ACCESS TO FINANCE AND SMEs GROWTH
A CROSS-SECTIONAL STUDY OF SMEs IN DODOMA MUNICIPALITY

By

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for the acceptance by the Mzumbe University a dissertation titled *"Access to finance and SMEs growth": A Cross-sectional survey study of Dodoma municipality"* in partial fulfilment of the requirements for degree of Master of Science in accounting and finance.

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DECLARATION AND COPYRIGHT

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

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I wish to express my sincere gratitude to the Al-mighty God for hearing my prayer and giving me the courage, strength, power and ability to accomplish this work. In Jeremiah 33:3 this words of God give me courage in up and down of my studies "call to Me and I will answer you and tell you great and unsearchable things you do not know".

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DEDICATION

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"I can never make it without your endless loves and supports"

I loving memory

My late dearest father: Peter Korduni Lucumay

May his soul rest in peace forever

LIST OF ACRONYMS AND ABREVIATIONS

SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Science
TRA	Tanzania Revenue Authority
OECD	Organization for Economic Co-operation and Development
MSMEs	Micro and small medium enterprises
SIDP	Sustainable Industrial Development Policy
BOT	Bank of Tanzania

ABSTRACT

This study was set to assess the access to finance and SMEs growth in Dodoma municipality. Specific objectives were to determine sources of SMEs finances, factors that hinder SMEs to access finance, factors that hinder SMEs growth and the link between SMEs growth and access to finance.

The sample size of the study was 120 comprising 30 participants from Uhuru, Majengo, Chamwino and Mwangaza ward. Purposive and random sampling techniques were used to draw the sample. Cross-sectional survey design was used. Since the study adopted both qualitative and quantitative research design, interview and questionnaires were used as data collection tools. Data were analyzed by (SPSS) using regression analysis tool.

It was found that 51% the majority of SMEs relied on internal sources of financing, 35% both source of finance and 14% the external source therefore, access to external finance was still a challenge.

Also the results of the analysis show that lack of information with (beta=0.189,P=0.048 and t-value=2.001) and administrative side of loan being demanding with (beta=0.248,P=0.049 and t-value=1.991) had statistically significant effect toward access to finance. Insufficient collateral, interest rate too high, banks requesting too much information and loan granting procedures being too long were found insignificant factors. Moreover management skills and keeping of business records with (beta=0.202,t-value=2.034 and P=0.044) was the only factors that significantly related with SMEs growth, other factors such as competitions, finding customers, cost of running and government regulations were regarded as insignificant and lastly SMEs growth was found not statistically significant with access to finance at (P=0.065,beta=0.169 and t-value 1.861) so the hypothesis was rejected.

The study concludes that accessibility of external finance is an important factor for the different stages of growth for SMEs. Lack of management skills and poor keeping of business records acted as barriers for their growth. These can be removed if the SMEs have reliable financing sources. Furthermore the study recommends that competition is a challenge to the SMEs does not mean that business environment is not competitive.

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CHAPTER ONE

1.0 Introduction

This chapter presents the background of the research problem, the statement of the problem. It also highlights the general and specific research objectives, the research questions, significance of the study, and scope of the study and limitations of study.

1.1 Background to the problem

Throughout the world the issues of small and medium-sized enterprises has become an important issue that play significant role in economic development for furthering growth, innovation and prosperity (OECD 2006). SMEs have a potential contribution socially and economically by contributing noticeably in job creation, revenue creation as well as a catalyst for urban and rural areas growth. Dalberg global development advisors (2011) address the issue of SMEs sector in high-income countries is the backbone of the economy, the organisation for co-operation and development (OECD) reports that more than 95 percent enterprises in OECD area are SMEs and it account for almost 60 percent of private sector employment and make a large contribution to innovation and support regional development and social cohesion, but it is less developed in low-income countries.

SMEs in transition and developing countries play a major role because about 90 percent of all firms outside the agriculutural sector, constitute as major source of employment and contribute significantly on domestic and exports earning (International finance corporation,2010). The SMEs development emerges as a key instrument in poverty reduction efforts, despite of globalization and trade liberazation have ushered a new opportunity as well as challenge for SMEs. The majority of SMEs has been less able to the situation and frequently under pressure on domestic markets from cheaper imports and foreign comptetitions (organization for economic co-operation and development 2004).

Furthermore world bank address that the least developing economies encountered deficiencies in both the macroeconomic and microeconomic environments pose challenges; high budget deficits, unstable exchange rates, legal, regulatory and administrative environment poses major obstacles to access finance on SMEs growth particularly in medium and long term finance (Word bank 2004).

International finance corporation(2013) in G-20 global partnership for financial inclusion progress address that small medium enterprise will be critical for job growth, nevertheless all SMEs are not equal in job creation. Their recent research expand on the key links between SMEs, jobs and SMEs access to financing and show that the SMEs Finance gap remains large, particularly in emerging markets. The gap affects both formal and informal SMEs.

Dalberg global development advisors (2011) say access to finance is necessary to create an economic environment that enables firms to grow and prosper; SMEs in developing countries face significant barriers to finance. Internatioanl finance corporation (2010) provides statistics on the finance gap is far bigger when considering the micro and informal enterprises 65 to 72 percent of all MSMEs (240-315 million) in emerging market lack access to credit.

Financial constraints are higher in developing countries in general, but SMEs are particularly constrained by gaps in the financial system such as high administrative costs, high collateral requirements, lack of experience within financial intermediaries, lack of lender information and regulatory support to engage in SMEs lending and absence of well-functioning SMEs lending markets (Internatioanl finance corporation, 2010).

In Tanzania, it is estimated that about a third of the gross domestic product (GDP) is originated from SMEs sector (Olomi,2006). By having climate that promote growth and development the society at large can reap the benefits of this, at present 60-70% of net job creation in Tanzania is derived from this category of SMEs. Consequently in a competitive market there should be an incentive from financial supplier to overcome the highlighted barriers and gaps in order to finance SMEs (Olomi, 2006).

Furthermore Oyen and Gedi, 2012 argued that 70 percent of enterpreneurship in Tanzania did not receive training before starting of the business; therefore, they have weak business records and management skill, low level of business association member that means gaps in knowledge of services providers due to the lack of credit facilities make most of SMEs reliance on their own saving, trade credit and relative or friend as sources of finance and very limited to access external finance.

Ministry of industry and trade (2003) address that in Tanzania a number of policies, strategies, government scheme and programme have been designed to promote the private sectors some of policies like sustainable industrial development policy (SIDP) for the purpose showing the opportunities through the development of medium, small scale and micro enterprises can provide and the countries should look on other source of finance rather than bank only like venture capital, leasing and factoring houses mostly adopted in developed countries and south Africa use this method of finance to expand the market lending for SMEs.

Hansen et al., (2012) also addresses the issue of SMEs credit guarantee sheme implemented by the governemt of Tanzania through bank of Tanzania, to provide some amount of money to commercial bank so as wide-ranging extent of provide credit to SMEs but the scheme did not reach it target because of lack engagement with financial instutitons and uncertainty of government regulation as the most significant barrier , so access to finance is still a major problem on SMEs growth in Tanzania.

On both side of the lender and borrower some research have been done on several aspects try to address the need of SMEs. For example, Kira and He(2012) express the impact of firm characteristic in access to finance by looking on the SMEs side on the size of the business, age, location of the firm, gender how they are constrained to SMEs growth, but the research did not says about the factors that hinder SMES when want to access finance from financial provider how it affect the growth of the firm. This insight problem call for research to be done to address what are the impacts of SMEs when they do not access to finance to contribute to economic development of the country and what major challenges faced by SMEs when seeking for financial assistance on the growth of the business.

There are several problems with the way banks control the network which allow money to flow in the economy and the way banks serve small and medium sized enterprises in the market on the issues like collateral, interest charge on loan, bureaucratic procedure and well policy financial system support is still a problem in Tanzania. The basis of this background set for research needs to be done in addressing the issues of access to finance and SMEs growth by looking at how SMEs are affected in their business when they do not have enough funds to run the business.

1.2 Problem statement

In many developing countries, financial institutions are less developed and less competitive in market; they do not know enough about market opportunities that SMEs could present to them (Internatioanl finance corporation, 2010). Enterprise survey data shows that small firms are more likely to be negative impacted by financial constraints than the large firms which are 150 percent more likely to use bank finance for new investment (international finance corporation, 2011).

However financial constraint, high cost and lack of access to finance impede SMEs growth, it is ranked as top obstacles faced by SMEs in surveys across the globe, without sufficient capital SMEs are unable to develop and take advantages of business opportunities (Internatioanl finance corporation, 2010).

Access to finance as it continues to be the biggest obstacle for the SMEs growth where most of the SMEs financing come from internally generated funds supplemented by family or informal sources. Most of formal financial institutions consider the SMEs segment as a big market with great prospects and high profitability. Even though SMEs are not the preferred borrowers for many financial institutions to lend SMEs despite their perceived potential due to some restrictions like high transaction cost, information asymmetries, imperfect information, high default risks of SMEs during economic downtown and limited collateral (Ganbold, 2008).

Access to finance remain a major problem in Tanzania and focus in microfinance institutions is not the solution for SMEs typically need to develop and grow, even though many banks claim to have SMEs windows, access remain difficult. There is big gap between the saving interest (3%) and the lending rate between 18 to 20 percent or even higher are considered high notwithstanding inflation rate (Oyen &Gedi 2012).

Some of policies in Tanzania do not look on the market needed for the targeted group, and this lead to the market failure. Financial modelling of the bank somehow does not sound to favour for SMEs lending market and nature of relationship in providing informational differ among banks (deakins, north, baldock & whittam 2008).

Furthermore Hansen et al., (2012) addresses issues that the bank only can not be well-suited to meet the long term capital needs of some firms, that is why venture capital and other sources like leasing, factoring houses and business angel they needed for SMEs to get fund for startup and grow business and by this alternative financing sources will provide for healthy competition that spurs banks into becoming more innovative.

Kira and He (2012) says the general environment of Tanzania context for SMEs does not give a broader spectrum for SMEs to expand and grow where by the policies and the nature of lending does not seem to favour SMEs. Furthermore, depending only on bank financing as source of medium and long-term source of finance will not allow the SMEs lending market in Tanzania to be competitive.

In Tanzania there are several studies that have been done on SMEs, but most of the studies focused on the supply side of financial services, these studies include (Maziku, 2012; berg and Funchs, 2013; Calice, Chando and Sekioua, 2012). This study will mainly concentrate on the demand side of the financial service to find out how access to finance contributes to SMEs growth. This study will make important contribution at several levels, on bridge the gap of knowledge of SME characteristics which affects their access to formal financial services and voluntary self-exclusion and involuntary exclusion and other factors that hinder their business to grow.

1.3 Objectives of study

The main aim of research is to examine how access to finance contributes to SMEs growth in Dodoma municipality.

SPECIFIC

- To determine the source of SMEs financing
- To assess the factors that hinder SMEs to access finance
- To assess the factors that hinder SMEs to growth
- To assess the link between access to finance and SMEs growth

1.4 Research questions

- How do SMEs obtain their source of finance?
- What factors hinder SMEs on access of finance?
- What factors hinder SMEs to growth?
- What is the relationship between access to finance and SMEs growth?

1.5 Importance of the study

This research report will help various sectors include other researcher, government, and financial institution, business people (MSMEs) and non-financial institutions.

The findings of this study will help to identify and fill the gap which other researchers failed to grasp and bridge, but also it will increase the knowledge to the researchers and other stakeholders. Moreover, it will make important contribution to those whose interest is on examining the impact on access to finance in SMEs growth or other related topics such as constraints in credit access to women-owned business, benefits of non-financial institutions future researcher should be able to expand the theoretical and empirical review framework to be developed.

This report findings will helps SMEs to understand the challenge faced in their business and the way to deal with them even if the capital is small, mostly to be innovative and creative in order to win market demand rather than being stagnant on one way of doing business.

The report will give the highlight to the government on the importance of SMEs growth in economic development of the country in several sectors like agricultural, industrial and labour market that mostly youth and graduate face unemployment. Also it gives governments and other sectors to improve the policy of implementation on the part of SMEs in order to reduce poverty rate in Tanzania. This is through engaging people in entrepreneurship activity and formulation of trust funds to support SMEs with little rules on it so that it is affordable.

This study will help to building up good relationship between financial and non-financial institutions with SMEs ultimately enabling the country to achieve economic growth through an easy access to finance so as to allow SMEs to engage more in business and create job opportunities.

The research report will identify and quantify the gender gap for policy maker's attention to improve the economic and social potentiality to all citizens, in addition, it will help to develop well-targeted policies for SMEs not because they are small, but they are key engine to the economy and seedbed for bigger enterprises. Also the policy makers have to strengthen their commitment to SMEs development sector in terms of access to finance and other barriers that hinder SMEs growth.

1.6 Scope of the study

To cover the entire region in the country, it was impossible because of scarce time and financial resources; therefore the study was conducted in Dodoma municipality focusing in all small and medium enterprises that were engaged in income generating and employment creating part of their daily activities. Different wards were visited for data collections.

1.7 Limitation of the study

In carrying out the study, a number of limitations were encountered, which included:

a. The accessibility of the data and some people refused to volunteer to offer information, and the lack of knowledge on the importance of access to finance for SMEs growth from formal financial institutions. Also most of

SMEs had negative perceptions because of the experience from other people who accessed funds from financial institutions and failed to repay the loans.

b. Financial constraints: This was also a limitation in carrying out the research project, this led to collect data only on Dodoma municipality.

The time was limited: the research needed a lot of time in order to get enough information from different people allocated in different places. Also reading more literature on what other researchers have written. Some of information needed by the researcher in this study was considered as confidential and/or personal in nature. Its accessibility was difficult.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter present the literature review related to the research is discussed, which consists of theories and models on access to finance and SMEs growth, the conceptual definitions, theoretical analysis, empirical analysis, conceptual framework, the underlying theory or assumptions.

2.1 Small and medium enterprises

As in many other fields of analysis, it is critical to define the precise meaning of the term used; this is particularly true of the debate around SMEs and it cover non-farm economic activities mainly manufacturing ,mining, commerce and services. There is no universally accepted definition of SMEs; different countries use various measures of size depending on their level of development. In the context of Tanzania, SMEs defines according to sector, employment size and capital investment in machinery. Ministry of industry and trade,(2003) defines SMEs as a micro enterprise of a business with less than five employees and operates at turnover of less than Tanzanian shilling five million, small enterprises are business with staffs between five to forty nine and operating at turnover between Tshs five to twenty million and medium enterprises operates with employees between fifty to ninty nine has a turnover between Tshs two hundred million to eighty hundred million. This definition would exclude a number of informal economy enterprise, peasant, farmers and Tanzanians engaged in lower level income generating activities.

2.2 Characteristics of SMEs

The bolton committee (1971) indentified three important characteristic that are likely to have strong effect on management decision-making within the small enterprises. They have a relatively small share of the marketplace; they are managed by the owners in a personalized way and they are independent in the sense of not forming part of a larger enterprises.

According to Carson, Cromie, McGowan and Hill (1995), SMEs by definition are small in size, they go on to say that it has a major influence on the managemnt and decision making in the organization. Carson continued that in the internal environment the SMEs is crippled with the lack of resources that suppresses their growth potentiality; also, they cannot afford to hire specialist to perform tasks for them; therefore, they must rely on a more generalist management structure. The SMEs is also characterised by its independent nature (Carson et al., 1995). They are independent because they are not part of a complex system such as a small division of a large, SMEs are also characterised by their management style which is of a personalized fashion. Managers know all the employees personally and participate in all parts of managing the business from marketing to manufacturing, small enterprises are typically flexible and can respond more quickly than the larger organisations to the changing market place. This flexibility gives small enterprises a unique competitive advantage (Heathfield , 1997) externally the SMEs small size means that it has advantage when it comes to specialization and filling niche markets with products; however, size can be disadvantage when it comes to obtaining financing of the business that is why most of SMEs rely on personal assest of owners and management to finance the business. However these characteristic that define the SMEs are important to explain the way the SMEs conducts the marketing aspects of their businesses and shape the nature of SMEs at the rate at which they grow in domestics and foreign markets.

2.3 Capital structure of SMEs

The study of capital structure attempts to explain the specific mixture of long term debt and equity the firm uses to finance its operation. The firm has a great deal of flexibility in choosing the financial structure (Stephen, Randolph & Bradford, 2008) most of research has focused on the proportional of debt versus equity observed on the right hand of the balance sheet. There is no universal theory that attempts to explain the firm capital structure, but finance theory offer some broad competing models,tradeoff theory and pecking order thoery and these theories appear to have most support. The theories of optimal capital structure differ in their relatives emphasizes on certain factors. The trade-off theory emphasizes on the tax-related benefits of debt were offset by cost of financial distress and pecking order theory states that the firms that prefer internal financing to external financing, and if external financing is to be used the cheapest possible security is chosen first (Stephen,Randolph &Bradford,2008).

Asmawi (2013) argues that the optimal capital structure of the firm is achieved at trade- off theory where by the tax saving are more than the cost of financial difficulties, it happens when the company borrows up to the point where the tax saving from the additional debt is equal to the cost of financing in the event of financing difficulties, the company will benefit of debt by looking at the efficient market and symmetric information. Furthermore the optimal capital structure of the firm does not exist in the pecking order theory because the firm determine the source of capital according to sequence of hierarchy.

However to determine the optimal capital structure is still an ongoing complex matter researchers are still puzzled by how firm choose the debt equity or hybrid security issues. Shafie (2012) noted that applicability of trade-off theory to SMEs has been the focus of number of studies as the debt tax shield is as revelant for SMEs as it is for publicly quoted firms. One of the reasons that could explain why SMEs might not follow the trade off theory is lack of knowledge among managers, but pecking order theory is among of the most influential theories of the capital structure of firm where by pecking order theory describes a hierarchy of financial choices firm make, according to these theory internal financing is prefered first, followed by debt and lastly outside equity,also this theories might be applicable to this study (Shafie,2012).

2.4 Access to finance and SMEs growth

Finance and its access, it enables individual or firm to do what they desire to do is gradually being recognized as a significant aspect of economic development. Access to finance means “availability of the supply of reasonable quality financial services at reasonable costs, where reasonable quality and reasonable cost has to be defined relatives to some objectives standard with the cost reflecting all pecuniary and nonpecuniary cost" (Arora, 2007). Also access to finance can be defined as‘‘ the absence of price and non-price barriers in the use of financial services" (Demirguc-kunt and Maksimovic,2006).

Growth is likely to place a greater demand on internally generated funds and push the firm into access to external funding (Hall et al., 2004). According to Ganbold (2008), firms with high growth will capture relatively higher debt ratios. In the case of small firms with more concentrated ownership, it is expected that high growth firms will require more external financing and should display higher leverage. Aryeetey et al. (1998) maintain that growing SMEs appear more likely to use external finance – although it is difficult to determine whether finance induces growth or the opposite (or both). As enterprises grow through different stages, i.e., micro, small, medium and large scale, they are also expected to shift financing sources. They are first expected to move from internal sources to external sources (Aryeetey, 1998). There is also a relationship between the degree of previous growth and future growth. Michaelas et al. (1999) argue that future opportunities will be positively related to leverage, in particular short term leverage. They argue that the agency problem and consequently the cost of financing are reduced if the firm issues short-term debt rather than long-term debt. Myers (1977), however, holds the view that firms with growth opportunities will have a smaller proportion of debt in their capital structure. This is because conflicts of interest between debt and equity holders are especially serious for assets that give the firm the option to undertake such growth opportunities in the future. He argues further that growth opportunities can produce moral hazard situations and small-scale entrepreneurs have an incentive to take risks to grow.

The benefits of this growth, if realized, will not be enjoyed by lenders who will only recover the amount of their loans, resulting in a clear agency problem. This wills be reflected in increased costs of long-term debt that can be mitigated by the use of short-term debt. Empirical evidence seems inconclusive, Some researchers found positive relationships between sales growth and leverage (Kester, 1986; Titman and Wessels, 1988; Balton et al., 1991). It is also important to note that the dividend payout of the firm could affect choice of capital in financing growth. Generally, firms with low dividend payout are able to retain more profits for investments. Such firms would therefore depend more on internally generated funds and less on debt finance. On the other hand, firms with high dividend payout are expected to rely more on debt in order to finance their growth opportunities Other evidence suggests that higher growth firms use less debt.

2.5 sources of finance for SMEs

Financing is needed to start up a business and ramp it up to profitability. There are several sources to consider when SMEs look for finance. The sources of finance can be divide into two major group that are equity and debt finance.

Equity finance is obtained in the return of the proportional share of the firm value (retained earnings), where it may be obtained through persons funds or private investors which include family member, friends and partners (Kueli,Charles & Peggy 1990). Also using trade credit can also be considered as part of internal sources because businesses use the interactions with suppliers and customers, but at the same time making use of the maximum trade credit periods until suppliers are paid (Mitter & Kraus 2011). However person savings of the owner-managers have been shown in most research to be the most important sources of equity finance, especially to new establishments of SMEs and for start up mainly comes from informal sources (Hassan1990). In spite of SMEs relying on informal sources that are often insufficient because of the low saving rates especially in developing countries when they first need to establish themselves, most of them in fact need the external finance to grow and develop.

Debt finance mostly provided through banks, as seen as the enterpreneur’s second favorite funding type, the reason lie in the tax shield effects as well as the fact no ownership need to be relinguished (Mitter & Kraus, 2011). Hence many SMEs which require external finance prefer to use debt as source of external finance, particulary bank which has remained the dominant sources of capital from SMEs in most countries. However bank provide debt financing for firms particulary successful ones and those continues to grow and this automatically points to the fact tha debt financing has it own limitation for the SMEs to access finance it might be a short term loan or long term loan (Romano et al., 2002).

2.6 SMEs financing gap

An issue that has a possible influence on the capital-structure of SMEs is the so-called"SME Financing Gap". In a survey performed by the "OECD SME Task Force", most OECD member countries agreed that lack of suitable financing does have a negative impact on the growth of innovative SMEs. The "SME Financing Gap" is normally defined as the situation where a significant share of SMEs cannot fulfil the financing needs which exceed their internal financing capacities, through banks, capital markets or other suppliers of finance (Jensen & Thomas 2008).

There are different reasons why the financial restraint of SMEs is larger than that of large companies. One reason is that the problem of asymmetric information is severe in SMEs (OECD 2006). This leads to a situation where the entrepreneur has considerably superior information on the situation of the firm. Related to this is also the problem that a manager in an SME is more likely to have insufficient management skills. Therefore potential investors have a more difficult time to assess whether an SME manager is making bad management decisions which could potentially threaten the well-being of the company. The supplier side is mainly interested in a firm's competence to repay its loan. The empirical evidence whether an "SME Financing Gap" exists in reality is rather mixed depending on region. Most empirical studies have problems with data availability. Nonetheless there is a general trend in the empirical studies performed by the OECD (Hansen et al., 2012). It has been shown that the financing gap is more severe in OECD countries that are considered transitional countries compared to developed OECD countries while it is most significant in non-OECD countries (OECD, 2006). The research regarding SME financing has shown that there are different types of financing gaps. For instance in some emerging countries, the financial system is very much geared towards large firms, persistent deficiencies in the enabling environment for financial services making it much more difficult for SMEs to obtain bank-credit. This leads to a situation where the growth potential of SMEs is constrained, and the ability of SMEs to be the innovators of the economy, which is a role they often play, is thereby limited, (Internatioanl finance corporation, 2010).

In the study of Dalberg global development advisors (2011) the authors state that banks in developing countries are more averse to provide debt-financing to SMEs than in developed countries. It has to be mentioned that availability of external finance is highly dependent on the type of SMEs for instance, innovative SMEs for example developing a new product or service and at present, as negative cash flows and high uncertain growth opportunities might not be able to acquire debt financing from bank depends on business location (Saridakis et al., 2008).

2.7 Empirical literature reviews

2.7.1 The factors affecting access to finance

SMEs are vital in promoting economic growth, competitiveness entrepreneurship and innovation and in creating new jobs, ensuring adequate access to finance so that SMEs can grow and achieve a full potential of objectives in contribution to economic development. OECD research suggests that securing suitable financing remain an obstacle for SMEs, especially, for the growth of innovative SMEs whose technology and business models are not understood by many more traditional financial institutional and start-up enterprises and very young firms, which lack a track record and collateral against which to raise finance (Jensen & Thomas 2008).

Data from the EU suggest that access to external finance remains a concern for many SMEs. A flash barometer survey in 2005 found that 14 percent of EU and 23 million SMEs need a better access to debt financing, also in a survey recognized that access to finance for SMEs was equally an important issue in the news member state.
Bergquist and Dahg (2007) in the study on impact of financial gap on growth and development of SMEs in sweeden the author,highlights on additional reason for control aversion among entreprenuers, the study claims that internally generated fund become a main focus among smaller firm in connection to an overrelience in these

internally created funds can create barriers and constitutes a major constraints on growth and development,because the firm grow only on the basis of limited internally generated resources.

Furthermore the attitute towards external financing among smaller firm in start-up is often negative. This is particulary the case when an acquired capital means a decline in control of the business and sometimes SMEs owner enter into the personal conflict on which means of financing decision should be taken to finance their business at the start-up stage(Mazanai and Fatoki 2012).

Green,(2003) in his study argue that limited access to finance for small enterprises to formal credit in developing and emerging economies is largely due to the relatively underdeveloped nature of financial system, the lack of liquidity and inexperience in small scale lending in many of these countries. Bank branches outside capital cities frequently provide cash and do not have authority to make loan and leaving SMEs in rural areas disproportionally disadvantaged.

Authors further contend that access to finance potentially constraints both firm entry and growth where by high administrative cost of small scale lending, asymmetries information, high risk perception and lack of collateral limit SMEs from access to finance from formal financial institutions(Green,2003).

SMEs typically requires relatively small loan compares to large firms,the transaction cost of processing and administering loans are fixed and bank often find that processing small SMEs loan is inefficient,they lack techniques,such as credit scoring to increase volume and lower cost (Malhotra et al..,2007), since most of administrative cost of lending are fixed,they are independent of size of the administered loan.economies of scale arise the larger the loan,the lower the per unit cost of extending credit. Furthermore administrative costs also including information gathering costs for example visiting borrowers,analysing their applications and monitoring their loans for number of reasons,these costs tend to be higher for small loan,small enterprises are often located away from the main urban centres,their accounting skills and standards are usually lower and lack experience in serving them. In the case of developing and emerging economies these are diffuculties and therefore the cost involved are multiplied and make hard time for SMEs to access credit (Mazanai & Fatoki,2012).

Kira and He(2012), argued that business information presented by the firms to their users is to inform them on different status of the firm operations. Financial information issued by a firm performance,financial position at a particular point and changes in financial position in the firm operations.

The firms business information is useful by stakeholders in making different economic and social decisions,the users of this informations include employees,lenders,suppliers and others creditors. This study evaluate why lenders that means banks and other lending agencies are interested with firms business information. Deakins et al..,(2008) point out that lender use firms business information to assess current and future performance of the firm and also to know the status of information to decide borrowers credibility whether to issue or extend a loan or not. Absence of sufficient information leads to information asymmetry and may jeopardize access to finance(Kira and He 2012).

Also Mazanai & Fatoki,(2012) authors argue that start-up SMEs are more likely to be affected by informational asymmetry problems whereby beginning information are limited and always not transparent and assets knowledge based exclusively associated with the founding entrepreneur, especially new entreprenuer may be reluctant to provide full information about opportunity because that concerns that disclosure may make it easier to other to exploit so due to these most of banks reluctant to provide loans.

Bergquist and Dahg (2007) argue that the financial gap tha exist between SMEs and financial provider of loan by underlying reason that there is insufficient fund and to inadequancies on the demand side. The comparatively implication of either side gap is likely to depend on the development of financial sector in general, the financial gap does not exist as one side arena but both side are affected by information asymmetrically whereby financier does not obtain the information needed inorder to correctly evaluate the financial risk of the investment project, but also the business owner at early stage of their development have inadequate product and market skills. SMEs might also lack the knowledge concerning external financier requirements(Bergquist and Dahg,2007).

Furthermore SMEs sector faces difficulties to access external finances for their investment projects because of lack of assets to pledge as collateral (Kira and He,2012) in that perspective SMEs fail to grow due to lack of collateral to pledge to access external sources of finance.

Bougheous,Mizan &Yalcin (2005) pointed out that requirement of collateral is crucial aspect for SMEs to succeed in accessibility of external financing from lenders. Coco(2000) suggested that collateral is the lenders protections incase default happened by a borrower in that view collateral is insurance that lenders contract will be honored and respected. Collateral solve information asymmetry problems in the evalutaion of investment project,the worthiness of the project and risk that might be involved by the borrower as well as the cost related to supervision of borrowers characters. Mazanai and Fatoki,(2012) suggest that operators of SMEs have to own more tangible assets that can create higher value on their firm to accelate borrowing securing because the higher the value of assets the lower the interest rates of the debt to be secured by those assets.

The SMEs financing gap that exist cause a market failure such as agency problems, asymmetric information and adverse selection and monitoring problems, affect SMEs more than other firms (OECD, 2004). Although most of the population in emerging market economies and developing countries work in SMEs, these enterprises are typically characterized by low productivity, low level of investment,obsolete technologies, low level of labour and managerial qualifiaction and limited access to finance. This initial problem may have been aggravated by post govement policies that may have favoured large enterprises, weak institutional and legal environment are often founding in emerging markets tend to place SMEs at a special disadvantages (Suarez-rojas,2010).

Beck and Demirguc-kunt (2006) note that access to finance is an important factor for SMEs to experience continous growth, the authors further argue that the efforts of target on the SMEs sector to improve access to finance have been so far mistaken. Access to finance for SMEs has in past through targeted government policies been size oriented not industry or market specific SMEs have benefited more from policies improving the playing field at large that means through country comparative studies authors established that entry barriers and low turnover through obstacles of growth impedes the development of SMEs and SMEs industries.

2.7.2 Measuring firm growth

When researching the hampering factors for SMEs grow, it is necessary to define firm growth and how is measured.Carson and McCartan-Quinn(2003) defined SMEs growth as usually related to an increase in turnover, profitability,number of employees and financial assets. There is no general measurement for firm growth and scholars use various growth indicators when they research the field (Barkham, Gudgin, Hart & Hanvey 1996). The most common indicators are to measure absolute sales growth or relative employment growth during a specific period of time (Delmar, Davidsson and Gartner 2003) have indentified further growth indicators applied by various scholars such growth is necessary as an assets, market share, physical output and profit.

However these indicators are generally not commonly used as sales and employment, since there are applicability is limited, thus the total assets value depends on industry capital intensity andits sensitivity to change over time, market share and physical output vary within different industries and therefore difficult to compare and finally profits are only relevant inorder to measure size over long periods of time (Delmar, Davidsson and Gartner 2003). Sales,investment and employment are important indicators when analyzing size of the firms. Employment is often used within the studies since it is relatively easy to access and measure as well as it lies within interest of the policymaker. Sales are the most common measures indicator of the firm growth though sales are affected by inflation and exchange rates furthermore it can be difficult to compare sales figures in different industries.

Furthermore O'Farell and Hitchens(1988) classify available business growth theories into four mains groups which are most static equilibrium theories derived from the field of industrial economics that are mainly concerned with attainment of economies of scale and minimisation of long-run units costs, stochastic models of the firm growth which summary suggest that “many factors affect growth”and that there is therefore no dominant theory,strategic management perspectives on SMEs growth which have “focused attentions upon the strategic dimension of achieving sustained growth and the way in which the owner-manager responds to business and personal environmental indicators” and theories according to which SME growth is viewd as a series of phases or stage of development through which the business may pass in an enterprises life-cycle (O'Farell and Hitchens1988).

2.7.3 Barrier to growth in SMEs

Although SMEs are playing a vital role in economics only few have achieved high growth, The main barriers to growth in SMEs sectors are niche player, lack of innovation and creativity, management resources, market intelligence and long term strategy (McAdam and Kelly 2002). Also Khan, Bali and Wickramasighhe (2007) observe that SMEs face a resources constraints in terms of finance, time, people and genaral lack of knowledge and expertise to current improvement methodologies and framework in high competitive market. Due to lack of human and financial resources that keeps SMEs from adopting new technological solutions and managerial practices, they could not improve the overall performances.

Furthermore, managers of small businesses face a real competitive challenge. Most of the venture lack of brand recognition, innovativeness and creativity to do new things in markets, lack of knowledge on government rules and regulations, market reach on demand and resources to sustain large rivals, lack of this weapon small business managers rely on agility, hardwork, and passion to gain a market acceptance (Fawcett.S.E,Allred.c,Magnan.G.M and Ogden.J, 2009). Moreover these enterprises often operate under the constraints of scarcity of resources, lack of financial need, a flat organizational structures, lack of technical expertise, a scarceness of innovation, reduced intellectual capital and the like the flat structure of SMEs leaves employees frustrated because they are often unable to realize either their short or midterm career goal. In this setting, SMEs find it difficult to employ and retain high qualified skilled labour (Khan, Bali & Wickramasighhe, 2007). There are various factors which affect SMEs growth ranging from internal to external these are;

2.7.1.1 Internal factor affecting SMEs growth

Internal factors within an organization reveal how management decisions and the features of a company can affect on the decisions taken regarding the growth of a firm. Factors that are frequently considered part of the internal environment include the cost of running such as employee motivation, staff turnover, provision of training, leadership styles and bills, investment in R&D and its organizational culture (Morrison, 2006).These internal factors are as follows;

Management competence

Macpherson and Holt (2007) and Barratt-Pugh (2005) claim that firm growth is dependent on managerial knowledge. In comparison with larger firms, managers in SMEs are generally less trained; consequently, they choose poor production technology, do not use proper accounting systems and underestimate required funding. Generally SMEs spend less on formal training than large enterprises due to financial limitations and the fact that it can be difficult to take employees out of the production. Training is crucial for the productivity and quality as well as it influences the effectiveness, efficiency and motivation of the employees (Thassanabanjong et al., 2009). Managers of SMEs fail to listen to employees who really understand the process and product (Tannock et al., 2001). This might be a problem due to the lack of suitable source of finance to finance the operation of the business.

2.7.1.2 External factors affecting SMEs growth

According to Morrison (2006), businesses are affected by external macro-environments that they cannot control such as political, economic, social, technological, environmental and legal factors which can rarely be influenced by management decisions since they are external to the company, in other words, they are beyond the control of SMEs. These factors are as follows;

Competition

By entering into competition an organization is searching for competitive advantage which to a great extent depends to the success of the business (Walle, 1998). SMEs are generally facing low competitiveness in terms of knowledge, innovation, prudent investment, business operation, and good management, which are important factors required to elevate the quality level. Developing countries are facing competition from other countries due to globalization and trade is increasing, but restrictions generally favour developed countries (Lind, 2005). The competition is increasing from transnational firms that have advantage of high levels of know-how within management as well as increased competition from foreign firms. Numerous SMEs find difficulties in complying with regulations set up by organizations such as the World Trade Organization (WTO), in other words technical barriers to trade due to poor quality (Lind, 2005). In addition, many countries for instance China, India, Vietnam and Indonesia produce similar products such as low-cost, low value-added, labour-intensive products, thus, Tanzania SMEs have to compete with these countries since many Tanzania businesses focus on price competition strategy through low labour cost. Hence SMEs must understand that the most important in business is not to compete in price since it can hamper their growth; therefore, SMEs need to concentrate in increasing added value in order to enhance competitiveness and stay out of the vicious circle (Walle, 1998).

Consumer behavior

Consumer behavior pressure SMEs to constantly adapt in order to meet changes in demand, for instance, the spread of consumer awareness of sustainable development and environmentally friendly products force firms to adjust their business (Carson et al., 1995). Cheah and Cheah (2005) argue that it is an opportunity for SMEs to incorporate sustainability policies in their business strategies and operational activities, though, there is a need for more institutional support and governmental encourage to promote the benefits. In addition, Hassan and Agus (2005) state that demand is changing due to globalization which also has a great impact on SMEs.

Governmental policies

The significance of SMEs within an economy emphasize the importance of having governmental policies that support SMEs; issuing regulations that help them and their ability to operate efficiently and regulations that imply low administrative costs (Olomi,2006). Although there has been an increase in governmental policies promoting and supporting SMEs in order to achieve economic growth and reduce poverty, there is still a lack of laws, administrative procedures and access to assistance from governmental agencies. Even if it can be considered a general problem of developing countries, the bureaucratic barriers to the formalization of a business and to the access of an SME to assets like credits or licenses differ largely among developing countries. During the last decade these barriers have been lowered through deregulation in many countries; however, no direct correlation can be found between the degree of regulation and the size of the informal sector (Hansen et al., 2012).

2.8 Conceptual framework

Conceptual framework is a written or visual presentation that gives explanation graphically or in a narrative form, the main things to be studied- the key factors, concepts or variables and the presumed relationship among them (Miles et al, 1994).

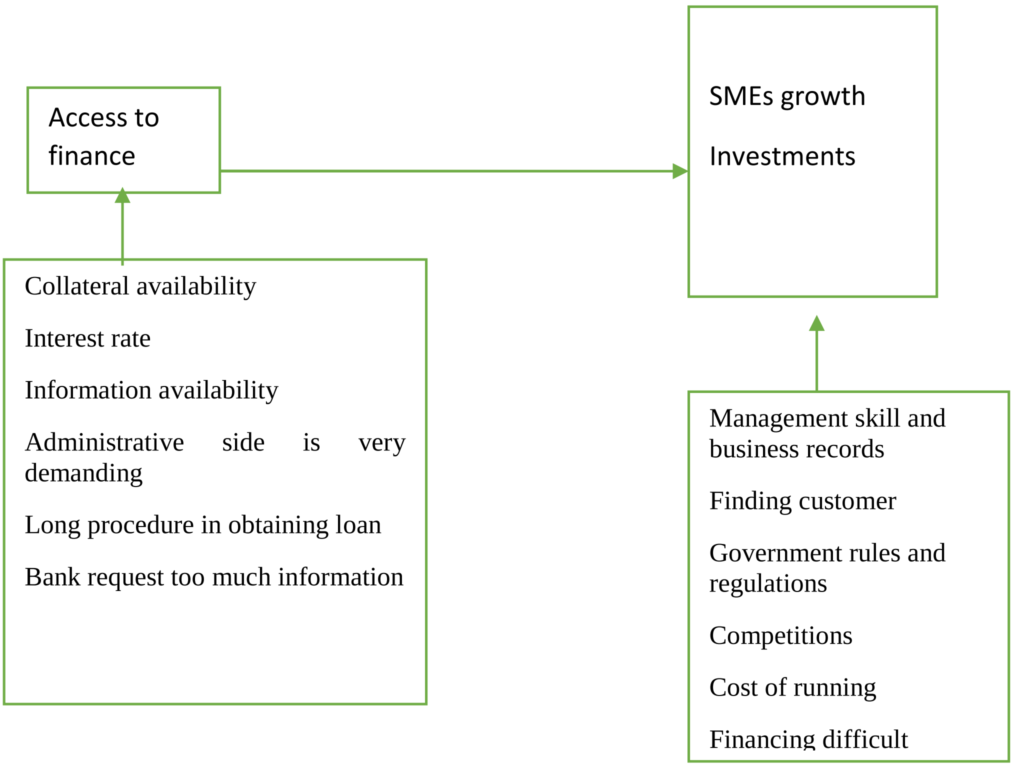
Elliot (2005) define conceptual framework as a clearly logical sense of relationships among identified variables that can be expressed in terms of graphs or description structure. According to Haralambos and Holborn (2008), a conceptual framework enables the researcher to properly identify the problem they are looking at, frame their questions and find suitable literature.

For the purpose of this study, a conceptual framework developed from objectives and literature reviews to examine the factors that hinders SMEs to access finance that are information availability,interest rate,collateral availability,administrative side is very demanding,long procedure in obtaining loan and bank request too much information to see how they affect the access to finance that limit SMEs growth.

Furthermore management skill and keep of business records,finding customer,government rules and regulations,competitions,cost of running and financing difficult are factors that affect SMEs growth.

Figure: 2 depict the conceptual framework that indicates the independent variables which attributes directly to the dependant variables when other things remain constant. It therefore represents different factors that affect access to finance and SMEs growth. (Refer figure 2: Conceptual frame work)

Figure: 2.1 Conceptual framework showing relationship among indentified variables



2.8.1 Hypotheses

A listing of each alternative hypothesis generated from specific objective that was used in this research are:

H1.1: Insufficient collateral is statistically significant related with access to finance

H.1.2: Lack of information is statistically significant related with access to finance

H.1.3: Interest rate is too high is statistically significant related with access to finance

H.1.4: Bank request too much information is statistically significant related with access to finance

H.1.5: Loan granting procedures are too long is statistically significant related with access to finance

H.1.6: Administrative side of loan is very demanding is statistically significant related with access to finance

H.2.1: Finding customer is statistically significant related with SMEs growth

H.2.2: Cost of running business is statistically significant related with SMEs growth

H.2.3: Competition is statistically significant related with SMEs growth

H.2.4: Financing difficult in the business is statistically significant related with SMEs growth

H.2.5: Management skill and keep of business record is statistically significant related with SMEs growth

H.2.6: Government law and regulation is statistically significant related with SMEs growth

H.3: Access to finance is statistically significant related with SMEs growth

Note that all of these hypotheses was measured by using regression analysis model to know how one dependent variable as statistically significant related with various Independent variable.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter addresses systematically the research methods and techniques used in conducting this study. Kothari (2008) defines research methodology as a systematically way of solving research problem. In research methodology, we study the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind. So this chapter present the concept review of research design, study area, population of the study (Sample and sampling technique), methods of data collection, data processing, analysis and presentation.

3.2 Research design

Kothari (1990:93) provides that a research design is basically a chosen plan for achieving a particular study or research and it gives details on the type of data to be collected and the technique that will be used in data collection. Also it constitutes the blue print for the collection, measurement and analysis of data. There are different research designs such as descriptive, experimental and cross-sectional research design (Kothari 2008).

This study employed a cross-sectional research design, according to bryman and bell (2007) the cross-sectional research design allows data to be collected at one point at a time. This type of design was employed because it is most common used in survey research to compare the extent to which at least two groups of people differ on the dependent variable.

3.3 Study Area

The study was conducted in four wards of majengo, uhuru, chamwino and mwangaza in Dodoma municipality. Dodoma municipality was selected for the study because it was among municipalities in Tanzania with high potential by government on providing opportunity for the city of Tanzania to grow. Most people invested in various businesses for various expectations in future and many migrations and government institutions were transferred to Dodoma region. The four wards were selected because they were located in the centre and pre-urban of Dodoma municipality, and it was within these wards that many small and medium enterprises were run. This provided analysis on initiatives to youth, jobseeker and local authorities to create a door for employment opportunity.

3.4 Description of the Population of the Study

Population refers to the entire group of people, event or things of interest that the researcher wishes to investigate, it forms a base from which the sample or subjects of the study will be drawn (Bryman, 2008). The data were collected from different business people who were engaged in different categories of business for generating income and contributing to nation growth. This population was given priority due to the needs of getting empirical evidence from Dodoma municipality on trend of their growth due to availability of financing needs; the selection criteria based on all individuals who were involved in SMEs businesses so as to get the clear picture of whether their finance needs were met for the growth of businesses.

3.5 Sample Size

According to Kothari (2008) sample size is the number of item to be selected from a population to constitute a sample. The target group must be an optimum size that should neither be excessively large nor too small. A sample of 120 owners from SMEs located in Majengo, Uhuru, Chamwino and Mwangaza were chosen for the purpose of this study. The geographical area has been chosen as they represent a large number of SMEs in Dodoma municipality. Also respondents represent a large categories of different businesses, so it sufficient and manageable for researcher.

3.6 Sampling Techniques

According to Kothari (2008) simple random or probability sampling is the design where by each and every item in the population has an equal chance of inclusion in the sample. For the purpose of this study, the researcher used simple random techniques. Also nonprobability sampling specific purposive sampling was used to get response from key informant such as owner of the businesses. The purposive sampling was the technique for selecting the people with special importance and has the influences in the study area.

3.7 Data collections techniques

In this area, in order to answer the research questions, various methods of data collection were used. Data were collected from both Primary and secondary sources.

Primary data

Primary data were obtained through questionnaires that were distributed among small and medium businesses as respondents in this study. This method was used as it was free from biasness of the interviewer and interviewee and relevant information was gathered. Also interview was conducted using the questions distributed. Moreover focus group discussions were used for the people who were in business field and the topics of discussion were selected to get the general view of challenges SMEs faced on the growth and accessibility of finance.

Questionnaire administration

Face to face questionnaire survey was administered to sampled respondents. The reason for adopting this technique was to obtain much more information and facilitates respondents to make clarification where the respondent does not understand the question well.

Interviews

Unstructured interviews were employed in this study. Unstructured interviews were thought suitable in this research because this method helps the researcher to gather valid and reliable data that are relevant to the research questions and objectives (Kothari,2008) and the respondent is able to give clarifications when probed. Interviews were conducted to get in depth views about the banking services, how loans accelerate business growth and mainly preferred source of finance.

Secondary data

Available data that already exist after collection and analysis are referred to as secondary data Kothari (2008). Secondary data were obtained from written journals and articles, books, government reports, published and unpublished reports and dissertations related to the study. The sources of unpublished data were found in unpublished biographies and autobiographies.

3.8 Data Processing, Analysis and Presentation

3.8.1 Data Processing

Data were organized before analysis and presentations. In pre-processing of data problems that were identified in the raw data were corrected including the differences between the results obtained by multiple interviewers. Eliminations of unusable data, interpretations of ambiguous answers and rejecting contradictory data from related questions was done.

Coding scheme was developed before data analysis. This was done after collecting errors that could have influenced data analysis. Codes and scales from the responses were created in various ways before analysis. Numerical codes were assigned to particular responses to enables data to be processed statistically.

A relevant statistical software package for data analysis was selected and for this case statistical Package for Social Science (IBM SPSS STATISTICAL 20.0 version) was chosen and used for analysis.

3.8.2 Data analysis

Quantitative Data

Quantitative data was entered, cleaned and analyzed using the statistical package for social science (SPSS), the analysis involve the presentation of findings descriptive in form of frequency table with varying percentages and also correlation and regression analysis was used to show the relationships of variables for objective number two and three. Under the regression analysis the researcher use the multiple linear regression model inorder to relates one dependent variable to more than one independent variable so as to predict the value of dependent variable if as a significant relationship with independent variable obtained.

The general multiple regression model/ equation is given by:

Yit= Boit + B1X1it +B2X2it+B3X3it +BmXmit + eit

This means that: Y is the dependent variable

Bo, B1, B2, B3...Bm are the regression coefficient

X1,X2,X3,...Xm are the different independent variable explaining the Y

e Is the random error in Y

i is the cross sectional dimension

t represent the time series

The regression analysis was carried out using multiple regression models because this approach is useful for estimating one dependent variable with various independent variables. In consideration of correlation analysis was important in the decision to do estimation using multiple regression models. Generally the multiple regression model results show signs consistent with theoretical prediction. The regression model employed for this study is also in line with what was used in previous studies with some modification.

The model for the empirical investigation for the three objectives therefore given as follows;

ACit = Boit + B1ICit + B2LIit + B3IHit + B4BRIit + B5LGPit + B6ASLDit +eit

Where;

ACit Access to finance at time t for the firm

B1ICit Insufficient collateral

B2LIit Lack of information

B3IHit Interest rate is too high

B4BRIit Bank request to much information

B5LGPIT Loan granting procedures are too long

B6ASLDit Administrative side of loan is very demanding

eit the error term

Also correlation analysis was run by using bivariate correlation model this can be given as follow;

$$r = sum(X – Xm) (Y – Ym) / (n – 1)SxSy$$

This means that;

R = Pearson correlation coefficient

Xm = Sample mean for x values

Ym= Sample mean for y values

Sx= Sample standard deviation for x values

Sy= sample standard deviation for y values

N = number of the sample

Y = Dependent variable

X= Independent variables

Also simple linear regression model was used for the objective number four to establish the relationship between one dependent variable against one independent variable where by the regression model equation given as follow;

$$Y= c + Bx + e$$

Where; Y is the dependent variable

C is the intercept in the y-axis

B is the gradient or slope of the relationship

X is the independent variable

e is random error

The regression model was given in objective four as follow;

$$SMEsg = C + Bac + e$$

Whereby, SMEsg means SMEs growth as dependent variable

ac means the access to finance as independent variable

B means the slope of the relationship between variable

e random error

Furthermore each of the equation above was run using the linear or multiple regression features in SPSS .A probability level of 0.05 was chosen at which to reject the null hypothesis. The output was examined for how much the variance was explained and what variable contributed most to the equation. The goodness of fit of the equation was examined by the means of the R-squared value to determine what percent of variation in the dependent variable was explained by the set of independent variable.

Qualitative Data

Data from open ended items in the questionnaires and interview was grouped in themes based on the objectives of the study by using content analysis to ensure consistence in the information and help to draw meaningful patterns.

3.8.3 Data presentation

Qualitative data were presented in descriptive narrations while quantitative data were presented in form of tables, graphs, charts and regression analysis result was explain by sign shown on the regression modal summary.

CHAPTER FOUR

RESULTS AND FINDINGS

4.0 Introduction

This chapter presents the findings of the study, which focused on access to finance and SMEs growth. The study was guided by three objectives of the study mainly; to determine the source of SMEs finance, to assess the factors that hindered SMEs to access finance and to grow.

4.1 General background of respondent

A total sample of 120 respondents was drawn for analysis; out of 120 respondents were SMEs from different wards of Dodoma municipality. All these respondents were located at different places doing different kinds of businesses and some of them were doing the same businesses like selling of hardware and building materials, fashionable clothes, electronic goods, foodstuffs and other kinds of goods and services.

4.2 Profile of the respondents

The profiles of the respondents were presented in the following sections. The frequencies responses to several questions including gender, gross sales of business and number of employees, age in business, business registered by Tanzania revenue authority all these were explored in order to explain the nature of business that was conducted in SMEs.

4.2.1 Gender

Those surveyed were predominantly male (73.3%) with female accounting only (26.7%). Table 1 belows shows the distribution of respondents by gender.

Table: 4.1 Gender respondents

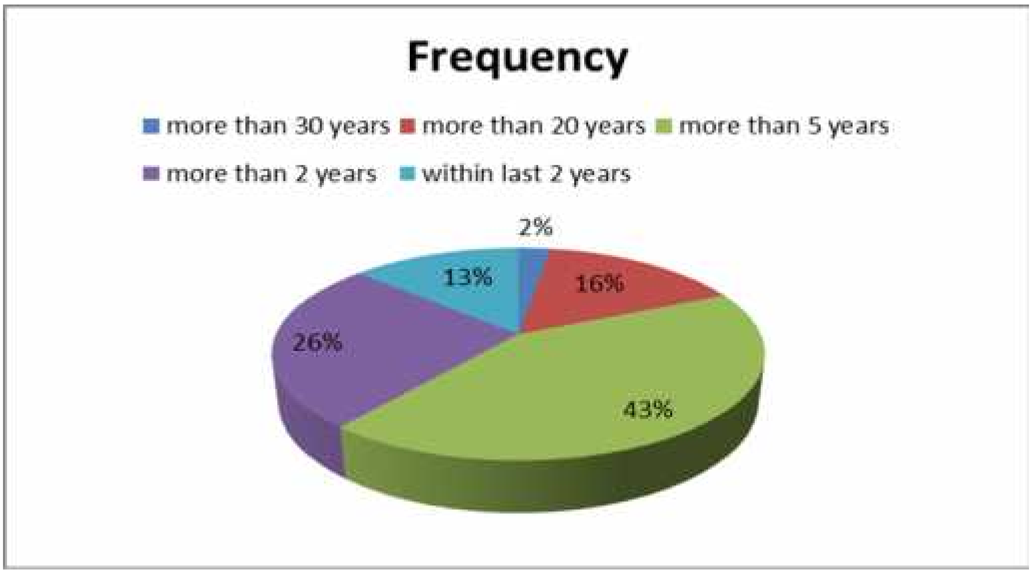
	Total	Percentage
Male	88	73.3
Female	32	26.7
Respond rate	120	100

Sources: Field data, 2014

4.2.2 Age in business

The SMEs included in the sample were in operation for various length of time. Some SMEs were very new to the market while others had existed for more than 30 years, Some SMEs were either family business or were in terms of having bought shares in the company right. More than 43% of the SMEs were found to be engaged in business for more than 5 years, 26% had more than 2 years, 16% had more than 20 years; 13% were within the last 2 years and 2% had more than 30 years.

Figure: 4.1 age in business



Source:Field data 2014

4.2.3 Sales turnover and number of employees

The study also explored the issue of sales turn over and number of employees. The findings showed that the majority (51.1%) of the businesses surveyed were SMEs with less than 1-4 employees and annual sales of less than or equal to Tshs 5 million; other business with the same class of employees were (45.6%) with annual sales of Tshs 20 million;(3.3%) of annual sales of Tshs 200 to 800 millions and (0%) with the annual sales of more than Tshs 800 million. Morever (14.8%) of the businesses with employees of 5-40 had annual sales of less than Tshs 5 million; other, (66.7%) had annual sales of Tsh 20 million; (7.4%) with annual sales of Tshs 200 to 800 million and (11.1%) with annual sales of more than Tshs 800 million. Also the business with 50-90 employees had only (1%) with annual turnover of more than Tshs 800 million while the business with more than 100 employees had only (50%) with annual turnover of Tshs 200 to Tshs 800 million and 50% with annual turnover of more than 800 million. The main focus of the target market was to know the number of respondents who engaged in business and in which category of SMEs in accordance to SMEs definition in Tanzania.

Table: 4.2 sales turnover and number of employees

number of employee * sales turnover of business Cross tabulation

Number of employees		sales of the business: less than Tshs 5 million	Tshs 5 to Tshs 20million	Tshs 200 to Tshs 800 million	more than Tshs 800million	Total
1 – 4	Count	46	41	3	0	90
	% within number of employee	51.1%	45.6%	3.3%	0.0%	100.0%
5 – 40	Count	4	18	2	3	27
	employee% within number of employee	14.8%	66.7%	7.4%	11.1%	100.0%
50-90	Count	0	0	0	1	1
	% within number of employee	0.0%	0.0%	0.0%	100.0%	100.0%
> 100	Count	0	0	1	1	2
	% within number of employee	0.0%	0.0%	50.0%	50.0%	100.0%
Total	Count	50	59	6	5	120
	% within number of employee	41.7%	49.2%	5.0%	4.2%	100.0%

Source: Field data, 2014

4.2.4 Business registration

Most of the business surveyed (94.4%) among SMEs were businesses that were registered by Tanzania revenue authority. These SMEs contributed to the national economy through revenue or taxes paid on their annual sales in different terms of the year. Only 5.8% of the respondents had not registered the business as per government regulations.

Table: 4.3 Registered and unregistered businesses

Business registration	Frequency	Percent
Yes	113	94.2
No	7	5.8
Total	120	100.0

Source: Field data 2014

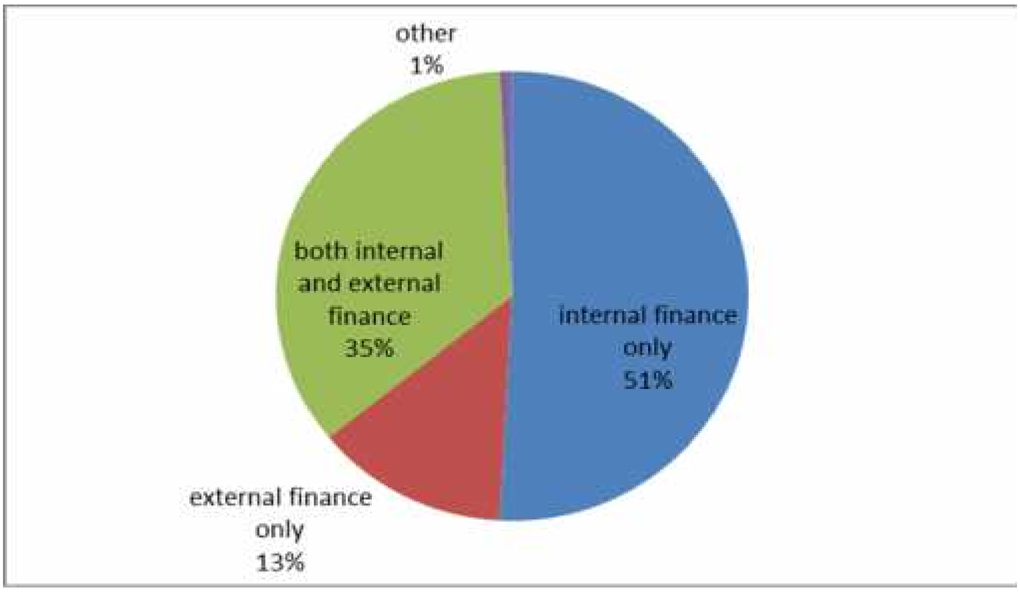
4.3 Source of SMES financing

The first objective of the study was to determine the source of SMEs financing. The findings showed that 51% of SMEs were using internal financing while 35% used both external and internal financing, and 13% using external financing only. The rest of SMEs (1%) were using other means of financing that is trade credit. This implies that most of the SMEs preferred internal financing to business rather than other sources. This could be due to the fact that internal financing was most affordable and easy to obtain for start and running of their businesses.

Additionally most of the internal finance came from the family members as means of assistance to help people who were jobseekers in running costs of life by being innovative and engaging in business.

However 35% of SMEs combined both internal and external financing sources so as to support more expansion of their business. Access of SMEs to external finance provided the windows that were in need of jobs to employment opportunity. Also this helped them to internationalize their business because they were able to obtain more funds from banks. It was also found that only 13% the entire source depended on external financing that means they utilized the opportunity that formal financial institution could provide to their businesses. Furthermore 1% tended to use trade credit to their business because they were afraid of approaching the financial institutions and ask for the assistance of loans; or due the perceptions they had on mind about bank; the lack of information of what financial institutions could do for SMEs.

Figure 4.2 : source of financing to SMEs



Source: Field findings, 2014

4.4 Factors hindering SMEs to access finance

The second objective of this study was to analyse factors that hindered SMEs to access finance. The bivariate correlation analysis was used to show how the independent and dependent variables were correlated. Also multiple regression analysis was used to determine whether the independent variable had any significant effects towards access to finance for SMEs.

4.4.1 Correlation analysis

Correlation analysis was conducted to establish the degree of correlation on the variable intended for this study, the variables were: access to finance as dependent variable, insufficient collateral, lack of information, too high interest rate, banks request too much information, loans granting procedure were too long and the administrative side of loan was too much demanding were independent variables.

Table 4.4: Correlation analysis showing relationship among various independent variable with access to finance

	access to finance	insufficient collateral	lack information	interest rate is too high	bank request too much information	loan granting procedures are too long	the administrative side of loan is very demanding
access to(PC) finance	1						
insufficient collateral(PC)	.036	1					
lack information(PC)	.115	-.110	1				
interest rate is too high(PC)	.103	.007	-.029	1			
bank request too much information(PC)	.095	-.005	-.077	.006	1		
loan granting procedures are too long(PC)	.120	-.009	-.180*	-.022	.757**	1	
the administrative side of loan is very demanding(PC)	.193*	-.012	-.249**	.032	.585**	.662**	1

NOTE:

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

PC means Pearson correlation

Source: Field finding, 2014

The results of bivariate correlation analysis showed that all variables were positively correlated with access to finance. The findings indicated that access to finance was positively affected by insufficient collateral, lack of information, interest rate being too high, banks requesting too much information; loan granting procedures being too long and the administrative side of loan was very demanding.

The results also show that the demanding and poor administrative side of loan was the only variable that was statistically significantly related to access to finance. Other variables such as loan granting procedures being too long, interest rate being too high, insufficient collateral, lack of information and banks requesting too much information were found not to have any statistical significant relationship to access to finance. On other hand the administrative side of loan being demanding had statistical significant relationship with lack of information, loan granting procedures being too long and banks requesting too much information.

Furthermore, the correlation coefficient showed that there were few correlations among independent variables used in this analysis and this implies that no multicollinearity problems existed among the variables. The study conducted by field (2005) hypothesized that multicollinearity is likely to be a problem in a data set if correlations coefficient predictors is greater than 0.90(r>0.90)

4.4.2 Regression analysis for factors hinder SMEs to access finance

A regression analysis was selected because it allows the researcher to assess the relationship between dependent variable (access to finance) and several independent variables. Regression can be used to find the best prediction equation for some observable facts regardless of the meaning of the equation as long the adequate sample size was drawn from randomly selected of known population, (Bailey, 1994). It was expected that the equation that would best predict access to finance of SMEs was generated from various continous and dichotomous independent variables that were tested with the use of various independent variables selected on the basis of the theoretical reasoning and statistical significant to the regression equations. A multiple linear regression was used and all independent variables entered simultaneously to assess their relationship with dependent variable.

As the purpose of this study was to examine which factors hindered SMEs on access to finance; therefore, the access to finance was selected as the dependent variable as it represented limit factors of the businesses surveyed. The equation included all variables that were identified as directly related to the access to finance on SMEs.

The initial regression equations were as follows:

AFit = Bo + B1ICit + B2LIit + B3IHit + B4BRIit + B5LGPit + B6ASLDit

Each of the equation above was run using the multiple regression feature in SPSS .A probability level of 0.05 was chosen at which to reject the null hypothesis. The output was examined for how much the variance was explained and what variable contributed most to the equation. The goodness of fit of the equation was examined by the means of the R-squared value to determine what percent of variation in the dependent variable (access to finance) was explained by the set of independent variable.

Furthermore, the standardized beta coefficients, the t-statistic and significance level of each of the independent variable were examined. Those variables with larger beta coefficients indicated greater relative importance than others. The t-statistic was also examined to determine whether a specific parameter in the equation differed from zero. Those that were statistically significant or had values of less than or equal to 0.05 are accepted null hypothesis while those with values greater than 0.05 might not. Therefore, those independent variables with insignificant parameter were excluded from further analysis.

Tables 4.5: Regression model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.285[a]	.081	.032	.503

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.529	6	.421	1.663	.137[b]
	Residual	28.638	113	.253		
	Total	31.167	119			
a. Dependent Variable: access to finance						
b. Predictors: (Constant), the administrative side of loan is very demanding, insufficient collateral , interest rate is too high , lack information, bank request too much information, loan granting procedures are too long						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.941	.274		3.430	.001
	insufficient collateral	.022	.033	.060	.656	.513
	lack information	.065	.032	.189	2.001	.048
	interest rate is too high	.048	.043	.102	1.124	.263
	bank request too much information	-.024	.047	-.071	-.503	.616
	loan granting procedures are too long	.014	.047	.047	.305	.761
	the administrative side of loan is very demanding	.083	.041	.248	1.991	.049
a. Dependent Variable: access to finance						

Source: Field finding, 2014

The overall results of the regression analysis showed that mostly of variables are not statistically significant. The summary table on regression analysis indicated that the R-square is 0.081 with approximately 8.1 percent. This implies that the six variables which includes insufficient collateral, interest rate being too high, bank requesting too much information, loan granting procedure, lack of information and the administrative side of loan is too much demanding can explain 8.1 percent of access to finance for SMEs.

Also the results showed that the coefficient of the variable lack of information was statistically significant, with (P=0.048, Beta=0.189 and t-value=2.001) related to access to finance. This indicated that business with the lack of information had high possibility of not accessing the finance. Furthermore the coefficient of the administrative side of loan being too much demanding was statistically significant with (P=0.049, Beta=0.248 and t-value=1.991) related to access finance. This indicated that the SMEs business people who were disturbed by the administrative side of loan due to too much demands of document had high possibility of not accessing finance. On the other hand insufficient collateral, interest rate being too high, bank requesting too much information and loan granting procedure being too long were found to have no significant relationship with access to finance. This mean most of the coefficient variables that are not statistically significant have no effect on the SMEs to access finance.

4.5 Factors hindering the growth of SMEs

The third objective of the study was to assess the factors that hindered the growth of SMEs. Correlation analysis was done in order to find out how independent and dependent variables were correlated to each other. The following were the findings;

Table 4.6: correlation analysis showing relationship between independents variables with investment to the business

	investment to the business	cost of running	financing difficult in your business	finding customer	management skill and keep business record	government laws and regulation	competition
investment to the business(Pearson correlation)	1						
cost of running	-.094	1					
financing difficult in your business	-.105	.348**	1				
finding customer	.027	.123	.230*	1			
management skill and keep business record	.184*	.160	-.078	.190*	1		
government laws and regulation	.006	.000	.067	-.048	.073	1	
Competition	-.037	.268**	.261**	.344**	-.141	-.038	1

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field data, 2014

From the above correlation analysis the results indicated that investment was positively related with finding of the customer; government rules and regulations;

and management skills and keeping of business records, while other variables such as cost of running, financing difficult and competitions were inversely proportional to investment in the business for growth of SMEs.

Furthermore investment in the business was statistically significantly related with management skill and keeping of business records while financing difficult was statistically significantly related with cost of running, finding customer and competitions. Also the correlation coefficient showed that there was little correlation among independent variables used in this analysis and this made researcher to conclude that there was no multicollinearity problems existing among the variables.

4.5.1 Regression analysis for factors hinders SMEs growth

Multiple regression analysis was used to answer specific objective number three which was to assess factors that hindered the growth of SMEs in Dodoma municipality. Growth was measured by the investment of the firm as dependent variable with various independent variables these were: management skills and keeping of business records, competitions, finding of customer, financing difficult to the business, government regulations and cost of running the business.

The initial multiple regression was formulated in an equation in form follows:

IBit =Bo+ B1MSBRit + B2Cit+ B3FC + B4FDBit + B5GRit +B6CR

Where;

IBit business investment as dependent variable at time t

B1MSBRit management skill and keeping business records

B2FCit competitions

B3FCit finding customer

B4FDBit financing difficult to the business

B5Grit government regulation

B6CRit cost of running

Also from each of the equations above was run using the multiple regression features in SPSS.A probability level of 0.05 was chosen at which to reject the null hypothesis. The goodness of fit of the equation was examined by the means of the R-squared value to determine what percent of variation in the dependent variable, investment to business, was explained by the set of independent variables.

Table 4.7 : Regression models summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.230[a]	.053	.003	.988

a. Predictors: (Constant), government laws and regulation, cost of running, finding customer, management skill, keep business record, financing difficult in your business , competition

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.168	6	1.028	1.054	.395[b]
	Residual	110.199	113	.975		
	Total	116.367	119			

a. Dependent Variable: investment to the business

c. Predictors: (Constant), government laws and regulations, cost of running, finding customer, management skills, keep business records , financing difficult in your business, and competitions

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.771	.476		3.723	.000
finding customer	.003	.073	.004	.039	.969
Competition	.033	.095	.036	.345	.731
financing difficult in your business	-.049	.085	-.058	-.570	.570
cost of running	-.084	.074	-.117	-1.135	.259
management skill, keep business record	.112	.055	.202	2.034	.044
government laws and regulation	-.003	.070	-.004	-.041	.967

a. Dependent Variable: investment to the business

Source: Field data, 2014

The estimated results showed that R-squared was equal to 0.053; this indicated that 5.3% of the variation in the investment by SMEs in the business was explained by independent variables; this percentage shows the goodness fit of the model. A number of variables included in the regression run were insignificant as to be excluded these were competitions, finding customers, financing difficulties, cost of running and government rules and regulations because have no effect upon the growth of SMEs.

Management skills and keeping of business records were statistically significant at (p=0.044) and a beta coefficient of (0.202) had a positive relationship with the investment of the business on the growth of the SMEs. This implies that if the firm had good management in terms of resources and skills and had good record keeping, it could have high possibility of investing more and hence grow or expand its business.

4.6 The link between SMEs growth and access to finance

The fourth objective of the study was to assess the link between SMEs growth with access to finance. Correlation was done inorder to find out how independent and dependent variables were correlated each other and regression analysis was run inorder to determine to what extent SMEs growth had statistically significant related to access to finance. The following were the finding;

Table 4.8: correlation analysis showing relationship between SMEs growth and Access to finance

Correlations

		investment to the business	access to finance
investment to the business(SMEs growth)	Pearson Correlation	1	.169
	Sig. (2-tailed)		.065
	N	120	120
access to finance	Pearson Correlation	.169	1
	Sig. (2-tailed)	.065	
	N	120	120

From the above correlation analysis result showed that SMEs growth was positively correlated with access to finance. Also SMEs growth was statistically significant related with access to finance at (0.001) 2-tailed.

Furthermore the regression analysis was run and provide the following result;

Table 4.9 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.169[a]	.028	.020	.979

a. Predictors: (Constant), access to finance

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.316	1	3.316	3.462	.065[b]
	Residual	113.050	118	.958		
	Total	116.367	119			

a. Dependent Variable: investment to the business

b. Predictors: (Constant), access to finance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.267	.292		4.344	.000
	access to finance	.326	.175	.169	1.861	.065

a. Dependent Variable: investment to the business

The estimated results showed that R-squared was equal to 0.028; this indicated that 2.8% of the variation in SMEs growth was explained by independent variables. SMEs growth was not statistically significant related with access to finance at (p=0.065), beta coefficient of (0.169) and t-value (1.861) so the hypothesis three is rejected.

CHAPTER FIVE

5.0 Discussion of the Findings

This chapter covers the discussion of the study findings. This study assessed the environment surrounding the ways in which SMEs get access to finance and the growth of the firm. The exploration was based on owner firm's responses to the survey. The study directly identified firm sources of finance, factors hindering SMEs to access finance as well as factors hindering the growth of SMEs.

The first objective was to determine the source of SMEs financing. The findings showed that 51% of SMEs surveyed were using internal sources of financing; 35% used both internal and external sources of fund; 13% used only external source of finance and 1% use trade credit.

It was also found that SMEs were constrained on the access of external finance to finance the growth of their business. Also most of the SMEs used internal finance as a source of fund. This finding is consistent with previous studies done out of country showed that securing suitable finance remains as an obstacles especially for the growth of innovative SMEs, a problem which is known as "SMEs financing gap". This problem made many of SMEs to be reliant upon internal finance, including cash flow to fund investment in the development and growth particularly of business at the start up and early growth stage. The findings cited further showed that during the start-up and early growth stage SMEs had to necessarily consider external finance sources as they progress through the development phases of the SMEs life-cycles (OECD 2006).

Furthermore the findings are consistent with the pecking order theory which states that "the firm that prefer internal financing to external financing for the business will choose the affordable sources and if the external financing is to be used the cheapest possible security is chosen first." According to this theory internal financing is preferred first by majority followed by debt and lastly by outside equity.

The second objective was to assess factors that hindered SMEs to have access to finance. The findings showed that access to finance was statistically significantly related to the lack of information and administrative side of loan being very demanding. This meant that SMEs firm were constrained on access to finance due to those named factors.

On the other hand, SMEs lack of information concerning the financial services provider on the cost of the financial services being offered; financial services providers requiring information that were accurate, quality and reliable information on evaluating the risk of the SMEs applying for finance and also assessment on the prospects of the SMEs within the market segment and geographical area within which it operates; made financial services provider to be reluctant in providing credit to SMES. This was consistent with other studies conducted in the country and outside the country such as Maziku, (2012) who conducted a research on credit rationing for small and medium scale enterprises in the commercial bank loan market in Tanzania her study revealed that lack of quality available and reliable information constrainted SMEs from getting loans.

Also according to Maziku, small and medium enterprise refused to provide reliable information for fear that the Tanzania Tax Revenue Authority would charge high burden of tax to the business; and due to that banks may refuse to provide loans to the borrowers due to lack of reliable information concerning the general condition of the business. Bergquist and Dahg (2008); Lawton, (2002) and Beck; Demirguc-kunt, Laevenand Maksimovic, (2006) studies also revealed that the gap does in many cases arise from information asymmetry which most often means that external financiers do not obtain the information needed inorder to correct and evaluate the financial risks of an investment project; however, information asymmetry does not have to be one-sided.

In another study by Eos Gallup Europe, (2005) on SMEs access to finance, the findings revealed that about 52% of the respondents from the survey done argued that it was not easy to obtain a loan from banks by then because of the administrative side of loan being too demanding. Furthermore the study revealed that lack of collateral and high interest rate were not statistically significantly related to access to finance. That means the SMEs were not constrainted on the access to finance due to lack of collateral and higher interest rate imposed on the loan.

However, could be be true on the fact that if the Banks were well known and had the available information to assess tha general characteristic of the borrower. There would be no need of putting collateral to secure loan. The study is consistent with Cressy and Toivanen, (2001) who found that no statistically significant relationship existed between credit availability and the pledging of the collateral. While Cosci and Meliciani,(2002) provide evidence from Italy that the number of Bank relationship has a positive effect on credit availability, but has no effect on the interest rate. Kira and He study on the impact of firm characteristic in access to finance in Tanzania, (2012) study on the contrary, indicated that availability of collateral had positive relationship with access to finance.

Also Thorsten, Demirguc-kunt (2006) and Satta (2003) argue that where the informationa asymmetry exist bank will ration the supply of credit and in addition will tighten requirements such as collateral, interest rate inorder to protect themselves from likely opportunistic behaviour of dishonest borrowers even though given lending interest, collateral is not an effective credit allocation mechanisms to indentify the creditworthy borrowers. But differently, Olawale and Van Aardit Smit, (2011) study on the constraint to credit access by new SMEs from commercial bank, found that collatreal business informations, managerial competences, interest rate and networking were important constraints to credit access from commercial banks.

The third objective was assess the factors that hinders SMEs growth. The findings indicated that management skills and keeping of the business records were statistically significantly related with SMEs growth. This implies that lack of managerial skill and keeping of business records were hindering factors for the growth of their business. It was noted that SMEs failed to acquire enough knowledge concerning running of the business. These study findings were consistent with previous studies, for example, Maziku (2012) research conducted in Tanzania revealed that low managerial skills and keeping of business record was the most hindering factor for the growth of business. This lead to poor preparation of loan request and business plans; most of SMEs relied on friends with similar business to understand viability of the business. Also SMEs did not keep records of receipts and payments this might have effect on the quality and realibilty of financial statement hence not access to finance and limit the growth of SMEs.

Furthermore the study revealed that competions, finding customers, cost of running, financing diffucult and government regulations were not statistically significantly related with the growth of the firm; this case might hold true on the circumstance that the management does not want to change on the adoption of the new globalized business interms of innovative and creativity, diversification, distinct product branding; and remained on the same stage of growth such as selling of the same pruduct and price competitions. Similalry, Grimsholm and Poblete, (2010) argue that government policies and regulation were rather supportive for SMEs in Thailand and the respondents stated that government regualtion was not one of the most significant growth hampering factor.

However this study was inconsistent with (Grimsholm and Poblete 2010) who found that issues of customer behaviour and external finance were the most influencial factors hampering growth of SMEs.

Also the fourth objective was to assess the link between SMEs growth and access to finance,the finding indicated that SMEs growth was not statistically significant with access to finance at (p=0.065,beta=0.169 and t-value=1.861). This implies that SMEs growths does not depending much on access of fund for the growth of business.it might hold true that SMEs growth depend on various factor like management skill and if the business keep proper business record and SMEs much prefer on the internal financing rather than external sources. Also this study was consistent with (Falkena H..et all,2000) agrued that growth of SMEs negatively impacted by lack of formalization and poor management that lead to the poor utilization of resources.

CHAPTER SIX

SUMMARY OF THE STUDY, CONCLUSION AND RECOMMENDATION

6.0 Overview

This chapter provides the overall discussion of previous chapters and making necessary conclusion and recommendation on the access to finance and SMEs growth. Also the chapter provides the way forward for other studies to fill the gap that was not be filled with this study.

6.1 Summary

This study was set to examine how access to finance contributes to SMEs growth in Dodoma municipality. Specific objectives were to: determine the sources of SMEs finance, assess factors that hinder SMEs access to finance and the factors that hinder SMEs to growth. Data were collected by using questionnaires, interview and secondary data. The research also used qualitative and quantitative methods of data analysis.

The findings showed that majority of SMEs still relied on internal sources of financing. Thus access to external finance was still a problem. There were various factors that hindered SMEs to access finance from formal financial institutions the major ones being lack of information and administrative side of loan being very demanding seemed to be a major barrier for SMEs to access credit. Also management skills and keeping of business records acted as barriers for SMEs to grow. Other factors such as collateral availability, high interest rate, bank requesting too much information, loan granting procedure, competitions, finding customers, cost of running and government regulations were regarded as insignificant

6.2 Conclusion

Basing on the findings, it can be concluded that the growth of SMEs depended on the accessibility to external finance, management skills and business owner innovativeness in the competitive business environments. Most SMEs failed to access finance due to lack of information and administrative side of lending being very demanding. Failure to access information also became problem in the current uncertain economic conditions as lenders have become more risk averse, in this situation, lenders find it difficult to determine the ability of the business to repay without incurring costs which exceed the return to the lender on the investment. This can be the case particularly to small and medium businesses with limited track records and management skill to present themselves as investable opportunities and where lender does not have sufficient information to assess it viability.

Also lack of information affected the demand side for businesses seeking finance. SMEs may not fully understand the potential benefits to their business of raising finance, which means they do not apply and may hinder the growth of the businesses. Business owners can also lack knowledge of funding resources available or lack of skills to present themselves as investable opportunities to investors. There is still a widespread perception among businesses that lending is not available on affordable terms despite the best effort of banks to advertise their willingness to lend.

There is also no doubt most of SMEs are still conservative on the way of running their business; the business owners do not want to change in terms of employing people who are professionals to their business to bring changes; there is poor keeping of records for fear of TRA tax burden; doing the same business; SMEs being afraid to take risk in internationalized way and no branding of their product hence no change of development stage of grow and SMES and business thinking that there is no need of apply for loan on perception that banks are very demanding when it comes to a point of providing loans.

6.3 Recommendations and policy implications

The overall research finding shows that the financing gap should be fill in to support SMEs in helping them to understand the precise requirement of formal financial institutions when considering potential investment opportunities for facilitating the growth of the business. The key messages coming out of this study are:

There is a need of awareness, communication and transparency of support and finance sources to be improved. Networking and business contact are key sources of relevant information between lenders and borrowers, because SMEs complained they did not know what funders are looking for in a funding proposal. Again lack of education about the interest charged and repayment of different banks and return period was too small for them to cope with that is why most of SMEs still relied on internal sources of finance that hindered the business to grow.

The government should make up follow on the rules and regulations that provide guidelines of financial institutions on helping SMEs market to grow in Tanzania by formulating the agency that will check if the funds that are set aside by Bank of Tanzania help small business reach to the target market.

Since SMEs seem as window for creating employment to a large group of people and contribute to the nation income; the government should formulate the policy that will protect SMEs against financial institutions on the case of rules in the process of lending. Also the government can develop a system to banks that will allow SMEs get loans through group lending or business plan based approach on assessing the creditworthiness.

The SMEs owner should be concerned on employing qualified labour on different sectors within the firm so as to have good knowledge concerning the viability on the business; this will also facilitate good management competence on preparing different documents and keeping of records in a systematic way. Also SMEs should build the attitudes of attending training concerning business perspectives

The financial institutions should provide education to the society on the importance of using loans to the business by being transparent to the public on publishing what exactly they want from the borrower and employee staffs that are honest to the position so as to reduce bureaucracy rumours' that most of SMEs perceptions' that people have in mind about the financial institutions.

A competitive business environment of which access to finance is an important component facilitates entry, exit and growth of business. It is therefore essential for the development process to focus on improving the business environment for all firms; it is more important than simply trying to promote the large SMEs sector which might be characterised by large number of small, but stagnant firms.

Furthermore access to information both from the SMEs perspective and from the perspective of the providers of financial services are important; this requires actions in the following areas; introduction of regulation to improve disclosure of the cost of financial services in a format that would facilitate comparison between financial services providers, introduction of credit bureaucracy regulation in order to enhance credibility and integrity of the information being distributed and also to investigate into the type and volume of information related to SMEs repayment profile and financial exposure that is currently not being shared amongst financial institutions, the implication thereof for the provision of finance to SMEs and recommendations to address potential shortfall.

Further research

The limitations of this study light a number of prospects for future research. Primarily it is proposed that a similar research project be undertaken on a national basis. A comprehensive study could be conducted on a region by region basis in Tanzania on the assessing the effect of access finance and SMEs growth. Such a research would be beneficial in helping to find out if there are particular regional factors that impact on SMEs from access finance and growth.

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APPENDICIES

QUESTIONNAIRE

Dear Respondents;

As part of fulfilling the requirements for degree in Masters of Science in Accounting and Finance awarded by Mzumbe University, candidate is required to conduct a research and write a report on relevant topic.

This questionnaire attempts to obtain pertaining to a study titled, "Access to finance and SMEs growth**."** This study is conducted as a partial fulfilment of the requirement of Masters of Science in Accounting and Finance at Mzumbe University; all the information provided will be used only for the purpose of this field research and will be treated with maximum secrecy and confidentiality.

You are kindly requested to respond to the statements in the following questionnaire. The statements are related to work and life in organizations. Your responses are of great importance as this study forms part of a study of the aspects mentioned above. I therefore value your co-operation very highly.

Please ensure that you respond to every question and interview guided by researcher. Your answers will be treated in strict confidential and will only be used for research purposes.

Thank you for your cooperation.

Name of the owner of the business:

Gender: Female ☐ / Male ☐

Business name:

Location of the business:

Age of the business:

Type of the business:

1. How many people does your business consistently employ?

    1. 1 to 4
    2. 5 to 40
    3. 50 to 99
    4. More than 100

2. Has the number of employees in your business, decreased, remained the same or increased since last five (5) year?

    1. Decreased
    2. Remained the same
    3. increased

3. For how long has your business been existing?

    1. More than 30 years
    2. More than 20 years
    3. More than 5 years
    4. More than 2 years
    5. Within the last 2 years
    6. None of above(NA)

4. Which one of the following statements best describes the shareholding of your business?

    1. Your business is exclusively family owned
    2. Partnership
    3. Company
    4. Joint venture

5. What is your major source of financing to your business?

    1. Internal finance only
    2. External finance only

3. Both internal and external finance
4. Other (Trade credit)

6. In your opinion, what are the major obstacles that hinder your business to develop or grow?

Factors	Strong disagree	Disagree	Neutral	Agree	Strong agree
Government Laws and regulation					
Competitions					
cost of running					
Lack of Management skills and keep business record					
Finding customers					
Financing difficult					

B. Explain how do the problems you indicated above affect the growth of your business?

7. What was the annual turnover of your business in the last two years?

1. Less than Tshs 5,000,000 million
2. Tshs 5,000,000 to Tshs 20,000,000 millions
3. Tshs 200,000,000 to 800,000,000 millions
4. More than Tshs 800,000,000 millions

8. Would you say that your company situation has improved, deteriorated or remained unchanged since last year?

1. deteriorated 2. Remained unchanged 3.Improved

A. Turnover
B. Profit
C. Investment

9. Have you ever developed any plan to your business for the coming year or start up a new project for growth of your business?

1. Yes
2. No
3. None of above

10. In terms of development, at which stage would you say the business is growing?

1. Pre-start up (not yet trading)
2. Start-up/early stage(up to first six month)
3. Young (trading but still early stage generally no more than 24 months)
4. Establishment(more than 24months general trading but able to borrow)
5. Prefer not to say

11. Have you tried to access loan from formal financial institutions (banks) so as to finance your business?

1. Yes
2. No

B. if you answered NO, please indicate why you have not tried to obtain loan to finance your business?

12. For each of the following types of financing, indicate whether or not your business has already made use of it for its operation.

1. Yes 2, No 3. None of the above

A. Overdraft
B. Borrowing from friends

C. Increased capital from retained earning
D. A loan longer than 3 year term
E. A loan shorter than 3 years term
F. Public subsidies

13. Would you say that in generally the steps necessary for obtaining a loan from a bank are easier, more difficult or identical to other forms of your business financing?

1. Easier
2. More difficult
3. Identical

14. For which of the following reasons would you consider that it is not easy to obtain a bank loan?

Factors	Strong disagree	Disagree	Neutral	Agree	Strong agree
Interest rates are too high					
Bank request too much information					
Lack of collaterals to secure loans					
Loans granting procedures are too long					
The administrative side of loan application is very demanding					
Lack of information					

15. Would you say that in general your business current financing is sufficient to see your projects through?

1. Yes
2. No
3. None of the above

B. if you answered NO, please indicate what is your appropriate source of finance to see you project is running?

16. Could you please tell me which of the following institutions your business went in order to obtain one or several types of financing need to support the business? Rank according to priority...

1. Banks
2. Public institutions supporting investment
3. Private financing companies (other than banks)
4. Private investors
5. Other (please specify)........

B. By accessing any of financing needs among one of the institutions above you have chosen, does that financing support contribute to the growth of your business?

17. Would you say that in general your business needs in terms of financial management, management skills and business records are met internally or not?

1. Yes absolutely
2. Yes to some extent
3. No/not at all
4. No to some extent

18. If you had to look for information or advice on financing which of the following sources would you turn to? Please rank according to priority.....

1. Banks
2. An accountant
3. An legal experts
4. Professional contacts

5. The Professional association on your business sector or activity
6. Relatives and or friends
7. The external consultant

19. Is the business registered for VAT?

1. Yes
2. No