

**THE ROLE OF FINANCIAL INSTITUTIONS ON SUPPORTING THE  
GROWTH OF SMEs IN TANZANIA: A CASE OF ABC BANK IN  
DAR ES SALAAM**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE  
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**CERTIFICATION**

The undersigned certifies that, he has read and hereby recommends for acceptance by The Open University of Tanzania, a dissertation Titled “**The Role of Financial Institutions on Supportingthe Growth of SMEsin Tanzania: A Case of ABC Bank in Dar es Salaam**” in partial fulfillment of the requirements for the Degree of Master of Business Administration in Finance of the Open University of Tanzania.

.....

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.....

Date

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## DECLARATION

I, **George Arthur Mapunda**, do hereby declare that, this dissertation is my original work and that it has not been presented and will not be presented to any other Universities, Researches and Training Organizations for the same purpose whatsoever.

.....

Signature

.....

Date

**DEDICATION**

I dedicate this work to my wife Neema Abraham Laizer and my daughters Ivanna George Mapunda and Brianna George Mapunda, for their support, love and affection. This family has been very supportive and inspiring in my growth and carrier. To you I dedicate this piece of work.

## **ACKNOWLEDGEMENT**

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## **ABSTRACT**

The main objective of this study was to assess the role of financial institutions in supporting the growth of SMEs in Tanzania taking Bank ABC as a case of researcher's study. As to fulfill the needs, researcher breakdown the topic into several detailed purposes that he termed them as specific objectives which are, to identify the roles of financial institutions on the growth of SMEs, to assess the support that ABC Bank provides to SMEs and finally to determine challenges that Bank face in assisting SMEs when tries to support SMEs in Tanzania. With the use of questionnaires a total of 180 samples were used to give the data. As to respond to the questions for the objective number one, about 122 respondents' shows to be aware with how financial institutions support the growth of SMEs though they differ on the degree of understanding. While that a case, other groups of respondents disagree and the remaining 10 respondents were remaining neutral to the questions. With regard to the second objective, results obtained showed that, large percentage of the respondents about 64.4% selected Yes meaning there is contribution from ABC Bank to SMEs; 21% selected NO and the remaining 14.4% selected I don't know. Responses of objective number three, challenges like unequal distribution of information; Insufficient set of balance to support assistance, untrained personnel; Huge cost associated with such assistance, and lastly, mismanagement. Researcher gave recommendation policy makers and other researcher on what they can concentrate on ensuring effective support of financial institutions on the growth of SMEs in Tanzania.

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**LIST OF ABBREVIATIONS**

APEC	Asia-Pacific Economic Cooperation
GDP	Gross Domestic Product
MFI	Microfinance Institution (MFIs)
OECD	Organisation for Economic Co-operation and Develo
RBV	Resource Based-view Model (RBV)
SME	Small and Medium-Sized Enterprises
SMME	Small Medium and Micro Sized Enterprise
WB	World Bank

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Problem**

The greatest potential of the commercial banking sector is in its relationship with Small and Medium sized Enterprises, where banks can be very influential through their lending practices and by providing information.

Since the 1960s to date, small and medium-sized enterprises (SMEs) have been given a reasonable attention particularly in the developed nations for playing very important roles towards fostering economic growth and stability within several economies (OECD, 2000). According to WB ( 2010) and as identified by Armstrong and his fellow ( 2013), noted that SMEs play a most significant role to almost all economies in the world, especially to those in developing countries. The accessible evidence proves that, SMEs are vitally important for economic development and growth, in both high income and low-income economies (Edinburgh Group, 2012).

In any economy, SMEs are acknowledged to have huge potential for employment generation and wealth creation in Africa, due to high unemployment rates, that people are turning toward informal and formal small business in order to sustain their livelihood (Rogerson 2001, Biggs and Shah 2006). According to African Development Bank, SMEs represent over 90% of business and account for 50% of the employment and GDP in the continent (ABD; 2003). Generally, these small and medium enterprises can also be described as one of the main drivers for poverty alleviation in the continents (Singh et al, 2010).



Despite to all advantages that brought by SMEs, these enterprises are usually are practices poorer due to many challenges they face such as lack or poor technology, in absence of training and shortage of funds which are termed to be the major drawbacks to their prosperity (Ojeifo, 2012).

Golis, (1998) identify that, in order for enterprises to speed up their growth and decrease poverty, large financial institution like World Bank Group and other international aid agencies deliver targeted support to small and medium size enterprises (SMEs) in developing economies. World Bank Group is among of the institution supporting SMEs. For example, from 1998-2002 approved more than \$10 billion in supporting SME and \$1.3 billion in 2003. However, this support has not been enough due to the dependency of most if not all SMEs so that they can handle problems facing them financially (World Bank, 2009).

Banks are vital institutions in any economy as they form an important source for providing finance to businesses (Bendera, 2007). Their role becomes more important in emerging markets, where the majority of finance to new and existing businesses comes from the banking sector, as opposed to finance through the stock market (Marwa 2014). The role of commercial banks in the development of SMEs is vital (Xiong et al., 2006; Singh, 2010). This is due to the facts that the availability of financial capital is a pre-requisite for rapid development to both large and small-scale businesses (Aernold, 1998; Harvie and Lee, 2002).

## **1.2 Statement of the Problem**

Finance has been identified to be the most important factor determining the survival and growth of small and medium sized enterprises in both developing and developed

countries (Gana, 2001). Failure to the access of financial ability, brought an obstacle to SMEs as to undertake productive investments to expand their businesses and to acquire the latest technologies, as to ensure their (Gibson, 1997).

According to APO (2001) and Sleuwaegen and Goedhuys (2002), insufficient capital or lack of financial resources is one among the major obstacle for SMEs to grow as a result entrepreneurs spend their personal financial resources as to start or run their business and to expand the operations. Commercial banks are said to be discriminatory or unwilling to give direction specifically those said to be small enterprises who provide superior business strategy for their business. When banks do lend to SMEs, they charge SMEs a commission for assuming risk and apply tougher screening measures, which drives up costs on all sides (McIntyre, 1988).

In obtaining finances, SMEs are regarded by creditors and investors as a high-risk borrowers due to inadequate assets and low capitalization, vulnerability to market fluctuations and high death rates (MIT, 2003), apart from that, Information irregularity arising from SMEs' lack of accounting records, insufficient financial statements or business tactics makes it tricky for creditors and investors to judge the creditworthiness of prospective SME proposals.

However despite these challenges, commercial banks are continuing being the major source of finances to SMEs and these SMEs still consider large bank as their solution for their growth and prosperity. With regard to financial matters, many research conducted have focused on other aspects of SMEs, such as factors hindering their development and means to improve their growth while neglecting studying the role

that can be played by commercial banks in developing SMEs. Hence this study attempted to check the role that can be played by financial institutions in SMEs development by taking ABC Bank as the case as to come up with the means to improve the relationship among financial institutions.

### **1.3 Objective of the Study**

#### **1.3.1 Main Objective**

The main objective of this study was to assess the role of financial institutions in supporting the growth of SMEs in Tanzania.

#### **1.3.2 Specific Objectives**

- (i) To identify the roles of financial institutions in supporting the growth of SMEs
- (ii) To assess the support provided by ABC Bank to SMEs
- (iii) To determine the challenges faced by ABC Bank in assisting SMEs

### **1.4 Research Questions**

- (i) What is the role of financial institution in supporting the growth of SMEs?
- (ii) How does ABC Bank support SMEs?
- (iii) What are the Challenges facing ABC Bank in assisting SMEs?

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

This study will have the following significances. Firstly, this research will provide useful information to the small scale business owners on the factors hindering their growth and remedy them as to improve their business performance. Also the study will provide crucial information on financial access and means of contact different

assurances to rise their financial productivity. Since study seek to assess the actual contribution of financial institutions in the development of SMEs, through reading this work one can identify different ways that can be applied to ensure the growth of their businesses and on how to improve their financial services.

In this, the researcher expects to highlight on different challenges facing financial institution in issuing financial assistance to SMEs and their mitigations measures. The collected information of this study will be essential to the policy makers as it will assist the policy makers on the best ways to improve small scale business policies to maximize performance which has significant contribution to the national development.

### **1.6 Limitation of the Study**

Basically, to cover all the regions and all financial institution in the entire country will be impossible because of the limited time frame and amount of funds for this research. For this reason, the research will be cover one regions of Tanzania, which are Dar es Salaam, and one bank that is ABC bank The choice of Dar es salaam region is due to the fact that the region has large number of MSEs and ABC bank to provide good source of data for the study. Due to the fact that this research is conducting on people's profession some and the information are expected to be provided by people, therefore researcher expect to be faced with poor cooperation and response rate from the respondents since respondents might treat this research as an assessment of their performance hence there might a problem of them hesitating to give out all or accurate answers.

## **1.7 Delimitation of the Study**

### **1.7.1 Prepare Flexible Budget**

The research had to set the budget a bit flexible so as to set off the ups and downs, which may arise during the study. Either the researcher had to search for stationeries support from his office so that in one way the cost could be reduced and hence the budget for stationeries could be adjusted to fix other part, which seems to overrun the budget.

### **1.7.2 Elaborate the Respondent**

To overcome unwilling of respondents in giving required data, the researcher had to use more effort on influencing the respondent to respond accordingly. In overcoming this, the researcher elaborate and ensure the respondent that the information required were used only for academic purpose and not otherwise.

### **1.7.3 Remind Respondents**

The researcher had to set time to the respondent that is after every week so that the respondents could take the questionnaires into consideration. This gave ample time to respondents to give actual details to the questions.

### **1.7.4 Encourage the Respondents**

The researcher had to encourage the respondent to respond positively and on time by showing up the objectives of the study to respondents and how they could benefit with the study by explaining to them which problems the study intended to address.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews related literature in the area related to the access of finances by SMEs. Empirical literature as well as theoretical framework of the study will be shown in this part. The first part will define key terms used in this study. The second part is the theoretical framework as well as policy review of literature in Tanzania and other parts of the world.

#### **2.2 Definitions of Key Terms**

##### **2.2.1 Entrepreneurs and Entrepreneurship**

The word entrepreneur is defined as an enterprising individual who aims at building capital through risk and in form of different business initiatives. The term originally comes from French word and was first used by the French-Irish economist Richard Cantillon (Vos, 2005). In English language the term Entrepreneur is applied to mean a person who is willing to help launch a new venture or enterprise and accept full responsibility for the outcomes. The word entrepreneur was coined from a French word called 'entrepredre' which means a person who voluntarily head the military expedition. It was first used during the French military history in the seventeenth century Ojeifo (2013).

Entrepreneurship on the other hand is explained as the use of human courage and efforts to seek investment opportunities and establish a profit-oriented enterprise (Olomi, 2002). Entrepreneurship in general is viewed as a process of creating

something new which requires a lot of time and effort that are devoted to the endeavor in order ensure the tasks at hand and the resultant effects include monetary and personal satisfaction as well as independence. Entrepreneurship involves creation process, conscious devotion of time and effort, involves risk and has some rewards. Gana (2001), in her book the “*Entrepreneurship Success*” defined it as willingness and ability of an individual to seek out investment opportunities in an environment and be able to establish and run an enterprise successfully based on identified opportunities.

### **2.3 Small Business**

Small business is a term used when referring to a small-scale business enterprise. These include the term Small Medium and Micro sized enterprise (SMME) as in the case in South Africa, Small Medium sized enterprise (SME) and the generic term, small business or small firm. In order to overcome the conflicting opinions of a small firm, the Department of Trade and Industry in the UK (Culkin and Smith, 2000) provided the following definitions or classifications of small, micro, medium and large sized enterprises: The definition of this includes: Micro-firm: 0 - 9 employees; Small firm: 0 - 99 employees (includes micro), Medium firm: 50 - 249 employees; and Large firm: over 250 employees.

Olokoyo (1999) went further arranging three basic attributes that can be used to identify small businesses out of other businesses. These characteristics are explained below as follows: *Management*: Under this the owner or manager can be in a position to make his own decisions. Moreover, the owner or manager are both an investor and employer, which gives him the total freedom of action. *Capital*

*requirement.* The amount of capital required is relatively small compared with that required by bigger firms. The capital required is supplied by one or at most by a few individuals like friends or relatives. *Local operation.* Small business area of operation is mostly local. The employers and employees often live in the community in which the business is located. Lastly, some other characteristics can be lumped into one group which include simple organization structure, lack of specialized managers, owner knows his or her employees and normally have few employees, have long and short term capital and freedom of action. These categories can be summarized as shown in the Table 2.1.

**Table 2.1: Categories of SMES in Tanzania**

Category	Employees	Capital (In millions)
Micro enterprise	1 – 4	Up to 5 million
Small enterprise	5 – 49	Above 5 million to 200 million
Medium enterprise	50 – 99	Above 200million to 800 million
Large enterprise	100 +	Above 800 million

Source: Small and Medium Enterprise Development Policy (2003)

## **2.4 Factors Hindering the Development of SMEs**

Different works have been performed to explain the factor hindering the development of SMEs in the world and Africa in particular as identified by different writers as:

**Access to finance:** APO (2001) and Sleuwaegen and Goedhuys (2002) argues that insufficient capital or lack of financial sources is becoming the major obstacle for



many SMEs and usually entrepreneurs need to utilize personal financial sources to start up their business and to expand the operations, since the internal financial sources are normally insufficient. Nichter and Goldmark (2009) claim that there are policy biases towards large enterprises and small firms face problems in growing due to lack of financial access. According to Nichter and Goldmark, SMEs have difficulty in growing due to insufficient collateral, high transaction costs and incapability to deal with the complexity of formal financial institutions.

Moreover, SMEs in developing countries generally do not get accepted formal bank loans because of perceived high risk of default, low profitability and incapability to demonstrate required physical collateral (Harvie, 2005). In order to cope with these concerns the government has put stimulus package including an increase of the capital of the SME Bank that is a government financial institution (World Bank, 2009).

***Economic crisis:*** This is another major challenge that has been hindering the development of SMEs is economic crisis. In this, Cheah and Cheah (2005) argued that economic crisis has constrained the development of many SMEs in developing countries due to a series of economic crises facing these countries. Majority of scholars in this argue that SMEs are more vulnerable to these economic crisis due to different factors including their small size that hinders their access to resources such as finance, knowledge, technology and skills (Cheah and Cheah, 2005).

***Business competition:*** Competition is explained as one of the stimulating factors in the development of many SMEs worldwide. Hillary, (2000) noted that, by entering

or engaging into competition an entity is searching for competitive advantage, which in most cases depends to the success of the business. SMEs as business entities are generally facing low competitiveness in terms of knowledge, innovation, prudent investment, business operation, and good management, which are important factors required in elevating the quality level hence lacking effective completion SMEs fails to develop (OSMEP, 2007). On the other side, the presence of stiff competition among SMEs can be detrimental to SMEs development (Chijoriga, 2001). In this, stiff completion can lead to some of the SMEs fail in operating due to lowering price, better advertisement or by usage of better advertisement scheme, one entity can push another one out of the market due to failure of that firm in coping with the competition (Voz, 2005).

***Governmental policies:*** Effective and reliable government policies are essential for the development of SMEs in any economy (Berenbach 1992). The development of SMEs depends on the issuing of regulations that help them and their ability to operate efficiently and regulations that imply low administrative costs (Harvie and Lee, 2005). Although there has been an increase in governmental policies promoting and supporting SMEs in order to achieve economic growth and reduce poverty, there is still a lack of laws, administrative procedures and access to assistance from governmental agencies (Harvie, 2005). Due to this, majority of SMEs in underdeveloped countries are failing to develop and succeed.

## **2.5 Theoretical Literature Review**

Based on the financial activities of SMEs, the study can be better understood by using the following theories.

### 2.5.1 Resource Based-view Model (RBV)

The resource-based view (RBV) is models that sees and consider resources as key ingredients to superior firm performance (Grant, 1991; Azzone et al., 1996). RBV is an approach to achieving competitive advantage that emerged in 1980s and 1990s, after the major works published by Wernerfelt, B. of “The Resource-Based View of the Firm”, Prahalad and Hamel “The Core Competence of The Corporation”, and Barney, J. “Firm resources and sustained competitive advantage” (Zahra and Das, 1993; Amit and Shoemaker, 1993).

The Resource-Based view model utilizes an *internal* perspective to explain how a company's unique bundle or collection of internal resources and capabilities represent the foundation upon which value-creating strategies should be built (Smith, 2006; Sundbo, 2008). To RBV model Resources resources divided into homogeneous classes, such as, financial resources, physical resources (plant, machine, equipment, etc.), human resources, technological resources, reputation, and organizational resources such as *capital equipment, individual employee's skills, patents, brand names, finance and talented managers* are inputs into a company's production process. These resources can be tangible, such as human, financial or physical resources, and intangible, such as reputation, organization, know-how or patents while Capabilities are the capacity for a set of resources to integrative or in combination perform a task or activities.

According to the Resource-Based model, a company's resources and capabilities are more critical to determining the appropriateness of strategic actions than the conditions and characteristics of the external environment. Thus, in order to a

business firm to exploit its core competencies, relative to opportunities in the external environment, strategies must well selected to enable the company to do the best (Kahn, 1996, Powell, 2006). This study apply the first classification of the resource-based that seeks to include homogeneous factors that are essential in assisting and ensuring business growth. According to this model, financial and training also do become critical and influential factor of the business development as they acts as competitive advantage to the business owning such characteristics against those that doesn't have.

### **2.5.2 Transaction Cost Theory**

Transaction cost approach to the theory of the firm was created by Ronald Coase (1937) in his article "The Problem of Social Cost" "In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on". More succinctly transaction costs are:

- (i) search and information costs.
- (ii) bargaining and decision costs
- (iii) policing and enforcement costs

The transaction cost can be conceptualized as a non financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan. The cost incurred by the lender include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application, cost of providing credit training to

staff and borrowers, and the cost of monitoring and putting into effect loan contracts. On the other hand, the borrowers that is MSEs for this case may incur cost ranging from cost associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings, etc (Bhatt and Shui-Yan, 1998).

## **2.6 Empirical Literature Review**

Different studies have been conducted globally concerning SMEs and Commercial banks. Below is the description of those studies geographically.

### **2.6.1 Empirical Evidence From Europe**

The first study is by Azab(2007) which was titled, “The role of commercial banks in promoting corporate governance of their clients”. The small and Medium Enterprises Perspective which was conducted in Denmark. This study focused on assessing the vital role played by banking sector in financing new and existing businesses in the emerging markets. The findings realized that the improper strategic management and practices of the owners and managers would cause a systematic failure that would harm both the banking sector and the economy. Moreover, the study concluded by noting that, Mixing the classical judgmental approach with the new retail banking finance (credit scoring) may be an effective tool for medium-size and small-size companies.

Another study in conducted in Europe by Wilson (2010) titled Commercial bank and Women Entrepreneurs; A comparative study. This study aimed to assess the role-

played by different commercial banks in helping women entrepreneurs. The study used documentary reviews and Interviews as data collection methods. In the end, the study found that, different commercial banks assist entrepreneurs differently depending on the objectives that are set by that specific bank. For the case of this study, the main item was to assess the financial assistance. In this, it was realized that, different banks set different laws to assist entrepreneurs, some set a big amount while others set a small amount.

Looking at this study, one can observe that the study did focus on seeing how different banks help entrepreneurs, however the focus of this study was not all entrepreneurs, this study focused on women entrepreneurs. Hence, again this study is biased as it only focused on women entrepreneurs hence segregating other businesses that are run by male entrepreneurs.

### **2.6.2 Empirical Evidence from America**

Wilson and Smith, published their work in (2009) which was titled “An analysis of the role played by Commercial Bank in helping newly-formed business”. The aim of that study was to assess the role that played by commercial bank in helping newly formed ventures. The objective of this study was derived from a fact that majority of commercial banks are known for helping already in motion businesses, hence this study wanted to establish the banks offering help to newly formed business and the nature of assistance that is offered. The study concluded that, there are very few banks that offer their assistance to newly formed businesses. The major problem that was seen in this was the need for collateral which majority of the newly formed businesses usually lack. The study further concluded that there is need to establish

special banks that will be dealing solely with commercial banks. Differently from the previous studies, this study seemed to be inclusive as it seeks to assess the role of commercial banks to entrepreneurship development. However, the study introduced a limitation that was “newly-formed” which for the case of their study was being in operations for not more than 6 months. Again this study seemed to center most on the commercial banks rather than looking at the interrelationship between the two.

### **2.6.3 Empirical Evidence from Africa**

The first study is by Olumide conducted in 2012, titled the Impact of Micro finance banks on SMEs Development in Nigeria. This research study investigates the effects of microfinance on SMEs, which would center on two broad variables; the dependent variable, which is the SMEs development, and the independent variable that is Microfinance institutions. This study utilizes primary sources of data in which structured questionnaire were extensively used. This was intended to assess microfinance bank staff and small and medium enterprises owners distribution. At the end, the study concluded that, there were relationships (impacts) between the Microfinance institutions and Small and medium scale Enterprises towards transforming economic growth and consequently to economical development in Nigeria.

The study identifies that, there are need for the government in various levels to participate in the SMEs financing through genuine schemes, tax holiday for newly establish SMEs and grants or aid. This study that was essential in establishing the overall functions of commercial banks in assisting SME development, however, the study did focus on many number of SMEs, which some of the scholars argues

against it, as it can be misdirecting as different firms have different ways of utilizing the benefits offered by Microfinance Institutions. To them in order in order for one to use more than one SME then the study should be a comparison study rather than being a purely descriptive.

Another study was done by Obli (2011), which was titled “The Effect of Micro Finance Institutions on the Growth of Small and Medium Scale Enterprises (SMEs). The main objective of this study was to discuss the effects of Microfinance Institution (MFIs) on the growth of Small and Medium Scale Enterprises (SMEs) in the Kumasi Metropolis. The research indicates that MFIs have had a positive effect on the growth of SMEs.

The study identifies some of the critical contributions of MFIs include, greater access to credit, savings enhancement and provision of business, financial and managerial training. In the final analysis, the research clearly reveals that MFIs have a positive effect on the growth SMEs. In other to enhance a sustained and accelerated growth in the operations of SMEs credits should be client oriented and not product- oriented. Proper and extensive monitoring activities should be provided for clients who are granted loans.

#### **2.6.4 Empirical Evidence from Tanzania**

The study done by Jumanne (2014) on investigating the role and effect of loan attained by Micro and Small enterprises from Micro Finance Institutions in fostering innovation, among women owned enterprises revealed that, women who own micro and small enterprises in Dar Es Salaam are innovative but loan given to run their



business, have a minimal benefits in the innovation of their enterprises. The study contended that, the popular kind of innovation activities that is performed is largely based of adoption and to do modification than that of introducing completely new products and ways of productions. As of the previous studies, the aim of this was again focusing on particular group of the business that for this case were women. Due to that again the study would be seen as discriminatory as excluding a particular group. Apart from that, the sample that was used for this study was also small being 30 respondents which in most cases is usually described as a small number of respondents for a reasonable conclusion.

## **2.7 Research Gap**

The researcher has managed to review different literatures from Europe, America Africa and Tanzania in specific. Looking at the above-assessed literatures the, it is identified that, many studies have been conducted to look concerning the commercial banks and entrepreneurship while other study have focused on relationship between commercial banks and SMEs. With regard to the SMEs little study have tried to assess the role that is played by commercial banks in the development of SMEs, however these study have not been done in Tanzania. This brought a gap to many readers of research and financial.

Institutions as generally as how these commercial banks especially in Tanzania support for the growth of small and medium enterprises. As to fill the gap of knowledge therefore, this work attempts to study the role that these banks especially commercial one how they can play to the growth of SMEs by taking ABC Bank in Dar es Salaam as a case study.

## **2.8 Conceptual Framework**

In conceptual framework depicted Figure 2.1 shows the factors that lead into developments of SMEs sector in the Economy. In other words these factors named as independent factors which are includes:- finances provision, Training, Market Information, Interest rates while the output of these factors named as dependent factor which is SMEs growth.

### ***Financial Provision***

Finances provided by financial Institutions to SMEs sector act as a catalyst which stimulate development of SMEs sectors. However sometimes SMEs get difficulties to access finances from Commercial banks due to lack of collateral and poor records for their activities. In a study covered four southern African countries: Botswana, Malawi, Swaziland and Zimbabwe result showed that SMEs which obtained finances from financial sectors managed to survive and grew further while those which never borrowed had higher chances of closing down their operations.

### ***SMEs Trainings***

It is believed and agreed that, training on Small and Medium enterprises result to successful performance of the sector. Normally there are two main factors affecting performance of SMEs, which are administration capability and environment. Training on administration capability improves organization skills, practical Knowledge and administrative performance. Therefore, capabilities such as style and type of marketing to adopt, size of the marketing budget, what and when to advertise, pricing policy, financial control, networking among others can be attributed to development of SMEs sector are among the issues that SMEs are lacking thus needs to be

trained. Moreover Environment training to an enterprises is important element since it helps leaders and employees to manage a decision of where to locate the business. Therefore environment training help SMEs understand the area of their operation in respect with market structure and Market Mix.

### ***Market Information***

SMEs should be in position to access data which are officially gathered, stored, analyzed and distributed in accordance with their informational needs on a regular basis. Efficient market information provision has been shown to have positive benefits for SMEs growth. Up to date, market information enables SMEs to negotiate with traders from a position of greater strength. It also facilitates distribution of products from one market to another based on demands and better prices.

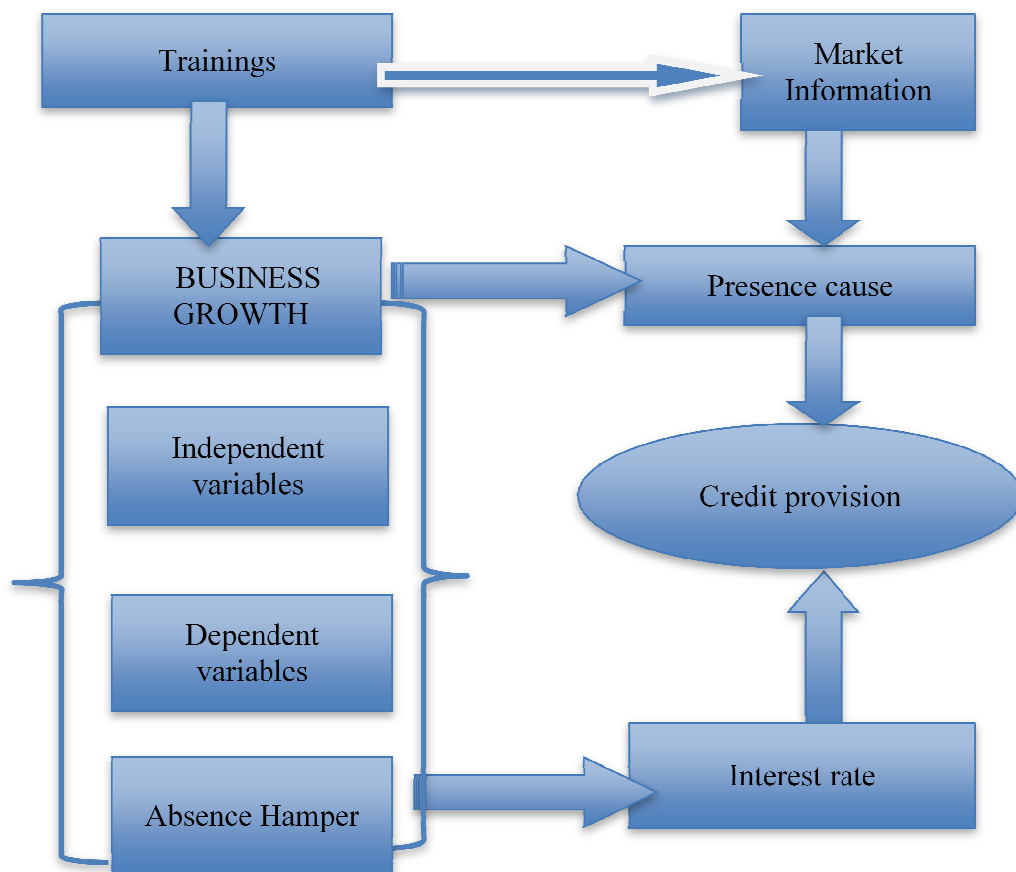
### ***Interest rates***

High interest rate affects choice of financing decision of SMEs to opt financial institutions as a source of their finance. In order to help these small enterprises, the cost of credit facilities should be reviewed downwards to enable smooth repayment and increase in the demand for loans to enable them grow their businesses which will in effect have ripple effect in the economy.

### ***SMEs growth***

This is the effect many above factors. Firms especially small and medium enterprises one got enough support from experienced one and once given financial support, then the result is the growth of economy, growth of enterprises capital and organization atlarge. The Tanzanian economy has continued to perform better in

term of economical growth in which it is assumed to grow for 7.3% in 2013 from 6.9% in 2012(Africa economic outlook report, 2015) and SMEs contribute significantly to this growth, and offer employment to many people both in the rural and urban areas although they face tough competition from corporate and large-scale businesses due to their capital being small. The above explained factors and many other can be summarized in the Figure 2.1.



**Figure 2.1:Conceptual Framework**

Source: Resercher (2015)

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology is a way to systematically solve the research problem (Kothari, 2006). This chapter describes various methods that were employed in data retrieval, processing and analysis. Also the chapter describes the research design, sampling techniques and sample size that were used during data collection process.

#### **3.2 Research Design**

This research employed a descriptive research design. A Descriptive research design aims at describing state of affair, as they exist. Kerlinger (1969) points out that, descriptive studies are not restricted to fact finding, but may often result in the formulation of important principles of knowledge and solutions to significant problems. They are more than just a collection of data they involve measurement, classification, analysis, comparison and interpretation of data. Orodho and Kombo (2002) argue that, this form of research design can be used when collecting information about people's attitudes, opinions, habits or any of the variety of education or social issues.

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

Population refers to a large group of people possessing one or more characteristics in common on, which a research study focuses (Creswell, 2007). The population of study is defined as a group of subjects from whom the researcher expects pick samples as to draw conclusions about the research topic (Kothari, 2006). The

targeted population for this study included all registered SMEs owners and all ABC Bank branches staffs and Management in Dar es salaam which are approximated to be more than 720 in which among them ABC Bank staffs and managers comprises 257 people and other registered SMEs were 463.

### **3.4 Sample, Sample Size and Sampling Procedure**

#### **3.4.1 Sample and Sample Size**

A sample is a small group of subjects drawn from the population in which researcher is interested in gaining information and drawing conclusions about the universe (Kothari, 2006). Sample size is a part of the population selected to represent the whole population, it enables the researcher to achieve objectives with reduced resources. For a sample to be effectively applied should not be less than 25% of the total population. In this research, samples of 180 respondents were selected from population which is 25% of the intended population.

#### **3.4.2 Sampling Procedure**

Sampling procedures involve the techniques to which the sample is drawn from the population. The study used purposive and stratified random sampling techniques, sometimes known as judgmental sampling (Kothari, 2006). The researcher chooses only elements, which he/she believes, were able to deliver the required data. In terms of stratified random sampling, this type of sampling is also known as chance sampling or probability sampling where each and every item in the population has an equal chance of inclusion in the sample and each one of the possible samples.

Purposive sampling technique were used in areas where the researcher wanted to collect particular information from particular group which is not accessible from

other sources. In this case, the banks staffs were selected purposively as they possess unique information for the problem under the study. Stratified random sampling technique were used to select people that have a relation and further information on the research topic, which in most case included those owning SMEs or having information concerning them which were stratified into small and medium SMEs owner depends with the capital of investment.

### **3.5 Data Collection Methods**

Data collected for this study were of the two forms, that is secondary and primary. Kothari (2006) defines primary data as data that are collected afresh and for the first time, and thus happen to be original in character while secondary data are data which have already been collected by someone else and which have already been passed through the statistical process. Secondary data were collected through reviewing different literatures that contained information concerning the research topic while Primary data were collected directly from the field through questionnaires and interview techniques.

#### **3.5.1 Questionnaires**

Questionnaire is on the method that was used in the data collection process. The reasons for using them is due to their advantages which include; they are free from bias; also they give respondent more time to give well thought answers and lastly they can reach those respondents that are not easily reachable (Kothari, 2006).

Questionnaires were developed and administered to various respondents and they included a mixture of closed and open-ended questions. Closed ended questions were

in the form of multiple choices and respondents were required to put a tick against the answer of their selection, while for open ended questions, the respondents were required to fill in the empty spaces so as to give their recommendations, feelings, opinions and experiences concerning the research topic. Questionnaire were used to probe information from SMEs owners, ABC bank staffs and managements.

### **3.5.2 Documentary Review**

Documentary review enables the researcher to learn what other scholars have written on the same or similar subject and thus being able to pointing out what knowledge gaps still exist. Indeed, this method is more economic as it saves time and money since the data already exist for answering research questions (Kothari, 2006). The collection of secondary data involved reviewing bank procedural manuals that contain policies and procedure relating to granting of loans and other assistances to SMEs. This was essential in helping the researcher to obtain information concerning the banks supports to SMEs.

## **3.6 Validity and Reliability**

### **3.6.1 Validity**

Validity refers to how well a test measures what it is purported to measure. It is the extent to which the measurements obtained become correct. Validity as the quality of a data gathering instrument or procedure that enables it to measure what it is supposed to measure (Cohen et al., 2007). To ensure validity study will apply the different technique to obtain data where by primary data obtained through questionnaires and secondary data analysis which obtained from documentary review and this was done through piloting of the data collection instruments used to collect



data. The data collection instruments designed in such a way that they measure attitudes and opinions of respondents towards the problem under the study to the maximum degree possible. Issues developed from conceptual framework were compared with issues obtained during questionnaire and answers obtained from it so as to ensure construct validity.

### **3.2.1 Reliability**

Reliability is the degree of consistency that the instrument or procedure demonstrates (Best and Kahn, 2006). It is essentially a synonym for consistency and reliability over time, instruments and groups of instruments (Cohen et al, 2007). In order for a research instrument to be reliable, it must demonstrate that if it had to be used on a different group of respondents in different context, then similar results would be found.

In this study, the instruments were administered in a consistent fashion. In addition, qualitative study findings were provided to maximize the transferability of the study findings and inferences to other people and settings that are similar to the context of the present study. This study also use of cronbach alpha at to ensure validity and reliability at all levels between 0.7- 1 to measure the instrument.

### **3.7 Data Analysis**

After the data has been collected, the relationship that exist among data groups, mostly Microsoft excel and Statistical Package for Social Science (SPSS) computer software were used to process and analyze them. Ms. Excel was used prepare data presentation in terms of figures and graphs. The respondents' scores were

summarized from the sheet and made ready for analysis. A comparison was made between the responses to identify small and medium business owners using their sizes and sector as basis, against the literatures that contains information concerning small businesses.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Chapter Overview**

This chapter focuses on the data presentation and discussion based on a study that was conducted with the purpose of diagnosing the contribution of financial institution on ensuring the growth of SMEs taking ABC bank in Dar es Salaam. It will describes sample and profiles of SMEs owner managers and employee respondents and the selected small businesses. Moreover, organizations and analysis of the finding will be made on this chapter.

##### **4.1.1 Explanation of Data Cleaning**

This refers to data preparation, which includes editing and eliminating errors in coding and transmitting the data to the computer (Kothari, 2006). The editing was done so as to detect errors, omitting at the same time correcting them where possible in order to meet the minimum quality standard of data. In the process of data cleaning the responses were studied and compared in order to assess their accuracy and consistency with other information as well as uniformity since some respondents used different terms to give the same information.

Data from the questionnaire was cleaned and verified to minimize entry errors, outliers and missing values. In the first step, invalid responses were removed. Invalid responses included questions that were unanswered or answered outside of the given scale. Secondly, personal details must be removed from the data set. Sometime surveys require respondents to enter their personal information such as their ID, name, age, gender and ethnicity etc.

These inputs were ignored during conversion, as they were not used for analysis. Then responses from questionnaire were coded and the codes were saved in the codebook and used during the interpretation. Collected data were entered into the computer by using EPI Data (Version 3.1), in order to ensure its accuracy. Data cleaning was done to check for the forgotten entries, consistency and outliers.

#### **4.1.2 Validity and Reliability Measurement**

Validity is the most critical criterion and indicates the degree to which an instrument measures what is supposed to measure while reliability is concerned with consistency of responses with which the repeated measure produces the same results across time and observers (Saunders et al., 2007).

Content validity is all about whether the measures represent the meanings of the concept. Content or logical face is the extent to which professionals agree that the scale logically appears to measure the concepts (Mbura, 2007). Based on this research data validity, Researcher consulted expertise and conducted a pilot study thus information gathered was used to determine if the scales were being able to capture the intended information.

Reliability test to determine internal consistency of the scale, which assessed the degree to which the items were homogeneous and how consistent individuals respond to the items and questions. Reliability is achieved if the instrument produces the same results when successfully used by different researchers. This study proposed the use of cronbach alpha at levels between 0.7- 1 to measure the reliability of the instrument (Cronbach, 1951). The reliability test was done using SPSS package and the results were as shown in the Table 4.1.

**Table 4.1: Reliability Statistics for Internal Consistency of Data**

<b>Cronbach's Alpha</b>	<b>Number of Items</b>
0.751	18

Source: Field Data (2015) (SPSS Printouts)

## **4.2 Demographic Characteristics of Respondents**

### **4.2.1 Age**

Demographical factors were important as to identify maturity of respondents. In the category of age (generation subsets); 34 employees were below 20 years, representing a 15.8% response; 42 employees were between 21-30, with a 22.5% response; 59 employees were between 31-40, with a 36.6% response; and the remaining 45 respondents were above 40 years with a 25% response. These are represented in Table 4.1 and in Figure 4.1.

**Table 4.2: Respondent Age**

<b>Criteria</b>	<b>Number</b>	<b>Percentage</b>
Below 20 years	34	15.8
21-30 years	42	22.5
31-40 years	59	36.7
Above 40 years	45	25
<b>Total</b>	<b>180</b>	<b>100</b>

Source:Field Data (2015)

### **4.2.2 Gender**

During data collection process, the researcher wanted also to establish the gender ratio of the respondents that were involved in the research. In this category: 86 employees were females, representing a 46.7% response and 94 employees were males, representing a 53.3% response. These are presented in Table 4.3.

**Table 4.3: Gender of the Respondents**

<b>Gender</b>	<b>Number</b>	<b>Percentage (%)</b>
Female	86	46.7
Male	94	53.3
<b>Total</b>	<b>180</b>	<b>100</b>

**Source:** Field data (2015)

#### **4.2.3 Level of Education and Training**

During data collection, the researcher was also interested in understanding the general level of education for the people that were involved in the researcher. The need to establish was for the purpose of understanding if the results came from people with knowledge and they were aware on the answers that they were providing. Under this category result were as follows. Out of all 180 respondents that were consulted, 21 respondents (7.5%) had Secondary school education as their level of education attained, 23 respondents (9.2%) had Diploma as their highest level of education, 38 respondents had Certificate of education, 85 respondents (60.8%) had bachelor degree and above as their level of education attained while 13 respondents equal to 0.8% possess others level of education. This data is summarized and presented as shown in the Table 4.4.

**Table 4.4: Respondents Level of Education**

<b>Education Level</b>	<b>Number</b>	<b>Percentage (%)</b>
Secondary School	21	7.5
Diploma	23	9.2
Certificate	38	21.7
BA/BSC and Above	85	60.8
Others	13	0.8
<b>Total</b>	<b>180</b>	<b>100</b>

**Source:** Field Data (2015)

#### 4.2.4 Years of Service

Researcher categorizes respondents according to their experience based on the years in work as described in a nutshell with the support of the following Table 4.5.

**Table 4.5: Respondents Years of Services**

<b>Year of Service</b>	<b>Number</b>	<b>Percentage (%)</b>
Less than 1 year	27	10
1-5 years	55	33.3
6-10 years	60	37.5
Greater than 10 years	38	19.2
<b>Total</b>	<b>180</b>	<b>100</b>

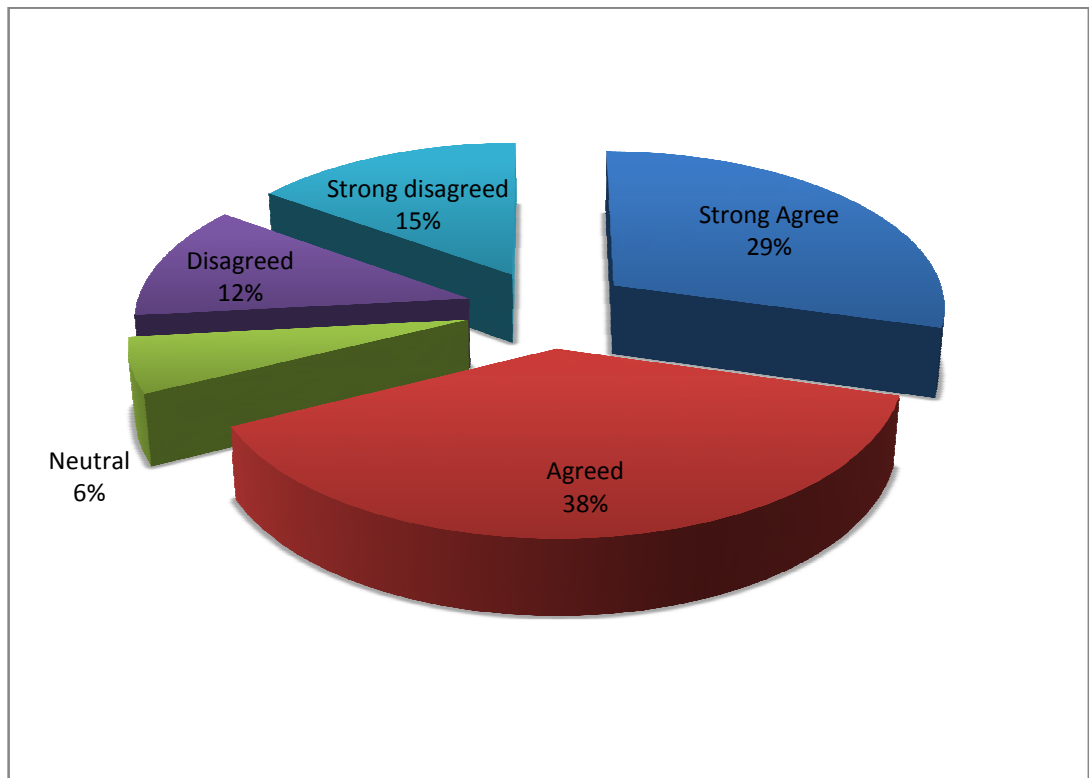
Source: Field data (2015)

#### 4.3 The Role of Financial Institution in Supporting the Growth of SMEs

The major focus of this study was to identify the role that financial institutions plays in supporting the growth of SMEs. As to meet the goal required the researcher prepare several questions that solely aimed at establishing this. The first question that was posed to the respondents was on the overall understanding on what is meant by business growth. In this, the researcher asked the respondents what do you think financial institutions can contribute to business growth?

In order to provide answers for this, the respondents were given five options that included: Agree; Strong agree; Neutral; Disagree and Strong disagree. The results that were obtained in this question are as follows: Out of the 180 respondents that were questioned in this, 53 (29.4%) of respondents strongly agreed with this; 69 (38.3%) agreed with this; 10 (5.6%) were neutral; 21 (11.7%) disagreed with this,

while the remaining 27 (15%) respondents strongly disagreed with this. This data can be presented diagrammatically as shown in Figure 4.1.



**Figure 4.1: Respondents Answer on the Role of Financial Institutions in Supporting the Growth of SMEs**

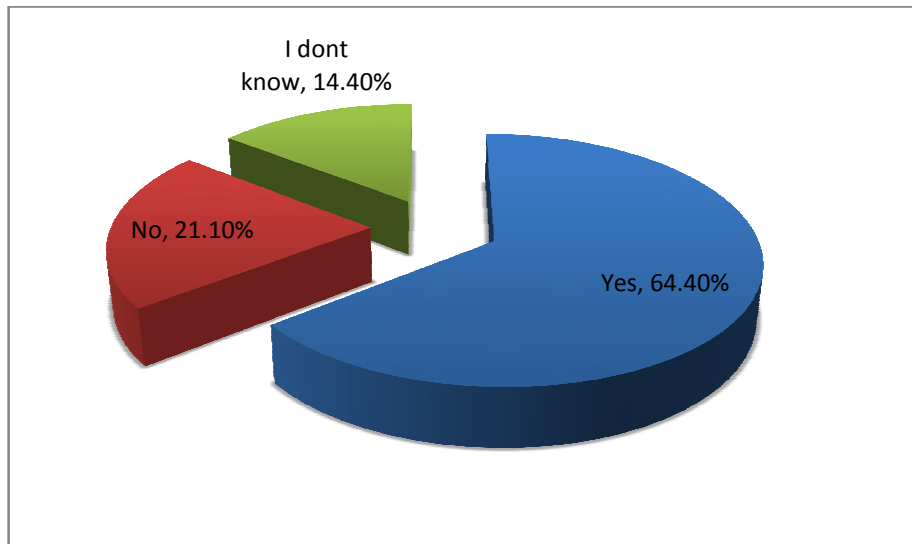
Source: Field Data (2015)

#### **4.4 ABC Bank Support SMEs**

The researcher was interested to find out the information on how the financial institutions as represented by ABC Bank, the selected case of study, provide support to small and medium enterprise. In order to establish this, researcher started by asking the respondents the following question; Does ABC Bank support SMEs?”, to provide answers for this, the respondents were to use Yes, No or I don’t know as answers and the following are the findings to that question that out of the 180 respondents that were asked this question, 116 which is 64.4% of the respondents



selected Yes as their answer, 38 which is 21.1% of the respondents selected No while the remaining 26 respondents that is equal to 14.4% selected I don't know. This is summarised by the Figure 4.2.

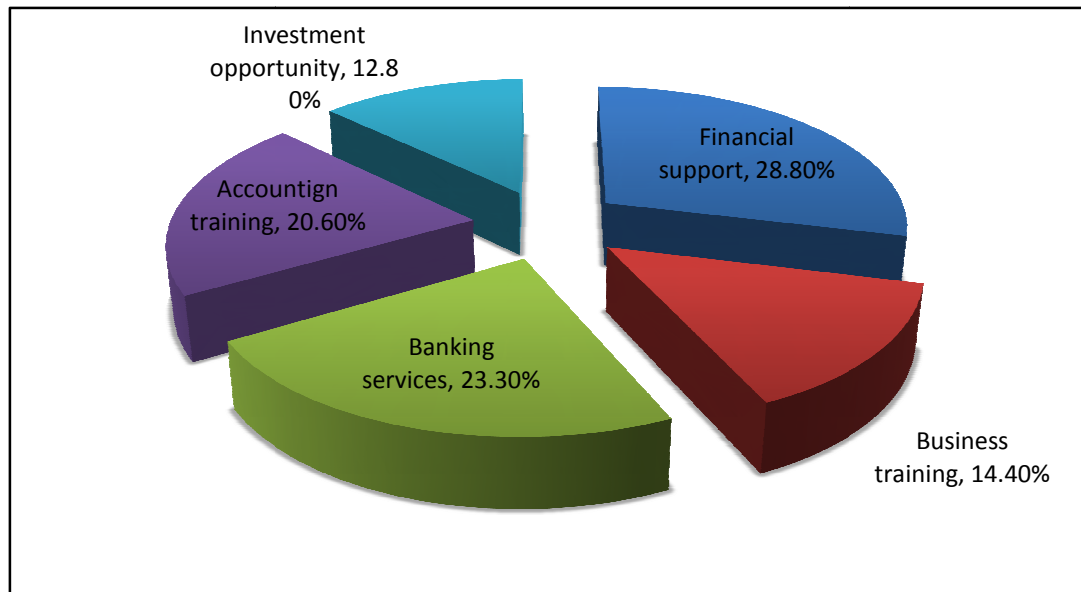


**Figure 4.2: Respondents Answer on Banking Support to SMEs**

Source: Field Data (2015)

While researcher continue to speculate on the actual support that are provided by bank as represented by the ABC Bank to SMEs, results were obtained as follows:

Out of all 180 respondents that were questioned in this, 52 respondents that were equal to 28.9% of all questioned respondents mentioned Financial support; 26 respondents that are equal to 14.4% mentioned Business training; 42 respondents that are equal to 23.3% mentioned banking services; 37 respondents that are equal to 20.6% respondents mentioned Accounting training, while the remaining 23 respondents that are equal to 12.8% of the respondents mentioned Investment opportunity as an answer to this. This data can be presented diagrammatically as shown in Figure 4.3.

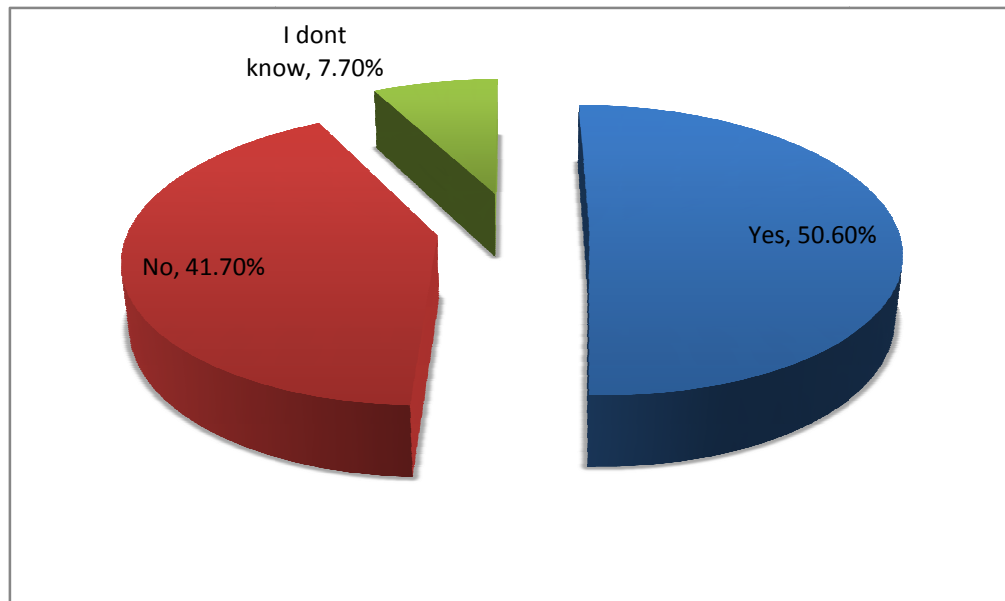


**Figure 4.3: ABC Bank Supportto SMEs**

Source: Field Data (2015)

#### **4.5 Challenges Facing ABC Bank in Supporting SMEs**

Lastly, the researcher asked questions as to probe on challenges that face the bank in supporting the SMEs. Again under this, the researcher started by asking the respondents on if they think that there are any challenges that the bank faces when thought or assisting those small and medium enterprises. To provide answer for this, the researcher gave the respondents the three options that were Yes, No and I don't know. The results under this were as follows. Out of the 180 respondents that were questioned in this, 91 respondents that are equal to 50.6% selected Yes in this, 75 respondents that are equal to 41.7% selected No in this, while the remaining 14 respondents that are equal to 7.7% selected I don't know in this. This data can be summarized in a figure bellow as follows:

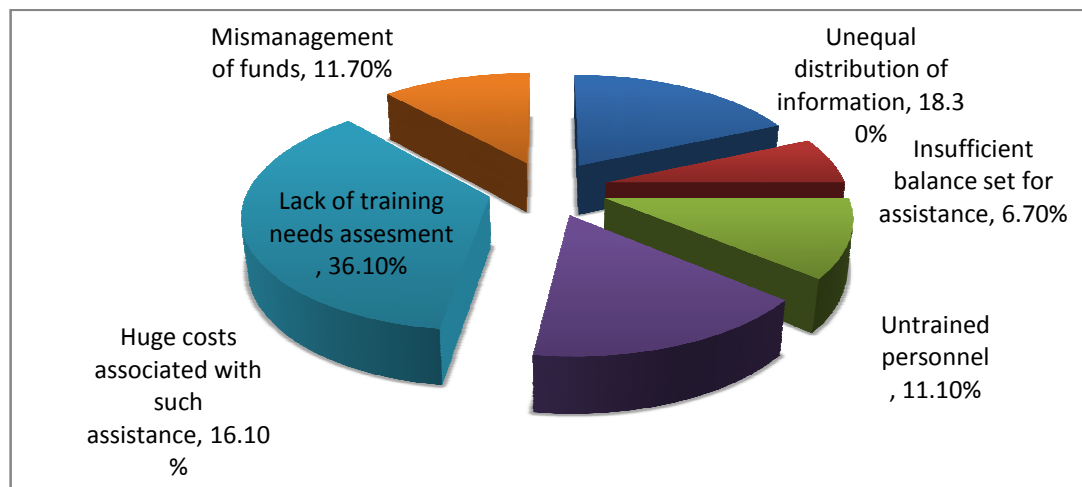


**Figure 4.4: Respondents Answer on the Challenges Facing ABC BANK**

Source: Field Data (2015)

The above question on respondents understanding on if they know that banks are faced by the challenges researcher establish additional question to identify if respondents knows some of those challenges that banks are faced with, the results were as follows, that out of all 180 respondents consulted to answer this question, 33 respondents that are equal to 18.3% selected Unequal distribution of information as a challenge; 12 respondents that are equal to 6.7% selected insufficient balance set for assistance as a challenge; 20 respondents that are equal to 11.1% selected Untrained personnel as a challenge in this; 29 selected 16.1% selected huge cost associated with such assistance as a challenge.

More over 65 respondents that are equal to 36.1% selected lack of training need assessment and lastly, 21 respondents that are equal to 11.7% selected mismanagement of funds as a challenge. This data can be presented as shown in Figure 4.5.



**Figure 4.5: Challenges Facing ABC Bank in Supporting SMEs**

Source: Field Data (2015)

## **CHAPTER FIVE**

### **DISCUSSION OF THE FINDINGS**

#### **5.1 General Background**

The main objective of this study was to assess the role of financial institutions in supporting the growth of SMEs in Tanzania; the case of ABC Bank in Dar es salaam. Researcher construct several specific objectives that included to identify the roles of financial institutions in SMEs development, to identify the support provided by ABC Bank to SMEs and to determine the challenges that ABC Bank face in supporting SMEs.

A total of 180 respondents in which 86 of them were females, which is 46.7% of all response and 94 were males, representing a 53.3% response were consulted as the study sample picked from ABC Bank, small and medium business owners. Based on age characteristics the minimum age category ranged from 20-30 whereby the maximum category was from 50-60.

The analysis of the age composition revealed that, the age group from 31 to 40 formed the major working group as it was identified have large number of respondents. According to researcher's thought is that the reason for this situation is due to the fact that the age from 30 to 40 is the age level in which people are more active.

#### **5.2 Objective 1: Role of Financial Institution in Supporting the Growth of SMEs**

The major idea under this objective was to find out the overall contributions that financial institutions plays in supporting the growth of SMEs. As to obtain the

information under this, the researcher was interested to get respondents perception towards the contributions that are made from this financial institution. The question that were posed to the respondents in this was direct “Do you think financial institutions can contribute to business growth?” From the findings, a total of 122 respondents that is equal to 67.8% of all respondents that were questioned said either they agreed or strong agreed with the proposed statement which says financial institution plays a significant role in supporting SMEs development. More over the remaining 58 respondents that are equal to 32.2% of all the questioned respondents selected either Neutral (5.6%), disagree (11.7%) or strong disagreed (15%) on the idea.

Going back to what Garcia-Fontes and Walter (2005), proposed, having large percentage of the respondents agreeing indicates the presence of that contribution while vice versa is also true. Based on that interpretation, the respondents confirmed that, large percentage of them agreed there are contributions that are made by these financial institutions towards the development of SMEs. This data is supported by the research done in Northern Ireland by Sigurdsson (2005) in Scotland whom were trying to assess the work of large enterprises on the economic growth of SMEs. On their study, it was found that, large financial institution have many to do on ensuring effective economical growth especially in giving loans to those with small business.

### **5.3 Objective 2: ABC Bank Support SMEs**

The focus of this objectives was to identify the role that the bank plays in supporting SMEs. Different from the first objective which focused on establishing ideas to obtain the general position of financial institutions in supporting the growth of

SMEs, this objective is specifically focus to identify actual contribution of bank towards development of SMEs. The results obtained under this showed that, large percentage of the respondents about 64.4 selected Yes meaning there is contribution from bank to SMEs, 21% selected NO and the remaining 14.4% selected I don't know as their answer on this. Based on this data, large percentage of the respondents agreed on the contributions that banks are supportive to the SMEs.

Asit was mentioned by most of respondents that financial institutions are supporting financially most of SMEs. Tagoeet. al., (2005) and Nawrocka, (2008), argue that in most cases financial firms are providing support to many small business like accounting training, banking services, Investment opportunity, financial training and Business training are some of the contributions that banks are given to other small business as to support them to grow.

However, appoint to note is that, still there existed a group of respondents that were not aware if these financial institutions support SMEs. Based on this findings, researcher suggested as to advice institutions that, there should be a deliberate act by the institution to educate or raise awareness to both their workers and customers concerning the roles that it can played towards assisting business growth.

#### **5.4 Objective 3: Challenges Facing ABC Bank in Supporting SMEs**

Lastly, the researcher was need to discovergeneral challenges that the bank faces when assisting SMEs. The result showed that, 91 out of 180 total respondents which is 50.6% says YES , another group of 75 respondents which are equal to 41.7% selected NO,while the remaining 14 respondentswhich is 7.7% selected 'I don't

know'. Basically, by looking at this data, there is slightly small difference between the respondents that selected YES and those that selected NO. This is either due to an equal distribution of knowledge or though the presence of large group of respondents that were not actually aware of the overall issue of bank on supporting SMEs.

Respondents mention some of the challenges like unequal distribution of information, Insufficient balance set for assistance as a challenge, untrained personnel, huge cost associated with such assistance, lack of training need assessment and lastly, Mismanagement of funds as a challenge. Looking at the respondents distributions specifically on giving the answers, majority of the respondents about 36.10% selected Lack of training needs assessment as the major challenge, while a challenge that was mentioned by few respondents is 6.70%. With regard of the respondents' answers, researcher establish measures as it was suggested by respondents that can be used by the bank in solving the challenges faced by them. These measures includes the following:

**(a) Train more people**

During the process of data collection, one of the challenges that were mentioned was lack of qualified or trained personnel. In this, the assumption was that, despite the fact that the bank does offer support in form of training to the SMEs owners, sometimes the bank lacks the personnel with such training that can do the job. In order to solve this problem, the respondent suggested that, there should be frequent training to the employees themselves so as to equip them with the adequate training to perform such endeavor.



**(b) Awareness raising campaigns**

Another measure that was proposed by the respondents was the awareness raising. In this, the respondents were under the impression concerning the support that can be obtained from financial institutions in particular in bank is minimal. Many workers and SMEs owners are not aware about the support that is obtained from the bank. In order to solve this, there should be a frequent awareness raising campaign focuses on impacting the required information concerning the support that can be obtained from the banks.

**(c) Establish information bureau for easy transfer of information**

This was also a measure that was proposed by the respondents as it can be used to curb the problem of unequal distribution of information. Basically, some of the respondents showed their dissatisfaction of process and movement of the necessary information from the bank to SME owners. In this, some of the respondents were under the impression that, some of institutions receive information earlier while others receive the same information late or not receive them at all either within the same or different offices. As to address this, there should no imbalance movement of information. According to respondents views, this can be addressed by championing the establishment of an information bureau that will specifically focus on the overall distribution of information to all the respondents at equal terms and time.

**(d) Performing frequent needs assessment**

Another challenge that was proposed during data collection process was the lack of frequently needs assessment. In this, some of the respondents were not comfortable with the overall support that is offered by the bank to SMEs. According to them, the

financial institution did not accurately establish the means of the assistance that accepted by majority specifically small business owners. As to solve this problem, respondent proposed the need to perform frequent needs assessment that will specifically target SMEs and establish what they actually need over a certain period of time hence the provided support will actually meet their needs.

## **CHAPTER SIX**

### **SUMMARY AND CONCLUSION**

#### **6.1 Chapter Overview**

This chapter presents the summary of the findings of the study. The way the conclusions are presented relates to the research objectives established at the beginning. Also it is in this chapter where the summary of the research and research recommendations are presented.

#### **6.2 Summary**

This study was to assess the role of financial institutions in supporting the growth of SMEs in Tanzania taking ABC Bank in Dar Es Salaam as the case. Several specific objectives were formulated by the researcher as to make the study more easier to be done and to be understood. The first objective was aimed to identify the roles of financial institutions in SMEs development. Another was to recognize the support provided by ABC Bank to SMEs and thirdly was to determine the challenges faced by ABC Bank in assisting SMEs.

As to obtain the data, specific objectives were converted to research questions which also were three, asking to reflect specific objectives. Data collection for this study was done through Questionnaires and documentary reviews. Data from primary source were obtained from the respondents whom they gave researcher an on-site observation relating to the problem. In terms of documentary reviews, this method were used to give information on the organization, management and the general practice of customer care from other regions of the world in general and Tanzania in

particular. A total of 180 respondents were selected both purposively and randomly from ABC Bank workers and their SMEs customers as sample size for this study.

The findings of the study reveal that, on the first objectives, respondents identify that, Out of the 180 respondents that were questioned in this, 53 (29.4%) of respondents strongly agreed with this; 69 (38.3%) agreed with this; 10 (5.6%) were neutral; 21 (11.7%) disagreed with this, while the remaining 27 (15%) respondents strongly disagreed with this, while the findings for the second objectives shows that 116 which is 64.4% of the respondents selected Yes as their answer, 38 which is 21.1% of the respondents selected No while the remaining 26 respondents that is equal to 14.4% selected I don't know.

More over on identifying the support that Banks gave SMEs, 52 respondents which is 28.9% mentioned Financial support; 26 respondents 14.4% mentioned Business training; 42 respondents that is equal to 23.3% mentioned banking services, 37 respondents that are equal to 20.6% respondents mentioned accounting training; while the remaining 23 respondents that are equal to 12.8% of the respondents mentioned Investment opportunity. The last objective shows that 91 respondents that are equal to 50.6% selected Yes in this, 75 respondents that are equal to 41.7% selected No in this, while the remaining 14 respondents that are equal to 7.7% selected I don't know.

### **6.3 Conclusion**

Basically, this study was aimed to assess the overall support that is offered by financial institutions to SMEs. In simple terms the researcher wanted to see the

benefits that can be obtained by SMEs once they are enrolled or access the financial institution. First and foremost the researcher managed to establish the understanding of the respondents concerning business growth. For the case of this study, the understanding of what actually consist on the business growth was essential in order to establish respondents understanding on what is meant by this terms and if the information provided relate to the research topic. In this, there was a significant understanding by both the customers and bank workers. Majority of them, are aware of the questions asked and as it was evidenced by the positive answers that were provided by the respondents.

With regard to the actual support that are offered by the financial institutions to SMEs, several items were identified. The respondents agreed that financial institutions provide a crucial support to the development of SMEs. More over they added that, financial institutions does provide support to SMEs both financially and training supports while referring to how the case of the study which is ABC Bank in Dar es salaam do to many of the SMEs.

Challenges and measures to ensure effective and long term support of financial institutions to SMEs were assessed. Researcher identify challenges includes, unequal distribution of information, insufficient balance set for assistance to all SMEs, untrained personnel, huge cost associated with such assistance, lack of training need assessment and mismanagement of funds among the most of supported SMEs. Researcher identifies several measures to be taken as means to curb the challenges that affects the provision of support by ABC Bank to SMEs which includes; Train more people both of financial institutions and SMEs as to raise

awareness on the benefits of support given to SMEs and to establish information bureau for easy transfer of information consigning financial and other business related information and performing frequent need assessment specifically to business and financial stakeholders.

As to conclude, the study had found that, there is a direct correlation between financial institution and SMEs development. It was suggested that with proper organization of financial institution, their support will help in steering the overall development of these SMEs. Majority of the respondents were very much supportive in giving the information consigning the study which were aimed to understand the contribution of financial institution in supporting the growth of SMEs taking ABC Bank in Dar Es Salaam as the case of the study.

## **6.4 Implication of Research**

### **6.4.1 Policy Implication**

The policy makers will find the gap available to their organisation and take the required measures to set a policy to regulate the business environment so that entrepreneur may be able to obtain higher returns, and providing an environment of lowering interest rates and softening conditions of accessing finance from various sources of finance as a means of welcoming SMEs to seek support as to ensure their growth.

The result of the findings shows that finance provided by the financial institutions has positive impact on the SMEs growth. In order to accelerate the growth, other services should also be provided. Such services are training, counseling, information

services and social network. Business education was the major obstacles to majority of SMEs, therefore, it is recommended that, business education and business ethics needs to be given at all levels from in schools and colleges, to small entrepreneurs, and government agencies.

#### **6.4.2 Research and Knowledge Implication**

Based on the findings of this study, the knowledge achieved from the findings is essential to guide future researchers. Masters students or other researchers may rely on the studies to broad study while using this work as a literature to probe the knowledge. This knowledge can also be used to design future quantitative or qualitative studies that are more transparent, coherent and credible with the application of knowledge generated from this research thesis. Moreover, the study Help other researchers in selecting variables and measures that may be appropriate for a particular topic area of research and suggest new approaches to analyzing data from similar hypotheses

#### **6.5 Areas for Further Study**

This study focused on one bank as a case study. Another study can be conducted through combining several banks and assess how they differ in terms of supporting the growth of SMEs. Another avenue that scholars can exploit is on the nature of contributions itself. This study was general assessing overall how financial institutions can contribute to the growth of SMEs. From this study, other researchers may come out with ideas to have more or another work while being specific to mention contributions and assess how it specifically contributes to the growth SMEs.

Another study can be done on differentiated SMEs, where instead of combining SMEs in one group, another study can break down several groups of SMEs and see how financial institutions contribute to their development. Categorization of these SMEs can either be in form of ownership, whether sole or multiple, or in terms of specialization that is manufacturing or services.



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## APPENDIX

### Appendix 1: Questionnaire to be used by all Respondents

Dear respondent, I am MBA student at The Open University of Tanzania (OUT). I am hereby to conduct a research and write a report on *Role of Financial Institutions in Supporting the Growth of SMEs in Tanzania*. As you have been selected to be among the respondents of this study. I request you to assist by complete this questionnaire and submit back to me. Please note that the information to be collected will be treated with extreme confidentiality and used exclusively for academic purposes as indicated hereon. Thank you for your assistance and support.

#### Section 1: Demographic Characteristics of the Respondents

PUT (✓) in the box of appropriate answer and write where necessary

##### 1. Gender

- a) Male (    )
- b) Female (    )

##### 2. Age

- a) Below 20 (    )
- b) 20-30 (    )
- c) 30-40 (    )
- d) 40-50 (    )
- e) 50-60 (    )
- f) 60 + (    )



## 3. Please indicate your level of Education

- a) Doctorate ( )
- b) Master's Degree ( )
- c) Postgraduate Degree ( )
- d) Bachelor's Degree ( )
- e) Diploma Degree ( )
- f) Certificate ( )
- g) Secondary School ( )
- h) Primary School ( )

4. How long have you been working for your current employer (**Workers**)?

- a) Less than a year ( )
- b) 1-5 years ( )
- c) 6-10 years ( )
- d) 11-15 years ( )
- e) 16-20 years ( )

## 5. What do you understand by business growth

.....

.....

.....

.....

.....

.....

6. Do you think financial institutions can contribute to business growth
- a) Agree
  - b) Strong agree
  - c) Neutral
  - d) Disagree
  - e) Strong disagree
7. What do you think are the contributions of these financial institutions?
- (i) .....
  - (ii) .....
  - (iii) .....
  - (iv) .....
  - (v) .....
8. Does ABC Bank supports SME development?
- a) Yes
  - b) No
  - c) I don't know
9. If yes How, if no why?
- a) .....
  - b) .....
  - c) .....
  - d) .....
  - e) .....

10. What do you think are the challenges facing ABC Bank in providing support to SMEs?
11. In order to curb the above challenges, what measures do you think should be taken?
- a) .....
  - b) .....
  - c) .....
  - d) .....
  - e) .....

**Thank you for taking your time in filling this questionnaire**