

**THE ROLE OF BUSINESS PERFORMANCE ON MSMEs CREDIT ACCESS:
EVIDENCE FROM FINCA AT TANGA CITY**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT FOR THE
REQUIREMENTS OF THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION OF THE OPEN UNIVERSITY OF TANZANIA**

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CERTIFICATION

The undersigned certifies that, he has read and hereby recommends for the acceptance by the Open University of Tanzania a dissertation entitled; "The role of Business Performance on MSMEs credit Access; Evidence from FINCA at Tanga City" in partial fulfillment of the requirements for the of Master of Business Management of Open University of Tanzania.

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Date

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DECLARATION

I, Onesmo Ottoman, do hereby declare that this research paper is my original work and it has not been presented anywhere or will not be presented to any other institution for any award.

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Signature

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Date

DEDICATION

I wish to dedicate this research report to my parent Mr. and Mrs. Ottoman Muhini, and brothers and sisters who helped and supported me whenever I needed them throughout the entire process of this research report writing in my academic lyrics.

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With great joy and deep sense of gratitude, I extend my special thanks to God the almighty for his love strength, guidance and giving me the breath for doing this research report writing in my turbulent write of academic.

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ABSTRACT

The study aimed at assessing the role of Business Performance on MSMEs credit Access; Evidence from FINCA. Without finance small and medium enterprises cannot acquire or absorb new technology nor can they expand to compete in global market (World Bank, 2014). Lack of access to finance can seriously undermine the micro, small and medium enterprises growth. The reason is that provision of financial services is an important means for mobilizing resources for more productive use. Performance of MSMEs depends a lot on FINCA institutions support; therefore governments have introduced policies that enable MSMEs to access business credit from the institution. Micro, Small and medium enterprise in Tanzania are involved in various economic activities including services such as pubs and groceries, photocopying and printing shops, repair shops for electrical and electronic products, hair cutting salons, and dressing and catering services There are also businesses of metal work such as metal fabrication of doors and windows grills and gates, metals machinery, casting repair of spare parts, and production of consumer products. Therefore the researcher will assess the Role of Business Performance on MSMEs credit Access; Evidence from FINCA and then study findings and analysis of data will be collected in the field. The results of the findings will be presented in texts, tables and figures in order to realize the objectives of the study. The research will be conducted at Tanga City. Therefore our research will be based on the The role of Business Performance on MSMEs credit Access; Evidence from FINCA towards MSMEs credit access, so it base on both quantitative and qualitative research designs which explains the data in descriptive manner to show the credit access of MSMEs towards business performance.

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LISTOF ABBREVIATION

BoT	Bank of Tanzania
FINCA	Financial Service Microfinance Organization
FIs	Financial Institutions
LSEs	Large scale enterprises
MIT	Ministry of industry and trade
MSMES	Micro, Small, and Medium Enterprise
NSIC	National small industries corporation
SIDO	Small Industry Development Organization
SME	Small and medium enterprises
SSA	Sub-Saharan Africa
URT	United Republic of Tanzania

CHAPTER ONE

1.0 INTRODUCTION

1.1 Introduction

This chapter consists eight sub-sections. The first sub-section is about introduction, the second sub-section introduces background of the study, while the third sub-section covers statement of the problem, objectives of the study, justification of the problem, significance of the study, scope of the study.

1.2 Background of the Study

Micro, Small and medium enterprises are considered to be one of the principal driving forces in economic development. Micro, Small and medium enterprises (MSMEs) have been accepted as the key engine of economic growth and for promoting equitable development (Harash et al. (2014). They stimulate private ownership and entrepreneurial skills, the greater like hood that MSMEs will utilise labour intensive technologies and thus have an immediate impact on employment generation, they can usually be established rapidly and put into operation to produce quick returns, MSME development can encourage the process of both inter and the economic power of larger enterprises.

MSMEs development process continues to be in the forefront of policy debates in both developing as well as developed countries in creating jobs and competitiveness. In Europe, MSME represents about 99.8% of all enterprises in 2003, in which these MSMEs employs about two third of the workforce in Europe and generate more than a half (57.3%) of its value added. (Schmiemann, 2006).

In Africa, the MSME sector accounts for almost 90% of all the enterprises, in which they are located in both the rural and urban areas, whereby they provide more equitable distribution of income in all areas of the countries. This means that the MSMEs are the main source of providing employment to the people and stimulate the development of the countries by promoting the entrepreneurship and the business skills amongst communities and strengthen the local production sector as well as the industrial base. Therefore the MSMEs in Africa have been considered to be a very important engine for obtaining national development goals, such as poverty alleviation and economic growth. (Mokaddem, 2006). These enterprises are drivers of the economy; therefore policy attention has to be given to them especially in developing economies because of their impact on many sectors of the economy.

However, Tanzania like other countries, MSMEs play an important role in the process of industrialization and economic growth by significantly contributing to employment creation, income generation and catalyzing development in urban and rural areas (Olutunla, 2008). Therefore finance has been identified in many business surveys as the most important factor determining the survival and development of micro, small and medium enterprises in both developed and developing countries economies (Beck and Maksimovic 2008).

Micro, Small and medium enterprises are the backbone of many economies in Sub-Saharan Africa (SSA) and hold the key to possible revival of economic growth and the elimination of poverty on a sustainable basis. Despite the substantial role of the MSMEs in SSA's economies, they are denied official support, particularly credit, from institutionalized financial service organizations that provide funds to

businesses.

Without finance micro, small and medium enterprises (MSMEs) cannot acquire or absorb new technology nor can they expand to compete in global market (World Bank, 2014). Lack of access to finance can seriously undermine the micro, small and medium enterprises growth. The reason is that provision of financial services is an important means for mobilizing resources for more productive use. Performance of MSMEs depends a lot on FINCA institutions support; therefore governments have introduced policies that enable MSMEs to access business credit from the institution.

Moreover, there is no universally accepted definition of MSME but different countries use various measures of size depending of their level of development. MSMEs are widely defined in terms of their characteristics, which include the size of capital investment, sales turnover and total number of employees. The MSMEs nomenclature is used to mean micro, small and medium which cover non-farm economic activities mainly manufacturing, commerce, and services (URT, 2002). It is now increasingly recognized that the Micro, Small and Medium Enterprises play an important role in Tanzania.

Other intrinsic benefits of micro, small and medium enterprises include access to the infrastructural facilities occasioned by the existence of such MSMEs in their surroundings, the stimulation of economic activities such as suppliers of various items and distribution for items produced within the region. Therefore MSMEs are the pivot of economic growth and first point of contact for the business (Ajose 2010).

Tanzania like any other developing countries in the world, has taken a number of measures to promote MSMEs (Mungaya *et al.*, 2012). For instance, development of 2003 MSME policy, improvement of infrastructure, creation of conducive legal environment, provision of business training and business credit services. Although the MSME sector is important to the socio-economic development of Tanzania, however there are a lot of drawbacks facing micro, small and medium Enterprises includes lack of education and training, insufficient capital, lack of entrepreneurship skills, lack of prior planning and poor management.

MSMEs also suffer from principal-agent problems, and asymmetric information, which can lead to investment in more risky projects and present lenders with the difficulty of distinguishing good loans from bad loans. In these circumstances banks find it rational to engage in credit rationing (e.g. not extending the full amount of the credit requested, even when the borrower is willing to pay a higher interest rate). In addition it can be difficult to disentangle the financial position of the owner from that of the firm (Harvie 2014).

Since the mid-1980s, the government of Tanzania has embarked on several attempts on economic reforms which essentially entailed the shift from an administratively managed and public sector led economy to a market oriented and private sector led economy. Financial sector reforms were part of these broader economic reforms (BoT 1994). Also financing is seen as a mechanism by which MSMEs could improve their cash flow. The introduction of FINCA in Tanzania is seen as the best alternative source of financial services for low income earners and their MSMEs as a means to increase income, hence reducing their poverty level and contributing in

country economy (Kessy and Urrio 2006).

The service of FINCA to majority of Tanzanians who are low income earners have created opportunity to them including managing scarce household and enterprises resources more efficiently, protection against financial risks by taking advantages of investment opportunities and gaining economic returns (Chijoriga, 2000). Also it enables clients to protect, diversify and increase their incomes, as well as to accumulate assets, reducing their vulnerability to income and consumption shocks. Therefore, the major concern of this study will focus solely on assessing the role of Business Performance on MSMEs credit Access and will come out with the proposed strategies for improving access of business credits in the area of Tanga City, financial institutions that is FINCA.

1.3 Statement of the Problem

Ideally, Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. These include the provision of small loans to MSMEs that are repayable in frequent installments. These are also effective mechanisms through which to disseminate valuable information on ways to improve the health, legal rights, sanitation and other relevant concerns of the MSMEs. Currently, most entrepreneurs have adopted the culture of getting capital from FINCA, than the commercial banks because of the ease in FINCA credit.

Despite of MSMEs large contribution in countries development and economic growth in various aspects such as increased profit, increase of business premises

which in turn create employment, leads into increase of business assets, business diversification and sales return, however, their growth and development in developing countries are mainly inhibited by access of finance, poor managerial skills, and lack of training opportunities and high cost of inputs (Cook and Nixson, 2000). The MSMEs face limited access to financial services from formal financial institutions to meet their working and investment needs (Kessy and Temu, 2009). MSMEs have continued to suffer on business capital improvement in Tanzania, although there are several microfinance institutions which provide loans. In Tanzania, most of the MSMEs have low return on capital employed, low net profit margin and kept a small capital size (AMFIU 2010). Also, some of MSME fail to run their daily operations because of financial incapacity Chowdhury (2002).

Furthermore, financial institution that is FINCA are often reluctant to provide the business credits to MSMEs due to a lack of collateral, this hampers the ability of micro and small enterprises to raise finance. Also lack of credit knowledge on MSMEs obstructs them to access credit. Such institutions need to be able to effectively monitor the performance of the enterprise and ensure that the enterprise is abiding by the initial terms of the contract, the enterprise is making satisfactory business progress, and the necessary means are available to ensure that the interests of the lender are being respected. Such monitoring, however, is difficult due to a lack of transparency in the operation of MSMEs, which are less likely to follow expected norms of corporate governance.

Although FINCA is one of the institution that provide external financing to MSMEs, most of the MSMEs owners argue and mentioned the way in which this financial

institutions operate is based against offering MSMEs business credits. Poor dissemination of information from the suppliers of credit and prolonged-bureaucratic processes which consume time unnecessary leading to unethical practicing such as bribes and effect of collateral requirement. Tanzania like any other developing countries in the world, has taken a number of measures to promote business growth of private sectors and MSMEs

1.4 Objective of the Study

Here, general objectives and specific objectives of this study were stated and shown. They guided the researcher in reaching the intended objectives of the research as follows;

1.4.1 General Objectives

The broad objectives of the study aimed to assess The role of Business Performance on MSMEs credit Access; Evidence from FINCA.

1.4.2 Specific Objectives

A clear sense of purpose and direction of this study depended on the following specific research objectives;

- i. To examine the effect of credit knowledge on MSMEs credit access at FINCA in Tanga City
- ii. To examine the effect of collateral requirement on MSMEs credit access at FINCA inTanga City.
- iii. To examine the effect of business performance on MSMEs at FINCA in Tanga City.

- iv. To examine the effect of bureaucratic procedures on MSMEs credit access at FINCA in Tanga City.

1.5 Justification of the Study

The report of our research was concerning about the The role of Business Performance on MSMEs credit Access; Evidence from FINCA. Micro, Small and medium enterprises face with many problems concerning the access of getting business credits due to lack of collateral that is security. This is because they did not have a worth collateral to put against business credit. Also high interest rate which was the cost of debt was higher which will limit the MSMEs to acquire the business credits. Too much bureaucracy procedures were being taken and this could hinder the SMEs to get loan due to lack of credit knowledge.

Although there are some problems facing micro, small and medium enterprises but when they can get some preferential treatment, it will reduce burden to them. If the interest rate will be moderated, cost of debt will decrease. The process of acquiring credit to be reduced, and to provide credit knowledge to the MSMEs in Tanga City, many micro, small and medium enterprises will be performed well.

1.6 Significance of the Study

The significance of the study would be the following; the study will be expected to provide an insight of the impact of business credit of financial institutions (FINCA) on the success of micro, small and medium enterprises in Tanga region. Non-Financial institutions play a catalytic role of providing credits so as to boost MSMEs. Normal MSMEs use two source of finance; internal or external sources of

financing. The internal funds are always insufficient to undertake the required level of business hence the call is always made for external finance from relevant financial institution to fill the financial gap.

Over the years the failures of MSMEs have been linked to the inability to access finance (credits) from financial institutions (FINCA). This study is therefore, will provide important empirical evidence about the impact of business credits towards micro, small and medium enterprises performance. Because without such evidence no substantial strategies will be shown regarding the development of MSMEs in Tanga. Hence, this study shall be relevant to policy makers in the areas of finding out the impact of micro financing on the micro, small and medium scale investors. Also, this study shall enhance further research in the subject area.

1.7 Scope of the Study

This refers to the boundaries or limit within which study was carried. It aimed at limiting the study in terms of contents sample and geographical spread. The study covered only Tanga City of Tanzania using FINCA as a case study towards micro, small and medium enterprises in Tanzania who are engaged in different economic activities. The study will be important because it will add knowledge to the micro, small and medium enterprises on how business credits will help them to improve their production capacity whether producing goods or providing services.

1.8 Conceptual Definitions

Financial Institutions (FIs): are businesses whose principal assets are financial assets or claims, stocks, bonds and loans instead of real assets such as buildings, equipment

and raw materials (Saunders, 1994).

FINCA: this stand as foundation for international community assistance which used to provide loans or business credits to small and medium enterprises.

MSMEs: There is no universally accepted single definition of MSMEs as various bodies, organizations and institution have advanced different definitions (URT, 2003). But we can define as the enterprises with employment ranging between five and about 99. They are likely to operate from business, be tax-registered and meet other formal registration requirements.

Access to finance: is defined as getting adequate and affordable financing over a suitable timescale (Tagoeet. *al.* 2005).

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

A literature review is a text written by someone to consider the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Literature reviews are secondary sources, and such, do not report any new or original experimental work. Also, a literature review can be interpreted as a review of an abstract accomplishment. The chapter presents a review of the literature related to the study. It presents the literature review on the impact of business of MSMEs performance on MSMEs credit access particularly in Tanga City.

2.2 Theoretical Framework

2.2.1 Critical Review on the Theories Based on the Performance of MSMEs

Development analysts and practitioners have long been interested in the contribution of development of the financial institutions, growth and success of MSMEs. Among the early contributors to the theory is Robert Lucas (1988) also dismisses finance as an "over-stressed" determinant of economic growth and performance. On the other hand, Merton Miller (1988) argues "that the financial markets contribute to economic growth is a proposition too obvious for serious discussions." Goldsmith (1969) and McKinnon (1973) all saw the importance of the finance growth nexus in understanding economic growth. Finance has a prominent role in the endogenous growth theory, through its positive impact on the levels of capital accumulation and savings Romer (1986).

2.2.2 Credit Access Theory

The credit theory was postulated by Stiglitz & Weiss (1981), they provided a framework for analyzing financial market inefficiencies. This framework provides that information asymmetry is the main cause of financial market malfunctioning in developing countries. Financial institutions that advance loans to economic agents are not only interested in the interest they receive on loans, but also the risks of such loans. Most financial institutions screen and monitor borrowers more efficiently than other investors can. They are specialized in gathering private information and treating it. Managing money and deposit accounts, banks own highly strategic information on firms receipts and expenditures as well as the way that firms develop (Kashyap, Stein & Wilcox, 1993).

In reference to (Stiglitz& Weiss, 1981) adverse selection and thus credit rationing still occurs if banks require collateral. They argue that low-risk borrowers expect a lower rate of return on average. Thus, they are less wealthy than high-risk borrowers on average after some periods. Low-risk borrowers are therefore not able to provide more collateral. Increasing collateral requirements may have the same adverse selection effect as a higher interest rate. Instead Walsh (1998) argues that banks only offer contracts in which they simultaneously adjust interest rates and collateral requirements. He proved that there is always a combination of interest rate and collateral requirements so that credit rationing does not occur (Jaffee & Russell, 1996).

The proponents of this theory argue that the most interesting form of credit rationing is equilibrium rationing, where the market has fully adjusted to the public whereby

banks ration credit free, available information and where demand for loans for a certain market interest rate is greater than supply. (Stiglitz & Weiss, 1981) explains that credit rationing occurs if a financial institution charge the same interest rate to all borrowers, because they cannot distinguish between borrowers and screening borrowers perfectly is too expensive. Both assumptions are very simplifying and do not occur in this manner in the real world. Banks are usually able to distinguish their borrowers up to a certain degree.

2.2.3 Microfinance Credit Theory

The concept of group lending is commonly heralded as the main innovation of microfinance and claims to provide an answer to the shortcomings of imperfect credit markets, in particular to the challenge of overcoming information asymmetries. Information asymmetries may lead to the distinct phenomena of adverse selection and moral hazard. In the case of adverse selection, the lender lacks information on the riskiness of its borrowers. Riskier borrowers are more likely to default than safer borrowers, and thus should be charged higher interest rates to compensate for the increased risk of default (Rahman, 2010).

Accordingly, safer borrowers should be charged less provided each type can be accurately identified. Since the lender has incomplete information about the risk profile of its borrowers, higher average interest rates are passed on to all borrowers irrespective of their risk profile. In moral hazard generally refers to the loan utilization by the borrower that is the lender cannot be certain a loan, once disbursed, is used for its intended purpose, or that the borrower applies the expected amounts of complementary inputs, especially effort and entrepreneurial skill, that are the basis

for the agreement to provide the loan. If these inputs are less than expected then the borrower may be less able to repay it. The standard model of lending commonly contains two mechanisms which address the issue of information asymmetries: assortative matching or screening to deal with adverse selection, and peer monitoring to overcome moral hazard. Early models were developed by (Stiglitz, 1990), (Swain, 2008). These models examined how group liability schemes resolve moral hazard and monitoring problems.

2.2.4 Collateral in Msmes' Lending

FINCAs, like other businesses, focus on value creation, based on accepted and controlled risks, (OECD 2006; Pathrose 2005). FINCAs are reluctant to grant loans to MSMEs, due to a number of reasons, such as: - informational asymmetry, resulting from the lack of standardized financial information and statements provided by MSMEs, adding the FINCA's limited knowledge about the company seeking a loan (Badulescu and Badulescu 2010). The quantity and quality of information held by the entrepreneur in respect of its business activities can not be accessed in the same measure by the potential creditor. Thus, the creditors, the FINCAs, are unable to make an effective discrimination between good projects, "FINCAable", and doubtful projects, and in this case, the price (here, for example, loan interest) will not be an efficient selection (discriminate), but rather will lead to a portfolio with many risky loans: some of them with interesting perspective, others - safe failures (the phenomenon of adverse selection). A second problem is moral hazard: once the loan granted, the control of using in accordance with the original application (risk and opportunity assesMSME) would be facing serious difficulties, and the loan could be used - in whole or in part - for other purposes. To reduce this risk, the creditor will demand security: company assets, receivables, personal assets, land or buildings, or will ask repayment of the loan, or, if possible, will try to restrict the access to the unused rest of the loan; - higher risks associated with MSMEs lending, due to limited assets that can be used as collateral, low capitalization and

vulnerability to market risks. Lending institutions consider the environment of MSMEs as highly competitive and uncertain (compared with large enterprises), which implies a considerable variability of results for similar MSMEs working in the same sector and, finally, a high default rate. Limited market power, the high percentage of intangible assets, lack of relevant records of historical financial results and business, insufficient fixed or current assets, tend to create a higher risk profile of MSMEs for potential investors, (OECD 2000 and 2004; Lin and Sun 2006; Toivanen and Cresy 2000). Insufficient collateral for creditors in order to overcome moral hazard risks are, probably, the most often invoked explanation regarding the difficulties accessing a loan. Insufficient collaterals can be also an expression of an early stage of the business, unconsolidated yet, or even an excessive demand for credit, away from the real capacity of the company engaged in the proposed project; - besides the fact that small enterprise cannot provide adequate collaterals, they hardly convince the FINCAs about their managerial and marketing abilities or technical skills, that are essential to generate adequate cash flows and a proper debt service. Often, MSMEs are characterized by poor technical equipment, difficulties in ensuring qualified technical staff and an experienced management (human capital in general), to adapt to multiple and rapid changes of today's economic realities. Finally, the accuracy of the reports, insufficient legal business protection are barriers for financial institutions to determine the real profitability of the company, repayment ability, or the strength of guarantees. In developing economies, the risk profile is marked, additional, by unstable legislative environment, with negative consequences on transactions security. On a first sight, the financing provided to MSMEs is various, in small amounts and in a reduce typology compared to large companies - could involve lower cost of transactions; however, the situation is, in fact, different. The costs involved by the analysis of the application and disbursement of a loan are generally independent of the requested amount and usually comprises other fixed costs as legal taxes, costs to obtain risk information from specialized agency etc. (OECD 2006). In the case of small amounts, it is very difficult to recover a total cost, and the unique solution could be a strict control of them by standardizing the credit types, reducing the processing time etc. Implementing a scoring system can be a way to consistently reduce and uniform the

transaction cost, but this step involves an important database for calibrating, major changes in borrower and lender mentality, and it shows real efficiency only for credit institutions with lots of loan application from MSMEs. The Credit Bureaus creation can be a significant step forward in solving these difficulties (OECD 2004), but a consistent number and volume of independent cost remains, as related to: site visits for collaterals reviewing and general survey of the borrower, loan administration cost, etc. For developing countries, the problems are even more extended, due to: insufficient performance of evaluators, lack in IT reports, legal problems in registration of collaterals and enforcement sale of collaterals etc. Finally, an increase in the general level of fees and interests is predictable, but also tempered by competition, acceptance from MSMEs etc. For developing countries, the restrictive factors already mentioned fill out with institutional and legal factors. First, we refer to the features of the FINCA system, which, if concentrated and uncompetitive, will restrain the expansion of MSMEs sectors, both through conservative policy of customer evaluation, and through high rate of interest. All of these represent factors reducing the incentive of the FINCA to renew the products, to be closer to MSMEs sector, to take and assume the risks related to innovative and new economic fields. Furthermore, developing countries have an unconsolidated stock market, so the interest of institutional investors is diminished, they haven't a pragmatic and transparent method to enter and exit from the capital of selected business. At institutional level, we can speak about the rather discordant measures taken by the authorities: guarantee funds, state aid, fiscal facilities, consulting etc. in order to support the MSMEs in accessing finance and developing their businesses. The behavior of lenders invoking informational asymmetry, risk profile related to MSMEs or insufficient legislative and organizational framework is only one side of the explanation of the financial gap in the case of MSMEs. To support their arguments, FINCAs or other investors, pointed the relative reduce number of "FINCAable" companies, or reliable to invest in them, so called "the demand side constraints". From this point of view, often the lenders deal with a considerable number of projects that don't comply to the minimum requirements in order to be taken into consideration for financing. The reason for the rejection of these projects is often controversial, but the dispute between the FINCAer conservatism and the

poor quality of presented projects can be solved referring to neutral, good reputation institutions: experts, academics, scientists, who often admit that the number of real good, innovating and well sustained (in terms of financing needs and repayment capacity) applications is very short. This is the case both in traditional both in innovative industries: IT, micro-technologies, where the number of puerile, incomprehensible, unsustainable projects is extremely high and the pipeline of valuable and valid project is limited. Before being a competition issue, the poor quality of projects is a problem of perception, and the entrepreneurs should be aware that it matters in the same weight for lenders. The second restriction consists in the incapacity of the managers to take advantage of all the opportunities occurred in the search for financing sources, regardless of the inner quality of the project proposal. It is about the inability to convince and argue through valuable ideas, about the low availability to allocate sufficient time to build a solid and based on trust and closeness relationship with the credit institution, in order to compensate the lack of other resources, and this issue is valid for all categories of lenders or investors: institutional investors or angels investors. Often, the manager have little patient to cover all mandatory stages, considering it as a waste of time, which unfit him from the attention to the technical aspects of the project. They ignore, voluntarily or not, the financial aspects of the project, foreign trade procedures, encashment risks, insurance, very important for the safety and continuity of their business and well appreciated by investors, too. The third aspect of demand side restrictions is related to the venture capital financing and express the opposition of the owning manager to give up the control of the business, in favor of outside person, the so call "control aversion", extremely outspread in many countries, no matter the financial market development. Some researches (Cressy and Olofsson 1997; Berggren, Olofsson and Silver 2000) show that the rejection occurrence is more widespread among the companies in early stages of development, when the investor has more self confidence in his personal abilities and the prospective of the business, and it is more temperate at the maturity stage, when the owner intimately knows the reality of the entrepreneur life.

COLLATERAL, CREDIT RISK AND FINCA BEHAVIOUR

Collateral impact on credit risk, and, in a macroeconomic perspective, on the supply of credit to the companies, in special for MSMEs, is a topic attracting a constant and increasing concern in recent years. From the theoretical point of view, we find two alternative interpretations that lead, empirically, to different predictions. On the one hand, is the adverse selection problem faced by a FINCA in financing activity, and therefore, the security offered by debtors can help alleviate this problem (Stiglitz and Weiss 1981:393-410; Chan and Thakor 1987:345-363). Thus, low-risk borrowers are willing to offer a better guarantee, considering their lower risk as a signal for their capabilities fulfil its obligations under the credit agreement and, therefore, are less probability to lose the guarantee. The guarantee is interpreted as a signal that allows the FINCA to reduce or eliminate the adverse selection problem caused by the existence of informational asymmetries between the FINCA and borrower, when the loan was approved, (Jiménez and Saurina 2004). On the other hand, is the opinion, that even there is a ex ante symmetry between debtor and creditor (for example, the FINCA knows the quality of the debtor and correctly predicts the role of loan), guarantees are designed to mitigate the moral hazard problem once the loan was granted. In this respect, the security engaged helps to align the interests of both, creditors and debtors, thereby avoiding a situation where the borrower makes less effort to ensure the success of the project for which funding was granted. Security becomes a means to discipline the borrowers' behaviour (ex post) given the existence of a credible threat (Aghion and Bolton 1992:473-494). Starting from this view, we can expect to find a direct relationship between loan quality and/or the borrower, and the size of collateral, i.e. the assumption that the guarantee is a signal of high quality borrowers. However, this hypothesis is not agreed by the FINCAers, who tend to establish a direct relation between the level of credit risk and the volume of collateral. For other scholars, (Manove et al. 2001:726-744; Argentiero 2009), the size and quality of collateral is linked to the FINCA's behavior on the market. This dichotomy speaks about lazy FINCA's vs. diligent FINCA's. "Lazy FINCA's "are defined as those FINCA's that prefer to substitute a careful and efficient screening of projects with a high concern for the size and quality of proposed collaterals. In such framework, safer borrowers offer more guarantees compared with risky borrowers, primarily to give a signal about themselves when they are evaluated by a FINCA,

and secondly, to avoid the implications of carefully credit analyzing and screening, as for risky borrowers. FINCAs, in turn, will adapt to this process and, gradually, will reduce their analysis and monitoring activities for borrowers with substantial collateral. Therefore, risky but innovative projects tend not to be financed, thereby reducing the social welfare. Although interesting, and certainly based on some market behaviors, a model of "lazy FINCA vs. diligent FINCA" does not seem to be confirmed by statistical data; the results suggest a rather different kind of diligent behavior of these FINCAs (Argentiero 2009). In addition, research has shown that the presence of collateral is not able to reduce credit risk (default risk) ex post, these results are consistent with the theory that understands the collateral as a credible commitment against informational asymmetries, and not as convenient coverage against credit risk ex-post. In addition, there are significant differences in FINCAs' policy on the role of collateral required in long-term loans (compared with the short term), because this collateral is a part of a risk, but also it may increase coverage as the borrower made systematic repayments. Finally, we haven't ignore the influence of the regulatory environment, the possibility of applying the law on forced execution of collateral, that may influence the type and size of committed collateral, as the other non-price covenants asked in credit agreements.

2.2.5 Determinants of Capital Structure of MSMEs

Credit availability to MSMEs depends on the financial structures hence some important aspects are to be considered when deciding on their financial structure (Frank and Goyal 2003). This was postulated by Myers (1984) who determined the capital structure of MSMEs. The pecking order theory was used to explain why firms will choose a particular capital structure than the other. The pecking order theory stipulates that MSMEs average debt ratio will vary from industry to industry because these industries have varied asset risks, asset type and the requirements for external capital (Myers 1984). Firms in one industry will have certain aspects that

are common to most than to firms in a different industry (Harris and Raviv, 1991).

The decisions are made taking into consideration information asymmetry, agency theory, and the signaling theory. The signaling theory describes signs and the effectiveness or how a venture will progress in an uncertain environment. The main idea behind this theory is that there is an information signal that alerts the stakeholders of what is happening in the business (Deeds et al., 1997).

2.3 Empirical Literature Review

2.3.1 An Overview of Micro, Small and Medium Scale Enterprises

Before 2003 in Tanzania there was no generally agreed upon definitions of the term micro, small and medium enterprises. This situation necessitated the ministry of industry and trade (MIT) to carry out consultative dialogues with stakeholders in order to come up with a policy and usable definitions. Accordingly, under the Tanzania MSME policy (2003), the MSMEs nomenclature is used to mean Micro, Small, and medium enterprise (MSMES). The policy used both the number of employees and capital investment in machinery as indicators of the sizes of enterprises. Following this policy, definitions used are below are provided below.

Table 2.1: An Overview of Small and Medium Scale Enterprises

Categories	Employees	Capital investment in Machinery (Million Tshs)
Micro enterprises	1-4	Up to 5 million
Small enterprises	5-9	5 million to 200 million
Medium Enterprises	50-99	200 million to 800 million
Large enterprise	100+	Above 800 million

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Source: SMEs policy (2003)

N.B: In the event of enterprise falling under more than one category, then the level of investment becomes the deciding factor (URT, Ministry of Industry and Trade, 2003).

MSMEs are important in economics because of the significant role they play. This is true particularly in a country like Tanzania. They have great impact not only on the national economy, but also on the individual and society at large. In Africa, and Tanzania particularly a small business has a really unique importance. The main reason for the uniqueness is the fact that most economic activities take place there in (Olomi and Chijoriga, 2006).

This view is also supported by the ILO report in 1993 in which it is summed up that 70 percent of the people in Sub-Saharan Africa rely on small and informal establishments for their livelihood, and these small firms account for at least 50 percent of the total wage employed in the majority (Watson and Wilson 2002).

2.3.2 MSME Development in Tanzania

MSMEs all over the world are known to play a major role in social economy development. This is apparently the case of Tanzania, where MSMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas. The importance of MSMEs in economic development prompted the Government to formulate the MSMEs Development Policy in 2002

after several attempts done by government, for instance a major attempt in Tanzania was undertaken in 1966 when the National small industries corporation (NSIC) was formed under the National Development Corporation (NDC).

Thereafter, the SIDO was established in 1973 by act of parliament to plan, coordinate, promote and offer every form of services to small industries and another attempt was occurring around in the 1980 during the globe economic transformation when most of governments adopted reforms from the IMF and World Bank. Therefore the MSMEs Development Policy in 2002 ensures that MSME related components are adequately addressed, harmonized and coordinated with main focus in creation of an enabling business environment, developing of financial and non-financial services and putting in place supportive institutional infrastructure.

The policy focuses specifically on designing programs, reducing the cost of running MSME sector, strengthening SME infrastructure and enhancing the growth of MSMEs through enabling entrepreneurs to access business credits from FINCA. These entrepreneurs are the people who are running the MSMEs, usually individuals who bear a business vision and gather economic resources including land, labor and capital for business advancement. They are the people who undertake business risks to formally set up their firms.

Most of FINCA are mainly involved in credit delivery, business training, providing general consultancy, supporting market linkages and addressing gender and environmental issues. However, most of the institutions supporting MSMEs are rather weak, fragmented, concentrated in urban at large percent than interior areas

and uncoordinated (URT, 2002).

MSMEs development began during the late of 1980s with a major change in the method of delivery of services. It emphasized the need to focus and separate the function of financial and non-financial services. The group approach focused on the group's own savings which became a common goal as well as non-financial services such as training, technical assistance, and businesses counseling that were relegated to secondary position.

2.3.3 MSMEs Performance

Micro, Small and medium enterprise in Tanzania are involved in various economic activities including services such as pubs and groceries, photocopying and printing shops, repair shops for electrical and electronic products, hair cutting salons, and dressing and catering services. There are also businesses of metal work such as metal fabrication of doors and windows grills and gates, metals machinery, casting repair of spare parts, and production of consumer products. Food processing small business include fruit juice extraction manufacturing, tomato sauce packaging, processing and packaging of potato crisps, and milk processing. Environment businesses include cleaning services to offices and environment, tree seedling selling, and horticulture. Textile businesses include manufacturing of boutiques and tailoring services to the public. There are also small businesses having to do with cereal milling, maize milling, and flour packaging and mining and quarrying and manual processing of building aggregates, (Elias and Naliolela, 2003).

2.3.4 Source of Business Credit for MSMEs

Micro, Small and medium enterprises use several sources include self-financing by the owner through cash, equity capital on assets. Equity capital can be raised either internally or externally. Internal equity is funds obtained from the current owneró manager(s), family, and friends or from the retained earnings within the firm. External equity, however, is capital acquired from external channels other than the existing partners and their relatives (Cassar and Holmes 2003).

Furthermore, one of the most important sources of external financing for MSMEs is trade credit. According to García-Teruel&Martínez-Solano (2010) trade credit is a delay in the payment for goods or services after they have been delivered or provided as a result of an agreement between the supplier and the firm. Therefore, for the firm this is a source of financing appears in the balance sheet under current liabilities, whereas for the supplier it is an investment in accounts receivable.

2.3.5 The Role of MSMEs in the Economy

Due to fast developing modern technology and production scales the small and medium enterprises have become very critical for economic growth. This sector is now very important for those nations whose desire is to be prosperous as MSMEs are the starting point of industrial development .Large scale enterprises (LSEs) of today were MSMEs in the past and MSMEs of today will be LSEs of tomorrow. This rule holds true for all countries in the world.

The MSMEs in developing countries are both numerous and growing in number .Considering their potential in generating employment opportunities ,the government

should promote MSMEs by enhancing the availability of formal credit and imparting education and training to increase productivity and argument the earnings of the informal workforce .More emphasis should be placed on the development of working skills than on entrepreneurship and priority should be given to the provision of basic education which makes the acquisition of vocational training easier and also enhances the mobility and flexibility of workers (Berger and Udell 1998).

Government all over the world including those of developing countries have recognized the important role of the informal sector in the economy .One of the major components of the informal sector in the SME which regarded as the breeding ground for new entrepreneurs and the instrument of employment promotion. There are various advantages of MSMEs .The experience around the world suggest that MSMEs have played an important role in the industrialization of the country. For example, Japans industrialization in the 19th century and its economic success in the 20th century are typical examples of the beneficial role SMEs have played on that part of the world, (Reet Singh, 2008).

2.3.6 MSMEs in Relation to Gender

The concept of gender examines the relationship between women and men with the purpose of increasing our understanding of their status and inequalities, roles and capacity. As a social construct, gender coincides with other differentiations axes like age, ethnic group and global location to characterize women's life situation. On the other side of enabling them to get access of business credits they face many difficult situations like poor support from society members and ethnicity affect negatively the performance of women MSMEs, family roles, level of education and business

training have a weak positive effect on the performance of women MSMEs. There is a relationship between entrepreneurship knowledge and the performance of micro and small scale businesses, small scale business women need training in business planning, marketing skills, and accounting knowledge and customer care skills Msoka (2013).

2.3.7 Challenge facing Micro, Small and Medium Enterprises

Despite of this sector is indeed important. It is generally face unique challenges, which affect accessibility of having business credits so as to contribute effectively to sustainable development such as;

Inability to exploit growth opportunity

Lack of access to finance or funds means micro entrepreneurs cannot inject money into their businesses to grow them after observing a surge in demand. Moreover, the remote locations of micro businesses means they have little information pertaining to their market, such as customer needs and competitor strength and weaknesses.

Few organizational resources and poor governance

Micro entrepreneurs have limited skills, qualifications and exposures to handling businesses. While they need to be trained through capacity building initiatives by the FINCA, many micro entrepreneurs may not grow as planned because of these problems.

Low bargaining power

In case micro entrepreneurs operate in competitive markets, their individual bargaining power is diminishing when dealing with customers because of their small size. However, at

the other end of the spectrum, there still isn't any respite because micro entrepreneurs deal with MFIs on an individual basis, which also erodes their bargaining power.

Vulnerability to economic shocks

Micro entrepreneur are particularly susceptible to sudden changes in customer demand, or weather (even though microfinance can help with natural disasters) because their business cannot sustain losses owing to their small size (low capital). This may be a problem for the social objectives of microfinance providers but MFIs ensure their economic performance is untarnished by charging high interest rates to compensate this risk. Most problems faced by micro entrepreneurs are caused by their small sizes, varied locations and improper skills. Naturally, once the venture secures a loan begins to grow and these problems will eventually subside.

MFIs' Loans and Performance, Growth and Development of Micro Enterprises

Micro enterprises have an important role to play in the country's social economic development, by contributing significantly to productive and efficient use of scarce resources, employment creation, improved income distribution, region dispersal of industry and development of dynamic private enterprises (Bendera, 1997). Thus MSEs play an important role in improving the contribution the country's indigenous private sector (Mkude, 2004). In regard to employment, there are over one million enterprises in the sector employing between 3 to 4 million people or 20-30% of the total labor force in Tanzania (APDF, 2002). MSEs Growth depends to a larger extent on the financial assistance they obtained internally and externally. Internal source include fund from him/her, since these funds are not enough, external fund such as debt from MFIs, debt from MFIs, Equity finance and from family and friends become important. Olomi (2001) states that in order to improve the contribution of the private sector in Tanzania development process, a larger proportion

of informal and small enterprises need to grow. However, limited access to the required financial resources to start service and grow has been identified as an important deterrent to individual and small enterprises development and growth (Mkude, 2004).

2.3.8 Access to Business Credit

The lack of access to business credit was identified as one of the most severe constraint by micro, small and medium size enterprises in Tanzania. It was ranked the highest constraint by most established local and foreign entrepreneurs. Private entrepreneurs in Tanzania resorted to financing their operations from their own savings, support from members, short term credit provide by supplies, advances offered by buyers or loans from informal community based financial intermediaries (Hyuha et al, 1990). This is because there is no simplifications of loan conditions, provide access to finance, create markets for products, assist in the creation of business groups, ease the regulations controlling business, reform tax system, improving skills and training and provide business development services (URT, 2012).

2.4 Conceptual Framework

Conceptual framework shows interconnections relationships of the impact of business credit on MSMEs performance. The framework identified some of impeding factors that prohibit MSMEs not accessing business credits like lack of collateral, lack of entrepreneur skills, poor documentations, corruption, bureaucracy and high interest rates. The framework identified whether and how to access the

credit of MSMEs business owners. Consist of independent variables and dependent variables.

These impeding factors will be assumed to be major practical problems particularly in Tanga City. Due to the existence of problems in accessibility of finance to MSMEs the government induced financial reform through financial institutions, although the pace of implementation varied, for instance government has been insisted on reduction of interest rates, credit guarantees scheme introduction of entrepreneurship skills, group lending and increase credit outreach ,creates database for MSME business owners, lastly government trying to improve the regulatory environment and creating an efficient infrastructure that has implications for business competitiveness. These strategies are important for enhancement SMEs particularly in the question of financing. Figure 2.1 shows Independent variables.

2.5 Research Hypothesis

H1: Level of credit knowledge affects MSMEs credit access at FINCA in Tanga City.

H2: Collateral requirement affect MSMEs credit Access at FINCA in Tanga City

H3: Business performance affects MSMEs credit Access at FINCA in Tanga City

H4: Bureaucratic procedures affect MSMEs credit Access at FINCA in Tanga City

Table 2.2: Operationalizational

Construct	Measurements	Sources
CREDIT KNOWLEDGE	-Inadequate of business training -Lack of proper business plan -Less innovation -Lack of entrepreneurship skills	URT (2012) European Journal Business Management (2014)
	-Low income earners	Bennet (2004)

COLLATERAL/ SECURITY	-Nature business capital -To keep details record of the net asset worth -Understanding of risks -level of business credit acquired	
INTEREST RATE	-Size of the credit -Supply and demand of the credit -Price fluctuation/ inflation -High taxes -wage settlement	Bob Ryan (2007)
BUSSNESS PERFOMANCE	-Sales revenue -Profitability -Return on Investment	Woldie, A. (2002)

Source: Researchers (2016)

2.6 Research Gap

This research was conducted at Tanga where the geographical location is different. Although other researchers have been done in other places or countries like Waithanji, S. W.,(2014) did a research on the effect of microfinance credit on the financial performance of small and medium enterprises in Kiambu county and found that all SMEs borrow investment capital and they use it for the purpose in which they borrowed for, most of them do not have other source of financing other than from micro-finance institutions and they did not have other form of financing before they started receiving financing from microfinance institutions.

Another study done by H, Madole, (2013) on the impact of microfinance credit on the performance of SMEs in Tanzania found that; the role of financial institutions toward SMEs success is a vital important, the previous studies failed to show the impact or effects of business performance towards the MSMEs credit access. Hence this study took the overlooked part as research proposal for the study.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

Kothari, C.R (2009), defined research methodology as the way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. There are many different methodologies used in various types of research and the term usually considered. This chapter shows the methods which were employed in the study, where by different methods were used on obtaining the objectives set out to be achieved in our study. Here they included the study area, research design, research approach, data collection, sample and sampling technique and the study population.

3.2 Study Area

The research was conducted at Tanga City. According to FINCA in Tanga there are about more than 300 micro and small and medium enterprises.

3.3 Research Design

This involves on how the general picture data will be collect, analyzed and combined in relation to the study. Since our research was based on the impact of the business credit towards MSMEs performance both quantitative and qualitative research designs which explain the data in descriptive manner to show the performance of MSMEs towards business credit were employed. The following were sources that were used to acquire and obtain information which we will use so as to reach our intended objectives.

3.3.1 Data Collection

There are two major types of data that were used to collect information during the research in order to accomplish the intended objectives; these were primary data and secondary data.

3.3.2 Primary Data

These are data collected direct from the field by the researcher using his or her own sense organs. These are firsthand information. These kinds of data are most reliable as they are real and up to date. Primary data can be collected through main three ways which are questionnaire and observation. But in our study questionnaire and observation was much used.

3.3.3 Secondary Data

These are data collected by the researcher from existing information such as books, magazine, newspapers, pamphlets etc. In our study the use of published information such as books, article, websites and journals were used.

3.4 Research Instruments

These are tools of research used in collecting information of the study; these are observations, questionnaire, group discussion and field survey. The basic instruments within the study were questionnaires. Questionnaires are questions written on a piece of paper and then handled to the respondent to answer them and return to researcher. The questions can be open ended or closed. But in our study closed ended questions were used.

3.5 Study Population

This is the total number of micro, small and medium enterprise that will be identified for study or totality of objects under investigation. Study findings and analysis of data were collected in the field. The results of the findings were presented in texts, tables and figures frequencies and pie charts. In order to realize the objectives of the study, in this research the study population was MSMEs in Tanga City which termed as targeted population. But the accessible population was also be FINCA Tanga City.

3.6 Sample Size and Sampling Techniques

Sample is a part of population; it is the set of selected people from a population for study. It must be selected according to principles of sampling and this will make it more representative of the total population. There were about more than 300 MSMEs in Tanga but due to limit time factor of researchers, only sample size 100 respondents were taken into consideration. Here different procedures were used in selecting a sample. Major method was used was simple random sampling.

3.7 Simple Random technique

In this study the researcher used this method in order to give an equal chance to contribute in gathering information that will be used in accomplishing this study.

3.8 Data Analysis

The quantitative data that were collected and were analyzed using statistical and quantitative approaches in order to make meaningful presentations and conclusions. Data that were collected from the 100 respondents were examined and arranged

basing on the research objectives. The data that were collected and arranged into a more workable framework that enabled the researcher to classify and organize them. In order to make meaningful presentation of the data that were collected and to match it with the study objectives and research questions, the data was subjected to various steps including; editing in order to identify missing gaps, spelling mistakes, incomplete answers and to eliminate unwanted data; coding, classification of data with common characteristics. In the statistical method, analysis of clearing and forwarding data focus on various process and procedures involving the port and other agents activities and this was done at three levels;

The researcher described the study population by background characteristics purposely relating to the impact of small and medium enterprises growth and sustainability, the influence of credit terms and liquidity levels on MSMEs performance and as to whether FINCA provide favorable credit terms to MSMEs in Tanzania or to determine microcredit access challenges faced MSME owners in Tanzania.

3.9 Validity and Reliability

Patton (2002) states that validity and reliability are two features which any quantitative researcher should focus on while designing a study, analyzing the results and judging the quality of the study. Furthermore according to Patton (2002) in a research work, all the rights things must be measured. Care should be taken that the appropriate item is measured (validity); in addition, careful attention should be paid to how the measurement is being made (reliability). This study will therefore

took into consideration these two key factors during the course of the research.

A pilot study was conducted to test-run the practicability of the study and to detect flaws in the data collection process. This helped to discover errors on the issues raised such as ambiguous instruction or wording, inadequate time limit and measurability of variables defined. Copies of the questionnaire were given to targeted objects before the pilot study. One hundred copies of the questionnaire were used for the pilot study. Therefore the results obtained from this study are reliable and can be used as a source of further references.

3.9.1 Validity

The validity of the questionnaire will be calculated by using the content validity index formulae where it is expected to give validity confident of at least 0.7 which are accepted as valid in research.

3.9.2 Reliability

Reliability is the ability of the instrument to give consistent results after a number of repeated trials. The researcher will compute the reliability for multi-item opinion questions using SPSS computer software. The item will be tested using Cronbach Alpha where it must give a minimum recommended reliability of 0.7.

3.10 Ethical Issues and Consideration

This part is very important when doing a research which involves things such as confidentiality, privacy and time to face a supervisor. This is because not all the time

is to face the supervisor because there are some limits of time, and to be sure that accurate information is presented. Carefulness is needed to avoid careless errors and negligence, to keep good records of research activities such as data collection, research design.

3.11 Limitation of the Study

This study was limited due to the following factors:

- i. Some of the respondents were reluctant in giving information demanding incentives to participate in the study.
- ii. Some respondents refused to be observed. However this challenge was minimized by asking the respondent not to indicate their name on the research instrument as well as assuring them that the research will only be for academic purpose.

CHAPTER FOUR

4.0 ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter deals with analysis of data and discussion of findings as per objectives of the study which are to examine the effect of credit knowledge on MSMEs credit access at FINCA in Tanga City, to examine the effect of collateral requirement on MSMEs credit access at FINCA in Tanga City, to examine the effect The role of Business Performance on MSMEs credit Access; Evidence from FINCA and to examine the effect of bureaucratic procedures on MSMEs credit access at FINCA in Tanga City.

4.2 Respondents' Biographical Data

The above sections correspond with the research objectives and hypothesis in chapter 1 and chapter two respectively. Both qualitative and quantitative analysis approaches have been used in data analysis, thus reflecting the mixed model research design approach followed in the analysis. Data for the study was sampled and collected from different age-groups of respondents, linked to the target population.

4.2.1 Respondent's Age

The respondents were asked to indicate their age. Table 4.1 below represents the respondent's age.

Table 4.1: Respondent's Age

Age	Frequency	Percentage (%)
18- 25 years	28	28.0
25-35 years	24	24.0
35-45 years	26	26.0
45-55 years	14	14.0
55 years and above	8	8.0

Total	100	100.0
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Source: Researcher's Findings (2017)

Of the respondents 28.0% (n=28) were between 18 and 25 years, 24.0% (n=24) were between 25 and 35 years, 26.0% (n=26) were of the age between 35 and 45 years, 14.0% (n=14) were between 45 and 55 years and 8.0% (n=8) were 55 years and above. This implies that more of the target population comprised of the youths which are more convenient to the relevance of the study.

4.2.2 Sex of Respondents

The sex of respondents are depicted in the figure below to show their distribution in terms of percentages

Figure 4.1: Respondent's Sex

Source: Researcher's Findings (2017)

MALE	FEMALE
55%	45%

Figure 4.1 above indicates that among the respondents, the majorities (i.e. 55% of total respondents) were females and the remaining 45 percent were men.

4.2.3 Size of Micro, Small, and Medium Enterprise in Terms of Number of Employees

To know the effectiveness of Micro, Small, and medium enterprise performances conducted by different stake holders in different organizations one needs to understand the number of employees in the respective organization. The results are shown in the Table 4.2.

Table 4.2: Size of MSMEs in Terms of Number of Employees

Category	Frequency	Percentage (%)
1-4 employees	34	34.0
5-9 employees	43	43.0
10-49 employees	19	19.0
50-99 employees	4	4.0
Total	100	100.0

Source: Researcher's Findings (2017)

Of the respondents 34.0% (n=34) indicated that their MSME had employees between 1 and 4, 43.0% (n=43) indicated that their MSME had employees between 5 and 9, 19.0% (n=19) indicated that their MSME had employees between 10 and 49, and 4.0% (n=4) indicated that their MSME had employees between 50 and 99. This implies that more of the target population comprised of the MSME with fewer number of people.

4.2.3 Size of Micro, Small, and Medium Enterprise in Terms of Capital Investment

To be familiar with the success of Micro, Small, and medium enterprise performances conducted by different stake holders in different organizations one needs to understand the size of investment in the respective organization. The results are shown in the Table 4.3.

Table 4.3: Size of MSMEs in Terms of Capital Investment

Category	Frequency	Percentage (%)
Up to 5 million	78	78.0
5-200 million	18	18.0
200-800 million	4	4.0
Total	100	100.0

Source: Researcher's Findings (2017)

Of the respondents 78.0% (n=78) indicated that their MSME had capital investment of up to 5 million, 18.0% (n=18) indicated that their MSME had capital investment between 5 and 200 million, and 4.0% (n=4) indicated that their MSME had capital

investment between 200 and 800. This implies that more of the target population comprised of the MSME with low capital investments.

4.3 Analyses and Discussion of Findings

Findings of the study were obtained and analyzed by tables and figures according to the need of each objective as shown below;

4.3.1: Objective One: To Examine the Effect of Credit Knowledge on MSMEs

Credit Access at FINCA in Tanga City

To understand the roles played by credit knowledge towards MSMEs credit access the researcher needed to understand the correlation between the two variables and the results were shown in the Table 4.4.

Table 4.4: Effect of Credit Knowledge on MSMEs Credit Access

Correlations			
		Whether or not low level of education and business training affect credit access	Credit access
Whether or not low level of education and business training affect credit access	Pearson Correlation	1	0.073
	Sig. (2-tailed)		0.473
	N	100	100
Credit access	Pearson Correlation	0.073	z1
	Sig. (2-tailed)	0.473	
	N	100	100

Source: Researcher's Findings (2017)

The results from Table 4.4 reflects that there is significant effect of credit knowledge on credit access as the probability value (p-value of 0.473) is greater than the level of significance ($\alpha=0.05$, for two tailed test) indicating that for this study level of credit knowledge affects MSMEs credit access at FINCA in Tanga City. These research results concur with Hyuha et al, (1990) which stated that private entrepreneurs in

Tanzania resorted to financing their operations from their own savings, support from members, short term credit provide by supplies, advances offered by buyers or loans from informal community based financial mediators. This is because there was no enough knowledge among entrepreneurs about credits. Furthermore there were no simplifications of loan conditions to assist in the creation of business groups for MSMEs.

4.3.2 Objective Two: To Examine the Effect of Collateral Requirement on MSMEs Credit Access at FINCA in Tanga City

Contribution of credit access to business security is another important factor to look upon since it is another factor which influences business performance and growth. By knowing so the researcher needed to understand how the two variables depend on one another by regressing the two variables and the results were as shown in the Table 4.4.

Table 4.5: Credit Access and Guarantee to Business Security

Coefficients								
Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.226	0.163		7.508	0.000	0.902	1.551
	Whether or not MSME security requirements affect access to business credits	0.058	0.043	0.137	1.372	0.173	-0.026	0.143

a. Dependent Variable: Credit access

Source: Research Findings (2017)

The findings from Table 4.5 indicate that collateral requirement affect MSMEs credit Access at FINCA in Tanga City. This is due to high probability value (p=0.173) with confidence interval ($-0.026, 0.143$) between the two variables

giving the researcher enough evidence of not rejecting the null hypothesis. The growth of MSMEs enterprises is seriously impeded by lack of collateral to access credit or loans. They are limited to informal source of capital, which includes their savings, money for family and mutual guarantee loans. There is a need to address the focus which is the intermediate link of financing to create a bridge between micro-finance and commercial bank credit so MSMEs firms have the opportunity to grow (Goldsmith, 1969).

Access to finance is critical to the creation of sustainable new enterprises and the growth of existing enterprises, especially MSMEs. Although all micro and small enterprises lacking collateral and credit histories will experience financing constraints, the situation is exacerbated due to additional barriers and constraints (Myers, 1984).

4.3.3 Objective Three: To Examine the Effect Of Business Performance on MSMEs at FINCA in Tanga City

It is very important for credits accessed to make a positive contribution in the performance of business. To understand that the researcher had to take data from one hundred respondents and had to analyze data on the basis of finding correlation between business performance and MSMEs credit access and the results were shown in Table 4.6.

Table 4.6: Business Performance and MSMEs Credit Access

Correlations

		Credit access	Whether or not the credit accessed improve the business performance (profit) on SMEs
Credit access	Pearson Correlation	1	0.082
	Sig. (2-tailed)		0.419
	N	100	100
Whether or not the credit accessed improve the business performance (profit) on SMEs	Pearson Correlation	0.082	1
	Sig. (2-tailed)	0.419	
	N	100	100

Source: Research Findings (2016)

The study found that there was no enough evidence of rejecting the null hypothesis as the probability value of 0.419 for the two tested variables was relatively high compared to the level of significance of 0.05 for a two tailed test meaning that in our particular study we can surely say that we are 95% confident that business performance affect MSMEs credit Access at FINCA in Tanga City.

These results concur with those of World Bank (2014) which entails that without finance micro, small and medium enterprises (MSMEs) cannot acquire or absorb neither new technology nor can they expand to compete in global market. Lack of access to finance can seriously undermine the micro, small and medium enterprises growth. It appears that credit access have significant effect in the growth of these MSMEs in terms of increasing capital, acquiring new technology for their expansion and hence reaching larger market.

4.3.4 Objective Four: To Examine the Effect of Bureaucratic Procedures on MSMEs Credit Access at FINCA in Tanga City

To understand the effect of bureaucratic procedure on credit access the researcher had to find the relationship between the two variables in terms of regression and the results are depicted in Table 4.6.

Table 4.7: Bureaucratic Procedures and Credit Access

Coefficients								
Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.	95,0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.689	0.256		6.607	0.000	1.182	2.196
	Whether or not respondent faced many Bureaucratic procedures when acquiring business credits	-0.068	0.069	-0.100	-0.993	0.323	-0.205	0.068

Source: Researcher (2017)

The findings from Table 4.7 indicate that bureaucratic procedures affect MSMEs credit Access at FINCA in Tanga City. This is due to high probability value ($p=0.323$) with confidence interval ($-0.205, 0.068$) between the two variables giving the researcher enough evidence of not rejecting the null hypothesis meaning that bureaucratic procedures affect MSMEs credit Access at FINCA in Tanga City.

4.4 Others Findings

Other findings which affect the access of credits of MSMEs were analyzed and their results presented in terms of tables and figures to show a clear picture of other extraneous variables which were not directly included in the study but have positive or negative effects on the study.

4.4.1 Interest Expense and Credit Access

To understand the effect of interest expense on credit access, the researcher needed to know the percentage to which interest expense affects credits access of MSMEs by finding the value of linear correlation between them and the results were indicated in 4.8.

Table 4.8: Effects of Interest Expense on Credit Access of MSMEs

Correlations			
		Whether or not the interest expense affect the MSMEs credit access	MSMEs Credit Access
Whether or not the interest expense affect the MSMEs credit access	Pearson Correlation	1	0.101
	Sig. (2-tailed)		0.318
	N	100	100
MSMEs Credit Access	Pearson Correlation	0.101	1
	Sig. (2-tailed)	0.318	
	N	100	100

Source: Researcher (2017)

Findings from Table 4.8 indicate that there is relatively high probability (0.318 in this case) that an increase in interest expense will have an adverse effect in MSMEs credits access. This may be due to the fact that most of the MSMEs are small with very little capital so higher interest rates will discourage them in accessing credits for expanding their businesses.

4.4.2 Increase in Volume of Sales and MSMEs Credit Access

Table 4.8 above depicts that there is a positive relationship between MSMEs credit access and increase in sales. Leaving other factors constant each increase in let's say in **10M Tshs** as MSME credit for an enterprise the volume of sales would go higher by about **430,000 Tshs** . This implies that the availability of credits for these

MSMEs for their development is needed and it is beneficial if carefully handled.

Table 4.9: Volume of Sales and MSMEs Credit Access

Coefficients						
Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.242	0.192		6.482	0.000
	Whether or not sales revenue affected due to business credit access	0.043	0.045	0.096	0.959	0.340

a. Dependent Variable: MSMEs Credit Access

Source: Researcher (2017)

4.4.3 Knowledge and Confidence on Financial Opportunity and MSMEs Credit Access

Knowledge and confidence of a member of MSME to catch the business opportunity is a key measure to the success of his/her business. Knowing that the researcher needed to understand by how much this would be in his study so he decided to find the degree of association between the two variables through Pearson Product Moment Correlation Coefficient and the results were shown in Table 4.10.

Table 4.9: MSME Member's Knowledge and Confidence on Financial Opportunity to Credit Access

Correlations			
		MSMEs Credit Access	Whether or not knowledge and confidence towards the financial opportunity for member increase SMEs credit access
MSMEs Credit Access	Pearson Correlation	1	0.083
	Sig. (2-tailed)		0.412
	N	100	100
Whether or not knowledge and confidence towards the financial opportunity for member increase SMEs credit access	Pearson Correlation	0.083	1
	Sig. (2-tailed)	0.412	
	N	100	100

Source: Researcher (2017)

Research findings from Table 4.10 indicates that knowledge and confidence of an MSME member associates positively meaning that the study showed that there is possibility of 8.3 percent for a member of the MSME with knowledge on financial matters and the audacity to do it would go for credits so as to expand his/her business.

4.4.4 Knowledge on Risks of Taking Credits

It is very important for any entrepreneur to know the risk of many factors that would affect his/her business early. Credits being one of them the researcher needed to understand how the respondents were aware of the situation. The results obtained were shown in the Figure 4.2.

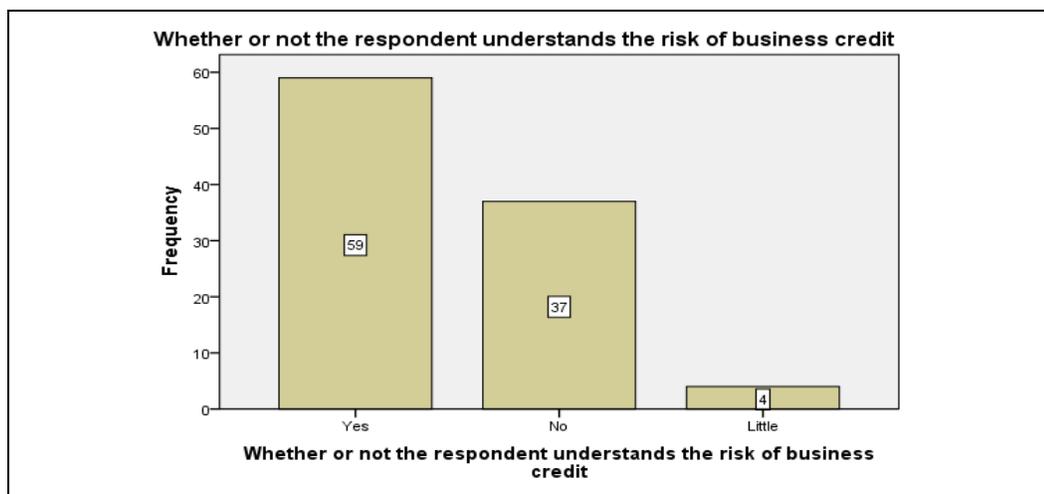


Figure 4.2: Knowledge and Confidence on Financial Opportunity and Credit Access

Source: Researcher (2017)

The findings in Figure 4.2 indicates that 59.0 percent of respondents are well aware of the risks associated with credits, 37.0 percent are not aware and 4.0 percent are

little aware of the risks associated with credits. From these findings it is clear that at least a considerable number of entrepreneurs in this study have financial knowledge which could be beneficial for the development of their business in future.

4.5 Conclusion

This chapter dealt with analyses and discussions of findings as per specific objective and other findings different from those in specific objectives. The next chapter will comprise of conclusion and recommendations by the researcher about the study at hand.

CHAPTER FIVE

5.0 CONCLUSION AND RECOMENDATION

5.1 Introduction

In this chapter we are going to see the conclusion which summarizes the whole research made by see or overcome the problem which the researcher worked on it. So in summary, as in conclusion and the recommendations about the research.

5.2 Conclusion

The study comprised of respondents who majority of them were of ages between 18 and 25years which represents the youth age population. Among those respondents most of them were female as it is indicated in the study findings that 55 percent of them were female. The study indicated that forty-three percent of the total respondents who filled the questionnaires indicated that they work in Micro, Small, and Medium Enterprises with maximum number of employees of nine, and only four percent of respondents worked in Micro, Small, and Medium Enterprises with maximum number of employees of ninety-nine. This implies that more of the respondents comprised of the MSMEs with fewer number of employees.

Based on the results of the analyses according to the specific objectives, the study results reflected that there was significant effect of credit knowledge, collateral requirements, business performance and bureaucratic procedures on MSMEs credit access at FINCA in the area of study which was Tanga City. Furthermore, study findings indicated that there was relatively high possibility that increase in interest expense would have an unfavorable result in MSMEs credits access. Also

results depicted positive relationship between MSMEs credit access and increase in volume of sales. As another extraneous variable knowledge and confidence of an MSME member on financial matters with credits access, and lastly about fifty-nine percent of respondents of total study population were well aware of the risks associated with credits they are taking for development of their businesses.

Credit terms given by the FINCA are not favourable and if made favourable, the liquidity levels of the SMEs will be high because they would be able to afford borrowing at any given time without worrying about the barring terms. This helps (MSMEs) to maintain or even improve their performance in terms of expanding their capital base as well as harvesting more profit arising from increased business activity. The researcher also concludes that when making decisions on credit, most SMEs considered flexibility, loan size and the collateral security as the most important aspects. It is therefore important for MFIs to appreciate that if the three aspects are favourable, they would be a necessary infrastructure to facilitate good relations between the MFIs and SMEs. This helps to step up the MSME performance

Microfinance institutions are an asset to the developing countries. The services they provide are tailored to meet the needs and aspirations of the local inhabitants and their small up to medium enterprises. It is in fact the truth that products and services put forth to the beneficiaries are not by themselves a solution to the numerous problems affecting MSMEs. These problems range from business skills, insufficient bureaucratic procedure, lack of financial intermediation services, and the lack of markets, technology etc. The financial intermediation services will only provide a platform for the attainment of considerable growth and sustainability of MSMEs. It

should be noted that microfinance does not serve or solve all the problems of the MSMEs but it serves as a means of helping them to boost their economic activities or augmenting their status.

In nutshell, a general conclusion can be made that there exists a significant relationship between FINCA credits and terms and MSMEs performance and growth. This relationship is enhanced by the close business intimacy between the FINCA and MSMEs based on trust. It is also supported by the adequate liquidity levels which keep the MSMEs running their working capital projects. Increased access to finance will foster efficient growth in the MSME sector.

5.3 Recommendations

Since the objectives were met but there are some challenges which may lead to deteriorate the effectiveness and performance of businesses of various MSMEs stake holders so this may need some overcoming measures so as to make things going according to what is intended to be done and to remove those minor weakness so as to make it completely effective in the issue of credits provision to MSMEs as follows:

First, the researcher recommends that stake holders should promote the following competence as a way of improving services on credits; training competence in the

area of credits, motivation competence, and deployment credit competence. Second, the study recommends that the credit/loan organizations should enhance its employees' competence as a way of achieving service delivery as a means of improving credit performances. This can be achieved by creating awareness through instruction from those employees who have superior information in entire credit process. The organizations should also evaluate the entire credit process in order to identify service delivery point of 'stop working' with a view to restructure the practice in order to achieve required level of competence and success.

Third, the study recommends that the interest rate which the credits bear should be cut down so as to make MSMEs members able to access credits without having difficulties to repay them back. The organizations should deliberately re-organize its organization structure through appropriate change of interest rate so that it is flexible enough to support improved performance of credit process and also to make it more self-directed. Four, the study recommends that the organizations should continue enhancing reduction in quality complaints, putting in place competence inspection team, installing effective credit management team and reliable service quality. Five, the study recommends that stake holders should enhance the application of modern technology in the entire business process which is inter-linked to credit processing. This would join together the entire business operations of the organization which would create benefits as; making credit process not only easy but also transparent to all the clients require credit information output for decision making, this in turn will improve transaction time and accuracy.

In order for SMEs to improve their performance, it is recommended that owners and managers should maintain adequate liquidity levels through designing strategies

to meet their revenue targets. It also requires effective current asset management such as maintaining adequate stock levels which enables them to avoid stock outs whilst avoiding dead stock because it also creates losses. MSME owners/ manager need to ensure that they maintain adequate cash levels in order to be able to meet their working capital obligations such as paying their staff on time so that the motivation of timely salaries enable them to continue being committed to delivery of results. These cash levels also help to pay the business suppliers on time because the survival of any business depends on how reliable its suppliers.

Also, the government through responsible ministries should undertake periodic review of the activities of FNCA in line with the microfinance policy objectives/targets so that modifications and corrective action could be taken where necessary. Such an exercise is important if FINCA must effectively support the sustainable growth of SMEs in the country.

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APPENDIX

SURVEY QUESTIONNAIRE

Dear respondent,

Thank you for your interest in this survey. This research work is intended to explore the general overview of the impact of business credit towards SMEs performance (FINCA) in Tanga Please provide answers to the following questions against the most suitable alternative or by giving narrative responses in the spaces provided. (Responses will be treated with utmost confidentiality).

SECTION A: General Background Information

AGE	
18-25	
25-35	
35-45	
45-55	
Above 55	

GENDER	
Male	
Female	

Please indicate by putting a tick in the table below the size of your MSME based on the following criteria

Number of Employees	1 ó 4	5 ó 9	10 ó 49	50 - 99	100+

Please indicate by putting a tick in the table below the size of your MSME based on the following criteria

Capital Invested	Up to 5 Millions	5 to 200 Millions	200 to 800 Million	Above 800 Million

SECTION B: Business Performance Assessment

Rate your agreement with the following statements using the like chart scale below:

(Please tick appropriately) **Key:** 1- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree

No.	MEASUREMENT	1	2	3	4	5
1	Does MSMEs have enough educational training on business performance due to credit access from FINCA?					
2	Does MSME security requirement affect to access business credit access?					
3	Does the credit accessed improve the business performance (profit) on SMEs?					
4	Does the interest expense affect the MSMEs credit access?					
5	As MSMEs customer do you understand the risk of business credit?					
6	Low level of education and business training can affect credit access?					
7	Do knowledge and confidence towards the financial opportunity for member increase SMEs credit access?					
8	Do you face many Bureaucratic procedures when acquiring business credits?					
9	Do sales revenue affected due to business credit access?					

***** THANK YOU *****