THE DETERMINANTS OF SMALL AND MEDIUM SIZE ENTERPRISES (SME's) ON ACCESS TO FINANCE

By

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation/thesis entitled ***"The Determinants of Small and Medium size Enterprises (SME's) on access to finance." A case of Nachingwea District- ''*** in partial/fulfillment of the requirements for award of the degree of Master of Business Administration of Mzumbe University

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DECLARATION

I, Athuman M. Jumanne, declare that this Dissertation on "The Determinants of SME's on Access to Finance: A Case Study of Nachinwea District" is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

Signature …………………………………

Date ……..………………………………..

DEDICATION

This Dissertation is dedicated to my wife Editha and my son Suleiman for their mutual support and encouragement. They provided me with all kind of support I needed to complete this study. I thank them for their materials and moral support.

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LIST OF ABREVIATIONS

ECB - The European Central Bank

GDP - Gross Domestic Product

IFC - International Finance Corporation

ILO - International Labor Organization

MFIs - Micro Finance Institutions

NMB - National Micro-finance

OECD - Organization for Economic Co-operation and Development

ROI - Returns on Investment

RPED - Rural Programme on Enterprise Development

SIDO - Small Industries Development Organization

SMEs - Small and Medium Enterprises

SPSS - Statistical Package for the Social Sciences

TCCIA - Tanzania Chamber of Commerce, Industry and Agriculture

Tshs - Tanzanian shillings

URT - United Republic of Tanzania

VETA - Vocational Education and Training Authority

ABSTRACT

SMEs contribute positively to economic growth, employment and poverty alleviation in Tanzania. However, the failure rate of SMEs is very high in Tanzania. One of the factors limiting the survival and growth of SMEs in Tanzania is non-availability of enough financial services. Considerably, the Government of Tanzania through the current reforms has resulted in liberalization of the financial sector to a great extent. This has led to establishment of a number of banks including the Micro Finance Bank, liberalization of financial rates and establishment of a stock exchange market. In spite of all efforts done, the SME sector is still facing a major constraint in accessing finance.

A survey of the literature on financing small and medium sized enterprises (SMEs) indicates a significant gap in knowledge of the determinants of access to finance by the SMEs in developing countries, including Tanzania. This study, therefore, examined the determinants of the access to bank finance in Small and medium sized enterprises in Tanzania. Nachingwea district was taken as a case study.

Hypotheses for this study were derived utilizing ten factors which affect credit worthiness as identified in the previous researches. Data were collected through self-administered questionnaire in a survey. Chi-square statistic was chosen to examine whether the determinants of access to finance were significantly different among the firms that obtained loan and those that did not. The chi square results indicated that, education background, firm performance, age of the firm, entrepreneur's experience and industry sector of the firm were associated with access to finance. Unexpectedly, all other factors identified in the study did not show any association with access to finance.

The study recommends that SMEs owners/managers should be investment ready by providing collateral; The government should support the education and training and the SMEs should attend seminars and training programs to improve on their managerial competence. The government should also establish a mechanism to help SMEs to get access to finance through SACCOS, and Agriculture and Marketing Cooperative Society (AMCOS) even when they do not have collateral.

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CHAPTER ONE

BACKGROUND TO THE RESEARCH PROBLEM

1.1 Background to the Problem

Small and Medium-size Enterprises (SMEs) all over the world play a major role in social -economic development. In addressing its importance in economic developments, IFC (2010) reported that SMEs account for a significant share of employment and GDP in different parts of the world, especially in the informal sector. In developed countries, SMEs contribute an average of 67 per cent of the formal employment in the manufacturing sector. In developing countries, they contribute about 45 per cent. Similarly, SMEs contribute a sizable share to formal GDP; they provide forty nine (49) per cent on average in high-income countries and an average of 29 per cent in low-income countries. The contribution of SMEs to employment and GDP in developing countries is comparatively modest. However, the estimates suggest that informal sector, which consists essentially of SMEs, accounts for up to 48 per cent of the total labour force and 37 per cent of GDP in developing countries. The corresponding percentages in developed countries are much lower, at about 25% of the total labour force and 16 per cent of the GDP

Considering some of the countries individually, OECD (2005) reported that SMEs in Senegal contributed about 20 per cent of national value-added; in South Africa, Micro and very small businesses provided more than 55 per cent of total employment and 22 percent of GDP in 2003. Small firms accounted for 16 per cent of both jobs and production. Medium and large firms accounted for 26 per cent of jobs and 62 per cent of production.

This is also the case in Tanzania where SMEs contribute significantly to employment creation, income generation and stimulation of economic growth in both urban and rural areas (URT, 2003).

In developing economies, Tanzania SMEs Development Policy (2003) articulate that, SMEs could contribute more to economic development than they currently do. SMEs tend to be small in developing countries and the percentage of medium-size firms is often low. Many studies show that both small and large firms account for most of the employment in developing countries. The medium-size firms usually accounting for a relatively low fraction of the overall employment. Supporting SMEs in developing countries would lead to income growth and poverty reduction. The fact that SMEs tend to be smaller in developing countries suggests that they face greater constraints to growth, particularly financial constraints. An environment that fosters dynamism by allowing easy entry and exit of new enterprises and helps in their growth is critical.

The Tanzania SMEs Development Policy (2003) gives us the evidence of the importance of SME sector in Tanzania. Firstly, it is on its contribution to the economic development. It was estimated that about a third of the GDP originated from the SME sector. Micro enterprises operating in the informal sector had more than 1.7 million businesses engaging about 3 million persons, which was about 20% of the Tanzanian labour force. Secondly, it is on employment creation. Currently, unemployment is a significant problem that Tanzania has to deal with. Estimates show that there are about 700,000 new entrants into the labour force every year. About 500,000 of these are school leavers with few marketable skills. The public sector employs only about 40,000 of the new entrants into the labour market, leaving about 660,000 to join the unemployed or the underemployed reserve. Most of these persons end up in the SME sector, and especially in the informal sector. Given this situation, and the fact that Tanzania is characterized by low rate of capital formation, SMEs are the best option to address this problem.

In order for SMEs to play their roles in the employment creation, generation of income and stimulation of economic growth in both urban and rural areas, there is a need for increase in their capacity. The promotion of the SME sector has been undertaken through various policy initiatives, regulatory improvements and restructuring of institutions that directly affect the working space of the SMEs in the country. In slightly different ways, the SME Development policy (2003-2013) and the Sustainable Industrial Development Policy (1996-2020) address the need to empower SMEs for socio-economic development of the country. These policy identified areas that need immediate government intervention. The major areas of focus include, access to market and market information, access to financial services, creation of enabling environment for business, and establishing and strengthening institutions supportive to SME development.

In supporting the above statement, Cook (2001) and Whincop (2001) observed that the capacity for Small and Medium size Enterprises (SMEs) to fulfill their potential in economy depends on the availability of finance.

Despite the fact that financing is a major factor for growth of SMEs, a number of studies and government enquiries have mentioned that SMEs face problems in accessing the bank finance. A survey of the literature by Pandula (2011) on this issue indicates there is a significant gap in knowledge of the determinants of access to finance by the SMEs in developing countries.

This paper, therefore, identified the reasons for SMEs failure in accessing finance despite many existing financial institutions and several on-going schemes aimed at strengthening SMEs service providers, such as Small Industries Development Organization (SIDO), Vocational Education and Training Authority (VETA), Micro Finance Bank (NMB) and various Industrial Support Organizations (URT, 2003).

1.2 Statement of the Research Problem

The Tanzania SMEs Development Policy (2003) identified various factors that limit SMEs from accessing financial services. The factors include, the perception that the sector has a high risk, inability of the SME operators to fulfill the collateral requirements, failure of most banks to operate an SMEs financing window, some of the banks operating in a limited geographical areas, inexperience of Bank Staff in issues related to Microfinance, lack of a guarantee scheme to back up banks in financing SMEs, high cost of screening and administering small loans spread over big areas, and inabilities of borrowers to prepare and present applications that meet bank's requirements.

In order to face these challenges, the current reforms have resulted in liberalization of the financial sector to a great extent. This has led to the establishment of a number of banks, including the Micro Finance Bank (NMB), Women Bank and Community banks. There has been also, the liberalization of financial rates and establishment of a stock exchange market. In spite of all these efforts, the SME sector is still facing a major constraint in accessing finance. This limits their capacity to survive, increase capacity, upgrade its technologies, and in many cases, limits the expansion of their markets and improve management or raise productivity and eventually increase incomes (URT, 2003). This stimulated a need to make a further study on this area and identified the determinants of SMEs access to financial services. The study therefore, sought to study systematically and identify the determinants of SMEs access to financial services, particularly in Nachingwea District. These findings can be generalized since the similar circumstances exists in other parts of the country.

1.3 Research Questions

1.3.1 General Research Question

What are the determinants of SMEs access to financial services?

1.3.2 Specific Research Questions

(i.) What factors determine the SMEs failure to access finance services in Nachingwea District?

(ii.) To what extent are these factors the determinants of the SMEs access to financial services in Nachingwea District?

(iii.) What the challenges do SMEs face on accessing finance in Nachingwea District?

1.4. Objectives of the Study

1.4.1 General Objective of the Study

The primary objective of the study was to identify the determinants of access to finance among the SMEs in Tanzania using Nachingwea District as a case study.

1.4.2 Specific Objectives of the Study

(i.) To identify the factors that determine the SMEs failure to access finance services in Nachingwea District.

(ii.) To examine the extent to which these factors determine the SMEs access to financial services in Nachingwea District.

(iii.) To identify the challenges facing SMEs on access to finance services in Nachingwea District.

1.5 Hypotheses Statement

The determinants of the SMEs access to financial services in Nachingwea District which include education background, experience, networking, size of the firm, age of the firm, ownership type, industry sector, location, audited financial statements and firm performance will be used as the base for formulating the hypothesis of the study. The aim of these hypotheses is to test whether there are statistically significant relationship exists between the variables, which are dependent and independent variables.

1.5 1. Dependent Variable

The dependent variable is the access to finance.

1.5.2 Independent Variable

The independent variables are grouped in three categories of characteristics which comprise following:

(i.) Entrepreneur characteristics, which comprised of education background, experience and networking.

(ii.) Firm characteristics; consisting of size, age, ownership type, industry sector and location.

(iii.) Financial characteristics, including audited financial statements and firm performance.

1.6 Significance of the Study

This study is envisaged to benefit, in particular SMEs, policy makers, Microfinance institutions (MFIs), other financial institutions, and the general public at large. The study explored and recommended potential areas that SMEs needed to put more efforts to access finance for their business success. Moreover, the study sought to help Tanzanian business policy makers to make informed decisions. Improved and efficient policies can help SMEs and the community at large to be able to access and benefit from the available financial services.

1.7 Scope and Limitation of the Study

The study was conducted at Nachingwea district in Lindi region. This is among the places where most SMEs face financial constraints. The researcher faced some problems during the research, including shortage of time to conduct the study and funding. However, the researcher had to work for many hours. Other factors, apart from the one presented here, that could have bearing on the findings were, therefore, not covered.

1.8 Delimitation of the Study

To address the above mentioned limitations without complementing how the quality of the study was conducted is not among the ethics of good researcher. The researcher opted to select Nachingwea District in Lindi Region the study area. The criteria for selecting this study area were that, the District was among the places where most SMEs face financial constraints. Another reason was that the researcher happened to be working within the region, hence; he had an advantage in accessing easily primary data that were invaluable to this study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter is divided into two main sections, presenting theoretical and empirical parts. The chapter discusses the concepts of "Small and Medium Enterprises" (SMEs) and their ability to access financial services. It also presents the review of literature on the potential sources that SMEs can get access to finance. Finally, it reviews the literature on the determinants of SMEs access to finance.

2.1 Theoretical Part

2.1.1 Definition of Small and Medium Enterprise (SME)

The term "SME" typically encompasses a broad spectrum of definitions across countries and regions. Many countries and international organizations set their own guidelines for defining an SME, often based on the number of employees, sales, or assets (IFC, ibid).

(Wickham, 2006) praised that, entrepreneurs are heroes, self starting individuals who take great personal risk in order to bring the benefits of new products to wider world markets. The entrepreneurship in Tanzania is categorized in four groups which are the micro, small, medium and large entrepreneurs.

The contemporary meaning of entrepreneurship as a process of exploiting opportunities that exist in the environment or that are created through innovation in an attempt to create value. It often includes the creation and management of new business ventures by an individual or a team. Entrepreneurship is a competitive activity which also involves risks of getting loss of part or all of the assets(Brown and Jan, 2004) .

As described by OECD (*ibid*), Small and medium-sized enterprises (SMEs) are a very heterogeneous group. They are found in a wide array of business activities, ranging from the single artisan producing agricultural implements for the village market, to a small sophisticated engineering or software firm selling in overseas markets and a medium-sized automotive parts manufacturer selling to multinational automakers in the domestic and foreign markets. The owners may or may not be poor; the firms operate in very different markets (urban, rural, local, national, regional and international); embody different levels of skills, capital, sophistication and growth orientation, and may be in the formal or the informal economy.

The review of different literatures indicates that there is no universal definition to the concept of “Small and Medium Enterprises”, as the concept reflects the level of development of a particular country. However, the common yardsticks used to define “micro”; “small” or “medium” enterprises are three namely, amount of capital investment, number of employees and volume of sales (Makombe, 2005). Other less frequently used standards are type of activity, management and administration (Bendera, 1999; Rwanshane, 2000).

Storey (2004) noted that, there is no single, uniformly acceptable, definition of a small firm. Firms differ in their levels of capitalization, sales and employment. Hence, definitions that employ measures of size (number of employees, turnover, profitability and net worth,) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result. The first attempt to overcome this definition problem was propounded by the Bolton Committee (1971) when they formulated an “economic” and a “statistical” definition about SMEs.

In a globalised world, recent studies show that SME development is closely linked with economic growth. For example, (Beck, 2005a) finds a strong, positive relationship between the relative size of the SME sector and economic growth, even when controlling for other growth determinants. According to Ayyagari (2007), in high-income countries, formal SMEs contribute to 50% of Gross Domestic Product on average. Furthermore, in many economies the majority of employment opportunities are provided by Small and Medium Enterprises. In OECD countries, for example, Small and Medium Enterprises with less than 250 employees employ two-thirds of the formal work force (Beck, 2007). Using country-level data, Ayyagari estimates that, on average, SMEs account for about 60% of employment in the manufacturing sector.

According to SME Performance Review (EC, 2010), between 2002 and 2008, the number of employment opportunities in SMEs increased at an average annual rate of 1.9 % while the number of employment opportunities in large enterprises increased by only 0.8%. In absolute numbers, 9.4 million employment opportunities were created in the SME sector in EU-27 between 2002 and 2008. Also, it is often argued that SMEs are more innovative than larger firms. In developed countries, SMEs commonly follow “niche strategies,” using high product quality, flexibility, and responsiveness to customer needs as a means of competing with large-scale mass producers (Hallberg, 2000; Snodgrass et al, 1996).

As the world economies are recovering from the financial crisis of 2008/2009, many economies urgently need to create employment opportunities for their citizens. In this respect, creation and growth of SMEs is an important item on the policy agenda due to evidence that points to significant contributions of SMEs sector to employment opportunities. In addition, regulatory measures are necessary to ease access to formal financial services by SMEs. Historically, SMEs have been more likely than larger firms to be denied new loans during a financial crisis. For example, Hallberg (2000) argues that the events of the 1990s in Latin America and East Asia confirm this proposition from financial institutions and thus, many of the SMEs suffered a lot to get access to credit. More recently, due to the effects of the global financial crisis, Risk analysis and measurement, Claessens (2009) reports anecdotal evidence pointing to insufficient market demand as the prime obstacle faced by SMEs, followed by difficulties in accessing finance.

In Africa, SMEs account for about 90% of enterprises which are located in both rural and urban areas. They provide more equitable distribution of income in all areas of the countries. This means that SMEs sectors are the main sources of employment opportunities; they stimulate the development and encourage business skills among communities. Moreover, they strengthen the local production sector as well as the industrial base. SMEs sector in Africa therefore, are considered as a very important engine for achieving national development goals, such as poverty alleviation, and economic growth (Mokaddem, 2006). For instance, in South Africa, SMEs account for about 40% of total economic activities and 84% of private sector employment. It is also estimated that 80% of the formal business sector and 95% of the total business sector are considered to be the SMEs (International Institute for Sustainable Development, Canada 2004).

In recognition of the fact that the greatest potential for economic growth lies in small firms, the Association of Tanzanian Employer's (ATE) has strategically decided to take a more pro-active role in contributing towards the creation and development of Small and Medium Enterprises (SMEs) in Tanzania. ATE believes that its central agenda of promoting good labor relations shall not be realized sufficiently if performance of Small and Medium Enterprises is poor. As part of this endeavor, ATE conducted a study recently, to identify policy and regulatory barriers to the development of Small and Medium Enterprises with support of the International Labor Organization's Bureau for Employers' Activities. Previous studies had identified a strong link between SMEs access to markets and the quality and quantity of employment that they generate. Given this situation, the study sought to identify policy and regulatory issues with a bearing on market access (Mokaddem, 2006).

In Tanzania, classification of enterprises follows two among the three common standards, namely amount of capital and the number of employees (URT, 2003). According to the Tanzania's SME Development policy (2003), "SMEs" are classified as shown in table 2.1 below

Table 2.1: Classification of SME's in Tanzania

Category	Employees	Capital Investment in Machinery (Tshs)
Micro enterprise	1 – 4	Up to 5million
Small enterprise	5 – 49	Above 5 million to 200mil
Medium enterprise	**50 – 99**	**Above 200mil to 800mil**
Large enterprise	100+	Above 800 million

Source**: (URT, 2003: National Policy on Small and Medium size Enterprises**)

Despite many studies defining SMEs differently, this study adopted the definition stated in the SME Development policy (*ibid*), as it aligns with the internationally recognized indicators of capital investment and number of employees. As shown in the Table 2.1 above, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million. In addition to capital investment and number of employees, Small and Medium enterprises are defined as those firms which are formalized, that is, they are registered and licensed to undertake their activities in the formal sector.

2.1.2 Access to Finance

Access to finance refers to the possibility that individuals or enterprises can get financial services, including credit, deposit, payment, insurance, and other risk management services. Access to finance is obviously one of the typical obstacles to the start-up of new businesses or to the growth of existing firms. Several empirical studies have concluded that the lack of access to capital and credit schemes and the constraints of financial systems are regarded by potential entrepreneurs as main hindrances to business innovation and success in developing economies (Marsden, 1992; Meier & Pilgrim, 1994; Steel, 1994).

Access to finance remains a key constraint to SME development in emerging economies. Comprehensive data on the SME finance gap is still to be more consistently collected and monitored over time; however, various data sources and studies indicate that small firms rely on internal financing much more than large firms do, and that the likelihood of a small firm having access to a bank loan in low-income countries is about a third of what it is for a medium-sized firm, and less than half of what it is for a larger firm. Other sources of SME finance, such as leasing and factoring, are also less developed in emerging countries.

SME access to finance usually starts through the provision of short-term credits. When banks and other financial institutions start lending to SMEs, they usually remain at the lower risk of the spectrum (smaller loans and shorter tenures), until there is sufficient credit history and infrastructure available to enable larger volumes of lending and longer tenures while also containing risks. Beginning the credit relationship based on short-term finance enables banks to build credit histories with borrowers, even in markets with poor land title regimes, poor collateral registries, and weak credit bureaus. It also allows banks to gain experience, reach an increasing number of new customers to access medium and long-term loans as well as unsecured financing **(**OECD, 2005)

Despite the SMEs Development Policy (2003), the study identified some major focus areas that need government intervention for the purpose to revitalize the SME sector to make it a vibrant and sustainable agent of stimulation of growth of the economy. The access to finance is the major one of all the focus areas.

Besides the SME Development Policy, most of the government policies that are aimed at facilitating economic growth have had a significant bearing on the development of the SME sector. The Sustainable Industrial Development Policy (1996 - 2020) places specific emphasis on promotion of small and medium industries through supporting existing and new promotion institutions, simplification of taxation, licensing and registration of SMEs and improving access to market and financial services.

URT (2003) declared that, the small and medium business sector has done little to the contribution of the national economic growth. Also the policy admitted that the failure of the Small and Medium Enterprises (SMEs) was not caused by only one reason, but there were some other major reasons. One of the reasons was the lack of experience in entrepreneurship activities among the government officials and the individual entrepreneurs. This was the outcome of exercising the central planned economy which did not allow the operation of private business activities. This influenced the establishment of TCCIA in1988 with the mission of advocating for more favorable environment for practicing business activities and mobilizing people to get into business activities. Such favorable environment was expected to facilitate the development of private sector in Tanzania. It was expected to provide exceptional value to business community through the provision of demand driven advocacy, business information diary, linkages, business development services and other relevant services in a more professional, resourceful and sustainable manner. TCCIA business support services cover all levels of entrepreneurship namely, large, medium small and micro entrepreneurship.

In developed economies with efficient financial infrastructure, access to capital may represent similar restrictions to individuals' perception of entrepreneurial options because of the high entry barrier ensuing from high capital to labour ratios in most industries. As a fore mentioned, lack of capital is one of the problems facing Tanzanian SMEs (Kuzilwa, 2002).

In developing countries, the majority of SMEs lack access to formal financial services. Between the years 1995 and 2004 only nine percent of SMEs in Jamaica and ten percent in Tunisia had access to bank loans (Morrisson, 1995). Other African countries also experienced similar circumstances, for instance, only ten percent of SMEs in Nigeria and four percent in Uganda had access to bank loans (Kappel, et al., 2004). The firms accessibility to funds from micro-finance institutions was much lower (Arimah, 2001; Kappel, et al., 2004). In Nigeria, funds offered by some Micro Finance Institutions (MFIs) were in a small way relevant for the subsistence but not high enough for profitable investments (Adam 1995).

SMEs in low and middle income countries perceive access to financing as a major obstacle to growth and development, indicating that most of the financial instruments discussed above are not readily available in most of these countries. The World Bank Enterprise Survey results indicate that SMEs in developing countries are more likely than SMEs in developed countries to report that access to finance is a major obstacle to their development. However, 43 percent of small enterprises and 38 percent of medium-sized firms in low-income countries report that access to finance is a major obstacle to their operations. The equivalent figures in middle- income countries are 32 and 27 percent, respectively. Financial access is reported to be a relatively less significant constraint in high-income countries.

The situation of SMEs Finance is similar to Enterprise Surveys conducted by the World Bank in over 120 countries, it show that SMEs face more severe financing constraints than large firms, especially in lower income environments. Only 17 and 32 percent of small firms in low and middle- income countries, respectively, have a loan or line of credit. This ratio is over 50 percent in the case of high income countries. Medium-sized enterprises are also constrained in lower-income settings, although to a lesser degree. Large enterprises are generally much less constrained, even in low and middle-income countries. On average, the likelihood of a small firm having access to a bank loan in low-income countries is less than half of what it is for a medium-sized firm, and about a third of what it is for a larger firm.

Although firms of all sizes in developing countries rely on internal sources to meet their fixed investment needs, SMEs have a much stronger reliance on such sources. Banks remain the most important source of external finance in developing countries. Only 14 percent of the fixed capital investment of small firms is funded by banking sources, while the proportion is significantly higher at 25 percent for large firms. These results are in line with other studies reflecting the positive association between firm size and external finance.

It should be noted, however, that in some countries firms, especially family-owned SMEs may be reluctant for cultural reasons, such as fear of loss of independence to call on external finance, and often rely on family or other informal financing sources deliberately, not because they are constrained(Beck et al., 2006)

2.1.3 Problems Facing SMEs

Nkya (2007) highlighted the formal constraints encountered by the indigenous entrepreneurs that include, lack of entrepreneurial background and skills, lack of equity funds and limited access to credit, distortive macro-economic policies with inadequate incentive structures, high cost operating environment, restrictive regulations, weak legal and judicial system, inadequate public services and bureaucracy. In addition, business development services, namely services related to entrepreneurship, business training, marketing, technology development and information are underdeveloped and not readily available. On the other hand, SME operators lack information as well as appreciation for such services and can hardly afford to pay for the services. As a result, operators of the SME sector have rather low skills. Also, there is no umbrella association for SMEs. What is more, the institutions and associations supporting SMEs are weak, fragmented and uncoordinated, partly because of lack of clear guidance and policy for the development of the sector. The question then arise is that are these problems contributing to the constraints of SMEs' access to finance from financial institutions?

Kuzilwa, J.A. (2002) conducted a study on Credit needs for Small Business in Tanzania. The study was conducted to a sample of 120 SMEs. The study findings revealed that many of the problems faced by the entrepreneurs were not related to capital, but rather arose as a result of macroeconomic and institutional constraints.

Olomi D. (2006) conducted a study to find out the reasons why SMEs had limited access to bank loans' in Tanzania.' The study was conducted with a sample of 125 SMEs. The study revealed factors that limited access of credits by SMEs included

lack of good business records, limited managerial capacity, lack of credit history, lack of collateral demanded by bank regulations and the culture of non repayment of the loans from the banks.
TATEDO (2007) conducted a study on Modern Energy Business Financing Support Initiatives. The findings of the study revealed that finance was a key constraint affecting the development of energy Small and Medium Enterprises (SMEs) in Tanzania. Most SMEs particularly those of energy nature were perceived as risk prone and the degree of analytical poverty on SMEs revealed that there was little information to show performance levels of these types of SMEs, particularly their loan repayments performance.

URT (2003) pointed out that, the SMEs were more constrained in business environment than larger businesses because of the disproportionately heavy costs of compliance arising from their size. As a result, most of the informal enterprises failed to formalize and micro enterprises were unable to grow and graduate from Small and Medium Enterprises. The tax regime in Tanzania is one of the unfavorable conditions for SMEs development. Taxes are many, rather high and collected by various authorities including Tanzania Revenue Authority and the Local Government Authorities levies (Produce fee, lessening fee, intoxication, tender fee, etc).

Also, in determining constraints to growth and sustainability of SMEs, Beck, et al. (2005) find that the higher obstacles faced by smaller firms indeed translate into slower growth. Small firms' financing obstacles have almost twice the effect on annual growth that large firms' financing obstacles do. The difference is even stronger in the case of growth constraints related to the legal system and to corruption, where small firms suffer more than three times as much in the form of slower growth as large firms. Small firms thus do not only report facing higher growth obstacles, these higher obstacles are also more constraining for their operation and growth than in the case of medium-size and large firms. However, Small enterprises are unique as compared to the larger companies in the following ways:

- They have only a small share of market,
- They are managed in a personalized way by their owners or part-owners and do not have an elaborate management structure,
- They are not sufficiently large to have access to the capital market for public issue or placing of securities.

Due to the unique features, SMEs have some special challenges. Failure rate had been identified as one among the problems facing them. Most of the surviving SMEs could be in mediocre performance levels. Additionally, even the good performers of today can be failures tomorrow. CEO of Hewlett Packard remarked that "*What makes us highly successful this year could be our downfall next year*".

To identify the challenge, SMEs are grouped into three types, as shown below.

2.1.3.1 The Profitable SMEs

These SMEs are good performers, with good sales, healthy profits and strong cash flow.

Certainly, these SMEs have a brighter future. Beneath the good exterior, there may be some problems brewing away, including contingent to the business activities of the company and the ambitions of the entrepreneurs.

The symptomatic to the eventual problems include the following:

First, over-expanding and over diversification, leading to over-stretching of management and resources,

Second over-dependence of a few suppliers, customers or products,
Third power struggle, among employees or partners, and lastly, the complacency and rendering of poor service.

2.1.3.2 The Mediocre SMEs

Members of this group of SMEs are average performers. They generally do not possess any core competence and therefore exist mainly as low cost suppliers.

Besides, they do not possess the resources needed to improve themselves or carry out some strategic actions. The trading results are mediocre, with sales staying largely stagnant for years.

For the SMEs to be competitive, it must develop some core competence that appeals to the customers. The challenge here is that excellence-development programs require funding, which this class of SMEs lacks. Low performance leads to low morale, low employee remuneration and low quality workforce. To break this vicious cycle, one or more of the following programs should be adopted: Technology acquisition, R & D and subsequent commercialization, human resource development, quality and linkages with larger companies, Export leads, information and international exposure, information technology, and procurement of professional services to aid modernization.

2.1.3.3 SMEs in Financial Distress

This range of SMEs is in acute financial position, either suffering from trading losses, or

insolvency or both. These SMEs got into this predicament either through long-term mismanagement, or drastic external changes that turned into a crisis for the firm. Some

common causes include the following

- Excessive owner's salary and expenses – "milking the company" is the most common reason that privately owned businesses fail.
- Too many employees, employees performing the wrong tasks, and/or incompetent employees in key slots.
- Ineffective marketing strategies or incompetent sales personnel
- Too rapid expansion and inadequate financial planning
- Increased competition from larger companies with more resources
- Product obsolescence
- Shrinking markets
- Obsolete equipment or facilities
- Labor problems

Furthermore, entrepreneurs are ignorant of tax matters and the cost of complying with tax regulations is considered high. Though business taxing is a necessity for national economic development, but the present tax regime imposes a major burden to SMEs. Therefore Lindi (Nachingwea District) being one of the Tanzania regions is also subjected to the same problems (TCCIA, 2009

2.1.4 Potential Sources of Finance for SMEs

Potential sources of finance may be personal savings, extended family networks, community saving and credit systems, and/or financial institutions and banks. (Robinson, 2007) found that informal sources of credit, although had high interest rates, constituted very substantial contributions to business start-ups in developing countries. In these countries the capital to labour ratio is normally low and only small amounts of capital may be sufficient for a business start-up.

A variety of financial services namely, credit, savings, insurance, and payment facilities are crucial for growth in the SME life cycle. Firms often depend on informal sources of funding in the very early stages of their development. External sources, however, become more important as firms start expanding, and their availability can determine decisively the growth trajectory of SMEs. Internal financing sources typically include an entrepreneur's own savings, retained earnings, or funding through the sale of assets. The external sources of finance can be informal (family and friends or supplier finance) and formal (debt or equity).

Bank financing remains the most important source of external finance to SMEs. Banks finance a significant proportion of companies' investment finance needs and are also the major provider of financing for working capital. SMEs typically need a variety of additional financial services that only commercial banks are well-positioned to provide. These include cash management, insurance, transfers, and other transactional products. In the past few years, some banks have mainstreamed gender and sustainable finance (energy finance) under SME banking. For example, banks are designing special financing programs to increase access to business financing by women-owned SMEs. In some cases, such programs are accompanied by support such as training in business development skills. Under sustainable finance, banks assist their SME clients along the road to environmentally sustainable business practices by offering them specific financing instruments (Jeucken, 2005).

Equity finance can be a potentially beneficial financing source for SMEs including high risk SMEs in their early lifecycle stages, when cash flow is not yet regular. For these firms, bank debt often is not available in sufficient amounts for various regulatory reasons, making equity their primary source of finance. However, even well-established and successful SMEs face a number of challenges when trying to access local or international capital markets. To begin with, the cost of raising capital tends to be considerably higher for SMEs, not only because of the perceived greater risk associated with lending to or investing in such enterprises, but also due to the smaller relative amounts of financing that SMEs require in order to fund their growth at any given stage. Since many of the compliance costs associated with accessing capital markets are fixed (e.g., listing and rating agency charges, legal fees, prospectus preparation costs, etc.), SMEs usually find that the all-in cost of using the capital markets is prohibitive.

Supplier credit is a common source of finance for many SMEs and corporations all over the world. Such transactions typically occur between two businesses. Trade credit allows businesses to delay payment for goods and services purchased, and thus helps with effective cash flow management. It may also substitute for financing, such as short-term bank credit or other more formal arrangements. Trade credit is usually used to meet short-term working capital needs (OECD, 2005).

Factoring clearly appears as an important complementary source of working capital finance for SMEs, especially in jurisdictions where the financial infrastructure presents gaps. Factoring entails the purchase by the lender of a firm's accounts receivables and the collection of invoices from the parties that owe money. Factoring addresses the problem of SME opacity by focusing on the quality of the obligor. In recent years, the concept of reverse factoring as a financial instrument has become popular. With reverse factoring, the financial institution purchases receivables only from high-credit quality buyers, resulting in the provision of low-risk loans to high-risk suppliers such as SMEs. Reverse factoring is particularly useful for SMEs in countries with underdeveloped contract enforcement regimes and weak credit information systems.

Similarly, leasing appears as an important complementary source of investment finance, especially in countries where the collateral regime and the information infrastructure are weak. This is particularly the case for smaller firms, as suggested ("Other Financing"). The advantage of leasing lies in the fact that it focuses on the firm's ability to generate cash flows from business operations to service the leasing payment, rather than on its credit history or ability to pledge collateral. A second way for the leasing providers in case of payment default is the repossession and sale of the leased asset, which provide additional risk mitigation. Leasing is also an appropriate financing instrument for demand-side reasons, as small entrepreneurs, especially those who are not incorporated might be very reluctant to yield their personal property as collateral for a loan (Klapper, L. 2005).

Striking the right balance between debt and equity financing is the key. Debt and equity financing play a complementary role in a firm's growth. Just piling more debt onto SMEs without a balanced capital structure may prevent them from securing or repaying the debt, and make them vulnerable to business downturns and changes in interest rates. Carrying little or no debt may be an indicator of risk aversion. Excessive equity, on the other hand, dilutes firms' ownership interest. The IFC experience suggests that the lack of equity finance is a binding constraint for many SMEs, particularly for larger SMEs, in developing countries, while extending additional debt financing for undercapitalized SMEs may be counterproductive. Unlike the large-buy-out funds in developed markets, typical SME funds in emerging markets rarely try to use leverage to increase their returns, focusing instead on making money by assisting with operational, management, and marketing improvements.

2.2 Empirical Part

2.2.1 The Situation of SMEs in Accessing Financial Services

Many studies and surveys have exposed and elucidated the constraints facing SMEs in their operations and development. Categorically, as Olomi (2009) observed, the constraints inhibiting performance and growth of SMEs are internal, external and inter-firm.

Also (Olomi, 2006) looks particularly at the rural SMEs development constraints in Tanzania and highlights twelve factors restraining growth of small and medium enterprises. Difficult access to finance, unsatisfactory awareness and capacity of business operators, little access to business development services, poor infrastructures, and inadequate facilitation are among the challenges he presents. Constraints are multifaceted, from policy and institutional frameworks to technical, financial and ideal entrepreneurial matters. Olomi provides some policy recommendations including: a need to build on the role models and continue to innovate; boosting investment promotion and enterprise support; enhancement of entrepreneurship skills; and capacity building at grassroots level.

The internal factors are institutional in character, involving overall lacking of human and financial capital and technology for running of the enterprises in an efficient and competitive manner (Esther & Robert, 2005).

The study made by (Saiguran, 2007) in Tanzania about "*SMEs development, Tanzania experience*" has also tried to find out how SMEs sector is constrained specifically on the role of research and technology organization in SMEs development. The paper makes an observation on constraints facing SMEs in realization of their development goals, and those are impairing factors which avail SMEs with little competitive capacity. Among them are lack of appropriate information, knowledge and skills, inadequate and inefficient infrastructural facilities, the challenge of small and competitive domestic market and multiplicity of taxes

In developing countries, the majority of SMEs lack access to formal financial services. Between the years 1995 and 2004 only nine percent of SMEs in Jamaica and ten percent in Tunisia had access to bank loans (Morrisson, 1995). Other African countries experienced similar circumstances, for instance, only ten percent of SMEs in Nigeria and four percent in Uganda had access to bank loans (Kappel et al., 2004). The firms accessibility to funds from micro-finance institutions was much lower (Arimah, 2001; Kappel et al., 2004). In Nigeria, funds offered by some Micro Finance Institutions (MFIs) were only small amount relevant for the subsistence but not big enough for profitable investments (Adam, 1995).

In Tanzania, there are many established Micro Finance Institutions (MFIs) that can help in providing financial services to SMEs. However, it appears to be more expensive to borrow from MFIs than from formal financial institutions (Ishengoma, 2005). This is due to high interest rate that MFIs charge in refunding the loan. The majority of economically vulnerable actors in the small firm have no access to social and business security insurance services. This may trap them into risk minimizing strategies such as business expansion that limit business growth (McCormick, 1999). Moreover, the liability institutions that could protect entrepreneurs from loss in the instance of business failure are inaccessible to small firms (Klein, 2003).

The ILO Report (1998) of a National Workshop on Promoting Demand Oriented Research in the Area of Micro and Small Enterprise Development in Kenya realized that microfinance was making substantial contribution on income and the welfare of the most disadvantaged groups. Poverty reduction estimates based on micro credit shows that about 5% of programme participants lift their families each year by participating in and borrowing from microfinance programmes as Khandker (1998) revealed in his work on "Fighting Poverty with Micro credit".

Public credit registries and private credit bureaus can play a fundamental role in SMEs finance by providing information on borrower creditworthiness. (Love & Mylenko 2003 and Djankov et al.,2007). Well-functioning credit information systems reduce adverse selection and moral hazard, and can contribute to both an expansion of credit and a reduction in lending costs. Considerable variation across countries is observed in the depth of credit information and the coverage of credit registries and bureaus. A credit registry or bureau will be more effective to the extent that it obtains both positive and negative information from regulated and unregulated institutions, such as utilities and retailers, builds credit histories for a large number of potential borrowers, and processes comprehensive credit reports timely. Credit bureau information also facilitates the adoption of lending technologies based on credit scoring models. The World Bank Group is leading an international effort to define standards for credit reporting systems. The new standards are intended to benefit SMEs.

An empirical investigation of small and medium enterprises' access to bank finance indicates there is a significant gap in knowledge of the determinants of access to finance by the SMEs in developing countries (Pandula, 2011).

2.2.2 Determinants of SMEs Access to Finance

Generally, SMEs are confronted with unique problems as identified in the SME Policy (2003). These include, heavy costs of compliance resulting from their size, insufficient working premises and limited access to finance. In addition, Business Development Services, which are related to entrepreneurship, business training, marketing, technology development and information, are underdeveloped and not readily available. On the other hand, SMEs operators lack information as well as appreciation for such services and can hardly afford to pay for the services. As a result, operators of the sector have rather low skills.

A survey on what determines access to bank finance in Small and medium size enterprises in Sri Lanka made by Pandula (2011) grouped the determinant of access to finance into three major categories of characteristics. These are entrepreneur characteristics, firm characteristics and financial characteristics. Firm characteristics affecting SMEs ability to access to bank finance are firm size, age, ownership type, industry sector and location of the business. Financial characteristics have been categorized into three types namely, having audited financial statement, tangibility and firm performance. Also entrepreneur related factors that affect SMEs ability to access bank finance include education background, experience and networking.

The final result of the study (*ibid*) observed that education of the entrepreneur and having membership with business association were associated with access to bank finance. Somewhat unexpectedly, all other factors identified in the study did not show any association with access to credit. This led us to question the cases of SMEs in Tanzania. What factors that mainly determine SMEs' access to finance? The observations of the above study were used as framework in this research for investigation of all categories of determinants of SMEs access to finance. The major factors that affect the ability of SMEs access to finance in Tanzania were then identified.

2.3 Research or Knowledge gap

Despite the fact that financing is a major factor for growth of SMEs, a number of studies and government enquiries have mentioned that SMEs face problems when accessing to bank finance. A survey of the literature made by Pandula (2011) on this area indicates there is a significant gap in knowledge of the determinants of access to finance by the SMEs in developing countries. Nachingwea District is among the areas affected in these developing countries.

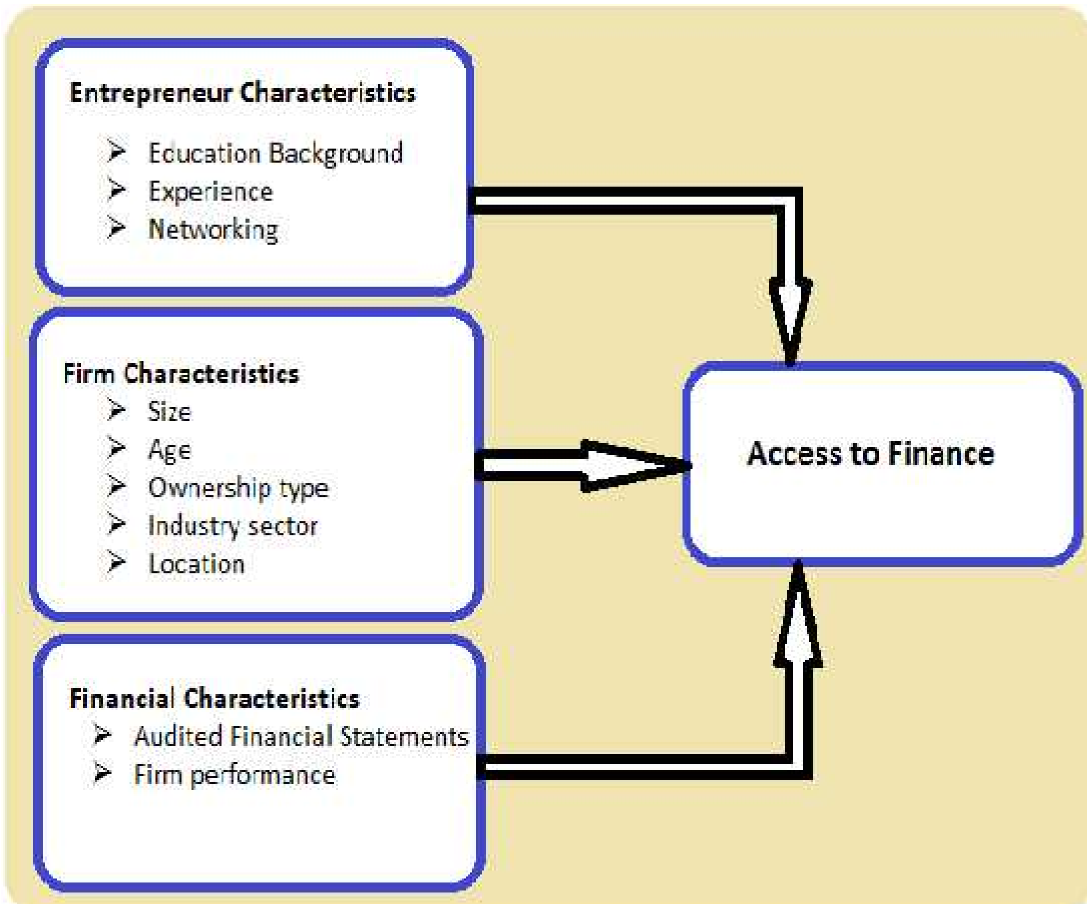
2.4 Conceptual Framework and Research Model

Conceptual framework is a grouping set of research concepts, variables together with their logical relationships often represented in the form of diagrams, charts, graphs, pictographs, flowcharts, organ gram or mathematical equations.

Since conceptual framework focuses on the concepts, variables and their relationships, it is useful for formulating specific research questions of the study (Ndunguru, 2007).

The figure 2.1 below is a description of the conceptual framework of the study about the determinants of SMEs access to financial services. These determinants are categorized in three major groups, namely Firm characteristics (consisting of size, age, ownership type, industry sector and location); financial characteristics (encompassing audited financial statements and firm performance); and Entrepreneur characteristics (including education background, experience and networking).

Figure 2.1 Conceptual framework



Source: Adopted and Modified from Pandula (2011)

2.5 Hypotheses

The determinants of the SMEs access to financial services shown in the research model (Figure 2.1) were used as the base for formulating the hypothesis of this study. The aim of these hypotheses was to test whether there were statistically significant relationships existing between the variables. In the model, the dependent variable was "access to finance" while independent variables were grouped in three categories of characteristics namely, Entrepreneur characteristics (which comprised of education background, experience and networking); Firm characteristics (consisted of size, age, ownership type, industry sector and location); and financial characteristics (encompassing audited financial statements and firm performance).

The hypotheses focused on the determinant variables that were identified in the previous literatures and, which were associated with access to finance. These variables are discussed below.

2.5.1 Entrepreneur characteristics

These refer to the characteristics of the person or persons that provide the key resources used in establishing the business. They are typically identifiable prior to establishing the
business and include a range of personal and behavioral characteristics (Davidsson, 1989). Whist the analyses of these factors have enjoyed success with explaining entrepreneurial behavior (Morris *et al*., 2006), methodologically, their ability to predict successful from unsuccessful entrepreneurial behavior is rather more suspect (Storey, 1994). Nevertheless, an individual may possess entrepreneurial abilities that are distinctive from the corporate entrepreneurship of their business organization (Iacobucci and Rosa, 2005). Factoring in the coalescence of ownership and management in smaller
businesses (Carter and Jones-Evans, 2000), it can be hypothesized that several personal characteristics of business owners are potentially contributory to the growth prospects of their businesses.

Firms usually finance their operations and growth in a variety of ways, depending, to some extent, on the preferences of each firm's entrepreneurs but also on what is available to them. In what form, from whom, how successfully and at what cost firms are financed thus depends on a wide range of factors both internal and external to the firm . The internal resources available to the firm's entrepreneurs and other insiders are of course important. But external financing depends on the firm entrepreneurs' own ability to project a credible financing proposal, and on their willingness to share control, and on the nature of their business plan, and the uncertainties and risks involved in implementing it.

Entrepreneur characteristics have profound consequences for running a business. They also take a priority position in all credit assessments by the borrowers. These factors include education background, experience and networking. However, the entrepreneur related factors are discussed below:

2.5.1.1 Entrepreneur’s experience and access to financial services

The entrepreneur’s experience is considered important in accessing bank credit. Previous researchers found positive relationships between previous management experience and business growth. Dobbs and Hamilton (2007) emphasized the positive effect of past experience on small business growth by proposing that owner-managers with previous experience are more likely to avoid costly mistakes than those with no prior experience. This is because knowledge gained from business experience provides the entrepreneur with certain key competencies and inside information needed to recognize and exploit opportunities. Through work experience, people develop information and skills that facilitate the formulation of entrepreneurial strategy, the acquisition of resources, and the process of organizing. Entrepreneur’s experience is also important in reducing risks and uncertainty. Thus, entrepreneur’s experience is expected to be among the major determinant to the SMEs access to financial services. Hence, a need to test our first hypothesis that states**:** *Entrepreneurs with less or no work experience find it difficult to access financial services (H. 1).*

2.5.1.2 Education Background of Entrepreneur and Access to Financial Services

Entrepreneur’s education background is among the determinants of SMEs access to finance. It is possible that the level of education is a major factor in coming to a lending decision. This can either be so because bankers value a higher education or because a higher education means that entrepreneurs are more articulate and more likely to persuade the banks that they have a viable proposition. It observed that educational attainment and background are key determinants with regard to start-up propensity and successes in accessing finance (Wyer et al., 2007).

The study also found a relationship between educational level and non-applications and loan denials. The more highly educated were less likely to be turned down for loans. The less educated were more likely not to apply, based on the assumption that they would be turned down.

In addition, the most recent research done by Irwin and Scott (2010) using a telephone survey of 400 SMEs in the UK, found that graduates had the least difficulties raising finance from banks. This is due to the number of factors. Firstly, more educated entrepreneurs have the ability to present positive financial information and strong business plans and have the ability to maintain a better relationship with financial institutions than less educated entrepreneurs. Secondly, educated managers/owners have skills to manage other functions of the business such as finance, marketing, human resources. These skills result in high performance of the business, which helps those firms to access finance easily. The last one is that educated entrepreneurs are likely to have better managerial skills and are better equipped to go through difficult administrative procedures in the credit system. This increases their standing in lenders' eyes. From this knowledge, the research's second hypothesis can be tested. The hypothesis reads**:** *Entrepreneurs with less education background find it difficult to access financial services (H.2).*

2.5.1.3 Networking and Access to Financial Services

A social network is a set of agents connected to each other by relationships related to some specific activities or goals (Jackson, 2008). Social network is a significant value-added aspect to business environments, especially to the Small and Medium-size Enterprises (SMEs). It is built when businesses interact with each other in the community, by exchanging rich and thoughtful experiences among themselves through various means.

Different research has focused on how the business networking is valued in enhancing SMEs' business performance. Farinda et al., (2009) examined the importance of business networking as a critical success factor to SMEs. This means that businesses can pursue common or mutually beneficial goals or interests through co-operation, collaboration and coordination with other businesses. Through networking, firms can gain competitive advantages through easy access to desired resources and capabilities. Networking is very important to entrepreneurs as it provides them with information resources to start business activities, business ideas for expansion of the business, enhances access to capital for setting up businesses and also for business top-up capital.

Other researchers, for example, Levitt and March (1988) acknowledged that networking sometimes called external relations, of firms among industry, trade associations and other forms of association creates learning by facilitating the sharing of knowledge, providing a means for organizations to learn from the experience of others in the industry. It is, therefore, clear that small business owners and managers use networking to obtain key information, learning opportunities and problems solving, and to gain access to, or enhance understanding of sources of finance. Thus, it is logical to test the third hypothesis which states that*: Networking positively impacts on access to finance (H. 3).*

2.5.2 Firm Characteristics

These refer to key decisions made upon commencing the business which have an important bearing on the way the business is managed. They are identifiable at the start-up phase (i.e., when the business begins to trade) and as such, they are distinguishable from the business owner's pre-start-up access to resources, or to routine operational decisions made in the normal course of running an enterprise. Perhaps the most common use of this model examines the relationship between firm growth and the organization of the business as it transforms from a newer enterprise into a more established one. In this

framework, growth is conceptualized as occurring in distinctive stages as a firm successfully overcomes certain situational challenges, the process of which necessitates changes in five management factors, namely the firm's organizational structure, managerial style, use of formal systems, strategic goals and the level of involvement of the owner (Birley and Muzyka, 2000).

Access to finance is a crucial factor enabling firms, especially SMEs in order to maintain their day-to-day business and to achieve long-term growth and investment goals. Without access to medium and long-term finance within the economy, SMEs would not be able to make the necessary investments in innovations and technologies to improve their trade capacity (OECD, 2004). Firm characteristics such as firm Size, age, ownership type, industry sector and location which are important variables under this category affect SMEs ability to access financial services. As observed by ECB (2011), firm size, age and location appear to be the key determinants of whether a company experiences problems in accessing external finance. These variables are discussed below.

2.5.2.1 Firm Size and Access to Finance.

Firm size is one of the most important variables in literature related to access to credit. Numerous studies have discussed that small and medium enterprises are financially more constrained than large firms and are less likely to have access to formal finance. Until recently, however, there is substantial evidence that small firms face larger growth constraints and have less access to formal sources of external finance, potentially explaining the lack of SMEs' contribution to growth. Therefore, size is a major factor in determining growth obstacles or access to finance (Beck, 2007).

Moreover, Pandula (2011) pointed out several reasons for small firms to have less access to credit: Firstly, the small firms face information opacity such as inability to provide financial information. In most cases small firm is owned and operated by the entrepreneur himself and there is no such legal requirement to regularly report financial information. Many firms of this kind, therefore, do not usually maintain audited financial accounts.

The second reason is that, smaller firms have fewer assets to offer as collateral. In order to reduce the anticipated risk and moral hazard associated with lending, the banks use collateral as one of the instrument. The collateral is an assurance to the bank in case of default and it also ensures the borrowers commitment to the loan repayments.

Third, small firms have higher failure rate compared to large firms. For example, Schiffer and Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender. The arguments given above rises the need to test the fouth hypothesis of the study articulated as*, smaller firms are more likely to face limited access to finance (H.4).*

2.5.2.2 Age of the Firm and Access to Finance

Typically, younger small firms are shown to grow more rapidly than older ones because they need to grow in order to be better able to guard against unforeseen environmental stresses (Kangasharju, 2000), but caution has been raised with respect to this proposition. Carter et al. (2000) note with respect to other research that observed discontinuities in small firm growth shows that a firm's age is not a reliable predictor of its growth propensity. Reliance on firm age was also questioned in a population analysis of US small firms over a ten-year period in which it was demonstrated that the proportion of new small firms that experienced increases in employment levels during the study period were broadly similar to the proportion of established firms that did not and additionally that there was not a statistically significant difference between the population of new firms and established firms that experienced no changes in their employment levels during the same study period (Headd and Kirchhoff, 2009). These provide firm grounds on which to propose that younger firms are not significantly more likely to grow than more established ones.

Many studies conducted in the past found that the financing constraints were particularly severe in startup enterprises and relatively young firms (three years old or less). For example, a survey conducted by Levy (1993) in Tanzania reported that 80 percent of firms with 16 or more workers and with 6 or more years in operation were able to access bank loans, compared to the success rate of around 55 percent in the case of smaller firms with 6-15 employees of similar age, and less than 10 percent for firms with 5 or fewer workers, regardless of age.

Different literature provides evidence on the relationship between the age of the firm and access to financial services. As reviewed by Fatoki and Francis (2011), the longer a firm exists and the bigger it is, the more it signals that it can weather tough economic conditions (Chandler, 2009:10). According to Klapper. L. et al. (2010:605), younger firms (less than 4 years) rely less on bank financing and more on informal financing. This view is also supported by Ngoc et al. (2009:868) who found that it was often difficult and expensive for young SMEs to access bank financing, due to, in large part, information asymmetry between the banks and firms.

The final results of the paper by Fatoki and Francis (*ibid*) indicates that there was a significant positive relationship between firms that were older than five years and access to debt finance by SMEs. With firms between 1-4 years as the reference, the logistic regression also confirms these results. The results of the logistic regression indicates that SMEs that are more than five years old are significantly more likely to be successful in their credit application compared to SMEs that are less than five years old. Due to this evidence, it is hypothesized that: *Younger firms are more likely to be credit constrained than older firms (H. 5).*

2.5.2.3 Ownership Type and Access to Financial Services

Ownership structures in the firms can influence the ability to access finance. A research on “Ownership Characteristics and Access to Finance” by Isachenkova and Tomasz (2003) observed that foreign companies, that were part of domestic industrial groups and enterprises with concentrated ownership were all less constrained in their access to finance.

It is usually reported that limited liability companies grow more rapidly than sole proprietorships or partnerships (Storey, 1994) although this finding may be one that is affected by the research design. In empirical studies, measurements of firms’ legal status typically report on current, rather than start-up status, but it is of course quite possible that incorporation occurs as a result of growth, rather than as a cause, so it would be beneficial for empirical studies to take both measurements (i.e., current and start-up ownership forms) in part to address this issue.

Other previous research also found that listed firms and foreign owned firms faced lesser financial constraints (Harrison & McMillan, 2003 and Beck et al., 2006). Foreign ownership may be conductive to easier access to finance because of direct funding from foreign partners and greater availability of foreign sources of finance. Another reason is that firms with some degree of foreign ownership enjoy less bankruptcy risk, as they adopt faster international standards on product quality and therefore find it easier to gain access to domestic bank debt (Colombo, 2001; Harrison & McMillan, 2003).

Storey (1994), found that legal status influenced the bank lending. He further stated that corporate status at start up appeared to be associated with a greater likelihood of bank lending. This suggestion is the bases for testing the sixth hypothesis, which stated that: *Ownership type affects the firm's ability to access financial services (H. 6).*

2.5.2.4 Industry Sector and Access to Financial Services

Sometimes the lending institution may have advantage towards to industry sectors that are growing. For example, the research done by Byiers et al. (2010), using data from Mozambican manufacturing firms, found that industrial sector appeared to be important because it had credit access. The results of the research indicated that both metal-mechanic and wood- furniture sectors had significantly lower credit access than the food processing sector. This means that banks attached a lower risk premium to food processing sector than to the other two sectors.

Abor (2007) found that SMEs in the agricultural sector exhibited the highest capital structure and asset structure or collateral value, while the wholesale and retail trade industry had the lowest debt ratio and asset structure. Therefore, a sector can be identified as a variable in the provision of loans to small businesses. it is reasonable therefore to test the hypothesis that: *Industry sector positively impacts on access to finance (H. 7).*

2.5.2.5 Location and Access to Financial Services

The location of the firm can be the determinant to the access to finance. For example, firms located in villages (rural areas) can find it difficult to access finance compared with those located in town (urban areas).

The most recent research conducted by Pandula, (2011) identified various factors, which may contribute to spatial variations in the availability of bank finance for small firms in rural areas. Firstly, there may be an absence of financial institutions in these rural areas. Sometimes, there may be a single bank branch available in the location; the institution may therefore enjoy a monopoly power in the area, and small firms may not have enough financing alternatives available. This may result in firms paying high interest on bank loans or may have to adhere to restricted covenants such as collateral and other conditions. Secondly, the bank branch managers assigned in these rural bank branches may have limited delegation of authority. As a result, there may be delays in approving loans requested by rural firms or high amount of loan rejections. This is because the bank loans are processed and approved by the head office officials who have no personal knowledge of customers or projects based in rural locations. Thirdly, banks may be reluctant to lend to small firms located in rural areas, as the assets offered as collateral by these firms may have less market value, and in case of default, they may find it difficult to realize these assets.

Empirical evidence indicates that there is a significant positive relationship between SMEs that are located in the urban areas and access to debt finance (Fatoki & Francis, 2011). The results of the logistic regression of the evidence indicate that SMEs that are located in the towns and cities are more likely to be successful in their credit application than those located in rural areas. These arguments lead the research to testing the hypothesis that: *There is positive relationship between location of SMEs and having access to finance (H. 8).*

2.5.3 Financial Characteristics

Financial characteristics namely, having audited financial statements, tangibility, and firm performance are among the most determinants in access to financial services. According to Berger and Udell (2002), to evaluate small business creditworthiness, lenders have traditionally relied on three approaches: Financial statement lending (focused on a firm's financial statements); asset-based lending (collateralized lending); or relationship lending (where assessments of the business owner's character and other informal information are a key part of the lending decision). These variables are discussed below.

2.5.3.1 Having audited financial Statements and Access to Financial Services

Audited financial statements are very useful in accessing credit from financial institutions. Often, banks require audited financial statements before granting credit. For example, Berry et al. (2006) found that lenders in the UK paid more attention to accounting information in order to deal with the loan applications of small firms. In other words, audited financial statements improve borrower's credibility and therefore reduce risk for lenders. Obviously, when an SME is audited by an external organization, its financial status is healthier than those not audited.

Strong accounting and auditing standards improve SME access to finance by reducing informational opacities and encouraging lending based on financial statements, but countries have had to strike a balance between improving transparency and reducing the regulatory burden for SMEs. International Financial Reporting Standards (IFRS) have been adapted to SMEs, and about 60 countries seem to have adopted the SME version of IFRS, (International Accounting Standards Board, 2009). Other countries have concluded that the SMEs version of IFRS is still too costly for SMEs, and have adopted a simpler set of obligatory standards. This includes Germany and other EU countries, (European Commission, 2010). There are similar concerns regarding obligatory auditing. Although auditing improves the reliability of financial statements, the EU exempts firms with fewer than 50 employees from obligatory audits. This rule attempts also to strike a balance between the objectives of improving transparency and reducing the regulatory burden for small firms. Some studies found that effective accounting standards were positively associated with measures of access. (Rajan & Zingales, 1998,and Levine & Loayza, 2000).

Empirical evidence proves that lack of audited financial statements is among the major constraints toward SMEs access to finance (Malhotra et al., 2006). Moreover, Miller and Dina (2004) demonstrated that Small businesses pose a particular challenge for lenders because of their lack of audited financial statements. Therefore, it is then hypothesized that: *SMEs that have not reviewed their financial statements by an external auditor are more likely to have limited access to finance (H. 9).*

2.5.3.2 Firm Performance and Access to Financial Services

The firm performance is determined using both financial and non financial measures. However, the goal approach directs the owners-managers to focus their attentions on the financial measures. These measures include profits, revenues, and returns on investment (ROI) (Duchesneau and Gartner, 1990; Smith, Bracker, and Miner, 1987), return on sales (Kean et al., 1998), and returns on equity (Richard, 2000; Barney 1997) instead of the non-financial measures. Financial measures are objective, simple and easy to understand and compute, but in most cases, they suffer from being historical and are not readily available in the public domain.

Although it is difficult to construct the measures for firm performance in the SME sector, many studies have attempted to do this and revealed that greater sales and profits were associated with greater access to credit. For example, The European Commission (2010) identified poor business performance as one of the reasons for not receiving Credit. In addition, firms with increasing sales and increasing sales turnover ratios would be expected to have less credit constraints. This leads us to the final hypothesis of this study that: *Low performing firms have limited access to financial services (H10).*

CHAPTER THREE

RESEARCH METHODOLOGY:

3.0 Introduction

This chapter presents the methodological framework of the study, which includes, Area of the study, Research design, units of inquiry, Sampling techniques, data collection methods, data presentation methods and data analysis plan. It is of paramount importance to put forward all the techniques and methods used to conduct a research and stating the reason for choosing such technique in order to accomplish the study. The study adopted the case design to obtain the necessary and required information/data. It also describes the ways in which different types of data were collected, processed and analyzed.

Kothari (2004) defined research methodology a way to systematically solving the research problem. It involves the following steps, as defining the research problem such as sampling design. Data analysis, interpretation, conclusion and recommendation including report writing and presentation.

Especially in this study, the researcher puts forward various techniques and method used in conducting the study. Further this part described the finding and analysis, which focused on the collected data, hypothesis are analyzed and tested.

Burns and Bush (1995, 577) clarifies that the methodology described, in as much deal as necessary, how you conducted the research who (on what) your subjects were and methods were used. To achieve the objectives in other words, the research methodology sets out the procedure used to conduct the study with the aim to provide essential information that a reader needs to understand how the data well collected and the result achieved.

Research methodology as a systematic approach through which it undertaken consist of Research design ,area of study, sample of the study, population of the study, procedure of the study, data collection , treatment and data analysis.

3.1 Study Area

The area of study is defined as the territorial area to be covered by the study (Kadonya, 2006. Tanzania SME Policy (2003) shows that SMEs are appropriate for rural areas since their technologies tend to be simple, affordable and manageable and can process effectively locally available raw materials and thus add value. Moreover, the (URT, 2003) report shows that 80% of Tanzanians live in rural areas. Thus, in order to enable SMEs of different sizes and from all areas to participate in economic activities, there is a need for many studies to explore the problems facing SMEs in rural areas so as to enable them get equal services as those in urban areas.

This study, therefore, has been conducted at Nachigwea district in Lindi region. This satisfies the definition, since Nachingwea is among the rural area, which according to the SMEs Policy; it is the appropriate place for most of SMEs.

3.2 Research Design

A research design is the basic plan that guides the data collection and analysis phase of a research project (Kinnear & Taylor, 1996). Kothari (2004) defines research design as simply a framework or plan for a study used as a guide in collecting and analyzing. It is a blue print that is followed in completing the study.

According to Claire et al, as quoted in Kothari (2004:30), research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, research design is the conceptual structure within which the research is conducted. It constitutes the blue print for collection, measurement and analysis of data (Kothari 2004:30).

Therefore, in this research, case study design method was employed in order to identify the determinant of SME on access to finance. This is because case study design helps to come up with solutions to problems in various stages when conducting the study. This design (case study) is simple and flexible means in data collection process, which in turn minimizes time and reduces cost.

3.3 Targeted Population of the Study

According to Kamuzora and Adam (2008:119), a population is a totality of objects under investigation. The study population was 54 SMEs within the Nachingwea District. SMEs within the study area included, Nambambo, Nachingwea, Naipingo, Namatula, Nangowe and Stesheni wards. The SMEs were the major targeted population as they were the ones who suffered from financial services constraints.

Table 3.1 Study Population

Ward	*SMEs/Firm*	*Percentage*
Nambambo	14	25
Nachingwea	8	15
Naipingo	8	15
Namatula	8	15
Nangowe	8	15
Stesheni	8	15
Total	54	100

Source: **Field data, 2013**

3.4 Sample Size and Sampling Techniques

In this study simple random sampling and judgmental techniques were employed in the selection of the sample. The techniques are more appropriate for ensuring that the selected sample size is representative, complete and without duplication.

3.4.1 Sample Size

A sample of 54 SMEs was selected from different wards within the district. A sample of 8 SMEs in each ward was selected randomly, except at Nambambo ward where a sample of 14 SMEs was selected because the place is the center for most of SMEs.

Table 3.2 Sample distribution

Ward(Sample)	*Sample size*
Nambambo	14
Nachingwea	8
Naipingo	8
Namatula	8
Nangowe	8
Stesheni	8
Total	54

Source: **Field data, 2013**

3.4.2 Sampling Technique

According to Kothari (1990) and Charles (1995) a sample is a small group of respondents drawn from the population in which the researcher is interested in gaining information and draw conclusion.

Sampling is the practical selection of people from some population in such a way as to ensure that they meet every criteria specified by the researcher (Stacs & Hocking, 1999). There are some procedures to be followed to ensure that people used in a sample are representative of the target population. The researcher used simple random sampling and Purposive/judgmental Sampling for the ease of collecting and obtaining necessary data for this study.

3.4.2 .1 Simple Random Sampling

In order to make sure that every member (SME) is getting equal chance in making contribution to the study, simple random sample was applied in selecting samples. This is due to the fact that, simple random sampling gives each element in the population an equal probability of getting into the sample. Moreover, all choices are independent. It also gives each possible sample combination an equal probability of being chosen (Kothari, 2004). The respondents in this technique of sampling included various shops selling items like house ware, hardware, spare parts, clothes and food. The respondents were selected randomly.

3.4.2.2 Purposive or Judgmental Sampling

Purposive Sampling is a form of non-probability sampling in which decisions concerning the individuals to be included in the sample are taken by the researcher, based upon various criteria.

Purposive sampling starts with a purpose in mind, and the sample is thus selected to include people of interest and exclude those who do not suit the purpose. This is a technique where the researcher uses his/her own judgment about the respondent to be chosen of the study.

The technique was also used in this study. It simply enables the researcher to use his/her judgment to select cases that is best to him to answer his research question(s) and to meet his objectives (Sunders, et al. 2009).

Also, this technique was employed because not all owners of SMEs were aware of the importance of the research. In order to get the accurate information, the researcher adopted this technique whereby potential respondents were selected on the basis of their position in the business, knowledge, experience, convenience and their availability. Thus, a sample of 20 respondents was obtained through this technique. These included SMEs from selected Wards within a Nachingwea District as part of a whole population.

The respondents owned various shops dealing with different businesses, such as small timber industries, small welding factories and small food processing factories, particularly maize flour and cashew nut factories.

3.5 Data Collection Methods and Instruments

During the course of the study, the following methods were employed in data collection. The instruments that the researcher used in the data collection included questionnaires, formal interview, and documentary review. The decision about the technique to be used in collecting data is subject to the purpose of the study and the nature of the research questions (Seidman, 1991).

Bodgan and Bikhen (1992) and Patton (1990) contended that exclusive reliance on one method may bias or distort the reality of the phenomenon and that no single research technique is adequate in gathering the requisite information. The researcher in this study used more than one data collection instruments so as to get requisite information, which helped to realize the objectives of the study.

The researcher collected both primary and secondary data. To achieve this, various techniques such as documentary review, questionnaires, and interview were employed. The documentary review constitutes secondary data while the primary data constituted questionnaires, and unstructured interviews. The Documents that were reviewed provided a lot of input to this study.

3.5.1 Questionnaire

Questionnaire is a series of written down questions relevant to the research problem that can provide a big amount of data standardization (Robinson, 2002). The questionnaire was designed in such a way that all necessary information required from respondents (SMEs) could easily be accessed. The researcher used both closed and open ended pre-set questions in data collection in which the respondent filled answers to obtain relevant data. A detailed questionnaire structured on the basis of the stated hypotheses were used as the main data collection tool because of its ease of adaptability and best feasibility in obtaining a wider range of data from an earmarked sample in a relatively shorter period.

Advantages of questionnaires include low cost of administering, free from the bias of the interviewer and respondents have adequate time to give well thought ought answers (Kothari, 2004). Demerits of using questionnaires as data collection instrument are that can be used only when respondents are well educated, low rate of return of dully filled in questionnaires and inbuilt inflexibility because of the difficulty of amending the approach once questionnaires have been dispatched.

Here questionnaires were distributed to respondents having both closed and open ended questions, closed ended questions required a respondent to mark with a tick (√) across the provided options that exactly or closely represent his/her answer while open ended questions required some explanations from them.

3.5.2 Formal Interview

Interviewing can be described as a technique for gathering data by asking questions, and is the technique that case study researchers rely most on according to Yin (2003) and Marshall and Rossman (2006). Interviews have been one among the main source of data collection method.

The researcher had interviews with the owners of business at their respective working places at different times. Interviews were used for expedited and interactive data collection in conjunction with questionnaire. The same questionnaire that the respondents used for filling in were adopted as an interview guide, specifically because interviews were held with the respondents who were required to fill them but they did not have adequate time. This is helpful simply because interview guides ensure good use of limited interview time. The major advantage of using the interviews is that they help the researcher to make the best use of limited available time to make the process of interviewing different people more systematic. The interviews helped the researcher to ask follow up questions and hence gaining more information and understanding on what the respondents real meant.

The interview questions were open and closed ended in order to give room to respondents to express themselves freely and give their views. These questions provided opportunities for both interviewee and interviewer to discuss in detail the determinant of SME on access to finance. Primary data was collected from the interview.

3.5.3 Documentary Review

Documentation, the first of Yin's six sources of evidence, may assume many different
forms, such as letters, memos, notes, articles, books, and administrative documents. This source of evidence is very useful, especially as a means to corroborate and augment evidence from other sources (c.f. Yin, 2003, p.81). Documents may also provide confirmatory evidence and strengthen the credibility of other sources such as, for example, the result of interviews and observations. Hence, documentation was selected as a source of data to provide secondary evidence. This involves collecting

secondary data from official documents such as files and other records from daily, monthly, quarterly and annual physical and financial reports kept by the owners of the business. Colin (2002) refers the use of this method as complementary to primary data collecting survey method. Thus it has been used in this study due to its ability to provide cross-validation of the findings.

3.6 Data Processing and Analysis Methods

3.6.1 Data Processing

Raw data obtained from the field were prepared before data analysis took place. The data collected were therefore edited, classified, and tabulated in order to make them meaningful, useful and valuable. Editing was done by examining the collected data (raw data) to identify errors and omission and make necessary corrections.

3.6.2 Data Analysis

Data analysis refers to the computation of certain measures along with searfor patterns of relationship that exist among data groups (Kothari 2004 as quoted by Adam and Kamuzora 2008:186). Thus, the process of analysis aims at determining whether our observations support the hypotheses formulated before going into the field to collect the information or reject them. At the stage of research design care must be given to analysis design to ensure that an appropriate analysis technique is thought out well in advance.

In most research the data analysis involves three major steps done approximately in the following order; cleaning and organizing the data (data preparation), describing the data (descriptive statistic) and testing hypotheses and models. Preparation involved checking the data for accuracy, entering into the computer processing the data into information and documentation.

Data analysis involved the process of inspecting, cleaning, transforming and modeling data with the goal of highlighting useful information, suggesting conclusions and supporting decision. Data analysis is taken to mean the process of computing certain measurements with the aim of searching for patterns and relationships that exist among data groupings (Brain 2000). However, Kothari (2004) further provided that, it is simply a systematic process involving working with data, organizing and dividing them into small manageable portions.

According to Adam and Kamuzora (2008:186), there are both qualitative and quantitative techniques for data analysis. The quantitative techniques are statistical tests in nature and are divided into descriptive statistics and inferential statistics. While descriptive statistics concerns the development of certain induces from the raw data, the inferential statistics are concerned with process of generalization by running tests of significance for testing hypotheses in order to draw inferences.

The researcher collected and analyzed both qualitative and quantitative data through simple hand coding, content analysis, tabulation, narrative form and percentage were employed in analyzing data where it was deemed necessary. Thus, the study involved working with data, organizing it, breaking it into manageable units, synthesizing it, searching for patterns, discovering what is important and what is to be learned and deciding on what to inform. As such, this analysis required some creativity, for the challenge was to place the raw data into logical and meaningful categories, to examine them in holistic fashion and to communicate this interpretation by a way of descriptions and tabulation. The use of computer program such as Statistical Package for the Social Sciences (SPSS) helped the researcher to make this process easier.

3.7 Reliability and Validity of Data

To test whether data collected from respondents were valid and reliable for data processing and drawing conclusion of the findings, a researcher used more than one question of the same meaning in the designed questionnaire. Thereafter, reliability analysis was conducted for items under context using Cronbach’s alpha based on standardized items.

The result of an inter-item correlation matrix conducted testing reliability between the age of the firm and entrepreneur experience as shown in Table 3.3 of Case

Processing Summary below indicate that all items were valid. Computed Cronbach's alpha were 0.942 as shown in table 3.3 in reliability statistics below.

Table 3.3 Reliability Test Between Age of the Firm and Entrepreneur's Experience

Case Processing Summary		
	N	**%**
Case valid	46	100.0
Excluded[a]	0	0.0
Total	46	100.0

a. List wise deletion based on all variables in procedure

Reliability Statistic		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.942	0.945	2

Source**: Field Data Analyzed (2013)**

Moreover, reliability of the data collected supporting the firm size was determined by an inter-item correlation matrix conducted between the size of capital invested by the firm and number of employees. The results are as shown in Table 3.4 of Case Processing Summary below which indicate that all items were valid. Computed Cronbach's alpha were 0.803 as shown in reliability statistics under table 3.4 below.

Table 3.4 Reliability Test Between Size of Capital Invested by the Firm and Number of Employees

Case Processing Summary		
	N	**%**
Case valid	46	100.0
Excluded[a]	0	0.0
Total	46	100.0

a. List wise deletion based on all variables in procedure

Reliability Statistic		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.803	0.805	2

Source: Field Data Analyzed (2013)

CHAPTER FOUR

RESEARCH FINDINGS, ANALYSIS AND DISCUSSIONS

4.0 Introduction

The purpose of this study was to determine the determinants of Small and Medium Enterprises (SMEs) on access to Finance in Tanzania with empirical evidence from Nachingwea District in lindi region. This chapter presents, discusses and analyzes field findings, it explores observations made in the field and descriptions of respondents who were visited and interviewed. The intention was to identify the determinants of SMEs on access to financial services.

The main focus of the study was to explore solutions for the research questions presented in chapter one. Findings have been organized appropriately in such a way that the presentation would base on specific objectives of the study.

As it was planned, 54 questionnaires were distributed to owners/managers of SMEs and 50 were returned. Among the returned questionnaires, 46 were found to be valid for data processing since they were fully filled while 4 questionnaires had some missing information hence discarded during the data processing.

The findings presented in this chapter are based on information collected from respondents, mostly through structured questionnaire, unstructured interviews and to some extent documentary reviews made by the researcher. The focus was mainly on the determinants of SMEs' access to financial services. Thus, the findings including subsequent analysis of the related data are based on the proposed determinants of SMEs access to finance. The aim was to test whether or not two variables are independent of each other based on given Hypotheses.

A cross-tabulation analysis was conducted in order to test a dependent variable (access to finance) across independent variables (Entrepreneur's experience, Education background, Networking, Firm size, Age of the firm, Ownership type, Industry sector, Location, Having audited financial statements and Firm performance**).**

To determine whether the relationship between two cross-tabulated variables was significant, Chi-square test was conducted. The decision criterion was that, a significant chi-square test result indicates that the two variables were not independent; while a value which was not significant indicates that the variables did not vary significantly from independence.

The results should be understood that if the tabulated chi-square is greater than calculated (0.05) the alternative hypothesis is rejected which implies that the null hypothesis is accepted. Statistically, significant differences are detailed in Appendix 1: Chi-square test results.

4.1 Entrepreneur's Experience and Access to Finance

For this determinant of Entrepreneur's experience and access to finance, the respondents were asked to notify their experience in the entrepreneur business by stating how longer they have been in business. A chi-square test of independence was calculated to determine the significance of the relationship between Entrepreneur's experience and access to finance. The result shows that there is significant relationship found, because at $X2$ = 8.265, the asymptotic significance is 0.041 which is less than 0.05 ($p < .05$). The result of chi-square test implies that, only 1 (8.3%) of SMEs with 5 years or less in business were granted with loan compared with 11 (91.7%) not granted loan, 12 SMEs between 6 to 10 years in business (44.5%) were granted loan and 15 (55.6%) were not granted with loan, 4 SMEs between 11 to 15 years in business (57.1%) were granted with loans and 3 (42.9%) were not granted with loan. These findings are supported by Dobbs and Hamilton (2007) who emphasized the positive effect of past experience on small business growth by proposing that owner-managers with previous experience were more likely to avoid costly mistakes than those without prior experience.

However, Researcher have sought to connect the business owner's previous management experience-typically in a previous business ownership or employment to the growth orientation of the firm. One line of hypotheses is that for a variety of reasons, business owners who previously owned other businesses may be inherently more cautious than those unburdened by such experience and may therefore not have a growth objective (Storey, 1994). A converse hypothesis has also been put forward, especially with regard to incidences of portfolio entrepreneurship, in which such ownership/management experience is considered to be a resource in itself to the extent that it that can steer the firm towards growth-related opportunities whilst helping it to avoid growth-related pitfalls (Iacobucci and Rosa, 2005). As such, business owners with prior management experience are thought to be likelier to form faster-growing businesses than those established by individuals without that experience. This is due to the fact that, knowledge gained from business experience provides the entrepreneur with certain key competencies and inside information needed to recognize and exploit opportunities. Thus, Entrepreneur's experience is related with access to finance. This conclusion therefore, supports the Hypothesis 1(Appendix 1).

4.2 Education Background of Entrepreneur and Access to Finance

A chi-square test of independence was calculated in order to compare the relationship between education background of the entrepreneur and access to finance. A significant interaction was found; that at the value X2 = 12.238, the asymptotic significance is 0.007 which is less than 0.05 ($p < .05$).

Percentagewise, the findings show that owners/managers of SMEs with primary education only 3 (16.7%) obtained loan and 15 (83.3%) who were not educated not obtained a loan. Entrepreneurs with Secondary/High school education only 7 (43.8%) were granted a loan while 9 (56.2%) were not granted a loan. Entrepreneurs with Certificate/Diploma education 2 (28.6%) were granted a loan while 5 (71.4%) were not granted a loan and those with Bachelor degree and above 5 (100%) of entrepreneurs were given a loan but none (0%) was deprived a loan as shown in Appendix 1.The chi-square test shows that, entrepreneurs with high education were more likely to get access to finance than those with low education. As an enterprise management tool, the level of education possessed by the business owner may not necessarily be an end in itself, but it can enhance the entrepreneur's motivation and ability to use a number of skills that are useful in managing enterprises (Storey, 1994). It can also provide certain discipline specific advantages for entrepreneurs who choose to go into business in areas in which they have been formally educated (e.g., bio-technology or graphic design) and it may further help to set the owner's expectations of their venture earnings in a scenario that is best met in the context of a growing business (Dobbs and Hamilton, 2007). In this sense, it may be expected that more "educated" business owners have a greater likelihood of forming faster-growing businesses than their less educated counterparts.

Thus, Hypothesis 2 which states *Entrepreneurs with less education background find it difficult to access financial services* is supported. However, it is observed that Educational attainment and educational background are key determinants with regard to start-up propensity and successes in accessing finance. (Wyer et al., 2007).

The study also examined a relationship between educational level and non-applications and loan denials. The more highly educated entrepreneurs were less likely to be turned down for loans. The less educated ones were more likely not to apply, the decision was based on the assumption that they would be turned down.

The unstructured interview questions were used to observe the reason for education background having a significant positive relationship with access to debt finance by SMEs. It was observed that, most entrepreneurs with high level of education were employees and hence, they used their salary-slips as collateral to get the loan. This means that the debt was deducted from their monthly salary. This implies that collateral act as a major criterion for debt financing without which no one can secure a loan.

4.3 Networking and Access to Finance

Regarding Networking and access to finance, the respondents were asked to state whether they were members of some business association. A chi-square test of independence was calculated for the purpose comparing the relationship between networking and access to finance. The results, as shown in Appendix 1, indicate that the variable is statistically insignificant at a chi-square statistic of 0.249 and a P value of 0.618 (p>0.05). This implies that there was no association between entrepreneurs having memberships in some clubs and/or professional associations and having access to finance. The results value in percentage reviled that firms that were not a member of a business association 15 (38.5%) were granted a loan while 24 (61.5%) did not get a loan. On contrary, firms that were members of business association only 2 (28.6%) were granted a loan and 5 (71.4%) were not granted a loan.

Levitt and March (1988) acknowledged that networking also called external relations of firms among industry, trade associations, and other forms of associations create learning. This is done by facilitating the sharing of knowledge, and providing a means for organizations to learn from the experience of others in the industry. In this study, the chi-square test results imply that, networks are not as important because they do not give a chance for SME operators to reconfigure relations with bankers, mainly, on loans matters. The Hypothesis 7 is therefore rejected.

4.4 Firm Size and Access to Finance

Regarding firm size and access to finance, the respondents were asked to state their estimated/actual size of the capital for their firm in order to know the firm's capital size, all 46 respondents state their firms capital size. As hypothesis 4 stated, smaller firms are more likely to face limited access to finance. This hypothesis is not statistically confirmed to be significant as shown in Appendix 1. The results at a chi-square statistic show 1.791 with a P value of 0.408 (p>0.05). As it is also observed, 7 (50%) of firms with a capital size not more than 5 million got a loan but 7 (50%) had no loan. In the other hand 9 (30%) of firms above 5 – 200 million were granted a loan and 7 (70%) were not granted a loan. Moreover, firm with above 200 – 800 million 1 (50%) were supplied with a loan while the same number and percentage were not supplied with a loan.

Pandula (2011) pointed out several reasons for small firms having less access to credit. First, the small firms face information opacity, such as inability to provide financial information. When the firm is small, most of the time it is owned and operated by the entrepreneur himself and there is no such legal requirement to regularly report financial information and many firms do not maintain audited financial accounts.

The second reason is that, smaller firms have fewer assets to offer as collateral. Collateral is very essential because the banks use it as one of the instruments to reduce the anticipated risk and moral hazard associated with lending.

The third reason is that, small firms have high failure rate compared to large firms. For example, Schiffer and Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender.

In this study the Chi-Square statistic reviled that whether the firm had low capital/high capital was not a reason for obtaining a loan from financial institutions. The possible reason for this might be that, there are other factors contributing to SMEs access to finance regardless of the capital that the SME has. Therefore, Hypothesis 4 is not supported by these findings.

4.5 Age of the Firm and Access to Finance

On the aspect of Age of the firm and access to finance, the respondents were asked to state the age of their firm from the time their business was established. Through the Chi-Square statistic test, the result relived that, the Pearson Chi-Square statistic (8.807) with a significance value of 0.032 is less than the alpha level (0.05).

More result of Chi-Square statistic test show that, firm with less than 5 years in business only 1 (7.1%) obtained a loan while 13 (92.9%) did not obtain a loan. Firms with 6 – 10 years in business 9 (47.4%) were granted a loan but 10 (52.6%) were not granted a loan; firms with 11- 15 years in business 6 (50%) were served with a loan while 6 (50%) were not served with a loan and firms with 16 – 20 years in business 1 (100%) were supplied with loan while none of them (0.0%) was not supplied with loan. This result suggests that there is a strong relationship between the age of the firm and its access to finance. This hypothesis implies that, the longer the firm stayed in business, the bigger the chance of getting loans.

A survey conducted by Levy (1993) in Tanzania, reported that 80 percent of firms with 16 or more workers and with 6 or more years in operation were able to access bank loans. This is contrary to the success rate of around 55 percent in the case of smaller firms with 6-15 employees of similar age, and less than 10 percent for firms with 5 or fewer workers, regardless of age.

Fatoki and Francis (2011) points out that, the longer the firm exists and the bigger it is, the more it signals that it can weather tough economic conditions (Chandler, 2009:10). According to Klapper (2010:605), younger firms (less than 4 years) rely less on bank financing and more on informal financing. This view is also supported by Ngoc et al. (2009:868) pointing out that, it is often difficult and expensive for young SMEs to access bank financing, mainly due to information asymmetry between the banks and firms

The final results of the study by Fatoki and Francis (*ibid*) indicates that there is a significant positive relationship between firms that are older than five years and access to debt finance among SMEs. With firms between 1-4 years as the reference, the logistic regression also confirms these results.

Therefore, entrepreneurs with many years in business are more likely to get access to finance than those with few years in business. Thus, Hypothesis 5 is supported.

4.6 Ownership types and access to finance

Concerning Ownership type and access to finance as one of the determinants, the respondents were asked to state ownership status of their business, whether it was sole proprietorship, partnership, incorporated company or family business. The reference here is to the firm's legal status and in that sense, the idea is to connect the form of ownership of the business to its growth propensity. It is usually reported that limited liability companies grow more rapidly than sole proprietorships or partnerships (Storey, 1994) although this finding may be one that is affected by the research design. In empirical studies, measurements of firms' legal status typically report on current, rather than start-up status, but it is of course quite possible that incorporation occurs as a result of growth, rather than as a cause, so it would be beneficial for empirical studies to take

both measurements (i.e., current and start-up ownership forms) in part to address this issue.

Thus, a chi-square test of independence was calculated to determine the significance of the relationship between ownership type of an enterprise and access to finance. The result shows that there is no significant relationship found between the two variables. The result shows that at X2 = 1.343, the asymptotic significance is 0.511 which is greater than 0.05 ($p > .05$).

In percentage, the result of chi-square test implies that in sole proprietorship 10 firms (45.5%) obtained a loan while 12 firms (54.5%) did not obtained a loan, in partnership firm only 1 firm (25%) was given a loan while 3 firms equals to (75%) were not given a loan, in Family business 6 firms (30%) were granted a loan while 14 firms (70%) were not granted any loan. Thus, ownership type of an enterprise is not related with access to finance.

A research on "Ownership Characteristics and Access to Finance" made by Isachenkova and Tomasz (2003) observed that foreign companies, companies that were part of domestic industrial groups and enterprises with concentrated ownership were all less constrained in their access to finance.

Access to and use of financial resources are often critical factors affecting the ability of small businesses to implement growth opportunities. A key issue for most business owners centers on the decision to seek external finance which may open up financial resources but dilute ownership. Small business owners are noted for their unwillingness to share ownership this way (Burns, 2001), with a result that banks become wary of lending to such firms, often demanding safety-net collateral that many small business owners are unable to produce. The resulting financial limitations can operate as a constraint on the firm's growth (Carpenter and Petersen, 2002), for instance by curtailing the rate at which the firm is able to implement innovative plans or adopt progressive technology. As such, small businesses in which the owners are willing to share equity tend to be reported to be more likely to grow than businesses that express a reluctance to share equity.

However, other previous researches had also found that listed firms and foreign owned firms faced lesser financial constraints (Harrison & McMillan, 2003; Beck et al., 2006). Foreign ownership may be conductive to easier access to finance not just because of direct funding from foreign partners and greater availability of foreign sources of finance, but all these arguments is contrary to finding resulted from chi-square test of ownership type and access to finance. Therefore, Hypothesis 6 is not supported.

4.7 Industry Sector and Access to Finance

Regarding Industry sector and access to finance, the respondents were asked to state the kind of business they were dealing with. They were required to state whether the business was dealing with House ware, Hardware, Spare parts, Selling of Textiles, Clothing, Footwear & cosmetics, Small timber industries, Small welding factories, Small food processing factories, Small furniture industry or Electricity equipment.

The sector in which a firm operates is considered an influential factor on the growth processes in small firms but the extent to which it is a significant factor is less clear-cut. Although the level of industrial disaggregation can be expected to influence the results of sector analysis, empirical studies (e.g., Smallbone *et al*.1995) usually find that there are significant differences amongst sectors in terms of the typical firm growth rates.

The result of Chi-Square statistic test show that,
The Pearson Chi-Square statistic of 15.853 with a significance value of 0.045 is less than 0.05 ($p < .05$) which suggests that, there is a significant relationship between the industry sector and having access to finance.

As shown in Appendix 1, SMEs dealing with house ware 0 (0.0%) obtained loan while 8 (100%) did not obtained a loan, in hardware 1 (33.3%) was given a loan while 2 (66.7%) were not given a loan, SMEs dealing with spare parts 3 (50%) obtained loan while 3 (50%) did not obtain loan, selling of textile, clothing, foot wear and cosmetics 5 (50%) obtained loan but another 50% of the firms did not obtained a loan, SMEs dealing with Small timber industries 1 (33.3%) was granted a loan and 2 (66.7%) were not granted, in small welding factories 0 (0.00%) was supplied with a loan while 2 (100%) were not. SMEs dealing with small food processing factories 6 (85.7%) obtained loan and 14.3% were not granted a loan. Also, SMEs dealing with small furniture industry noone 0 (0.0%) obtained a loan and only1 (100%) did not obtain a loan and for Electrical equipment only 1 (16.7%) was granted a loan while 5 (83.3%) were not granted a loan.

The research by Byiers et al. (2010) using the data from Mozambican manufacturing firms found that sectors were considered important for having credit access. The results from the research indicated that both metal-mechanic and wood- furniture sectors had significantly lower credit access than the food processing sector. The interpretation for this was that banks attached a lower risk premium to food processing sector compared to the other two sectors.

Abor (2007) observed that SMEs the agricultural sector exhibited the highest capital structure and asset structure or collateral value, while the wholesale and retail trade industry had the lowest debt ratio and asset structure. Therefore, sector can be identified as a variable in the provision of loans to small businesses. Based on this result, hypothesis 7 is confirmed.

4.8 Location and Access to Finance

In regard to the determinant of Location and access to finance, the respondents were asked to state whether their business were located in Rural or Urban areas. Forty six respondents were involved. The idea is to connect the location of the business to its access to finance. Generally speaking, location tends to be conceived of in an urban-rural split and both types of locations have been identified as potential sources of both benefits and constraints (Ram *et al*., 1997; Fielden *et al*, 2003; Robinson and Finlay,

2007). Since this will have to be a matter operationalized on a study-by-study basis, for our present purposes, the likely impact of the location of a particular panel of respondents on their growth behavior will have to remain an open question. The evidence from a chi-square test of independence calculated comparing the relationship between location of the enterprise and access to finance indicates that, at the value X2 = 2.087, the asymptotic significance is 0.149 which is greater than 0.05 ($p > .05$), as shown in Appendix 1 . The result suggests that, there is no significant relationship between location of an enterprise and having access to finance. This too indicates that, firm's location does not play a major role in access to finance. This factor must be supported by other factors, such as age of the firm, experience, education, firm's performance, and industrial sector.

More result in percentage shows that, firms located in urban areas 13 (44.8%) were granted a loan while 16 (55.2%) were not granted a loan. However, Chi-Square statistic test shows that, firms located in rural areas 4 (23.5%) obtained a loan but 13 (76.5%) did not obtain a loan.

Pandula, (2011) identified various factors which may contribute to spatial variations in the availability of bank finance for small firms in rural areas. Firstly, there may be an absence of financial institutions in these rural areas. Sometimes, there may be a single bank branch available to the location, which may enjoy a "monopoly power" in the area, and small firms may not have much financing alternatives available. Due to this fact, they may end up paying high interest on bank loans or they may have to adhere to restricted covenants such as collateral and other conditions.

Secondly, the bank branch managers assigned in these rural bank branches may have limited delegation of authority. As a result, there may be delays in approving loans requested by rural firms or high amount of loan rejections. This is because the bank loans are processed and approved by the head office officials who have no personal knowledge of customers or projects based in rural locations.

Thirdly, banks may be reluctant to lend to small firms located in rural areas, as the assets offered as collateral by these firms may have less market value, and in case of default, they may find it difficult to realize these assets. However, the argument posed by Pandula (2011) that is "There may be an absence of financial institutions in these rural areas, the bank branch managers assigned in these rural bank branches may have limited delegation of authority, banks may be reluctant to lend to small firms located in rural areas, as the assets offered as collateral by these firms may have less market value" is contrary to this finding, the finding shown that only 44.8% out of 55.2% firms located in urban areas were granted a loan.

4.9 Having Audited Financial Statements and Access to Finance

On having audited financial statements and access to finance as one of the determinant, the respondents (owners of business) were asked to state whether their financial statements were audited by an external auditor. The value of chi-square statistic comparing the relationship between having audited financial statements and access to finance is 7.371 with a significance value of 0.061. This value is not significant ($p>0.05$), indicating that there is no significant association between the two tested variables.

Moreover, the result show that, firms with audited financial statement 2 (40%) obtained a loan while 3 (60%) did not obtain a loan, firms without audited financial statement none 0 (0.00%) was granted a loan, and 3 (100%) were not granted a loan. The firms that rarely prepared financial statement 6 (75%) were granted a loan while 2 (25%) were not granted a loan, and the firms that did not prepare financial statement at all 9 (30%) were given a loan while 21 (70%) were not given a loan (Appendix 1.)

This suggests that financial information does not to play a role in the loan granting decision; it must be supported by other factors. Therefore, the hypothesized relationship (H9) between having audited financial statements and access to finance is not supported.

This finding is contrary to some scholars findings, for example Miller and Dina (2004) demonstrated that small businesses pose a particular challenge for lenders because of their lack of audited financial statements. Also Berry et al. (1993) found that lenders in the United Kingdom pay more attention to accounting information in order to deal with the loan applications of small firms.

Although strong accounting and auditing standards improve SME access to finance by reducing informational opacities and encouraging lending based on financial statements, the countries need to strike a balance between improving transparency and reducing the regulatory burden for SMEs. International Financial Reporting Standards (IFRS) have been adapted to SMEs, and about 60 countries have adopted the SME version of IFRS, (International Accounting Standards Board, 2009). Other countries have concluded that the SME version of IFRS is still too costly for SMEs, and have adopted a simple set of obligatory standards. These include Germany and other EU countries (European Commission, 2010). There are similar concerns regarding obligatory auditing. Although auditing improves the reliability of financial statements, the EU exempts firms with fewer than 50 employees from obligatory audits, a rule that also attempts to strike a balance between the objectives of improving transparency and reducing the regulatory burden for small firms. Some studies have found that effective accounting standards are positively associated with measures of access (Rajan & Zingales, 1998, and Beck, Levine, and Loayza, 2000).

4.10 Firm Performance and Access to Finance

For this determinant of firm performance and access to finance, the respondents (owners of business) were asked to state the categories that can best describe their firm's annual revenue estimates in year 2012. As hypothesis 10 stated that low performing firms have limited access to financial services. A chi-square test of independence was calculated to determine the significance of the relationship between firm performance and access to finance. The result in appendix 1 shows that, there is a significant relationship found because at a Pearson chi-square value of 13.666, the asymptotic significance is 0.008, which is less than 0.05 ($p < .05$).

However, the percentage result shows that firms with less than or equal to 10 million T.shs 7 (38.9%) were given a loan while 11 (61.1%) were not given a loan, firms with 11 – 20 million T.shs none 0 (0.0%) was granted a loan while 12 (100%) were not granted a loan, firms with 21 – 40 million T.shs 2 (40%) obtained a loan while 3 (60%) did not obtain a loan, firms with 41 – 60 million T.shs 7 (77.8%) were given a loan while 2 (22.2%) were not granted a loan and firms with above 60 million T.shs 1 (50%) obtained a loan while 1 (50%) did not obtained a loan. Thus, firm performance has close relationship with access to finance. When the firm performs better, it gives assurance to financial institution that the loan granted will be returned.

These findings are supported by the European Commission Report (2003), it was observed that, poor business performance was one of the reasons for not receiving credit. In addition, firms with increasing sales and increasing sales turnover ratios would be expected to have less credit constraints, this is supported by (Duchesneau & Gartner 1990; Smith, Bracker, and Miner 1987), returns on sales (Kean et al. 1998), and returns on equity (Richard 2000; Barney 1997) rather than the non-financial measures. Financial measures are objective, simple and easy to understand and compute. Therefore, Hypothesis 10 is supported by these findings. Financial measures include profits, revenues, and returns on investment (ROI).

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Conclusion

The global gap in access and use of financial services remains a challenge. An estimated 2.7 billion people lack access to basic formal financial services, such as savings or checking accounts, while the access to financial services is equally challenging for micro, small and medium sized businesses. The largest share of the "unbanked" live in Sub-Saharan Africa, Tanzania in particular (with 12 percent banked) and South Asia (22 percent banked). East Asia, Middle East and North Africa, Latin America, Eastern Europe and Central Asia are also low-access regions, with 50 percent or less of their population banked. Among the unbanked, a large proportion lives on less than USD 5 a day.

Empirical evidence suggests that improved access to finance is not only pro-growth but also pro-poor, reducing incoming equality and poverty. Finance performs two key functions beneficial to households and businesses risk management and inter-temporal consumption smoothing. These functions yield multiple direct and indirect benefits to households and firms, allowing them to take advantage of investment opportunities smooth their consumption, manage day-to-day resources, and insure themselves. With access to finance remaining limited for many households and small businesses in developing countries, financial inclusion has become an important policy objective in these countries. Broadly speaking, financial inclusion entails sustained and convenient access to a range of quality financial services at a reasonable cost for everyone who can use such services including hard-to-reach populations (poor, rural, informal, and groups that are discriminated against women or ethnic minorities). Such services are typically provided by a variety of financial service provider while respecting the dignity of clients and with appropriate consumer protection measures in place (Beck et al., 2009)

Access to finance is a topic of great interest to both academics and practitioners. Small and Medium Enterprises depends much on access to finance for the start up and expand their businesses. However, a satisfactory number of studies in the past have mentioned that access to finance has been a problem in this sector. Considerably, the Government of Tanzania through the current reforms has resulted in liberalization of the financial sector to a great extent (URT, 2003). This has led to establishment of a number of banks including the Micro Finance Bank, liberalization of financial rates and establishment of a stock exchange market.

In spite of all efforts done, the SME sector is still facing a major constraint in accessing finance. This limits their capacity to survive, increase capacity, upgrade its technologies and even in many cases, expand their markets and improve management or raise productivity and eventually increase incomes.

Accordingly, this study examined what determines access to finance in SMEs and offered a comprehensive exploration of the determinants of access to finance in Tanzanian SMEs, taken Nachingwea District as a case study.

An overview of the literature, suggested a number of factors that are likely to be associated with the access to finance. The factors identified were Entrepreneur's experience, Education background, Networking, Firm size, Age of the firm, Ownership type, Industry sector, Location, Having audited financial statements and Firm performance. From these factors, ten hypotheses were derived for testing.

Based on responses of questionnaires and analysis done using SPSS computer program - specifically chi-square test as shown in chapter four, the conclusion drawn is as follows:

Factors that have been seen as the determinants of SMEs access to finance are Education background, Firm performance, Age of the firm, Entrepreneur's experience and Industry sector of the firm, all other factors identified in the study did not show any association with access to finance.

Generally, it can be concluded that, Education background, Firm performance, Age of the firm, Entrepreneur's experience and Industry sectors of the firm, were identified as major determinants in accessing financial services because these factors are associated with the possibility of having collateral. The collateral is an assurance to the financial institution in case of default and it also ensures the borrowers commitment to the loan repayments.

5.1 Solution to the Problems Facing SMEs

It is wrong to suggest that strategic management is the wonder medicine that can solve all conceivable problems faced by the SMEs. Any entrepreneur who had tried would know it is not correct. Therefore, an enterprise should not harbor all the hope on strategic management. It should keep a broader horizon and look beyond itself. Solutions to an entrepreneur's problems are usually multi-pronged. While in rare occasions, strategic management can be used alone to improve a SME's position, most cases, however require an integrated approach that combines strategic management with one or more of the problem solvers given below.

5.1.1 Government Assistance Program

Most governments provide assistance programs to help their SMEs. Such assistance could range from providing information to financial assistance to infrastructure building. The survey conducted revealed that most SMEs seemed to be only keen to procure financial assistance, which could be government guaranteed loans without collateral and preferably at low interest. Although these loans are technically available, there seems to be hidden conditions attached. This phenomenon seems to be widespread in third world countries and Tanzania in particular, where corruption is rampant. As a result, entrepreneurs in developing countries do not attach much hope on the governments, save those with good connections. They instead explore other sources for funding, such as from family and friends, maximize supplier credit, or form strategic alliances to share out the operating costs

5.1.2 Entrepreneurial Effort, Attitude and Motivation

There exists a correlation between company success and top managerial performance. Goldstein observed, "Ultimately, the failure of any business is the failure of the individual at the top". Too many entrepreneurs just did not have what it takes to succeed.

5.2 Recommendations

Basing on the research findings and the drawn conclusion, the researcher outlines recommendations for improvement of SMEs access to finance as given here below:

For SMEs to survive and grow, access to debt finance is critical. Collateral is an important determinant of credit access. This implies that SMEs without collateral will find it difficult to obtain debt finance from financial institutions. It is therefore necessary for owners of SMEs to have either business or personal assets that can be used as collateral when applying for credit facilities from financial institutions. However, for most of Tanzanian citizen, to have their own business or person assets is major problem due to our flawed economic policies.

Firm performance, Education background, Age of the firm, Entrepreneur's experience and Industry sector of the firm play a key role in access to bank finance. Therefore, loan officers must devote sufficient time to attempting to determine these characteristics of the borrowers. Financial institutions could implement more personalized relations to their Small business clients and improve their methods of checking customers.

Particularly, the government could support the education and training of small and medium business operators to make them better qualified for financing and to assist them in responding to markets. Training and communication on the requirements of financial institutions and other trade creditors can also help to make SME owners to improve access to finance. Financial institutions can create awareness of their funding requirements, especially the importance of collateral through advertisements and communication with trade associations.

The Government agencies such as SIDO and other Development Corporations can organize training for SMEs. Awareness should be created for the training programmes through advertisements in local and national media.

However, since most of SMEs at startup do not have anything to use as collateral for securing loan, it is recommended that the government through the local government authorities should give guarantee so as to help SMEs to access loans provided that they are the known residents of a particular place.

Moreover, the government should motivate the establishment of financial institutions other than banks, especial in rural areas where these institutions are not available. The financial institutions other than Banking are like SACCOS with enough capital to provide better services.

On top of that, the Government should motivate SMEs by giving enough capital to Agriculture and Marketing Cooperative Society (AMCOS). This will provide enough Agricultural inputs in lower price to their members so as to assist them to adapt to modernized agricultural activities for more and better harvest. This in turn will enable them to sell their products and acquire capital for startup small business. This will help in easy availability of financial services close to SMEs due to the fact that it is more affected place in access to finance.

Government may play a role in building the capacity of financial institutions to serve the SME sector, frequently with the assistance of international organizations. For many international organizations, institutional capacity building has been a significant component of their SME finance assistance strategy. The assistance is provided to financial institutions in understanding the needs of the SMEs, developing appropriate structures/products for servicing the SME clients, training staff and management in SME financing, and managing information and knowledge efficiently. Over the years, IFC has been effectively providing advisory services and capacity building programs for financial institutions. This should be further scaled up in order to provide sustainable financial services to SMEs. In addition, the capacity building of SMEs themselves (financial education, assistance in the development of business plans and loan applications) are important.

5.3 Further Research

This study examined the determinants of SMEs access to finance. In dealing with the factors that determine SMEs access to finance, different groups of respondents were involved. These include: owners/managers of SMEs, financial institutions, customers of targeted SMEs, and other development partners. The results of this study are based on the information collected from owners/managers of SMEs. Further studies should consider other groups of respondents in determining the determinants of SMEs access to finance. This will help in giving more reliable findings than relying on only one group of respondent.

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Appendices

Appendix 1: Chi-square test results

VARIABLES		FIRMS OBTAINED LOAN		FIRMS NOT OBTAIN LOAN		CHI-SQUARE TEST	
S/N	**CRITERIA**	**No.**	**% within**	**No.**	**% within**	**VALUE (X2)**	**ASYMP. SIG.**
1.	**Entrepreneur's experience**	17	**37%**	**29**	**63%**	**8.265**	**0.041**
	5 years or less	1	8.3%	11	91.7%		
	6 to 10 years	12	44.5%	15	55.6%		
	11 to 15 years	4	57.1%	3	42.9%		
2.	**Education background**	**17**	**37%**	**29**	**63%**	**12.238**	**0.007**
	Primary school	3	16.7%	15	83.3%		
	Secondary/High school	7	43.8%	9	56.2%		
	Certificate/Diploma	2	28.6%	5	71.4%		
	Bachelor degree and above	5	100%	0	0%		
3.	**Networking**	**17**	**37%**	**29**	**63%**	**0.249**	**0.618**
	Not a member of a business association	15	38.5%	24	61.5%		
	Member of a business association	2	28.6%	5	71.4%		
4	**Firm size (Capital Invested)**	17	37%	29	63%	**1.791**	**0.408**
	Not more than 5 million	7	50%	7	50%		
	Above 5 – 200 million	9	30%	21	70%		
	Above 200 – 800 million	1	50%	1	50%		

VARIABLES		**FIRMS OBTAINED LOAN**		**FIRMS NOT OBTAIN LOAN**		**CHI-SQUARE TEST**	
S/N	**CRITERIA**	**No.**	**% within**	**No.**	**% within**	**VALUE (X2)**	**ASYMP. SIG.**
5.	**Age of the firm**	**17**	**37%**	**29**	**63%**	**8.807**	**0.032**
	Not more than 5 years ago	1	7.1%	13	92.9%		
	6 - 10 years ago	9	47.4%	10	52.6%		
	11 – 15 years ago	6	50%	6	50		
	16 – 20 years ago	1	100%	0	0%		
6.	**Ownership type**	**17**	**37%**	**29**	**63%**	**1.343**	**0.511**
	Sole proprietorship	10	45.5%	12	54.5%		
	Partnership	1	25%	3	75%		
	Family business	6	30%	14	70%		
7.	**Industry sectors**	17	37%	29	63%	**15.853**	**0.045**
	House ware	0	0.0%	8	100%		
	Hardware	1	33.3%	2	66.7%		
	Spare parts	3	50%	3	50%		
	Selling of Textiles, Clothing, Footwear & cosmetics	5	50%	5	50%		
	Small timber industries	1	33.3%	2	66.7%		
	Small welding factories	0	0.00%	2	100%		
	Small food processing factories	6	85.7%	1	14.3%		
	Small furniture industry	0	0.0%	1	100%		
	Electricity equipment	1	16.7%	5	83.3%		

VARIABLES		FIRMS OBTAINED LOAN		FIRMS NOT OBTAIN LOAN		CHI-SQUARE TEST	
S/N	**CRITERIA**	**No.**	**% within**	**No.**	**% within**	**VALUE (X2)**	**ASYMP. SIG.**
8.	**Location**	**17**	**37%**	**29**	**63%**	**2.087**	**0.149**
	Urban areas	13	44.8%	16	55.2%		
	Rural areas	4	23.5%	13	76.5%		
9.	**Having audited financial statements**	**17**	**37%**	**29**	**63%**	**7.371**	**0.061**
	Yes	2	40	3	60%		
	No	0	0.0%	3	100%		
	Not always	6	75%	2	25%		
	I don't prepare financial statements	9	30%	21	70%		
10.	**Firm performance (Sales Growth)**	**17**	**37%**	**29**	**63%**	**13.666**	**0.008**
	Less than or equal to 10 million T.shs	7	38.9%	11	61.1%		
	11 - 20 Million T.shs	0	0.0%	12	100%		
	21 – 40 Million T.shs	2	40%	3	60%		
	41 – 60 Million T.shs	7	77.8%	2	22.2%		
	Above 60 million T.shs	1	50%	1	50%		

Source: Compiled by Researcher from Field Data, 2013

Appendix 2: QUESTIONNAIRE TO BE FILLED BY THE SELECTED SMES.

Dear respondent,

The purpose of this questionnaire is to collect data that will enable the researcher to view on the determinants of SMEs' access to financial services which is part of the requirement for the degree of MBA in Cooperate Management at Mzumbe University.

It will be highly appreciated if you, the owner and/or manager of the business, would participate in answering the questions as honestly, and thoroughly as possible.

The information provided by you is STRICTLY CONFIDENTIAL and will only be used for academic purposes. Therefore, feel free while answering the questions by filling in the space provided and marking one box/bracket in each case unless instructed otherwise for open ended questions.

Instructions

Mark with a tick (√) across the provided options that exactly or closely represent your answer. If you have comment on any question you are allowed to write in any space and indicate the question number.

Researcher: Mr. Athuman M. Jumanne a student at Mzumbe University for the academic year 2011/2012; Phone Number: 0717695370/0786695370; email: jumanneathuman@yahoo.com

1. What is your gender?

   (i) Male ( )

   (ii) Female ( )

2. What are your age group belong?

   (i) Below 18 years ( )

(ii) 18 – 25 years ( )

(iii) 26 – 33 years ( )

(iv) 34 – 41 years ( )

(v) Above 41 years ( )

3. What kind of business are you dealing with?

(i.) House ware ( )

(ii.) Hardware ( )

(iii.) Spare parts ( )

(iv.) Selling of Textiles, Clothing, Footwear & cosmetics ( )

(v.) Small timber industries ( )

(vi.) Small welding factories ( )

(vii.) Small food processing factories ( )

(viii.) Small furniture industry ( )

(ix.) Electricity equipment ( )

(x.) Other (Specify) …………………………………

4. What kind of other business were you dealing before?

(i) It is first business ( )

(ii) Small food processing factories ( )

(iii) Hardware ( )

(iv) Small timber industries ( )

(v) Selling of Textiles, Clothing, Footwear & cosmetics ( )

(vi) Spare parts ( )

(vii) House ware ( )

(*viii*) Small welding factories ( )

(ix) Small furniture industry ( )

(*ix*) Other (Specify) ……………………………….

5. At the time being, where is your first business is?

(i) Is it still survive ( )

(ii) Is it collapse ( )

6. If the answer is it COLLAPSE, what causes your business to collapse?

(i) Insufficient capital ( )

(ii) Poor management ( )

(iii) Personal interest ( )

(iv) Other (Specify) ………………………………………..

7. What is the Origin of your current Enterprise/business?

(i) Established ( )

(ii) Inherited ( )

(iii) Other (Specify) ……………………………………………..

8. When was your business established?

(i) Not more than 5 years ago ( )

(ii) 6 - 10 years ago ( )

(iii) 11 – 15 years ago ( )

(iv) 16 – 20 years ago ( )

(v) More than 20 years ago

( )

9. What kind of problems related with access to finance have you meet since you established/inherited business?

(i) Lack of collateral ( )

(ii) Age of business ( )

(iii) Educational level ( )

(iv) Business Experience ( )

(v) Business premises ( )

(vi) Other (Specify) ……………..………………………

10. What is the source of Capital for your business?

(i) Personal Saving ( )

(ii) Joint Venture/Partnership/Merger ( )

(iii) Loan from financial Institutions ( )

(iv) Loan from relatives ( )

11. What is the estimated/actual size of the capital?

(i) Not more than 5 million ( )

(ii) Above 5 – 200 million ( )

(iii) Above 200 – 800 million ( )

(iv) Above 800 million ( )

12. Your business capital is it sufficient for your business?

(i) Yes ( )

(ii) No ( )

13. Please state the ownership status of your business

(i) Sole proprietorship ( )

(ii) Partnership ( )

(iii) Incorporated company ( )

(iv) Family business ( )

14. What is your Experience in the entrepreneur business? (years)

(i) 5 years or less ( )

(ii) 6 to 10 years ( )

*(iii)*11 to 15 years ( )

*(iv)*16 years or more ( )

15. Are you a member of any business association?

(i.) No ( )

(ii.) Yes (Please mention them) …………….……………… ( )

16. What is your highest education level?

(i) Primary school ( )

(ii) Secondary/High school ( )

(iii) Certificate/Diploma ( )

(iv) Bachelor degree/Advanced Diploma ( )

(v) Masters degree and above ( )

17. Which of the following categories best describes the total number of your firm employees? (including you)

(i) 1 – 4 employees ( )

(ii) 5 – 49 employees ( )

(iii) 50 – 99 employees ( )

(iv) More than 100 employees ( )

18. Which of the following categories can best describe your firm's annual revenue estimates in year 2012?

(i) Less than or equal to 10 million T.shs ( )

(ii) 11 - 20 Million T.shs ( )

(iii) 21 – 40 Million T.shs ( )

(iv) 41 – 60 Million T.shs ( )

(v) Above 60 million T.shs ( )

19. Where is your firm/business located?

(i) Urban areas ( )

(ii) Rural areas ( )

20. Is your financial statements being audited by any external auditor?

(i.) Yes ( )

(ii.) No ( )

(iii.) Not always ( )

(iv.) I don't prepare financial statements ( )

21. Have you ever-applied for a loan from any financial institution or even any individual lender? (No matter whether you got it or not)

(i) Yes ( )

(ii) No ( )

22. Have you ever-obtained a loan from any financial institution or even any individual lender?

(i) Yes ( )

(ii) No ( )

23. How much amount of loan have you got when you make borrowing in financial institutions?

(i) Less than or equal to 10 million T.shs ( )

(ii) 11 - 20 Million T.shs ( )

(iii) 21 – 40 Million T.shs ( )

(iv) 41 – 60 Million T.shs ( )

(v) Above 60 million T.shs ( )

24. Do the Financial Institution policies contribute to SMEs failure to access to finance?

(i) Yes ( )

(ii) No ( )

25. If the answer is yes, in question 24, which policies does it contribute to SMEs failure to access to finance?

(i) lack of credit history ( )

(ii) lack of collateral demanded by bank regulations ( )

*(iii)*lack of good business records ( )

(iv) limited managerial capacity ( )

(v) Culture of non repayment of the loans from the banks ( )

(vi) Both ( )

26.What kind of challenges have you meet when you make borrowing in any financial Institutions?

(i) Gender ( )

(ii) Firm characteristics (size, age, ownership type, industry sector and location( )

*(iii)*Financial characteristics (Audited financial statements and firm performance ( )

(iv) Entrepreneur characteristics (Education background, experience and networking). ( )

(v) Both ( )

Extra open ended questions

27. To what extent would you say that failure of factors determine the SMEs access to financial services affects SMEs development?

(i) ………………………………………………………………………………

(ii) ………………………………………………………………………………

(iii)………………………………………………………………………………

28. Mention any other factor that you think it is the hindrance for SMEs in accessing financial services.

(i) ……………………………………………………………………………

(ii) ……………………………………………………………………………

(iii)……………………………………………………………………………

(iv) ……………………………………………………………………………

(v) ……………………………………………………………………………

(vi) ……………………………………………………………………………

29. Described any disturbances you remember when you want access to financial services.

(i) ……………………………………………………………………………..

(ii) ……………………………………………………………………………...

(iii) ……………………………………………………………………………..

(iv) …………………………………………………………………………....

30. What do you think are the good styles of providing financial services to SMEs when applying a loan?

(i) ………………………………………………………………………………
…

(ii) ………………………………………………………………………………
…

(iii)
………………………………………………………………………………
…

(iv)
………………………………………………………………………………
…

31. What do your opinions on the improvement of SMEs access to financial services?

(i) ………………………………………………………………………………
…

(ii) ………………………………………………………………………………
…

(iii)
....
.

(iv)
……………………………………………………………………………….

32. What you think is the best way of providing the financial services to the SMEs in access to finance?

(i) ……………………………………………………………………
(ii) ……………………………………………………………………
(iii)……………………………………………………………………
(iv) ………………………………………………………………

33. What challenges facing by SME on access to finance in Nachingwea District?

(i) …………………………………………………………………………

(ii) …………………………………………………………………………

(iii)…………………………………………………………………………

(iv)…………………………………………………………………………

(v) ……………………………………………………………………..

34. What general challenges you are encountering when you need borrowing/lending from financial Institutions?

(i) …………………………………………………………………………………
(ii) …………………………………………………………………………………
(iii)…………………………………..…………………………………………
(iv)…………………………………………………………………………………

THANK YOU IN ADVANCE FOR YOUR COLLABORATION!