

## **Challenges Facing Small Scale Entrepreneurs in Accessing Loan from Banks at Ngongongare, Meru District, Arusha Region in Tanzania**

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**Abstract:** *The aim of this study was to assess the challenges facing small scale entrepreneurs in accessing loan from banks at Ngongongare, Meru district, Arusha region in Tanzania. A sample size of 100 respondents was used, whereby 65 respondents filled the questionnaire and returned. Descriptive statistics was used to analyze and tabulate data. The following findings were obtained: Collateral is a challenge to small entrepreneurs in accessing loan from the bank; the cost of transaction was found to be high and interest rate was also found to be high; the availability of accounting information was difficult to be obtained from small entrepreneurs so as to grant credit facilities and also the study revealed that capital for SSE is particularly from other sources like SACCOS. The study concluded that collateral, high interest rates, lack of adequate accounting information were the challenges facing small scale entrepreneurs in accessing loans from banks. The researcher recommended that banks should lower their interest rates and also grant loans on business asset and income as collateral securities. In addition, small scale entrepreneurs should be given some training in form of seminars through trade organizations. The study further recommends future researchers to undertake a comparative study between small scale entrepreneurs and small and medium entrepreneurs.*

**Keywords:** *Entrepreneurs; Access to Finance; Loan; Loan security; Transaction cost; Interest rate.*

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### **I. Introduction**

A number of studies have shown that financing is a greater obstacle for Small and medium enterprises (SMEs) than it is for large firms, particularly in the developing world, and that access to finance adversely affects the growth of the SME sector more than that of large companies (Beck et al. 2005 and Beck et al. 2006). In Malaysia, small entrepreneurs generally face difficulties in obtaining finance with lack of collateral and insufficient documents to support loan application. This lack of financial track record is the main constraint faced by Malaysian SSEs in accessing financing as it reported by (Airs, 2007). The study which was conducted in Kenya by Akinyi (2009) found that accessing funds from banks by small scale entrepreneurs was a challenge. Many Small Scale Enterprises were left un-attended due to limited finances available (Akinyi, 2009). Although the Microfinance Act of 2006 stipulated the operations of MFIs in Kenya many MSEs had not accessed lending and those that have acquired loans from MFIs find it expensive to pay (Makokha, 2006).

The study which was done in Mogadishu by Provident and Zacharia (2008), revealed that majority of the poor people and small businesses do not access microfinance loans because they lack guarantors, salaried employment, savings account in banks, ability to make pre-loan weekly deposit on special savings account which are required as collaterals. Indeed, this argument is in line with Ojo (2009) who ascertained that microcredit is a component of microfinance and is the extension of small loans to small businesses, which are too poor to qualify for traditional bank loans. Microfinance Institutions provide the lending with some requirements that small business must meet. (Ojo, 2009).

Small Scale Enterprises have been noted to be the engine through which the growth objectives of developing countries can be achieved and are potential sources of income in many developing countries (Kayanula and Quartey, 2000). Over the years, SSEs have been supported through a number of means, from government assistance, financial institutions assistance, donor agencies, plough back profits, to family support and franchising arrangement, among others (Abor and Biekpe, 2006). One of the major forms of finance for SSEs is through the financial assistance (FA) from banks in the form of loans, etc. However, access to FA from financial institution (FIs) has become a challenge to most SSEs in many developed and developing economies including Tanzania. Most SSEs appear to be challenged in financing their business operations (Abor and Biekpe, 2006). Nigeria survey in 2001 which was done by Anyanwu, (2004) indicated that operations of former microfinance institutions in Nigeria were relatively new, as most of them never registered after 1981. Before then, commercial banks traditionally lent to medium and large enterprises which were judged to be credit-worthy. Banks avoided doing business with poor micro Enterprise because the associated cost and risk were considered to be relatively high.

A study carried out by Matavire et al., (2013), on challenges facing SSEs in accessing finance from financial institutions in Belaway, Zimbabwe found out that SSEs fail to secure loans because of restrictive requirements of the financial institutions, such as collateral security. Makena, et al., (2014), in their study on challenges facing women entrepreneurs in accessing business finance in Kenya, revealed that, lack of collateral was a greater hindrance to credit accessibility by women entrepreneurs. This is due to lack of tangible assets like land, which are used as assets to secure credits. Loans from Kenyan microfinance institutions tend to be limited in amount, have no grace period, are short term in design and carry very high interest rates. Consequently, most women entrepreneurs are likely to have multiple short-term loans to cater for both businesses and social needs. Studies have shown that loans to SSEs only satisfy a fraction of their financial needs (Women Entrepreneurs in Kenya, 2008).

Interest rate is real a significant challenge to small entrepreneurs in accessing loan from banks (Rweyemamu, 2003). In fact (Rweyemam, 2003) evaluated the performance and constraints facing of semi formal microfinance institutions currently providing credit in Mbeya and Mwanza regions. The analysis of this study revealed that the interest rates were a significant barrier to the borrowing decision. Borrowers also cited problems with lengthy credit procurement procedures and the amount disbursed being inadequate. Another study which was done at Arusha Central market and Kilombereo Market by Nathaniel (2012) revealed that the payment period is also another challenge to small entrepreneurs in loan accessing from bank. At times, loans received are less than requested and short periods are giving for the repayment of the loan. (Ricupero, 2002) states that commercial bank loans extended to SSEs are often limited to a period far too short to pay off the loan. Financial institutions play a big role of boosting small scale entrepreneurs. Normally SSEs use two sources of finance; internal or external sources of financing. The internal funds are always insufficient to undertake the required level of business hence the call is always made for external finance from relevant financial institution to fill the financial gap.

### **Statement of the Problem**

Small enterprises contribute significantly to economic growth and development of a country. However, Small Scale Entrepreneurs in this study are facing challenges in accessing bank loan to finance their enterprises. Therefore, this research study was to assess challenges facing small scale entrepreneurs in accessing loan from banks at Ngongongare, Meru district, Arusha region in Tanzania. The capacity for Small sized Enterprises to fulfill their potential in an economy depends on the availability of finance (Whincop, 2001). Finance in general and credit in particular is especially important for small entrepreneurs, since they are unable to finance themselves. Despite the importance of the small entrepreneurs in the economic development and job creation in the country, loan accessibility is still a challenge to small entrepreneurs. It is because of this that this study was to assess the challenges facing small scale entrepreneurs in accessing loan from bank at Ngongongare area, Meru District, Arusha Region in Tanzania .

### **Objectives of the study**

1. To establish loan security requirement by banks in accessing loan facilities by small scale entrepreneurs at Ngongongare, Meru District, Arusha Region in Tanzania.
2. To determine the cost of accessing loan facilities from banks by small scale entrepreneurs at Ngongongare, Meru District, Arusha Region in Tanzania.
3. To find out the availability of financial information to small scale entrepreneurs in accessing loan facility from bank at Ngongongare, Meru District of Arusha Region in Tanzania.
4. To determine alternative sources of funding available to small scale entrepreneurs of Ngongongare, Meru District, Arusha Region in Tanzania.

## **II. Review Of Related Literature**

### **Collateral Requirements**

From a bank's perspective, the financing to SMEs is often regarded to be of higher risk due to the relative opaqueness of these firms as compared to larger firms (Berger & Udell, 2006). Previous studies have shown that management's relationship and track record of payment to the bank or financial institutions, presence of collateral and capacity of the Small Medium Enterprises to repay the loan are some of the factors that are being assessed by the credit officers of the banks or financial institutions when issuing out the loan.

Banks consistently require collateral to enforce repayment, to offset losses in case of default, and to help screen applicants. In Tanzania most of the small businesses do not own assets worth to be pledged as collateral in the banks' eyes. For those few who owned property, the difficulties of proving legal, enforceable title to land may render unacceptable to banks as collateral (Olomi and Issack, 2003). Previous researchers suggest that bank financing depends upon whether the lending can be secured by collateral (Storey, 1994; Berger and Udell, 1998). Johnsen and McMahan (2005) also stated that other factors held constant, firms with

more intangible assets need to borrow less, compared with firms with more tangible assets, because of collateral factor. Collateral has been proxied by land, machinery or personal assets (Kumar and Francisco, 2005). (Bennett and Donnelly 1993) used plant and machinery divided by total assets as a proxy for the securability of assets. (Bhaduri 2002), used three proxies for the collateral asset attribute, namely, the ratio of land and buildings to total assets, the ratio of plant and equipment to total assets and the ratio of inventories to total assets. SMEs have fewer collateral sable assets than large firms. This may partly relate to the stage of growth the firm belongs to. In the earlier stages of the firm, it may have lower retained profits which may hinder them to purchase fixed assets compared to the larger firms which has a longer history. Another reason for small firms to have a smaller proportion of fixed assets is the capital constraints faced by them. Because of the need to raise large amounts of capital, it finds difficult for them to acquire a large number of fixed assets.

### **High Transaction Costs**

Like all other businesses, banks incur costs to do a business, they incur costs to assess credit, process and monitor loans. Transaction costs directly related to profitability. The higher the cost of processing a transaction the lower is the return. SMEs' loans often consume time to assess, monitor and manage. According to (Zavatta 2008), irrespective of risk profile considerations, the handling of SME financing is an expensive business. Many bankers perceive that small business require much more advisory support-hand than large corporate client does, all these involve cost.

Because small firms often lack good financial accounts and may have difficulty filling out bank forms correctly, the cost of processing and monitoring small loans exceeds that of loans to large enterprises on a per-loan basis, let alone per shilling lent. Banks estimated that it took an average of 24 staff-days to gather information and process an application for a small enterprise as against 16 days for a large-scale firm (Aryeetey et. al, 1994). Historically, most commercial banks in Tanzania had little incentive to try to overcome these difficulties and increase lending to local small enterprises. Their orientation has been mainly toward short-term commercial transactions in part because their deposit base is primarily short-term (Chijoriga, 2000).

### **Availability of Information in Finance**

Small business owners are not transparent or do not open up of their businesses to outsiders. For some reasons, they do not give the true information about their assets, liabilities, profits and others to tax collectors, their employees and outsiders. Access to external finance depends on an open trade of information between the one receiving the fund and the giver. More transparency and better dialogue between SMEs and financial institutions can help to solve some of the challenges SMEs face in accessing loans. The refusal of small business owners to give right information about their business to outsiders make it difficult to assess creditworthiness and also difficult to lend. If true and quality information are supplied to banks and other financial institutions, it would be some how easy to assess creditworthiness of businesses and reduce risk of default. This would also enable financial institutions to give small enterprises good terms of payments. Banks appear to be reluctant in lending to SSEs because of their inability to evaluate risk due to lack of reliable financial information (Ricupero, 2002).

Small business owners most often possess more information about the potential of their own businesses but in some situations it can be difficult for business owners to articulate and give detailed information about the business as the financiers want. Additionally, some small business managers tend to be restrictive when it comes to providing external financiers with detailed information about the core of the business, since they believe in one way or the other, information about their business may leak through to competitors (Winborg&Landstrom, 2000).The importance of keeping proper accounts in promoting the growth of small businesses has been acknowledged in prior studies on small business growth and development (Abor&Biekpe, 2006,). (Kinyanjui, 2006) records that some entrepreneurs felt that it was difficult to obtain loans as they had to show credit records and they did not fully understand the requirements of getting and paying loans.

Pretorius & Shaw (2004) point out that financial information is one of the primary measures of the capacity of a business to effect repayment of credit. Financial information and business information are usually contained in the business plan of the new SME. According to a good business plan is perceived as one of the most essential documents to be prepared by the entrepreneur or small venture owner when setting up a business. Entrepreneurs and small business owners are encouraged to prepare a business plan for presentation to banks, financial institutions and venture capitalists to stand a chance of obtaining financial support. (Kitindi et al 2007) find that creditors, banks and other lenders use financial information provided by firms to analyse their present performance and predict future performance.The researchers find that annual financial statements and audit reports are required by formal lenders in Botswana. Information from the financial statements together with other information obtained through discussions with prospective borrowers is the main sources of information to lenders. Information obtained from the financial statements acts as indicator of borrower's future prospects and ability to service a loan. Therefore banks and other creditors prefer, demand and use financial information.

### **Location**

An entrepreneur in urban area has more advantage of accessing loan than the one in rural area this is due to some reasons. In rural area there might be having a scarcity of financial institutions you can find that there is one bank branch available to the place and because of this it may be paying a high interest rate which may hinder the small entrepreneur to access loan (Pandula, 2011). Likewise, the bank may be reluctant to lend to small entrepreneurs located in rural area since the assets offered as security might have less market value, and in case of default, they may find it difficult to realize these assets. (O'Farrell 1990) in his study in Canada reported that banks appear to be more reluctant to lend to small entrepreneurs because if this small entrepreneur fails it will be difficult to sell the assets. However, (Keeble 1990) in his study in United Kingdom suggested that the problem of an entrepreneur located in urban area and in rural area in accessing loan from financial institutions are the same except finance. He reported that the only difference is that rural entrepreneurs feel themselves more constrained in terms of finance compared to the urban entrepreneurs. However, (Rand, 2007) is having the different opinion concerning the location of the firm and loan accessing. According to him it might be that loan accessing is higher in rural areas than in urban areas. He said that "most of government bank credit is allocated towards rural areas confirming that local governments often are distinctly protective of firms in rural areas, which are more oriented towards serving local markets and therefore tend to escape from some of the loan barriers inherent in larger, possibly more outward oriented markets" (Rand, 2007).

### **Financial Statements**

Most SMEs do not prepare financial statements, since they are not required by law to prepare financial statements. Even in highly developed economies, such as those in the European Union, SSEs are not required to report on their financial performance in a standardized manner if they do not reach a significant threshold in total assets, turnover and/or number of employees. This means that many SSEs in developed and developing countries do not produce reliable financial information, which could be used by creditor or investors (Ricupero, 2002). Bass and Schrooten (2005) concluded that the lack of reliable information leads to comparably high interest rates even if a long-term relationship between borrower and bank exists. In a situation like this, having audited financial statements play a major role.

Audited financial statements are very useful in accessing credit from financial institutions. Often, banks require audited financial statements before granting credit. For example, (Berry and Brian, 1994) found that lenders in the UK pay much attention to accounting information in order to deal with the loan applications of small firms. Given the reduced information risk arising from audited financial statements, potential lending institutions may offer low interest rates as well. In other words, audited financial statements improve borrower's credibility and therefore reduce risk for lenders (Sacerdoti 2005).

The ability of borrowers to provide adequate financial statements and the establishment of credible credit bureaus and financial data bases are essential to encourage the expansion of credit, promote competition in the banking systems, and thereby reduce the cost of credit to borrowers. In many countries, banks are reluctant to extend credit to SSEs because of the inability of the borrower to produce formal financial statements and audited accounts. Strengthening accounting and auditing is therefore a key requirement for widening access to banks by Small Scale Enterprises.

In many countries, however, the accounting profession is not well regulated, and the quality of accounts varies widely, hampering transparent. Small enterprises do not know factors financial institutions take into consideration before lending to its customers. Financial institutions generally do not lend to whoever would be willing to pay higher interest rates, because doing so would attract riskier borrowers. They have ways of checking credit worthiness of their customers. They lend to businesses, which they are convinced that they have the ability to repay the loan (Ocansey, 2006). It has been observed that a key factor that make the SSEs unable to access financial assistance was the lack of understanding in the operations of banks and vice versa. Consequently, in effect SSEs suffer from the frustration of delay in accessing bank credits or denied completely. Banks demand things like audited financial information, convincing business plan, and bankable proposal before they lend to small business. Most small enterprises do not have technical capacity to do these things. This makes it difficult for them to access loans

### **Managerial Skills**

According to Hellriegel, (2008) Managerial competencies are sets of knowledge, skills, behaviors and attitudes that contribute to personal effectiveness. Managerial competencies are very important to the survival and growth of small entrepreneurs. Lack of managerial experience and skills are the main reasons why small scale entrepreneurs fail in accessing finance. This probably is because seeking financial assistance from financial institutions requires some negotiation skills and insight into financial management in order to be effective in winning the confidence of financial partners and their financial support. These small entrepreneurs' personnel might have not been able to acquire such needed managerial skills and knowledge to enhance their financial management.

Weak institutional capacity is a barrier to small scale entrepreneurs' access to financial loan. Institutional capacity in a sense refers to ability of these small scale entrepreneurs to come together to identify and solve implementation problems regarding their source of financing their construction operations and activities (Abor 2006; Ayogyam 2012). Until these small entrepreneurs form formidable front of institutions to champion their cause, it could be very difficult for them, and therefore become a barrier in accessing finance from financial institution

### **Education Level**

Education helps to enhance the exploratory skills, improves communication abilities and foresight (Dobbs & Hamilton, 2007). Previous research, in particular has explored how the managerial education affects the access to credit. For example, (Kumar & Francisco 2005), found a strong effect of education on in access to financial services in Brazil. The most recent research done by (Irwin and Scott, 2010) using a telephone survey of 400 SSEs in the United Kingdom also found that graduates had the least difficulties raising finance from banks. The researchers have given three interpretations for this finding. Firstly, more educated entrepreneurs have the ability to present positive financial information and strong business plans and they have the ability to maintain a better relationship with financial institutions compared to less educated entrepreneurs. Secondly, the educated managers have the skills to manage the other functions of the business such as finance, marketing, human resources and these skills results to high performance of the business which helps those firms to access finance without any difficulty. The third reason stems from the supply side, where the bankers value higher education level of the manager in the loan approval process as an important criterion (Irwin and Scott, 2010).

The study of 600 SMEs in Britain, France and West Germany by (Watkins and Morton, 1982) interviewed the participants from the financial institutions as part of their main study and found that they were much less concerned about the difficulty in compliance with new laws and regulations and much more concerned with the managerial capability of the owner, which was given first rank in France, and second rank in Britain and West Germany. In contrast, (Han 2008) found that entrepreneurs with undergraduate degrees are more likely to be financially constrained than those without formal education background. Han believes that better educated entrepreneurs normally own and manage large businesses which are more likely to be constrained by finance.

The other opposing argument is that educated individuals are more likely to discard the traditional concept of a loan as risky, and thus would have a higher probability to borrow from formal financial institutions. It can be also assumed that educated entrepreneurs are likely to have better managerial skills and are better equipped to go through difficult administrative procedures in the application of the loan.

Financial illiteracy and complexities is a major problem throughout the world and has been identified as one of the key reasons why SMEs are unable to access loans. Most SMEs, which are not able to properly comprehend the lengthy terms and conditions, are also oblivious of the interpretation of the percentage charged on the loans and become alarmed when the repayment periods tend to be longer than expected. It is thought that microfinance institutions are doing a good job by providing loan facilities for SMEs, but they sometimes do not tell the truth. Some of these institutions take advantage of their educational weakness, and for one reason or the other, refuse to give details and explain the interest rates and its implications on the loans lend to small business. This becomes a problem when they have to re-pay the loans (Donkor, 2012).

### **Short Period for Repayment**

At times, loans received are less than requested and short periods are giving for the repayment of the loans. (Ricupero, 2002) states that commercial bank loans extended to SMEs are often limited to a period far too short to pay off any sizeable investment, also (Abereijo and Fayomi, 2005) notes that the majority of commercial bank loans offered to SMEs are often limited to a period far too short to pay off any sizeable investment.

### **Bureaucracy**

Despite the existing policies of financial support for small entrepreneurs, very few people receive financial help when they need it. For example, (Mambula, 2002) found that 72% of small entrepreneurs he studied in Nigeria considered lack of financial support as the number one constraint in developing their business. According to Mambula small entrepreneurs consider procedure for securing business loan from banks cumbersome, and the collateral demanded for such loans excessive. Banks on the other hand, defend their behavior by noting that most of small entrepreneurs who apply for loan do not present acceptable feasibility study or good business plan. Furthermore, many small entrepreneurs do not even have a deposit account in a bank, a condition for advancing a loan to an applicant. To complicate the problem, there is no law to protect a banks against loan defaulters. Banks also point out the entrepreneurs is unwilling to acquire formal training in how to run a business. Although in some Africans countries banks are by law required to set aside a certain percentage of their profits for the small entrepreneurs, many banks would rather pay fine than make what they believe to be a high risk loan.

### **III. Methodology of the Study**

#### **Research Design**

In this study the researcher applied qualitative techniques in data collection. The reason to use qualitative technique is because it needs descriptions and other oral evidences from the respondents, it also gives the respondents adequate time to give well thought out answers, the respondents who are not easily approachable, can also be reached conveniently. The result from the study provided strategies and recommendation to help small entrepreneurs on how to get loan from bank.

#### **Data Collection Method**

As noted previously, the study opted for a survey design; therefore it has employed questionnaires as an instrument for data collection (McMillan and Schumacher, 2006). The questionnaire is free from bias of the interviewer and answers are in respondent's own perceptions. It helps also to reach unapproachable respondents easily. The respondent has to answer the questions either on their own or by responding to an enumerator (Kothari 2004). The questionnaires employed were to answer the four research questions in order to assess the challenges facing small scale entrepreneurs in accessing loan from banks at Ngongongare.

#### **Population of the Study**

Before presenting the sampling procedures and sampling size, it is appropriate to state categorically the population of the study. In this study, the population comprised of small scale entrepreneurs at Meru district council in Ngongongare.

#### **Sampling Procedure**

Researchers have realized that it is very difficult to obtain information from every person in a population. Therefore they collect a sample of a population in order to collect the information. In this study the researcher selected a sample of small entrepreneurs in Ngongongare area, Meru District, Arusha Region in Tanzania. The researcher used Stratified sampling. The researcher divided Ngongongare into 4 Strata. Strata A included respondents living around Mangusha; Strata B had respondents living around Safari njema, Strata C had respondents around Kariakoo, and Strata D had respondent living around MjiMwema. Out of these four strata, the researcher used systematic sampling technique by choosing one respondent then skipping four more potential respondents until a required available number was reached. In each stratum it was planned to have a minimum of 25 respondents who have been chosen randomly.

**Table 1: Population Sampling**

NAME OF THE PLACE	POPULATION	SAMPLE
Mangusha	84	21
Safari Njema	124	31
Kariakoo	144	36
MjiMwema	64	16
Total	420	104

#### **Sample Size**

The sample size was impossible to be calculated mathematically since there is no database of small scale entrepreneurs at Ngongongare village. The researcher aimed to get at least 100 respondents, which is reasonable sample for qualitative studies (Sekaran 2000) sample size larger than 30 and less than 500 are appropriate for most research. But due to the fact that the majority of the respondents' educational background is low creates some negligence in filling the questionnaire. Some did not give values to the questionnaire and some did not return it totally. Therefore; during implementation, the researcher was able to obtain only 65 respondents which was 65%. Thus, 65 is an appropriate sample size.

#### **Data Analysis Techniques**

The quantitative data was analysed and presented by using descriptive statistics analysis technique by the aid of SPSS software. The analysis tested single variable (univariate analysis) by using units of mean scores which is a measure of central tendency for one variable that indicates arithmetic average. The other unit of analysis to be used concurrently was standard deviation which refers to measure of dispersion from the mean (Neuman, 2006). Tables were used to present data.

**IV. Findings of the Study, Conclusion and Recommendations**

**Findings of the Study**

To establish loan security requirement by banks in accessing loan facilities by small scale entrepreneurs at Ngongongare, Meru District, and Arusha Region in Tanzania. The aim of this objective was to establish security requirement in accessing loan facility from banks by small entrepreneurs at Ngongongare. In order to determine security requirements in accessing loan facility from Banks by small entrepreneurs at Ngongongare, respondents were needed to rate three questionnaire items using five-point scale under the following interpretations:

MEANS SCORE	INTERPRETATION
4.50-5.00	Strongly Agree (High)
3.50-4.49	Agree (Average)
2.50-3.49	Not Sure
1.50-2.49	Disagree
1.00-1.49	Strongly Disagree

**Table 2:** Respondents perceptions on collateral

SN	ITEM	MEAN SCORE	STD DEV.	INTERPRETATION
1	Loan security is a barrier to small entrepreneurs in accessing loan from banks.	4.7231	.71824	Strongly Agree
2	I know the types of security items needed by financial institutions to give loans	3.9538	1.00671	Agree
3	Adequate and audited financial statement is one of the information required by the banks in accessing credit facilities from banks	3.4127	1.38698	Not Sure

N = 65

The findings revealed that, the respondents strongly agreed that loan security is a barrier to small scale entrepreneurs in accessing loan from banks as table 2 shows (M=4.7231; SD=0.71824); the respondents also agreed that they know the type of security items needed by financial institution to give loan (M=3.9538; SD=1.00671); question number three shows that the respondents are not sure of Adequate and audited financial statement if they are one of the information required by the banks in accessing credit facilities from banks (M=3.4127; SD=1.388698). This implies that access to credit was highly limited by strict collateral requirements. The findings is supported by (Storey, 1994; (Berger and Udell, 1998) noted that, in many cases, SSEs are not able to access loans from banks because of the conditions attached to the loan. Banks refuse to lend to some small enterprises because they do not have acceptable collateral. Previous researchers have suggested that, bank financing will depend upon whether the lending can be secure by collateral.

**Cost of Transaction**

To determine the cost of accessing loan facilities from banks by small entrepreneurs Ngongongare, Meru District, Arusha Region in Tanzania. The aim of this objective was to determine the influence of cost of credit in accessing loan facility from banks by small entrepreneurs at Ngongongare. In order to determine the cost of credit requirements in accessing loan facility from Banks by small entrepreneurs at Ngongongare, respondents were needed to rate four questionnaire items using five-point scale under the following interpretations:

MEANS SCORE	INTERPRETATION
4.50-5.00	Strongly Agree
3.50-4.49	Agree
2.50-3.49	Not Sure
1.50-2.49	Disagree
1.00-1.49	Strongly Disagree

The respondents strongly agreed that the cost of transaction is very high in interest rate set by bank (M=4.5312; SD=0.66592). This indicates that the interest rate is one of the big challenges to SSE in accessing loan from banks. The respondents also agreed that the period of payment is not affordable (M=4.2000; SD=0.95525). (Ricupero, 2002) states that commercial bank loans extended to SMEs are often limited to a period far too short to pay off any sizeable investment and (Abereijo and Fayomi,2005) notesthat the majority of commercial banks, loans offered to SSEs are often limited to a period far too

Short to pay off any sizeable investment. There is no grace period (M=4.8281; SD=0.41993) getting loan from the bank is too bureaucratic (M=3.3175; SD=0.87668)

**Table 3:** Respondents’ perception on cost of transaction

SN	ITEM	MEAN SCORE	STD DEV.	INTERPRETATION
1.	The interest rate set by banks is too high	4.5312	.66592	Strongly Agree
2.	The loan repayment period is not affordable	4.2000	.95525	Agree
3.	There is no grace period or the grace period is too short	4.8281	.41993	Agree
4.	Getting loan from the bank is too bureaucratic	3.3175	.87668	Not Sure

The study revealed that high interest rate is critical problem. The study found out that the loans do not have a grace period making it very difficult for micro entrepreneurs to repay. From the research done it was found that most of respondents complained at this condition blaming the microfinance and arguing that this might be an impediment towards majority of small entrepreneurs as they believed that loan beneficiary particularly small entrepreneurs need more time in order to be in a good position of repaying the interest rate of the loans that were lending from the institution. Evidence abounds to prove that big firms are given even lower interest rates than small scale entrepreneurs (World Bank Survey; 2001).

These findings are consistent with studies done by (Stieglitz and Weiss, 1981) and (Obamuyi, 2007) who argue that changes in interest rate affects lending through bank’s capital, particularly when banks’ lending is constrained by a capital adequacy requirement and market and regulator imposed capital requirements. The study found out that access to credit facilities by small scale enterprises is highly limited by high repayment cost of credit given

**Availability of Financial Information**

To find out the availability of information to small scale entrepreneurs in accessing loan facility from bank. In order to determine availability of financial information, respondents were needed to rate six questionnaire items using five-point scale under the following interpretations:

MEANS SCORE	INTERPRETATION
4.50-5.00	Strongly Agree
3.50-4.49	Agree
2.50-3.49	Not Sure
1.50-2.49	Disagree
1.00-1.49	Strongly Disagree

The objective of this research question was to determine the perception of the respondents on the availability of financial information to small scale entrepreneurs. The descriptive statistics were employed using SPSS. The findings revealed that, the respondents strongly agreed that loan security is a barrier to small scale entrepreneurs in accessing loan from banks as table 2 shows (M=4.7231; SD=0.71824); also the respondents agreed that they know the type of security items needed by financial institution to give loan (M=3.9538; SD=1.00671); and again table 2 shows that the respondents are not sure of Adequate and audited financial statement if they are one of the information required by the banks in accessing credit facilities from banks (M=3.4127; SD=1.388698).

Also it was revealed that the SSE, were not sure whether there is lack of financial records in their business (M=2.9333; SD=1.45982), the respondents were not sure if they lack confidence in asking loan (M=3.3871; SD=1.09177) and they are unaware of financial service available (M=2.7344; SD=1.45015) awareness of collaterals needed (M=3.9000; SD=1.00338) lack of entrepreneurs skill (M=3.2419; SD=1.05092).

Table 4 shows the specific findings under this variable called availability of financial information it was indicated that SSEs may give false information out of ignorance in order to justify their claims. If true and quality information are supplied to banks and other financial institutions, it would be easy to assess creditworthiness of businesses and reduce risk of default. This would also enable financial institutions to give small scale enterprises favorable terms of payment. This finding is in line with what (Ricupero, 2002) said, part of the reluctance of banks to lend SSEs is the banks’ inability to evaluate risk because of lack of reliable financial information.

It further suggests that the availability of information is a challenge to small entrepreneurs in accessing loan from banks. This analysis is supported by (Airs, 2007) who did an empirical study in Malaysia “In Malaysia, SMEs generally face difficulties in obtaining finance with lack of collateral and insufficient documents to support loan application. This lack of financial track record is the main constraints which face the SSEs in accessing financing”

**Table 4:** Availability of financial information

SN	ITEM	MEAN SCORE	STD DEV.	INTERPRETATION
1.	There is lack of financial records in business of SSE	2.9333	1.45982	Not Sure
2.	Small entrepreneurs lack confidence in accessing loan	3.3871	1.09177	Not Sure
3.	Small entrepreneurs lack of awareness of financial services availability	2.7344	1.45015	Not Sure
4.	The entrepreneur is aware of the types collateral securities required by the bank in order to access the loan	3.9000	1.00338	Agree
5.	There is Lack of entrepreneurs skill	3.2419	1.05092	Not Sure

**Alternative Sources of Fund to SSE**

The fourth research objective was to determine alternative sources of funding available to small scale entrepreneurs of Ngongongare, Meru District, Arusha Region in Tanzania. The descriptive statistics were employed using Statistical Package for Social Science (SPSS). The mean scores were interpreted as follows: What are the alternatives sources of funding available to small scale entrepreneurs?

MEANS SCORE	INTERPRETATION
4.50-5.00	Strongly Agree
3.50-4.49	Agree
2.50-3.49	Not Sure
1.50-2.49	Disagree
1.00-1.49	Strongly Disagree

The findings reveal that respondents are not sure whether retained profit is a source of capital means that SSE use the retained profit it for other activities rather than putting it in the development of their business (M=3.0625; SD=1.28329) borrowing from relatives and friends (M=3.0806; SD=0.87400) this can tell that the SSE don't remember to borrow from their relatives who financially are good and who can help them some time without even an interest or at a very low interest.

Borrowing from SACCOS, the respondents strongly agree that they borrow from the SACCOS (M=4.6452; SD=0.79128) this show that they prefer to borrow from SACCOS than from banks. This sometimes can have a very reasonable interest rate also reasonable time of repayment.

Personal resources like savings (M=3.2742; SD=1.04284) Government support intervention (M=1.7500; SD=1.13924) borrowing from commercial banks (M=1.5000; SD=0.96032). The table 5 shows the specific findings under this variable called other sources of capital.

It suggests that the respondents are not getting loan from the bank, they use other sources like SACCOS and other sources. This findings supported by (Fraser, 2005) in the UK Survey of SSE Finance reported that some 2.9m SSEs (80%) had used external finance in the previous three years and that the main sources of finance for start ups are personal savings (65%), bank loan (10%) and friends/family loan (6%).

**Table 5:** Respondents about alternative sources of fund

SN	ITEM	MEAN SCORE	STD DEV.	INTERPRETATION
1.	Retained profit is a source of capital	3.0625	1.28329	Not Sure
2.	Borrowing from relatives and friends	3.0806	.87400	Not Sure
3.	Personal resources like savings	3.2742	1.04284	Not Sure
4.	Borrowing from SACCOS	4.6452	.79128	Strongly Agree
5.	Government support intervention	1.7500	1.13924	Disagree
6.	Borrowing from commercial bank	1.5000	.96032	Disagree

Therefore, this shows a similar pattern as other questions, it indicated that small entrepreneurs prefer to get their capital from other sources rather than borrowing from the bank. These findings were in line with studies done by (Obamuyi, 2009), (Sungusia, 2007) and (Abdallah, 2009) who reported that sources of finance failed to offer finance to entrepreneurs due inadequate record keeping, poor credit worthiness, lack of collateral security and the constraint imposed on banks' capital by regulation.

The study concluded that the SSE depend so much on external sources while some time they don't get the loan and they don't remember to use personal servings for the addition capital in the business.

**Summary of Major Findings**

The aim of the study was to assess the challenges facing small scale entrepreneurs in accessing loan from banks. The study used questionnaires to get information from 65 respondents who were small business owners at Ngongongare area. The findings indicated that security is a challenge to small entrepreneurs in accessing loan from the banks. Many respondents also complained of the banks being charging a high interest

rate, apart from the interest rate to the loan, SSEs complained of other indirect cost like registration fees, weekly compulsory savings and the loan application fees all these add the cost of obtaining the loan.

The study found out that some small scale enterprises find it difficult to obtain credit facilities since they do not fully understand the requirements and procedures of acquiring credit facilities. However; even the small scale entrepreneurs are not so open to the loan giver. The study found out that most SSEs prefer to borrow from SACCOS because they find it very difficult to access financing from commercial banks due to strict requirements such as collateral security and high repayment costs. The SSE doesn't remember to use their personal savings as addition capital in their business rather than using it for other things.

These findings were in line with studies done by (Obamuyi, 2009), (Sungusia, 2007) and (Abdallah, 2009) who reported that sources of finance failed to offer finance to entrepreneurs due inadequate record keeping, poor credit worthiness, lack of collateral security and the constraint imposed on banks' capital by regulation.

## **V. Conclusions of the Study**

The report shows that access to finance was greatly hindered by lack of security (collateral), These challenges were revealed by the study to include, the inability of SSEs to provide collateral and other information needed by banks such as audited financial statement couple with the high cost of loan in terms of high interest rates make it extremely difficult to access bank loans (Vuvor&Ackah, 2011).

High Interest rate was also mentioned as a barrier towards their participation in the financial schemes. Many SSE complained of the financial institutions charging a high interest rate. This was reported too high for them considering the nature of their enterprise firms.

The study found out that small scale enterprises find it difficult to obtain credit facilities since they do not fully understand the requirements and procedures of acquiring credit facilities. It was also noted that the SSE prefer to borrow from SACCOS rather than other sources of fund.

## **Recommendations of the Study**

1. This study recommends that loan giver should come up with the system whereby collateral requirements will be affordable to SSEs.
2. This study therefore recommends that the management of credit giving institutions should consider lowering their interest rates in order to match the reality of life to SSEs as a way of encouraging SSEs to borrow from them.
3. The finding of this study shows that most of people engage in SSE sectors are primary and secondary certificates holders. It is the recommendation of this study through the government to reinvent the future of SSEs by transforming business educational system to all level of education.
4. This study recommends that the credit giving institutions come up with programs of educating the MSEs on how they can go about obtaining credit facilities. It also advises the SSEs to put clear their financial information which will counter problems of information that make SSEs risky for credit giving institutions.
5. The study also recommends that the SSE should be given a seminar on how to use the retained profit as addition capital in their business rather than using it into other activities.

## **Suggested Areas for Further Research**

The limitations of this study bring a number of prospects for future researches. Based on this study several areas were sighted and require further research. The areas include:

1. The study proposed to perform a comparative analysis between SSEs in developing countries and those in other developed countries. This study would provide insights as to whether the transnational factors are the same.
2. The role of financial institutions on success of small scale entrepreneurs.

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