy (2002) recognized that MSEs are confronted with unique problems including heavy costs of compliance resulting from their size. Other constraints include insufficient working premises and limited access to finance, Business Development Services, namely services related to entrepreneurship, business training, marketing, technology development and information are undeveloped and not readily available. SMEs lack information as well as appreciation from such services and can hardly afford to pay the services. As the result, operators of the sector have rather low skills. Institutions and

associations supporting SMEs are weak, fragmented and uncoordinated partly due to lack of clear guidance and policy for the development of the sector (URT, 2003).

**4.6 Sustainable sources of funding start up and expansion of SMEs**

**Table 22: Sustainable source of funding start up and expansion of SMEs**

<b>n = 80</b>		
Sustainable source of funding	Frequency	Percentage
Formulation of best policies by the government	17	21.25
Introducing new policies targeting SMEs	21	26.25
Development of innovative financial products & services	24	30
Improve networks of lending institutions	13	16.25
None	5	6.25
<b>Total</b>	<b>80</b>	<b>100</b>

**Source:** Field data, 2013

The study also identified sustainable sources of funding for SMEs in the district, results is summarized in Table 22; where 21.25% said formulation of best policies by the government to help SMEs get financed, 26.25% Introduction of new programs and policies targeting SMEs in the district, 30% Development of innovative products, services and delivery mechanism suitable to particular market segment, 16.25% Improve networks of lending institutions in the district, and 6.25% were not aware of any sustainable sources of funding Start up and expansion of SMEs. However results from focus group discussion and key informants interview indicates that if government programs targeting SMEs will be implemented properly without burraucracy, then there could be a sustainable source of funding for start up and expansion of SMEs.

Survey conducted by Dar es Salaam Stock Exchange (DSE) in 2013 pointed out that efforts to provide access to finance by SMEs have focused mainly on commercial banks, microfinance institutions and government/donor funded programs. These funding sources provides mostly short term financing and, in some cases, have not been sustainable. To that effect, SMEs have not been able to obtain long-term funding for growth. There is, therefore, a need to identify additional sources of funds that will provide long term financing. According to DSE (2013) Introduction of the Enterprise Growth Market (EGM) on the DSE market segment will serve entrepreneurs and managers of enterprises by ensuring capital to start or expand their projects are available.

However the government need to encourage SMEs to entering into a joint venture with an experienced local or foreign partner is an effective way for SMEs to acquire experience and skills, enter new markets, structure additional financing and meet competition. the Government could explore the need and scope for an appropriate coordinating mechanism to ensure that foreign joint-venture initiatives give due attention to SMEs, contribute effectively to capacity building among emergent enterprises and fit in generally with the SME Policy framework.

#### 4.7 Mechanism of improving credit availability, accessibility and delivery to SMEs

**Table 23: Ways of improving Credit Delivery to SMEs**

n = 80		
Ways of improving credit delivery	Frequency	Percentage
Reduce loan interest rate	15	18.75
Introduce loan guarantee schemes	22	27.5
Reduce loan requirements e.g collaterals	31	38.75
Reduce bank burreaucracy	12	15
Total	80	100

**Source:** Field data, 2013

Table 23 shows response of respondents on the ways of improving credit delivery to SMEs in Ilemela district, 18.75% said loan interest rate must be reduced, 27.5% said introduce loan guarantee schemes, 38.75% said the loan requirements such as collateral must be reduced to enhance those with no collaterals to get loan for their businesses and 15% said bank should reduce unnecessary bureaucracy when approving loan. Results corresponds with that from focus group discussion and key informants interview, where financial institutions needed to review their lending policies and procedures to accommodate SMEs with no collaterals. Financial institutions need to facilitate access to information and developing mechanisms to manage risk.

Bataa (2008) defined credit guarantee systems as mechanisms in which a third party, the guarantor, pledges to guarantee loans to a particular group of borrowers. Credit guarantee systems reduce the lending expected credit losses even if the probability of default remains unchanged acting as a form of insurance against default. According to survey conducted by Graham and Partners (1997) there were atleast 85 countries with same type of goverment credit guantee programs.

The findings suggest that Improving the rate of credit delivery by the financial institutions intentionally by giving incentives to SMEs in terms of reducing the rate of interest rate charge on loans by banks, reducing the administrative cost in servicing loans, and the use of alternative sources of collateral were the best mechanism to reduce of improving credit availability, accessibility and delivery to SMEs.

Sustainable mechanisms for SME financing require institution building and a market approach. Lending institutions must improve their ability to provide financial services to SMEs through commercial mechanisms that lower costs and minimize their risk exposure. Only in this way will financial institutions find SME lending to be more profitable, and thus be encouraged to construct lending programmes targeted at SMEs.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND POLICY RECOMMENDATIONS

#### 5.0 Introduction

**This chapter presents summary of the findings, conclusion and policy recommendations**

#### 5.1 Summary of Major Findings

- i) The type of business operated by SMEs in Ilemela district include manufacturing industry, food processing Industry, repair/garage, garment/textile industry, food/beverage industry, wood/wood product, wholesale and service businesses. Result implies that majority of SMEs in Ilemela district concentrate in the manufacturing and food processing industry.
- ii) Large percentage of SMEs in Ilemela district have been registered and possessed business licence from Local government Authority and other SMEs were registered by Registrar of Business Names and Licensing Agency.
- iii) Forms of business ownership include sole proprietors, partnership, limited companies (corporations), and cooperatives. Majority of SMEs in Ilemela district were under sole proprietorship, this implies that majority of SMEs had simple type of business structure that were owned and operated by the same person. Also more than half of SMEs in Ilemela district were micro SMEs as per SMEs categories shown in the Tanzania National SMEs Policy of 2002.
- iv) The major source of capital for SMEs in Ilemela district has been personal savings. The sources of capital for start up SMEs has been similar to that of expansion of SMEs, these include cooperative societies, financial institutions, donor agencies and government agencies.
- v) The type of institutions providing loan to SMEs in the district include Village Community Banks (VICOBA), Microfinance Institutions, Commercial banks and government institutions. Institutions offering financial services to SMEs in the study area including; NMB, CRDB, Mkombozi Bank, Tanzania Postal

Bank, SACCOS, PRIDE, Small Enterprise Development Agency (SEDA), FINCA, EQUITY BANK, and ACCESS BANK.

- vi) Collateral has been a major obstacle in getting credits from financial institutions for both start up and development of SMEs, other challenges include lack of relations with financial institutions, high interest rate given by most of financial institutions and bureaucracy.
- vii) Few SMEs in Ilemela district received Technical and Business skills training. Technical skills given to SMEs include product specification and health hazard. Organizations offered business and technical support to SMEs in the district include Government agencies such as SIDO, Non Governmental Organizations such as ASEDETA, TCCIA, and VETA.
- viii) Majority of SMEs in Ilemela district did not receive any government support; this indicates that major government efforts to assist SMEs development in the study area failed to perform as expected.
- ix) Majority of SMEs in Ilemela district had not insured their businesses, lenders have tendency of asking for insurance cover, if borrowers lack and they find it difficult to get loans.
- x) Capital has been a major constraint for growth of SMEs in Ilemela district. Other challenges for SMEs development includes high operating cost, high tax rates and levies imposed by the government authorities.
- xi) Sustainable sources of funding SMEs include formulation of best policies by the government to help SMEs get financed, introduction of new programs and policies targeting SMEs in the district, development of innovative products, services and delivery mechanism suitable to SME market segment and improve networks of lending institutions in the district.
- xii) Ways of improving credit delivery to SMEs in Ilemela district include reduce loan interest rate, introduction of loan guarantee schemes and elimination of unnecessary bureaucracy. Also financial institutions needed to review their lending policies and procedures to accommodate SMEs with no collaterals,

also financial institutions need to facilitate access to information and developing mechanisms to manage risk.

## 5.2 Conclusion

The study on assessment of funding arrangements for SMEs was able to answer all the research questions. The gathered data and observations from this analysis lead to the following conclusions: -

The study identified sources of capital for SMEs in Ilemela district; 56.25% of start up SMEs in the study area used personal savings to finance invested capital compared to 43.75% of existing SMEs. However other sources of capital for expansion of SMEs were similar to those of start up SMEs, these include cooperative societies, financial institutions, donor agencies and government agencies.

The access to credits has been a major problem to SMEs in the study area. Where 60% of startup SMEs lack collateral for loan security, compared to 36% of existing SMEs in the study area. The other challenges were long bank procedures, credit rationing and bureaucracy. Existing SMEs were relative easier to acquire bank loan to finance business expansion than start up SMEs. Therefore financial institutions have not been able to meet the credit needs of SMEs in the study area.

30% of SMEs in the study area felt that development of innovative financial products and services shall be sustainable source of funding startup and expansion of SMEs. Other suggestions include improvement of networks of lending institutions to serve rural SMEs, and introduction of new lending policies and procedures targeting SMEs.

The study identified mechanism of improving credit availability, accessibility and delivery; where the majority of respondents (38.75%) indicated that financial institutions must reduce loan requirements such as the need for collaterals. Other mechanisms include reduce loan interest rate, improving lending infrastructure of financial institutions, introduce loan guarantee scheme, and reduce bank bureaucracy.

### **5.3 Recommendations**

Since SMEs are important in the development of the economy of Tanzania then it is essential to the sector grow in sustainable way. It is clear that one of the factors for growth of SMEs is access to capital for startup and expansion of SMEs.

Since the study identified that credit availability and delivery to SMEs is poor in Ilemela district then there is a need of improving SMEs access to credits, by encouraging private sector to open up more financial institutions and existing ones to increase its networks, this will increase credit availability to SMEs and makes its delivery sustainable.

It is important for the government of Tanzania to increase the development of markets for financial services relevant to the specific characteristics of SMEs by promoting product innovation and building institutional capacity. There is also a need of increasing number of financial institutions that find funding to SMEs to be profitable and therefore sustainable.

Lending Policies and procedures of financial institutions has been identified as one the challenges of credit accessibility to SMEs in the study area; it is therefore recommended that financial institutions should revise their lending procedures and thereby reduce loan Interest rate, this will enable SMEs to break even and repay their loans earlier and more SMEs will afford and be confident to take loans for start up and expansion of their their businesses.

Finally; it is important for the government and private sector to establish loan guarantee schemes; this will increase access to credits and hence capital to SMEs. Loan gurantee schemes will ensure financial institutions that any loss can be compensated and SMEs perceived by financial institutions to do risky business such as agriculture business can be financed. Generally loan guarantee schemes will reduce the need for collateral to be possessed by SMEs during loan application.

#### **5.4 Areas for further research**

There were some very important issues raised but the study did not look into their details. These issues could be captured by interested researchers in future. There is a need of further research on the impact of capital provision to SMEs and its relation to the performance of SMEs by focusing on different contexts. This will provide knowledge on whether financing SMEs enhance SMEs development or not.

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## APPENDIX 1: QUESTIONNAIRE FOR SMEs

### SECTION A

#### Background characteristics of the respondents

No.	Information needed	Fill in response here			
1.	Gender of the Respondent	Male		Female	
2.	Age of the Respondent (Please tick with X wherever suitable)	18-25 yrs	26 -35 yrs	36 -45 yrs	Over 45 yrs
3.	How many people Live in Your Household? (Fill in exact number)	Under 15	Male: Female:	Over 15	Male: Female:
4.	What is your Marital status (please circle)	Single	Married	Other (specify)	
5.	Highest education level				

### SECTION B

#### Business informations

6. What business are you in?..... Please state the product(s) your business produce or service rendered.....

7. What position are you in the business? Tick the appropriate

- i. Chairman ( )
- ii. Director ( )
- iii. Manager ( )
- iv. Employee ( )

8. How many years have you been working with this business?.....

When your business was established?..... (provide the year)

9. Is your business registered? Yes/No (circle the appropriate)
10. Do you pay Tax? Yes/No (circle the appropriate) If yes How much per year?.....(in Tshs)
11. How many employees the business has?.....
12. How many are permanent employees?..... How many are temporary employees?.....
13. What is your business average annual turn-over?.....(in Tshs)

### SECTION C

#### **Existing Financial Arrangements of the business**

14. How much was your start-up capital? .....(in Tshs), Provide the estimate value of your total investment ?.....(in Tshs)
15. What was the Sources of funding for start up of your Business (Sources of Finance).....Is the source sustainable? Yes/No  
Give reasons.....
16. What problems if any you faced on acquiring capital during start up?.....
17. Is your capital adequate for the business? Yes/No (Circle the appropriate)
18. What was the source of finance for expansion of your business?.....
19. What other sources of financing your business do you know? .....
20. If it is loan, where do you get loan?.....
21. What are the general conditions of getting loan? And what are/were the difficulties of getting loans?.....
22. Do the funding arrangements made by government through its agencies contribute to the growth of your business? Yes/No (circle the appropriate)
23. What were the criteria or conditions used in granting the credit?
  - a. Annual turn-over [ ]
  - b. Total investment outlay [ ]

c. Business plan [ ]

d. Collateral security [ ]

Others (please specify).....

24. Is your business insured? Tick the appropriate

a. Yes [ ]

b. No [ ]

### **SECTION D**

#### **Other supports for the business**

25. Is there any organization or institution that support or enhance business development?

Yes/No (circle the appropriate)

26. Do you have access to any form of technical or managerial support (or training) to grow your business? Yes/No (circle the appropriate)

27. If Yes, state the source (organization or institution).....

28. Comments on the prospect of your business in the medium to long-term growth (5 - 10 years).....

29. What are the major challenges or difficulties that your business is facing (especially in the area of infrastructures and institutional support)?.....

### **SECTION E**

30. Suggest ways of enhancing or facilitating credit delivery to the SMEs sub-sector that will ensure its growth, development and sustainability in Tanzania

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**APPENDIX 2: CHECK LIST QUESTIONS**  
**FOCAL GROUP DISCUSSION & KEY INFORMANTS**

1. What are the sources of finance available for start up SMEs?
2. What are sources of finance for expansion and development of SMEs?
3. What are the sustainable sources of funds for start up and expansion of SMEs?
4. What are the conditions used to get loan from financial institutions?
5. How long it takes to get loans from application time?
6. What are the challenges of getting loans from financial institutions?
7. What are the ways of improving credit availability and delivery to SMEs?

### **APPENDIX 3: Credit Institutions, products and credit conditions**

*(Source: Financial Institution Survey, 2003)*

#### **1. Micro Loans (Self Project) under Vice President's Office:**

- Term: 2 years with grace period of 12 months. Interest is to be paid monthly during grace and there after paid with principal in 6 quarterly instalments of: 10%, 10%, 20%, 20%, 20% and 20%. Interest rate of 8% per annum flat rate fee is 1% of an approved amount and the loan size is 50 Million and above.
- Term: 2 years with grace of 6 months. Interest is paid monthly during grace and there after paid in 6 bimonthly principal instalments of: 10%, 10%, 20%, 20%, 20% and 20%. Loan size is 20 million and above. Interest 14% per annum flat rate, application fee is 2% of an approved amount.
- Term: 3 years with grace period of 12 months. Interest paid monthly during the grace period and there after paid with principal in 8 quarterly instalments: 10%, 10%, 10%, 10%, 15%, 15%, 15% and 15%. Loan size is 50 million and above. Interest rate is 16% per annum flat rate. Application fee is 2% of the applied amount.

#### **2. FINCA Tanzania (Non-Governmental Credit Institution)**

- Offers financial/Credit to SMEs of informal sectors.
- Type of disbursement employed is Village banking mechanism (Grameen modal type)
- Apart from credit support FINCA offers Savings services as well as training on handling credits etc
- FINCA is willing to offer loan to energy technologies SMEs
- Agriculture based SMEs can be supported in credits
- Any SMEs which gives to micro-entrepreneur a daily/weekly income can be supported by FINCA
- Interest payable per annum is 48%

- Coverage is Mwanza, Bariadi, Bunda, Bukoba, Shinyanga , Mara, Morogoro, Dar es Salaam, Ifakara, Tarime, Muleba, Kahama and Karagwe.

### **3. Small Industries Development Organisation (SIDO) (Governmental Credit Institution)**

- SIDO offers credits to SMEs informal sectors.
- Type of disbursement employed are those compliance with their lending and borrowing criteria
- Energy based SMEs can be supported if compliances with borrowing limit which is Tshs 6,000,0000
- SIDO can support agriculture business sector preferably agro processing line of operation
- All types SMEs can be supported by SIDO
- Credit payment is based on the on the contract loan repayment schedule
- SIDO can offer maximum credit support amounting to Tshs 6,000,000
- Interest payable per annum is 22%
- Other supports apart from cash SIDO do offer technology development, innovation support and advocacy
- Other programmes which could support SMEs include; (Business Development Services-BDS, Market promotion, SIDO business and Technology Incubator Programme, Innovation support and Advocacy
- Coverage is an entire mainland Tanzania.

### **4. National Micro-finance Bank (NMB) (Governmental Credit Institution)**

- NMB offer credit support to SMEs informal sectors.
- Type of disbursement employed is in monthly basis
- Assistance offered by NMB is only finance
- NMB can support energy based SMEs if is (Registered business for not less than one year, not movable business, neither agriculture nor husbandry based business)

- NMB can offer first loan not more than Tshs 500,000
- Interest rate payable per annum is 2.5%
- Other supports which NMB can offer to SMEs is business advise when customer request-not formal
- Coverage is countrywide.

**5. Sero Lease and Finance (SELFINA) (Non- Governmental Credit Institution)**

- SELFINA offer credit support to informal SMEs sectors.
- Criteria for disbursement for leasing/leaseback applicant must be: A woman above 18 years in business or wanting to start business, and already has done some research or training, business must show ability to run in profit basis, should be in position to pay 20% of the value of the equipment or cash loan prior to get the lease equipment or loan cash, must be in position of paying 10% as loan application fee, must be a citizen of Tanzania, must have two guarantors and also must be willing to inter legal agreement with the company.
- Apart from loan support SELFINA do offer training in business management skills and advisory services, life skill training and HIV aids self awareness creation, gender and para-legal training.
- SELFINA can offer credit to clean energy technology business oriented SMEs.
- SELFINA can offer credit to agriculture sector provided a client is experienced in her business and that the loan will be fully secured to minimize risks involved in this sector.
- Mode of payment is equally installments payable within 3, 6, 9, 12 months.
- For the first time client can be given a loan of Tshs 500,000, if equipment costs more than Tshs 500,000 special consideration are taken into account.
- Mode of payment is equally installments payable within 3, 6, 9, 12 months.
- For the first time client can be given a loan of Tshs 500,000, if equipment costs more than Tshs 500,000 special consideration are taken into account.

- Interest rate: 2.5% or 30% per annum.
- SELFINA is ready to offer support to the energy SMEs related informal sectors.
- SELFINA offer an opportunity to lease business equipment or working capital through leaseback arrangement.
- Through SELFINA the SMEs and informal sector can lease business equipment and then ownership of the equipment is passed onto the client after full payment; trains them on how to manage their businesses.
- Coverage: Dar es Salaam and Coast Regions.

**6. Akiba Commercial Bank (ACB)**

- ACB offer credit support to informal SMEs sectors but applicant must be a client of ACB.
- Membership conditions; (Core group is made by six people which have not so much difference in income and staying nearby, group members must attend initial training offered by bank, forms supplied by ACB should be filled by members and submitted to the responsible bank officer, chairman and secretary should be elected by member of the group.
- Applicant should be in legal business for not less than one year.
- Applicant must have transferable and non-transferable collateral.
- Terms of loan are invest one then borrow three, loan ranges from Tshs 200,000 to 10,000,000.
- Disbursement is in monthly basis.
- Interest rate is 2.08% per annum.
- First loan must be disbursed back within 6 months.

**7. PRIDE Tanzania (Head quarter is based in Arusha)**

- PRIDE offers Credit support to SMEs in groups bases ten groups of five members each are combined together, making a core group of 50 people.

- Other assistance which is offered by PRIDE include; First training is free of charge, second training and further trainings should be paid by trainees, but PRIDE provides facilitation.
- PRIDE can offer credits to an agricultural sector.
- Mode of loan payment is done in weekly basis.
- Loan range and mode of disbursement, loan range from Tshs 50,000 to 5,000,000 (First loan is Tshs 50,000 whose leaseback is Tshs 3,800 per week; second loan is Tshs150, 000 whose leaseback is Tshs 5,400 per week; third loan is Tshs 500,000 whose leaseback amount is Tshs 9,500 per week; fourth loan is Tshs1, 000,000 whose leaseback amount is Tshs 12,800 per week; fifth loan is Tshs 5,000,000 whose mode of leaseback is Tshs 27,100 per week.
- PRIDE coverage is almost all over the country.