**THE ROLE OF BANK LOAN ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES: A CASE STUDY OF LETSHEGO BANK TANZANIA LIMITED**

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**A DISSERTATION SUBMITTED IN PARTIAL FILFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF PROJECT MANAGEMENT OF THE OPEN UNIVERSITY OF TANZANIA**

**2017**

## **CERTIFICATION**

The undersigned, certifies that he has read and hereby recommends the dissertation entitle;“The role of bank loan on performance of small and medium enterprises; a case study of Letshego bank Tanzania Limited-Temeke branch”, and found it to be in a form acceptable for examination.

……………………………………

Supervisor

………………………………

Date

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…………….........…………………

Faraja Mwingira

………………………….…

Date

**DEDICATION**

I dedicate this work to my parents.

## **ACKNOWLEDGENENT**

I am sincerely grateful for all the people and organization who provides support and assistance during my research work .It’s not possible to mention them all, however I would like to extend my sincere to my parents Mr. and Mrs. Mwingira for their encouragement and financial support during my studies, to my supervisor Dr Saganga M. Kapaya for supervising and guide my research work to make sure It was a successful, also to the management of Letshego bank Tanzania limited for their cooperation when I was conducting my research in their institution ,lastly to my teachers and fellow students who became very helpful in accomplishment of my research work.

## **ABSTRACT**

The contribution of SMEs in economic growth and development has been increasing recently .Many intervention and initiatives has been done to boost the SMEs sector, access of fund from external source has been cited as the major block for SMEs development .The fundamental object of this study is to examine the role of bank loan on performance of SMEs, stratified randomly sampling was used to gather sample size from the study population, structured questionnaire and structured interview were used to collect data from the respondent, data were analyzed and presented statistically using SPSS16.0,the findings of this study reveal that significant number of SMEs benefit from bank loan ,despite of the challenge they are facing in securing loans, majority of SMEs confirm that acquiring of bank loan lead to significant increase in SMEs profit and sales. It is recommended that banks should review their conditions for lending the SMEs to increase the SMEs borrowing; this will boost the role of SMEs in economic growth.

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## **ABBREVIATIONS AND ACRONYMS**

BOT Bank of Tanzania

BRELA Business registration and licensing agency

FINCA Foundation for international community assistance

GDP Gross domestic product

MSEs Micro and small enterprises

MSMEs Micro small and medium enterprises

SACCOs Saving and Credit cooperative organization

SMEs Small and Medium enterprises

SPSS Statistical Package for Social Science

## **CHAPTER ONE**

**1.0 INTRODUCTION**

The study aim at examining the importance of bank loan to the performance of Small and medium enterprises (SMEs) sector in Tanzania economy, the study was conducted among the owner of SMEs in Temeke district who access loan from Letshego Bank Tanzania Limited from 2014 to 2017. Letshego bank Tanzania limited is one of the private commercial bank in Tanzania licensed by the bank of Tanzania and national banking regulatory, it start to operate in 2015, after Letshego holdings limited acquire 75% of Advance bank Tanzania limited, product provided by Letshego bank include loans, checking saving and debit card. It has a total assert of US dollar 8.7 million (2014). The bank has branches in Dar es Salaam and other part of Tanzania.

**1.1 Background of the Study**

The role played by small and medium enterprises in economic growth and development have been increased dramatically, as most of government experiencing different reforms and initiatives. In china SMEs have become the backbone of China economic growth since the start of economic reforms of 1970s, as the Chinese took the advantage of reforms to engage in small business and private sector, SMEs contribution on China employment and industrial output have been increasing (Tsai,2015). The role of SMEs in Czech Republic economy is increasing as Czech economy is still recovering from global economic crisis of around 2007, SMEs are on the effort to adopt new emerging conditions but still contribute to 60.9% of employment and 49.5% of total output of the business community (Karel, et al, 2013).

In developing countries other government offer fund directly to small business as they have identify the contribution of SMEs in promoting economic growth ,for example The government of Zimbabwe finance the small business through SEDCO (the Bulawayo chapter of the small enterprises development cooperation), as the fulfillment of government vision to empower the local people.

Small and medium enterprises serve as a major source of income and employment to many Tanzanians according to integrated labor force survey of 2006. The government of Tanzania promotes SMEs through Bank of Tanzania (BOT) by increasing the bank credit to the commercial banks in order to increase the SMEs access to bank loans, the Tanzanian government also introduce different initiatives and institutions to support the SMEs sector, like the establishment of small industries development organization(SIDO), government funding mechanism to youth and woman and the establishment of National Micro-finance Bank specifically to serve the micro enterprises.

Despite of the huge contribution of SME in economic growth, access of bank loan to many SMEs have been cited as the major block for SMEs development, according to Marwa (2014) lack of finance in SMEs in Tanzania is associated with the risky nature of SMEs, and lack of transparent in their operation, hence it is difficult to quantify if the firm have the capacity to pay the loan. SMEs need bank loans for expansion of their existing business, in exploring new market and other opportunities like advance technologies, to be able to sustain in today business competition. SMEs do not always have the capacity to finance their business, so they have to turn to external financers like banks which is the main external capital provider for SMEs sector in both developed and developing countries (Vera and Onji 2010).

When SMEs wants to expand their unit they first consider their retain earning which is always low. Most of SMEs in Tanzania are privately owned so they don’t favor equity financing as they fear conflict of interest with other shareholders and the big deal of equity financing is new especial to most of small business owner, corporate bonds are costly and risky for SMEs, hence most of SMEs are turning to bank loan when they are facing inadequate of capital.

**1.2 Statement of the Problem**

Access of bank loan is the main challenge facing the SMEs sector in Tanzania, despite of their incredible contribution on economic growth, and different initiatives done by the government to boost the SMEs funding. The rate of bank loan delivered by the commercial bank to SMEs in Tanzania have increased (BOT, 2015), but still SMEs lack access to bank loans. However this study is intended to examine the role of bank loan on performance of SMEs by identifying bank loan related factors that affect loan delivery to SMEs in letshego bank, identifying SMEs related factor that affect loan delivery to SMEs in Temeke district and assessing the contribution of bank loan to the overall performance of SMEs in Temeke district.

**1.3 Study Objectives**

**1.3.1 General Objectives**

The general objective of this study is to examine the role of bank loan on the performance of small and medium enterprises, by taking Letshego bank as a case study.

**1.3.2 Specific Objectives**

1. To assess bank loan related factors effect on loan delivery to SMEs in Letshego bank in Temeke district.
2. To assess SMEs related factor effect on loan delivery to SMEs in Temeke district.
3. To assess the contribution of bank loans on the overall performance of SMEs in Temeke-district.

**1.4 Relevance of the Study**

The result of this study will provide a way forward on how we can address the problem of SMEs, related to bank loan access for better performance. It will help the financial department especial in Letshego bank to improve their policy, regulation, procedures and develop new strategies for expansion of new market. It may also be used in other studies through identifying the research gap for further study or investigation and as a source of empirical literature.

**1.5 Organization of the Study**

The study has five main chapters, chapter one: Comprise of the general introduction of the study, background of the study, statement of the problem, and objectives of the study**.** Chapter two: Include the conceptual definition of key term, theory supporting the study, identified research gap, statement of hypothesis, conceptual framework and the review of various related study. Chapter three: Contain in, the methodology adopted for the study, design of the study, study area description, sampling techniques, source of data and data collection techniques, Chapter four; include data analysis, result and discussion of the findings and chapter five; include the conclusion and recommendation of this study.

## **CHAPTER TWO**

## **2.0 LITERATURE REVIEW’**

**2.1 Introduction**

This chapter contains the definition of basic concept of the study, theory supporting the study, review of previous related studies, the identified research gap for further studies and the presentation of conceptual framework.

**2.1 Conceptual Definitions**

The content of this section aimed at defining and analyzing the key concept concerning the problem at hand.

**2.2 Small and Medium Enterprises**

There is no single acceptable definition of SMEs different researchers and institutions define SMEs according to different element such as number of employee in the operation and amount of capital invested. European union define SMEs as the one which employee less than 250 people and its turnover do not exceed 40 million euro, in case of this study SMEs are those enterprises who employee less than 100 employee with the capital investment of between Tsh 5 million to Tsh 800 million(Tanzania Small and Medium Enterprises policy of 2003).

**2.2.1 Performance**

Performance is measured on how well a process or mechanism archive its purpose, In enterprises management Moulin(2003) define an organization performance as how well the organization is managed and the value of organization delivers for customers and other stakeholders. SMEs performance can be measured within an agree set of goal at certain criteria/standards means to satisfy the customers, firm and the country economy.

**2.2.2 The Nature of Relationship Between Bank Loans, SMEs and Performance**

Banks are the main external financial provider for SMEs in both developed and in developing countries (Vera and Onji 2010).Smaller and local banks are the one who provide loan to SMEs more than and foreign bank, smaller and local banks are less bureaucratic and more familiar with SMEs than foreign banks (Schmukle et al, 2010), In case of this study Letshego bank is the small local banks located in local business area. This facilitate easy access of information from SMEs regarding the trend of their business, payment history and their financial record as they have to open an account before served a loan also small banks grand more loan to SMEs as the way of acquiring new customers as SMEs have becoming the booming sector in the economy.

Moderate debt level improve the performance of SMEs, when it goes beyond that, it may course financial crises e. g. bankrupt (Cecchettiet at 2011), Banks loan provide a working capital for SMEs to enables them to run a day to day payment transactions and management, to access to new and advanced technology for improving the quality of their product/service , to get fund for training and motivating workers to increase employee efficiency, and for exploring new market through advertisement and promotion. Long term debt finance will enable the SME to invest in new fixed assert like buildings and equipment, and this will increase SMEs productivity (Marcouse et al 2003).

**2.3 Performance Theory**

The Gibrat’s lawstate that the proportional rate of growth of a firm is independent of its absolute size., following the Gibrat’s law Omba and orji (2014)argue that all changes in the size of the enterprises are due to chances, thus the increase in performance of SMEs doesn’t determined by the size of the firm lather than the ability of SMEs to access loan from external source after meeting the bank loan related factor that affect loan delivery to SMEs and SMEs rated factors that affect loan delivery to SMEs, the law is applicable in smaller firm as the rate of growth in small firm is relative higher as they have to archive a minimum efficiency level.(Audretsch et al,2004).

**2.4 The Role of Bank Loan to the Performance of SMEs in the Economy**

The role of bank loan toward the performance of SMEs in economic growth has been studied over years by several researchers. The following are some of the findings from the related study which include the following. A study conducted by Tsai(2015) in China indicate that, since the economic reform of 1970s SMEs has become the backbone of China economy, SMEs accounts for over 97% of all registered industries in China, employ 65% of workforce and generate 60% of China GDP. Despite of the huge contribution of SMEs in China economy lack of access of bank loan has been the main obstacle to SMEs as large firm receive 75%of loan extended by state owned commercial banks. Access of working capital is more restricted to private SMEs as the government prioritizes the state sector to maintain social stability and the political sensitivity of using state resource to support the capitalist venture is more concerned. Hence SMEs are more rely on traditional informal finance. The government of China can introduce the mechanism of public and private partnership in financial institution to increase the supply of fund to capitalist venture.

In modern economy SMEs represent the first steps toward the world of entrepreneurship, based on many studies SMEs serve as an engine for economic growth, different measures have taken to boost the SMEs sectors e.g. Korea introduce tax concessions and loans with low interest rate for the establishment of new companies in rural areas, The great Britain aimed at fighting the difficulties of SMEs regarding the financing, technology and electronic commerce etc. some of the most high performing economies of the world e.g. Taiwan and Hong Kong strongly count on small enterprises,81% of all employee in Japan are concentrated in SMEs, in South Africa SMEs are estimates to be 60% of the companies and give about 40% of the production.(Savlovsch and Rob,2011), they concluded that SMEs and entrepreneurship play a vital role in the industrialization. The governments (developed, and the one in transition) should restructure their strategies to foster SMEs for development of their country.

Eniola, (2014) conducted a study in Nigeria on the role of SMEs firm performance, the result portray that SMEs have become the indices and drive for economic growth as the government have increased the effort to support SMEs. SMEs are still facing the problem of higher interest rate and higher collateral demand when securing loan from financial institution. The researcher suggest that SMEs need to change the way they are operating and manage those change like getting a loan of low interest rate ,getting start- up training ,entrepreneurship skills and business advice.

A study conducted in Rwanda by Ndikubwimana, (2016) find out that, after the genocide of 1994 the government of Rwanda has been trying to create a conducive environment to enable business sector to boost their performance. As Rwanda is prepared to become the middle income country the role of SMEs in economic growth and competitiveness is widely recognized, finance remain the problem to SMEs as small sector have begun to compete with larger sectors . The government of Rwanda assists SMEs by establishing SACCOs in every administrative sector, provide loan subsidize, guarantee and special line of credit to ensure sufficiency supply of funs to SMEs.

Aluko and Oke (2015) conducted a study on the impact of commercial bank on SMEs in Nigeria between 2002 and 2012, the findings indicate that commercial banks have a significant role in financing the SMEs despite of the believe that commercial banks have poor lending relation with SMEs, the findings still confirm that commercial banks are still the main source of finance to SMEs as they want to grow although the government should support the commercial banks to increase lending capacity to SMEs through giving them different incentives and the SMEs should keep adequate financial record of their business as the pre- condition of searching a loan from commercial banks.

Quainoo(2011) examine the impact of loan on SMEs in Ghana, and found that larger number of SMEs source finance from the bank and use that capital to acquire raw material for production to boost their business 96% of respondent agreed that bank loan helps the overall improvement of their business performance, the researcher recommend that the bank loan application procedures should be simplified and the SMEs owners should be trained on the best practice to use the loan efficiently. Marwa (2014), pointed out the obstacles of SMEs access to finance in Tanzania can be solved by adopting innovative financial strategies, include the establishment of microfinance like SACCOs and FINCA.

MSMEs account for 63% of Tanzania GDP and employ over 33% of all labor force, but still the sector faced with the problem of accessing loans from financial institution which hinder their performance, more efforts must be taken to link the SMEs with the formal financial institution to increase the accessibility of bank loans. Mfaume and Leonard (2004) conducted a study in Dar es Salaam on small business entrepreneurship; the findings indicate that small business entrepreneurship is the solution for the urban dwellers with no formal jobs. The paper challenges the possibility of reducing poverty in Tanzania by developing small business entrepreneurship through formulation of policy that can promote the development of small business entrepreneurship. Mrope and Mhechela (2013) conducted a cross section survey on micro and small enterprises challenges in managing loan at Mbeya, Tanzania, they found out high interest rate and lack of financial management skill are among the challenge facing MSEs in managing their loan .They suggest that, the government should review MSEs loan tax regulation, interest rate and loan service charges and provide relief by reducing the percentage of tax, interest rate and loan service charges imposed to traders.

**2.4.1 Conclusion**

Many studies suggest that SMEs are the major drive toward the economic growth and development ,contribution of SMEs toward economic growth is high, as many intervention have been taken to boost the SMEs sectors, financial constraints have been identified as the major block for SMEs development although there are other constraints toward SMEs development like poor innovation, lack of entrepreneurship skill and poor financial management, improvement of this factors may provide the ability of SMEs to grow.

**2.5 Identified Research Gap**

From various reading, researchers in their study work, provide the contributions made by SMEs to the economic development, despite of SMEs challenge of accessing bank loans. Researchers also suggest measures that will help SMES access to bank loan such as lowering of interest rate, but provide challenges such as SMEs opaqueness and high level of security. To the best of my knowledge there is no similar studies that have been attempted to assess bank loan related factor effect on loan delivery to SMEs, assessing SMEs related factor effect on loan delivery to SMEs and assessing the contribution of bank loan to the overall performance of SMEs.

**2.6 Conceptual Frame Work**

**Bank related factors**

* Interest rate
* Bank lending policy
* Bank lending procedures
* Bank lending condition etc.

**SMEs related factors**

* Capital
* Condition
* Collateral
* Character etc.

Borrowing  
 (Loan)   
Lending

0  
)  
)

**SMEs performance**

* Sales indicator
* Profitability indicators

**Figure 1.1: Conceptual Model of the Study**

**Source:** researcher,(2017)

**2.6.1 Explanation of Variables from Conceptual Framework**

**2.6.2 Small and Medium Enterprises Related Factors**

These are the pre- requirements, SMEs face when securing loans from Letshego bank, character ,since there is no quantify measure of character, loan officers will decide subjectively if the SMEs are sufficient to be trusted to pay the loan by checking their past payment records, educational background and experience in business. Capital, the bank will also consider how much SMEs have invested in their business, as they are releasing loan to boost their business and not for startup, they will also consider the business cash flows for measuring the possibility of the business to generate enough cash for paying the loan. Collateral, the bank officers will ensure the business have other source of paying the loan in case the business earning is not sufficiently or fail to pay the loan, the bank will also consider how the current economic condition affect the business sales etc.

**2.6.3 Bank Related Factors**

These are Letshego bank’s lending policy, regulation, procedures and conditions that affect SMEs access to bank loans, and they include payment of charges associated with loan application, bureaucracy in loan application process, interest rate charges etc.

**2.6.4 Loan**

Access of loan from Letshego bank will depend on the ability of SMEs of to meet the pre-requirement for loan access and favorable bank policy, regulation and procedures which attract customers to seek loan from Letshego bank,

**2.6.5 SMEs Performance**

Increase in performance of SMEs of Temeke district is contributed by the availability of fund and ability of SMEs to access fund from external source especial bank loan. Funds from banks are used in purchasing raw material for production within the same means of productions, this decreases costs of output produced while the volume of production and profit is increasing because SMEs use the same building, machinery and labor force who are not paid for overtime instead they provide them with small incentives which cost less, like bus fare, lunch etc.

**2.6.6 Relationship between Variables**

Ability of SMEs to fulfill the requirements for loan application, formulation of good bank loan procedures and regulations that will favor both the bank and the SMEs will increase lending and borrowing respectively ,the availability of fund will eventual pave way for increasing in performance of SMEs.

**2.7 Statement of Hypotheses**

Hypotheses 1; SMEs related factors affect bank lending decision at Letshego bank in Temeke district.

Hypotheses 2; Bank related factors affects SMEs borrowing decision at among SMEs located in Temeke district.

Hypotheses 3; SMEs related factors affects SMEs performance in Temeke district.

Hypotheses 4; Bank related factors affects SMEs performance in Temeke district.

## **CHAPTER THREE**

## **3.0 RESEARCH METHODOLOGY**

**3.1 Introduction**

This part covers research design, study area, population description, sampling, data collection method and data analysis techniques.

**3.1 Research Philosophy**

This study is an explanatory research, which use a case study to collect data through structured questionnaire and structured interview to test the theory underlying this research by examining the relationship between variables which will be measured and analyzed by using statistical techniques at particular time (Saunders et al, 2012).

**3.2 Area and Study Population**

The study was conducted at Letshego bank Temeke branch, Letshego bank aim at becoming a leading bank in provision of banking and financial service to SMEs in improve their life, the study involved staff from Letshegobank, and the registered SMEs owner from Temeke district who access loan from Letshegobank between 2014 to 2017

**Table 3.1: Study Population**

|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| --- | --- | --- | --- | --- | --- |
|  | Bank officer | 9 | 8.9 | 8.9 | 8.9 |
| SMEs | 89 | 88.1 | 88.1 | 97.0 |
| Credit supervisor | 3 | 3.0 | 3.0 | 100.0 |
| Total | 101 | 100.0 | 100.0 |  |

**Source:** field data (2017

**3.3 Sampling Procedure**

Stratified randomly sampling was used to gather sample from a population of 1458 respondents including 9 bank loan officers and 3 Credit supervisor from Letshego bank and 1446 SMEs from Temeke districts to ensure each strata is represented, as it was urged by Saunders et al (2012).Slovin’s formula was used to obtain a sample size from a targeted population of 1458 respondent. The Slovian’s formula is written as; n=N/ (1+Ne2)

Where n =number of sample,

N = Total population and

E= Error tolerance.

Given the targeted population of 1458 respondent, 95%confidence interval, which give 0.05 tolerances the sampling gave 313 respondents.313 questionnaires were distributed to 313 respondents but only 101questionnaires were properly answered, returned and used in data analysis.

**3.4 Research Data**

**3.4.1 Data Sources**

Primary data was collected directly from the bank loan officers on either the SMEs meet the pre-requirement for accessing loan from Letshego bank or not, so as to identify the SMEs related factors(collateral, character, capital, capacity) that affect loan delivery to SMEs, primary data was also collected from SMEs owners on how bank policy regulation and procedure affect borrowing decision, so as to identify bank loan related factors(interest rate, bureaucracy, loan application charges) that affect loan delivery to SMEs ,primary data was also collected from SMEs on either bank loan lead to increase in SMEs sale and profit or not, so as to assess the contributions of bank loan on performance of SMEs. Secondary data was collected from Letshego bank annual report, concerning the trend of bank lending to SMEs, the amount of loan borrowed and the number of their customers from Temeke district.

**3.4.2 Data Collection Techniques**

Close ended questionnaire and structure interview were used in data collection, data were measured based on 5 point likert scale rated from strong disagree, disagree, neutral, agree and strong agree. The questionnaire gathered data to justify whether bank loan increase performance of SMEs in term of sales and profitability, if SMEs related factors (SMEs capacity ,character ,collateral, capital) affect bank lending decision to SMEs and if bank related factors(interest rate, lending procedure and condition) affect SMEs borrowing decision or not. Structured interview were carried out to get more clarification on matters presented on questionnaire.

**3.5 Reliability and Validity**

A pilot study was carried out to assess the reliability of questionnaire; by taking a sample of 15 respondents from the targeted population. Cronbach alpha was used to measure the consistence of questions/instrument given the co- efficiency range of 0.7 as an ideal level of internal consistence, according to DeVilla (2012). The value of cronbach alpha was calculated using SPSS.



**Table 3.2: Reliability Test of Questionnaires**

|  |  |
| --- | --- |
| Cronbach's Alpha | N of Items |
| 0.841 | 11 |

**Source:** researcher (2017)

The above result indicates the reliability co- efficiency of 0.841, which means the variables were reliable as they exceed the prescribed ideal level of internal consistence.

Content validity was used to establish the validity of questionnaire, to ensure the variables within the questionnaires answer the research objectives and the hypotheses by thoroughly reviewing of research questionnaires and remove variables which are not essential in answering research objectives/hypotheses and adding other content which are useful in answering research objectives and hypotheses. The questionnaire was also reversed and approved by the supervisor. Therefore the data from the field collected using questionnaire and structured interview for detailed analysis.

**3.6 Data Analysis**

**3.6.1 Variable Measurements**

Both dependent and independent variable were measured based on rated response of respondent opinions. These variables were developed based on the objectives of this research. Dependent variable include loan and performance of SMEs while independent variable include SMEs related factors, loan and bank related factors. Performance of SMEs will be measured by rating the opinion of SMEs from Temeke district based on trend of sales and profit after accessing loan from Letshego bank, SMEs related factors will be measured based on rated response of bank loan officers on how SMEs collateral ,capital and character affect bank lending decision, bank related factors will be measured based on rated response of SMEs owners on how bank policy regulation and procedure affect their borrowing decision, loan will be measured based on rated opinion of SMEs, on whether or not loan has contributed to the overall performance of SMEs.

**3.6.2 Data Analysis Technique and Procedure**

The Collected data were classified in to different categories, analyzed and presented by statistical tools (simple tables, means and percentage) to ascertain the proportional of bank loan in financing the SMEs. Two simple multiple linear regression equations were used to assess the relationship between depend and independent variables for two different dependents variable and the result were interpreted based on the underlying theory of this study.

Regression model (1)

y = a + b1 x1 + b2 x2 + e

Where

y=Bank loan (dependent variable)

X1 = SMEs related factors (SMEs capital, collateral, capacity and character)

X2 = Bank related factors (bank lending condition, procedures and interest rate)

b1 b2= Beta Co efficiency of independent variable

e = Error term

a = Regression constant

Regression model (2)

Z=a + b1 x1 + b2 x2 + e

Where

Z = Performance of SMEs

X1=SMEs related factors (SMEs capacity, collateral, capital and character)

X2 = Bank loan

b1b2 = Beta Co efficiency of independent variables

e = Error term

a = Regression constant

This model assume a linear relation between dependent and independent variable, variables are normally distributed, the regression co efficiency are greater than 0,variance of error term are similar across the dependent variables and the different between the sum and mean of the residual are equal to zero. The above condition satisfied to get a valid model.

**CHAPTER FOUR**

**4.0 ANALYSIS AND DISCUSSION OF THE FINDINGS.**

**4.1 Introduction**

This chapter presents the analysis of data collected from the field, interpretation and the discussion of major findings, percentages and frequency where used to ascertain the portion of demographic attributes of the respondent, SMEs related factors that affect loan delivery to SMEs and bank loan related factors that affect loan delivery to SMEs , regression models were used to examining the relationship between depend and independent variable and the amount of variation of dependent variables due to change in independent variables, p value(level of significant) where used to identify the fitness of the model in making generalization from given parameters.

**4.1 Demographic Attribute of Respondent**

**4.1.1 Sex**

**Table 4.1: Population Distribution of the Respondents by Gender**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| G ender | | Frequency | Percent | Cumulative Percent |
|  | Male | 44 | 43.6 | 43.6 |
| Female | 57 | 56.4 | 100.0 |
| Total | 101 | 100.0 |  |

**Source:** Researcher (2017)

From the total population of 101 respondent, 43.6% where male while 56.4% where female, It was important to include both gender to get different opinions from both side, because they both experience different opportunities and facilities when they are applying loans from bank institutions. For example in Tanzanian families male have the advantage to get a security for loan as most of the properties entitled with their names unlike females, they depend on their enterprises to secure bank loans or special grand’s provided by the government through woman development fund. Females are more likely to access bank loan than males because the number of Female who engage in small and medium enterprises has been increasing recently as the government and other development partners widely provide entrepreneurship skill, training and special funds to empower woman and females in the community.

**4.1.2 Age**

**Table 4.2: Age Distribution of the Respondents**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Age | | Frequency | Percent | Cumulative Percent |
|  | 20 - 29 | 8 | 7.9 | 7.9 |
| 30 - 39 | 66 | 65.3 | 73.3 |
| 40 - 49 | 21 | 20.8 | 94.1 |
| 50 - 59 | 6 | 5.9 | 100.0 |
| Total | 101 | 100.0 |  |

**Source;** researcher, 2017

The results from Table 4.2 indicate that 65.3% of youth between the age of 30 to 39 are more engaging in small and medium sectors than other age, establishing of jointly or individual business/companies have become the alternative solution for unemployed of working population in Tanzania ,estimate shows that there are huge number of new entry in labor market every year where by the government can’t employ them all, public and private sector employ only a few of them, hence most of the unemployed working population in Tanzania are forced to join in establishing and operating individual or jointly small and medium business/companies

**4.2 Bank Loan Related Factors Affect Loan Delivery to Small and Medium Enterprises**

**4.2.1 Bank Interest Rate**

**Table 4.3: Does Bank Interest Rates Affect SMEs Borrowing Decision**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
|  | Strong disagree | 10 | 11.1 | 11.1 | 11.1 |
| Disagree | 51 | 56.7 | 56.7 | 67.8 |
| Neutral | 11 | 12.2 | 12.2 | 80.0 |
| Agree | 10 | 11.1 | 11.1 | 91.1 |
| Strong agree | 8 | 8.9 | 8.9 | 100.0 |
| Total | 90 | 100.0 | 100.0 |  |

**Source;** researcher (2017)

From Table 4.3, 56.7% of SMEs disagreeand11.1% strong disagree that bank interest rate affect borrowing decision to SMEs (11.1% agree,8.9% strong agree and 11% are neutral), to many SMEs in Temeke district bank interest rate seems as the post consequences of acquiring loan, they don’t consider it prior loan application despite of the possible high bank interest charges they may face. Many SMEs lack financial and loan management skills and they usual don’t evaluate the cost, risk and benefit of acquiring loan in different changing fiscal and monetary policy.

**4.2.2 Bank Lending Procedures**

**Table 4.4 Does Bank Lending Procedures Affect SMEs Borrowing Decision**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
|  | Strong disagree | 31 | 34.4 | 34.4 | 34.4 |
| Disagree | 31 | 34.4 | 34.4 | 68.9 |
| Neutral | 14 | 15.6 | 15.6 | 84.4 |
| Agree | 7 | 7.8 | 7.8 | 92.2 |
| Strong agree | 7 | 7.8 | 7.8 | 100.0 |
| Total | 90 | 100.0 | 100.0 |  |

**Source;** researcher (2017)

From Table 4.4, bank lending procedures have little effect on SMEs borrowing decision,34.4% of SMEs strong disagree ,34.4% disagree,7.8% agree,7.8stong disagree and 15.6% neither agree nor disagree that bank lending procedures affects SMEs borrowing decision .Bank lending procedures in Letshego bank have been simplified, bureaucracy in getting a loan has reduced and cost and charges associated with loan application have also been lowered.

**4.2.3 Bank Lending Conditions**

**Table 4.5: Does Bank Lending Conditions Affect SMEs Borrowing Decision**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Strong disagree | 5 | 5.6 | 5.6 | 5.6 |
| Disagree | 7 | 7.8 | 7.8 | 13.3 |
| Neutral | 2 | 2.2 | 2.2 | 15.6 |
| Agree | 19 | 21.1 | 21.1 | 36.7 |
| Strong agree | 57 | 63.3 | 63.3 | 100.0 |
| Total | 90 | 100.0 | 100.0 |  |

**Source;** researcher (2017)

From Table 4.5,Letshego bank lending conditions are among the major factors that affect loan delivery to SMEs in Temeke district, 63.3% of SMEs strong agree and 21.1% agree that bank lending conditions affect their borrowing decision (2.2% are neutral,7.8% disagree and 5.6% strong disagree). Those bank conditions include, ownership of legal assert and registered business, financial record, SMEs must not have unpaid loan from other institution etc. Most of small enterprises and some of medium enterprises in Tanzania are not registers, have poor loan payment history, don’t keep financial records and lack legal assert to secure their loan, hence they lack access of bank loans.

**4.3 Small and Medium Enterprises Related Factors That Affect Loan Delivery to SMEs**

**4.3.1 Failure to Meet Collateral Requirements**

**Table 4.6: Failure to Meet Collateral Requirements Affect Bank Lending Decision to SMEs**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strong disagree | 1 | 9.1 | 9.1 | 9.1 |
| Neutral | 1 | 9.1 | 9.1 | 18.2 |
| Agree | 2 | 18.2 | 18.2 | 36.4 |
| Strong agree | 7 | 63.6 | 63.6 | 100.0 |
| Total | 11 | 100.0 | 100.0 |  |

**Source;** researcher (2017)

From Table 4.6, failure to meet collateral requirements are the main challenge facing SMEs in Temeke district when securing loan from Letshego banks, estimate show that 63.6% of bank loan officers strong agree and 18.2% agree that collateral requirement affect lending decision to SMEs in Temeke district (9.1% are neutral and 9.1 are strong agree),most of SMEs fail to meet collateral requirements requested by lenders hence it affect loan delivery to SMEs, most of SMEs don’t have fixed assert like buildings or lands to secure their debt they operate their activities in rented buildings.

Most of financial institutions for example Letshego bank prefer fixed assert as the requirement for collateral because the value of fixed assert increase with time and they can’t be transferred in case the borrowers want to escape to pay the loan.

**4.3.2 Capacity to Pay the Loan**

**Table 4.7: Capacity of SMEs to Pay the Loan Affect Bank Lending Decisions to SMEs**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
|  | Strong disagree | 1 | 9.1 | 9.1 | 9.1 |
| Neutral | 1 | 9.1 | 9.1 | 18.2 |
| Agree | 6 | 54.5 | 54.5 | 72.7 |
| Strong agree | 3 | 27.3 | 27.3 | 100.0 |
| Total | 11 | 100.0 | 100.0 |  |

**Source;** researcher (2017)

From table 4.7, 54.5% of bank loan officers agreed and 27.3% strong agree that capacity to pay the loan is among the challenging factor in lending the SMEs in Temeke district, it is important to quantify the financial ability of the SMEs to pay the loan by analyzing SMEs cash flows, to ensure the installed loan can be paid. Most of SMEs don’t keep financial records where the loan officers can track their financial records hence they fail to get a loan, recently before SMEs wants to secure loan from Letshego bank they have to open a saving account so as the loan officers can track their financial records.

**4.3.3 Faithfulness of the Customers**

**Table 4.8: Faithful in Paying the Loan Affect Bank Lending Decision to SMEs**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
|  | Disagree | 1 | 9.1 | 9.1 | 9.1 |
| Agree | 6 | 54.5 | 54.5 | 63.6 |
| Strong disagree | 4 | 36.4 | 36.4 | 100.0 |
| Total | 11 | 100.0 | 100.0 |  |

Source; researcher (2017)

From Table 4.8, faithfulness of the customers in paying the loan is also the main challenges facing the bank loan officer in lending the SMEs. 54.5% of loan officers from Letshego bank agree that delaying of paying the loan and escaping to pay the loan to some of unfaithful customers affect lending decision to some of SMEs, most of loan officer don’t constantly provide loans to unfaithful customers as they are using a lot resource e.g. time to enforce them to pay the loan.36.4% agree and 9.1 disagree that faithful in paying the loan affect bank lending decision to SMEs.

**4.3.4 SMEs Capital**

**Table 4.9: SMEs Capital**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
|  | Strong disagree | 2 | 18.2 | 18.2 | 18.2 |
| Disagree | 3 | 27.3 | 27.3 | 45.5 |
| Neutral | 3 | 27.3 | 27.3 | 72.7 |
| Agree | 2 | 18.2 | 18.2 | 90.9 |
| Strong agree | 1 | 9.1 | 9.1 | 100.0 |
| Total | 11 | 100.0 | 100.0 |  |

**Source;** research (2017)

From the Table (4.9) SMEs capital have influence on SMEs lending (18.2% strong disagree, 27.3% disagree, 27.3% are neutral, 18.2% agree, and 9.1% strong agree) that SMEs capital affect bank loan lending to SMEs, SMEs capital (SMEs fixed assert and other working capitals) are very important for SMEs when they are securing loan from Letshego bank, as they provide capital for boosting the business and not for startup.

**4.4 Contribution of Bank Loan to the Performance of SMEs**

**4.4.1 Sales**

**Table 4.10: Does bank Loan leads to increase in SMEs sales**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
|  | Strong disagree | 3 | 3.3 | 3.3 | 3.3 |
| Disagree | 3 | 3.3 | 3.3 | 6.7 |
| Neutral | 12 | 13.3 | 13.3 | 20.0 |
| Agree | 28 | 31.1 | 31.1 | 51.1 |
| Strong agree | 44 | 48.9 | 48.9 | 100.0 |
| Total | 90 | 100.0 | 100.0 |  |

Source; research (2017)

From table 4.10 , 48.9% strong agree and 31.1% agree that bank loan increase SMEs sales (only 3.3% disagree 3.3% strong disagree and 13.3% are neutral) ,bank loans are mainly used in purchasing raw material for production, as most of small commercial banks(e.g. Letshego bank) provide a working capital for improving the SMEs output and not for financing of the fixed capital this lead to increase output.

**4.4.2 Profitability**

**Table 4.11: Does Bank Loan Results in Significant Increase in SMEs Profit**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
|  | Strong disagree | 3 | 3.3 | 3.3 | 3.3 |
| Disagree | 2 | 2.2 | 2.2 | 5.6 |
| Neutral | 16 | 17.8 | 17.8 | 23.3 |
| Agree | 52 | 57.8 | 57.8 | 81.1 |
| Strong agree | 17 | 18.9 | 18.9 | 100.0 |
| Total | 90 | 100.0 | 100.0 |  |

**Source;** research (2017)

Bank loan also lead to increase in SMEs profit see table 4.11, 57% agree and 18% strong agree that bank loan result in significant increase in profit because they are using the same buildings ,machinery and labor force to produce additional outputs hence they incur few addition cost.

**4.5 Regression Analysis**

**4.5.1Regression Model 1**

**Table 4.12 Regression Model Summary for Bank Loan**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .966a | .933 | .775 | .320 |

**Source;** researcher (2017)

From table 4.12, the regression model indicate that the coefficient of determination is 0.775(adjusted R square), this implies that 70% of change in lending and borrowing of bank loan is caused by SMEs failure to meet collateral requirement, SMEs capacity to pay the loan, faithfulness of the customers among the SMEs, bank lending conditions, bank lending procedure and bank interest rate other percentages are caused by other factors. The model has a positive correlation (R 0.9) this indicates that increase or decrease in lending and borrowing of a bank loan will depend in increasing or decreasing in ability of SMEs to meet the pre requirement for loan application and favorable bank lending procedure, condition and lowering of bank interest rate.

**4.5.2 Fitness of Regression Model 1**

**Table 4.13: Significant Level of Variable For Model 1**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model 1 | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
|  | Constant | 8.719 | 1.424 |  | 6.122 | .009 |
| Failure to meet collateral requirements | .172 | .138 | .261 | 1.247 | .301 |
| Capacity to pay the loan | .054 | .138 | .072 | .392 | .721 |
| SMEs capital | -.587 | .129 | -1.108 | -4.562 | .020 |
| Faithful in paying the loan | -.379 | .265 | -.491 | -1.430 | .248 |
| Bank interest rate | -.867 | .263 | -.885 | -3.293 | .046 |
| Bank lending procedure | .508 | .220 | .592 | 2.308 | .104 |
| Bank lending condition | -.211 | .158 | -.392 | -1.339 | .273 |

**Source;** researcher (2017)

Dependent variable;Bank loan

The model is significant in making generalization of the following parameters, bank loan, SMEs capital and bank interest rate because their significant value(at 95% confidential interval),hence we accept the following hypotheses; SMEs capital affect bank lending decision at Letshego bank in Temeke district and bank interest rate affect borrowing decision at among SMEs located in Temeke district.



**4.5.3 Regression Model 2**

**Table 4.14: Regression Model Summary for SMEs Performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 2 | .506a | .256 | -.240 | .582 |

**Source;** researcher (2017)

Form Table 4.14 adjusted R square (coefficient of determination) is negative, therefore change in performance of SMEs doesn’t coursed with the capacity of SMEs to pay the loan, SMEs capital ,failure of SMEs to meet collateral requirement, faithful of customer or the availability of bank loan, the change may be coursed by other factors so investigation have to be done to identify factors that course changes of SMEs performance although the model has positive correlation (R,0.5) which implies that increase or decrease in performance of SMEs may depend in increase/decrease of bank loan, SMEs ability to meet collateral requirement, SMEs capacity to pay the loan, SMEs capital and faithfulness of the customer.

Based on Table 4.15 result the significant level of SMEs performance and other variables are, therefore the model is not significant in making of generalization of performance based on above variables see Table 4.15, More investigation should be done to identify other variables and model, which can be used to predict the performance of SMEs. Hence we reject the following hypotheses; SMEs capital affect SMEs performance in Temeke district and bank loan affect SMEs performance in Temeke district.



**4.5.4 Fitness of Regression Model 2**

**Table 4.15 Significant Level of Variables for Model 2**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | Constant | 5.678 | 2.501 |  | 2.270 | .072 |
| Failure to meet collateral requirement | -.006 | .253 | -.012 | -.023 | .982 |
| Capacity to pay the loan | .130 | .250 | .222 | .519 | .626 |
| SMEs capital | -.026 | .203 | -.063 | -.127 | .904 |
| Faithful in paying the loan | -.292 | .313 | -.489 | -.933 | .394 |
| Bank loan | -.077 | .334 | -.099 | -.229 | .828 |

**Source;** researcher (2017)

**CHAPTER FIVE**

**5.0 CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

This chapter covers the general conclusion of the study, recommendations and area for further studies.

**5.2 Conclusion**

The study aimed at examining the role of bank loan on performance of SMEs, by taking Letshego bank Tanzania Limited as the case study. The study was set out to address the following objectives;

1. to identify SMEs related factors that affect loan delivery to SMEs in Temeke district, the results of this study reveal that failure of SMEs to meet collateral requirement, capacity to pay the loan and unfaithfulness of some customers are among the main challenge facing SMEs in Temeke district when securing loan from Letshego bank.
2. To identify bank related factors that affect loan delivery to SMEs in Temekedistrict, the study portrays that bank lending conditions are the main bank related factors that affect SMEs borrowing decision which affect loan delivery to SMEs in Temeke district.
3. And to assess the contribution of bank loan on performance of SMEs ,performance were measured based on sales and profitability, based on dissertation findings accessing of bank loan lead to increase in SMEs sales and profitability, SMEs who wants to expand their service or production may acquire loan from bank institution when they are facing financial difficulties

**5.2 Recommendation**

**5.2.1 Bank institution**

Interest rate charges, most of the respondent argue that interest rate charged by the bank institutions is high. Lowering of interest rate will attract many SMEs to secure fund from banks institutions. Payment system, payment of the loan start one month after loan disbursement, the bank can reschedule the starting period of paying the loan at least from the third month, to allow the SMEs to strengthen their business ability to pay the loan.

Bureaucracy in loan application and loan application charges should be lowered to allow many SMEs to seek fund from bank institutions. Also condition for lending the SMEs should be simplified. Consultation, the bank should consult the SMEs on the best management of bank loan to ensure it will be paid. Commercial banks should extend their service in rural areas, where the main country economy is relying on and agriculture activities being the major back bone of Tanzania economy operated on villages.

**5.2.2 SMEs**

The SMEs should acquire training and education on how they can manage bank loan properly to increase SMEs performance. They should seek loan which have low interest rate and they should keep financial records as the pre-condition for seeking a loan from Letshego bank.They should register their business and seek other source of finance which is cheaper like informal financial support e.g. VICOBA (village community banks) in case they fail to access bank loan.

**5.2.3 Government**

The government can support the SMEs funding by providing subsides and incentives to commercial bank who serve the SMEs, and by proving loan directly to SMEs especial in rural areas where there is no commercial bank to serve the SME.

**5.3 Area for Further Study**

The study realizes that there is a need for in depth study on other source of finance for SMEs like informal financial support e.g. VICOBA (village community bank) to widen the chances of SMEs access of external sources of finance.

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## **APPENDICES**

**Appendix 1: Questionnaire for SMEs**

Dear respondent,

I am Faraja Mwingira a student from the Open University of Tanzania, The objective of this questionnaire is to get feedback from you on matters concerning the role of bank loan on the performance of small and medium enterprises sector in Tanzania.

Your kindly requested to fill the whole questionnaire so as to make this research a successful one and all information given will be confidential and for academic purpose. I wish to express in advance my sincere appreciation for the cooperation.

Gender………………………………...............................................

Age………………….....................................................

Give your opinion about the following by inserting the number of your choice in each question.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Strong disagree | Disagree | Neutral | Agree | Strong agree |
| 1 | 2 | 3 | 4 | 5 |

1. Did the loan from Letshego bank help your business to grow?
2. Did the loan from letshego bank result in any significant increase in profit?
3. Did the loan from Letshego bank lead to increase in sales?
4. Does letshego bank interest rate affect your borrowing decision?
5. Does Letshego bank lending condition affect your borrowing decision?
6. Does Letshego bank lending procedure affect your borrowing decision?

## **Appendix 2:** **Questionnaire for Staffs**

Give your opinion about the following by inserting the number of your choice in each question.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Strong disagree | Disagree | Neutral | Agree | Strong agree |
| 1 | 2 | 3 | 4 | 5 |

1. Does SMEs capital affect bank lending decision to SMEs?
2. Does SMEs collateral affect bank lending decision to SMEs?
3. Does SMEs character affect bank lending decision to SMEs?
4. Did SMEs condition affect bank lending decision to SMEs?
5. Does your institution increase lending to SMEs?
6. **Appendix 3: Structured interview question for Letshego bank staff**
7. Is there any policy in your institution concerning with small and medium enterprises lending facilities.
8. What strategies does your institution take to promote SMEs lending relation?
9. What are the challenges that your institution face when providing loan to the SMEs.
10. What measure does your institution take to solve the problem occurred when providing loan to SMEs.
11. Does your institution have any plan of increasing loan to SMEs?

**Appendix 4: Structured Interview Question for SMEs**

1. For how long have you been the customer of Letshego bank Tanzania Limited?
2. Do you satisfied with the Letshego banking regulation and procedures.
3. Did the loan from letshego bank help your business to grow
4. Which problems are you facing when your securing loan from letshego bank

What advantages do you get after accessing loan from Letshego bank?