THE ROLE OF FINANCIAL INSTITUTIONS ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES: A CASE STUDY OF IRINGA MUNICIPAL COUNCIL

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

2019

CERTIFICATION

The undersigned certifies that he has read and hereby recommends for the acceptance by the Open University of Tanzania a dissertation titled: ***"The Role of Financial Institutions on the Growth of Small and Medium Enterprises: A Case Study of Iringa Municipal Council"*** in partial fulfilment of the requirements for the degree of Master of Business Administration (Finance) of the Open University of Tanzania.

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Dr. Raphael Gwahula

(Supervisor)

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Date

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DECLARATION

I, **Nsajigwa C. Anania**, do hereby declare that this dissertation is entirely my own work and it has not been presented to any other Institute of higher learning for a similar or other academic award. In addition, all the sources that I have used or quoted have been indicated and acknowledged my means of complete references"

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Signature

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Date

DEDICATION

This is work is dedicated to my beloved family of Mr and Mrs Charles A. Mwaitenda for their support through the whole journey of attaining my MBA at the Open University of Tanzania.

ACKNOWLEDGMENT

First and foremost I would like to take this opportunity to thank God for the gift of life and his blessings to this day for it is only by his grace we can accomplish anything through him. Secondly I would like to send my deepest gratitude to my supervisor Dr. Raphael Gwahula, for the hard work and great support extended to me , I'm sincerely very thankful for his wise guidance and continuous support that has not only enabled me accomplish this task but also opened up my mind to a wider perspective

Thirdly I would like to send my regards to my family for their continuing support, a work of encouragement and motivation towards the achievement of this wonderful adventure of the learning process. With their space and support they made it enjoyable and fun to go through.

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ABSTRACT

This study was conducted to assess the role of financial institutions on the growth of small and medium enterprises for the case study of Iringa town. The study assessed the impact and influence of financial institutions on boosting the economy towards industrializations, SMEs is considered to be a significant upcoming sector for economic growth in line with phase 5 government theme of Tanzania industrialization policy". In the process of assessing the role played by the financial institutions on the growth of small and medium enterprises technical tools like linear regression, descriptive statistics etc. were used for analysing data collected. Data was collected from SMEs business owners and employees in Iringa those resides around industrial area near Ipogolo and SIDO, and also data were collected from SME's owners and employees located in Iringa town and bank officers responsible for SME's loans that makes up a total of 67 respondents. In the study it was found that the financial institutions plays a great role on the growth of SMEs, that there is a positive relationship of 0.65 of the bank loans to investment and also the regression has shown that the bank loans contributes to 72.9 percent. Therefore in view of the study results, it concludes that financial institutions play a key role on the growth of SMEs as the theory of capital structure suggests, hence therefore recommended that government and other consultancy units take a strategic initiative and ensure entrepreneurship education programmes and financial policies are reviewed to meet the needs of SMEs. The implications of this study is improve the existing financial policies to accommodate SMEs needs, to be used by other researcher of related area of study, to be used by non-governmental organizations and consultancy firms so that they can offer appropriate services which impacts growth of SMEs.

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LIST OF ABBREVIATIONS

BOP	Balance of payment
CRDB	Cooperative Rural Development Bank
EU	European Union
GDP	Gross Domestic Product
IMF	International monetary fund
MENA	Middle East and North Africa
MSMEs	Micro-Small and Medium Enterprises
NBS	National Bureau of Statistics
OECD	Organisation for Economic Co-operation and Development
SIDO	Small Industries Development Organization
SMEs	Small and Medium Enterprises
T-LED	Tanzania Local Enterprise Development
TZS	Tanzanian Shilling
USD	US dollar
WB	World Bank

CHAPTER ONE

INTRODUCTION

1.1 Overview

This chapter is going to introduce the problem, which this study was about, it has started by giving out a background to the study so as to understand the root of the problem which was stated in this chapter, it has also identified the objectives of this study which provided a roadmap to this study. This chapter has also explained the significance of this study to different groups and the organization of the whole research.

1.2 Background Study

As it has been observed nowadays entrepreneurship has been one of the most significant sector which supports the livelihood of a number of people as 95% of businesses run in Tanzania are small and medium level enterprises which contributes about 35% of the gross domestic product(Tanzania Invest, 2016) its growth and development has been a matter of concern. Different sectors contribute to its growth and development in various aspects but for the case of this study “assessment of the role of financial institutions in the growth of small and medium enterprises” was conducted which is the title of this study.

Tanzania is one among the developing countries in Africa in which there is a good number of citizens that have employed themselves in private and informal sectors to earn their living. These private and informal sectors include small and medium enterprises engaging themselves in different economic activities mainly dealing with agricultural products and local processing. Despite the efforts, due to their nature and business environment these small and medium enterprises are faced with the issue of insufficient funds which hinders their development and sometimes it may even cause them to shut down the entire business.

There are more than 3 million small businesses in Tanzania, engaged in trade and service sector. The manufacturing sector, which is a core driving force for industrial development, accounts for only 13.6%. Another distinctive feature of the sector is a huge number of informal operations. This situation suggests that there is a lot to be done in the sector to make it a vibrant contributor to the economic and social wellbeing of Tanzanians. However, it is encouraging to note that women participation in the sector is 54.3%. This itself testifies the ability of the sector in narrowing the women exclusion gap in the economic activities(NBS, 2012).

As it is, credit institutions are there act as professional financial intermediaries between those who have money and need to invest and those who needs money to finance their productive activities, the small and medium level enterprises through time has been on the side of deficit unit(those who spend more than they receive/ those who need money). This is due to the fact that more than 45% of surveyed small and medium level enterprises are faced with the faced with insufficient funds problems to meet their operational and capital expenditures. This being the case the financial intermediaries as the professional body which links between investors and borrowers of funds together has a role to play to these SMEs who are now the deficit unit(NBS, 2012). In our country Tanzania there are varieties of financial institutions and each has its own strategies and targeted market in which they put its focus. The commercial banks form a big part of the financial institution in the country followed by other institution which offers varieties of products. While nearly two-thirds of adults now have access to formal financial services, the picture for firms is less positive: in the 2013 World Bank enterprise survey, almost 44 percent of firms in Tanzania claim to face difficulties in accessing finance, the highest proportion in the East African Community, with small and medium enterprises facing particularly acute challenges(International Monetary Fund, 2016)

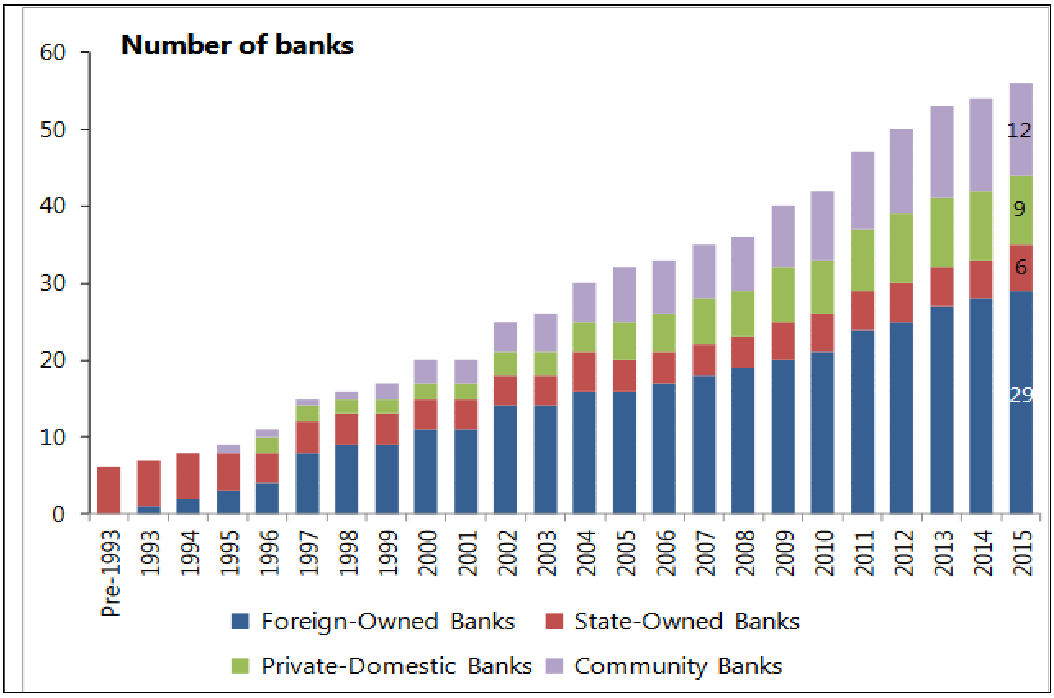
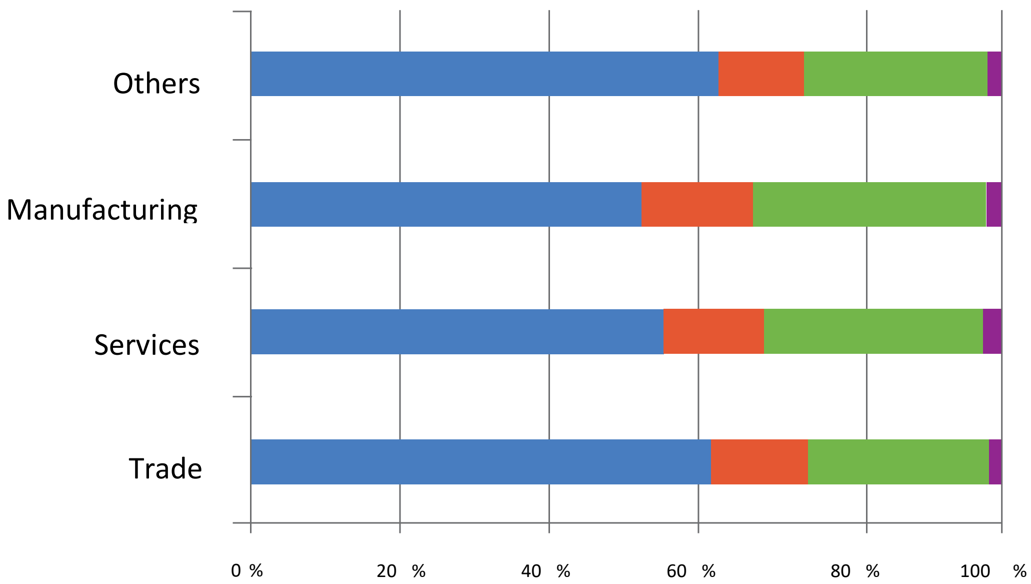


Figure 1.1: Number of Banks Over the Years
Source: Bank of Tanzania

The figure shows growth in number of banks licensed bank in Tanzania over the years. Which offers loans to households and firms as well?

1.3 Problem Statement

Even though there are several financial institutions in Tanzania that includes but not limited to commercial banks, investment banks, microfinance banks and others which provide financial services and can play a very substantial role on the growth of the small and medium enterprises, there has been a large number of small and medium enterprises complaining for lack of fund to run their businesses, the question of capital has been a major concern for their operation and about 49.1 percent suggest the government should take action on the issue of SME’s access to financial assistance as the first priority(NBS, 2012). Access to financial assistance has continued to be a major concern for SMEs due to high cost on funding. There is a big gap between saving interest average 3% and the loan interest which ranges from 18% - 25%. The amount of interest on loan is considered to be very high to most SMEs due to the size of their businesses, (Lucumay, 2014).



Growing

Declining

Remaining the same

Don’t know

Figure 1.2: Growth of SMEs

Source: NBS (2015)

Based on the survey conducted by the NBS, it shows a good number of SMEs business are growing using profitability as a measure of growth, despite that it has also been identified a decline of some of these SMEs and access to fund from the financial institutions was noted to be a major concern and that there is less contribution from financial institutions on growth of small and medium enterprises, (NBS, 2012).

1.4 Research Objectives

1.4.1 General Objectives

To assess the role of financial institutions on the growth of small and medium enterprises.

1.4.2 Specific Objectives

(i) To assess the quality of loan products offered by financial institutions on the support and growth of small and medium enterprises.

(ii) To assess the impact of loans from financial institutions on the growth of small and medium enterprises.

(iii) To assess the effect of liquidity position on SMEs growth.

1.5 Research Questions

1.5.1 General Research Question

What is the role of financial institutions on the growth of small and medium enterprises?

1.5.2 Specific Research Question

(i) Are there quality loan products that meets and support growth needs of small and medium enterprises?

(ii) How does bank loans affects the growth of SMEs?

(iii) Does the financial institution provide enough funds to enable SMEs maintain their liquidity position?

1.6 Significance of the Study

This study aims to provide positive impact in different aspects such as to academics this study will contribute to knowledge and widen their understanding on the role played by financial institution on the development of SMEs and to what extent does the financial institutions benefits SMEs. This study will shed some relationship between the financial institutions and the growth of Small and medium enterprises. Understanding of this relationship will help policy makers to develop policies appropriate to boost the economy through small and medium enterprises towards industrial development.

To scholars it will contribute to knowledge by expanding the existing theory such as that of capital structure by considering other factors which were not previously included in theory especially for SMEs and to the whole concept of intermediation and how financial institutions can restructure their operations and services to meet SMEs needs efficiently. On the side of interviewees will gain knowledge of which they are currently missing on obtaining funds from financial institutions and also they will be able to provide their opinions and challenges so as to improve the whole system of financing SMEs by financial institutions. To policy makers it will give them insight on how to make financial policies which will aim at improving the wellbeing of SMEs for their sustainable development taking to consideration there is a good number of people employed in this sector. To the financial institutions especially banks, this study will help them to understand their customer better and design their processes and practices in a way that can they can meet the needs of their customers who are the SMEs and gain competitive advantage.

1.7 Scope of the Study

The scope of this study is based of business undertaken through SMEs particularly those which adds value of goods. For the case of financial institutions as it is composed of different kinds of financial institutions this study is based on those which offers loans to small and medium enterprise hence it has been concerned with bank loans at large. In summary this study has been dealing with the role played by financial institutions through banking operations by offering loans to small and medium enterprises which are dealing with adding values to goods at Iringa municipal.

1.8 Organization of the Report

Following to this section of the study there are two chapters' remains which consist of chapter two which is the literature review which has given the meaning of all the concepts which have been used in this study, it h also given the theoretical back ground of this study from other studies which have similarities with this study, it has also contained the practical background of similar studies and the gap between theoretical and empirical literatures. It explained the characteristics of the theoretical variables together with the formulation of the hypothesis.

The third part is the third chapter which contained the whole work plan including research strategies, survey population and area of survey, sampling design and procedures, variables and measurement procedures, ways in which data was collected , processed and analysed, activities schedules, work plan of the research together with the estimated budget. Then follows the part concerned with the presentation of findings which has been observed from the field study, linear, regression, correlation and descriptive statistics were used to present and discuss the finding on chapter four and chapter five below.

And the last part contains the summary, conclusions and recommendations based on the study conducted through the methods which were identified on the previous chapters and the findings which has been observed from field. This is also the chapter which the researcher provided his recommendations concerned based on the results which have been obtained from the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

In this chapter the literatures from different authors concerning related to this study were reviewed. Concepts concerning this study were reviewed in this chapter so as to understand the study, as well as the underlying theories concerning this study were also evaluated as well as review of other empirical studies which have been conducted already concerning the subject and identified the gap based on this analysis, this part also contained the conceptual and theoretical framework for this study.

2.2 Conceptual definitions

In this study there were key concepts which were used from time to time throughout the whole study and these included.

Financial Institutions these are firms which are involved in provision of financial services such as, commercial banks, insurance companies , credit unions, mutual funds etc(Kidwell et al, 2012). Financial institutions includes those institutions which take parts in the financial markets by taking funds from the surplus units and borrow to the deficit units which are indeed of those funds (Madura, 2010).

Entrepreneurs are those persons (business owners) who seek to generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets, (OECD, 2010).

An Enterprise is an entity that undertakes an economic activity in any form. This includes, in particular, self-employed persons and family businesses engaged in crafts or other activities, and partnerships or associations regularly engaged in an economic activity (EU 2003/36). Therefore the small and medium enterprises involves those enterprises which are engaged in businesses at small and medium scale, these may be categorized in terms of firm's size of capital, level of production and sometimes market size. These covers non- farming/ agricultural works, it is mainly concerned manufacturing, service sector and commerce. (Mwenda, 2013).

Table 2.1: Categories of MSMEs

Category	Number of employees	Capital investment
Micro	1-4	5 mil or less
Small	5-49	5mil> to 200 mil
Medium	50-99	200 mil > to 800 mil

Source: Argidius/Foundation, (2017)

2.3 Theoretical Analysis

The capital structure theory suggest that for the firm to grow in terms of value it must attain the optimal capital structure in which it will minimize the weighted average cost of capital to its minimum hence leading to the increase in the value of the firm by minimizing the total cost of capital. The theory is based on two prepositions in which the first applies in the world with no taxes which suggests as proposed by Miller and Modiglian 1958, the value of the firm will not be affected by the way of financing a business rather than the expected earnings and the underlying risk on assets. It assumes the perfect market where there are no transactions costs, There are no flotation costs, none of the investors can affect the stock price, both public and private information are available for any investor, there are no limitations on buying or selling stock

Whereas the second developed preposition applies in the world of taxes as proposed by Miller and Modiglian 1963, in the world of taxes the use of debt to finance a business lowers the weighted average cost of capital as it provides the firm with a tax savings from corporate taxes as debt interest is tax deductible. As it is commonly known due to its level of risk incurred debt financing is the cheapest source of financing a business hence the use of debt to finance enterprises should be encouraged to reduce the cost. And therefore it is expect to see the small and medium level enterprises grow as a result of the debt financing they receive from these plenty financial institutions existing around the country and even from outside the country(Hill, 2015).

The Modigliani-Miller theory of capital structure was criticized because the assumption that capital markets are perfect is completely unrealistic. The arbitrage, as proof of the Modigliani-Miller theory, was also strongly criticized. If there are no perfect capital markets, the arbitrage will be useless because a levered and an unlevered firm within the same class of business risk will have different market values. As a result of imperfect market information investors cannot know to whom they can borrow funds neither can they assess the creditworthiness of the borrower due to the costs and asymmetric information the need of which brings us to the theory of financial intermediation developed by Gurley and Shaw (1960).

With the role being to collect funds from the surplus unit and provide the funds to the deficit unit who are needs to have funds. As the financial intermediaries act as professional in this area the risk and cost associated with this process is reduced. The existence of financial intermediaries reduces moral hazard and adverse selection, transaction and information costs as well as the risk(Madura, 2010). The transaction costs for case of SMEs is normally high due to the risk associated with SME lending. SMEs are considered to be high risk borrowers due to the as they do not possess valuable collaterals to back up their loans , they normally can't keep their records properly hence they have higher probability of defaulting on the loan, due to this it makes it difficult for SMEs to obtain the loans from reputable formal financial institutions.

The transaction cost includes search and information costs, decision and bargaining costs and policing and enforcement costs. The higher the risk the more the cost will be incurred by both sides of the lenders and borrowers hence makes it difficult for the SMEs to secure the loan(Abdul, 2011). Also we have the theory of asymmetric information which shows it is difficult to know for sure who is likely to pay their loans and who will default the loans given to them. This is due to the fact the information about the borrower may not be accurate which in turns may lead to adverse selection and moral hazard problems. (PANDEY, 2013)

2.4 Empirical Analysis of Relevant Studies

2.4.1 General Studies

Despite the economic and social benefits of the small and medium enterprises, in investment-climate surveys around the globe the ability to obtain funds to run the business is one among the most significant problems mentioned by SMEs and in several regions the access to finance is the only most important constrain, the research shows the credit gap for formal SME is $1 trillion and about $2.6 trillion for informal SMEs (Salman, Simon, & Conner, 2017). Around the year 2009 the global financial crisis tested the bank’s commitment to the SME sector, however even in those areas has expressed uncertainty about the future of SME such as Latin America year 2008 survey, has found that banks still considers SMEs as integral part of bank business. About 90 percent of large and midsized banks reports to have a policy for financing the small and medium enterprises (Ifc, 2009).

According to Mosley (1997), microfinance institutions put a lot of efforts in reducing poverty by proving funds to households and business, however each microfinance institution has its own mechanism to this approach, in his study it has found institutions providing small to average credits to people makes more impact on lifting the borrowers above the credit line while to those providing higher loans makes and impact through expanding the demand for labour. In his study it was discovered that the credits provided to very poor units were not bringing impact since they were used for working capital or maintain the level of consumption instead of investing in technology and fixed assets. According to the analysis using World Bank Enterprise Survey data 2006-2010, managers of SMEs across all countries surveyed considered access to finance as the biggest obstacle to growth followed by competition from informal sectors and then taxation, from employment perspective also based on the same data a top constraint for SME employment growth across the globe again was SME’s access to finance.(world bank, 2017).

2.4.2 Studies in African Countries

In sub Saharan Africa and MENA it requires an increase 250-350 percent in outstanding SME financing to close the credit gap. Women owned business have unmet credit of about USD 260-320 billion, in fact SMEs are provided a narrower range of products from financial sector, about 30 percent of SMEs have no access to deposit accounts (Stein, 2010). Based on the study conducted by Patricia (2008) in Nigeria has shown that the large number of government institutions set up to provide loans to the small and medium size enterprises has underperformed in which it has been estimated that they were able to provide barely one percent of credit to SMEs.

This is a result of having a plan to develop small and medium level enterprises but poor implementation techniques which in turn makes it impossible to implement. According to John Ackah (2011) as they have conducted their study in Ghana they have come up with the idea that most SMEs fails to obtain loans from formal financial institutions due to lack of of clear tittle to usable land hence no real property to put as collateral and also there are transfer regulations needlessly on land which delays finalization of mortgages(Ackah, Vuvor, & Lovstal, 2011)

2.4.3 Studies in Tanzania

In Africa and Tanzania in particular, SMEs traditionally have faced difficulty in obtaining formal credit or equity (Olomi et al., 2008). As a consequence, most of them finance their activities using own funds, loans from friends and family, money lenders, relatives, rotating savings and credit groups (Beck & Demirguc-Kunt, 2006; Mori et al., 2009). This is because to obtain a formal loans from financial institutions involves a number of bureaucratic procedures and formalities of which some of them involves costs of which these small and medium size enterprise cannot afford.

Based on the study by Maziku (2012) in which he made an assessment of credit rationing for small and medium enterprises in Tanzania, he discovered that firm could not afford to access finance from commercial banks due to inadequacy of collateral and opacity of their operations. Most of small business in Tanzania do not own property and other fixed and valuable assets such as land , buildings and others which are normally required by the financial institutions in Tanzania as collaterals against the loan to clients.

Also there are some other major constraints identified by one of the study which was conducted in Tanzania which are low level of knowledge and skills of the SMEs on financial matters, limited documented credit history o as there is no strict tendency of keeping records, under developed business culture, lack of separation of business from family or personal.(Mori & Richard, 2015). The fact is most of small and medium sized enterprises are run by people with low level of education and other with little knowledge in business since they could not be employed hence these enterprises do not follow professional procedures and record keeping is sometimes a problem.

2.5 Research Gap

From the studies which have been conducted by different scholars it has been identified that the government and other agencies as well have been trying to empower the small and medium sized enterprises for their own growth and development but so as to bring impact in the economy and as one way to do this is to provide credit to enable them to expand their operations and grow since they are normally characterized by low capital. Despite these efforts by both private and public sector on the growth and development of small and medium level enterprises still there has been no actual impact as expected. Most of the study have looked at this problems at one side based on the weakness of the SMEs like level of operations, risks and assets to back their loans but forgetting the aim was to remove theses weaknesses from the SMEs by providing channelling funds to ensure their growth as one of the method. With this consideration in mind this study assessed this problem from the SMEs themselves in their operation and other business support as well as the loan products offered to them.

2.6 Conceptual Framework

In this study the role of financial institutions as shown on the framework below is to provide loans to the small and medium enterprises to enable them to grow and expand their business but this objective is facing some challenges on the way to its accomplishment such as high loan costs, SMEs are characterized as high risk investments, poor record keeping by small and medium enterprises and other challenges which makes it difficult for financial institutions to play its role towards the growth of small and medium enterprises effectively.

Independent variables **dependent variable**

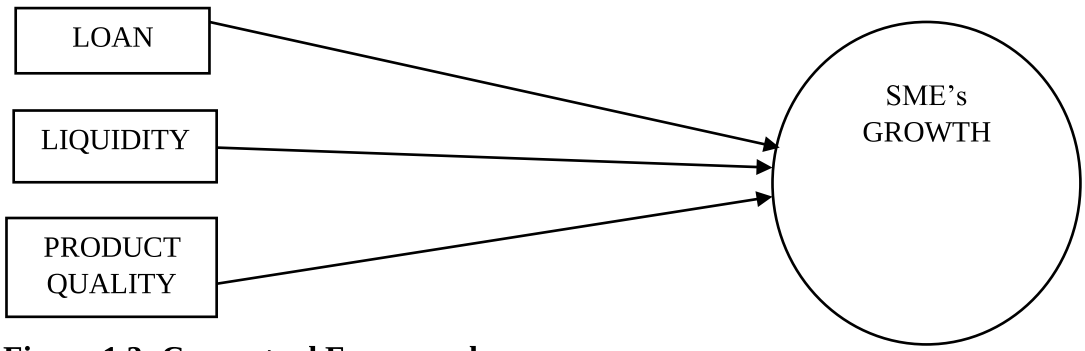


Figure 1.3: Conceptual Framework
Source: Researcher Construct, 2019

The conceptual framework contains independent variables which are product quality, liquidity and loans from financial institutions and on the other hand the dependent variable is SME growth measured in terms of increase in investment.

2.7 Summary

Based on the review of different literatures above the gap was able to be identified hence the next chapter has explained on how the work of obtaining the data is going to be done and its analysis to fill the gap identified above.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview

This chapter contains all the processes involved in conducting this study, it is going to cover the strategies and methods used in obtaining, collecting and analysing the data in order to obtain the answers to our problem. It covers the scientific way of systematically research our problem.

3.2 Research Philosophy

It can be defined as a set of belief that govern a particular action (Guba 1990) this describes the way in which data about a particular phenomenon will be analysed and used. There are about five research philosophies which are normally used in conducting a research which are positivism, critical realism, interpretivism, post-modernism and pragmatism. Positivism is chosen for the case of this study. Positivism believes that the truth is out there to be discovered by the researcher, it is epistemological position that advocates working with social reality which is based on highly structured methodology (Myers, 1997). This is to facilitate accuracy and timely collection and analysis of data as will be closely structured to the relevant area.

3.3 Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure(Kothari, 2004). This study aimed to look at the role of the services provided by the credit institutions and towards the extent in growth of small and medium level enterprises. Therefore it is was a descriptive case study ,describing the extent to which the financial institution contributes to growth SMEs(Kothari, 2004). The purpose of choosing descriptive case study was to get a clear picture in numerical percentage as to how much the financial institutions do contribute to the growth of SMEs which will be easily understood and can be easily be used to make conclusion as the outcomes are numerically clear as it shows degree of strength in the relation between financial institutions and SMEs growth(Walliman, 2014). This study is a cross-sectional study, according to Bryman and Bell (2007) the cross-sectional study allows data to be collected at one point at a time.The purpose of using this time horizon is to be more cost effective while making accurate investigation on a particular phenomenon,

3.3.1 Survey Population

A population is a group of individuals who have one or more characteristics in common (Denzin and Lincolin, 1994). This will include the small and medium level entrepreneurs engaged in different entrepreneurial activities to generate income and provide employment. They will be associated with the type of business which are considered as SMEs business as stated above that is adding value to the raw materials and further processing of goods already produced. This is because they are directly associated with the topic hence they will provide the accurate first hand data. The majority of these are owners of local small scale industries which they use to provide different products assisted by SIDO and other partner organizations.

3.3.2 Area of Research

This study was conducted in Iringa urban area- Tanzania to SMEs who are registered under T-LED project. This is the project which dealt with local enterprises development found in Iringa urban area near SIDO which is also industrial area, therefore it has access and contacts with SMEs which will be useful to gather the required data.

3.4 Sampling

The sample followed the judgmental/purposive sampling as the study focused on the small and medium level enterprises which have already been registered themselves under T-LED. This type of sampling is a nonprobability sampling in which researcher makes a choice on a group of sample which can represent the whole(Kothari, 2004). This is because they can easily be tracked and some of the data concerning the sample population can easily be accessed from there. The expectation were to collect data from 90 individuals in which 65 of them were workers and senior members of the SMEs, 15 were workers from microfinance banks and institutions and 10 includes the workers of Tanzania Local Enterprise Development.

3.5 Variables and Measurement Procedures

This study requires data concerning profitability of the small and medium sized enterprises to see the profitability trends of the SMEs in order to assess if there is growth in terms of profits, also data concerning assets size of these SMEs to assess the increase in assets in SMEs business. Furthermore data concerning methods of financing used by the SMEs and their adequacy to check the liquidity potion of SMEs so as to determine if the possess enough working capital for their operations. Under this section the limitation if were mentioned by the respondents to rank any possible constraints to SMEs financing in relation to their growth. And lastly data concerning services available from these financial institutions to SMEs and their requirements. To see the availability of relevant packages offered to help the SMEs grow their businesses at cheapest cost and without unnecessary restrictions, which may act as a barrier for SMEs to have access to finance. And hence the study was looking at product quality offered by financial institutions to SMEs.

Table 3.1: Variable Measurement

Types of Variable	Name of Variable	Definition of variable/Measurement
Dependent variable	Increase in investment	Increase in the total value of the firm from measured in terms of increase in total value of assets.
Independent variables	Bank loans	Number of loans provided by financial institutions to SMEs.
	Product quality	Feature of loan products which is provided to SMEs in line with their needs for funds. Likert scale 5 used.
	Liquidity	Ability of SMEs to take investment opportunities and pay their obligations when they become due immediately. Likert scale 5 used.

Source: Author, 2019

These data was be obtained from primary sources which included the owners of small and medium sized business and the secondary data from relevant documents provided by their T-LED was be taken to consideration as well since was useful to provide insight on the growth of SMEs and access to finance and save the cost of obtain primary data. Data was to be collected from people who are engaged in both Small and Medium Enterprises and also the financial institutions which provides credit to these SMEs. This was useful to get the view of the problem from both angles. Data for this particular study was be gathered through the use of questionnaires which will include both structured and semi structured questions to get both qualitative and quantitative data.

3.5.1 Research Methods

The employed the use of multi-method quantitative technique in which quantitative data was collected through the use of questionnaire for the case of primary data whereas secondary data were obtained from documentary reviews from different reports found from T-LED and NBS relating to the matter which guides this study. The purpose of using this technique was to ensure consistency in the study and gather enough relevant information so as to reach the reliable conclusion.

3.5.2 Data Collection

Data was collected from the primary sources using questionnaires which was contain structured and semi structured questions. The aim of getting primary data were to obtain information which is relevant and timely so as to ensure an accurate conclusion is made. The use of structured questionnaire enabled the researcher to obtain only relevant data to the study and also will be easy to administer since most of these SMEs are semi illiterate. The secondary data was be collected through a documentary review of data already available from T-LED concerning the small and medium level enterprises at that particular area. This is preferable because it is quick and cost effective as the data is up to date and contains all the relevant information needed.

3.6 Data Processing and Analysis

Data collected was grouped based on the questions on the questionnaire which relates to the research questions above which are from the research objectives, thereafter from each groups of questions encoded by the SPSS the results was recorded in percentage based on the respondents responses of which helped the researcher to comment and interpret the results. This was used for qualitative and quantitative data collected from the field.

Therefore data were analysed using the statistical tool which gives statistical information on the data collected including the means, linear regression and correlation as well. The choice of this tool for data analysis was influenced by its simplicity on its usage and understandable clear information disseminated.

CHAPTER FOUR

PRESENTATION OF FINDINGS

4.1 Overview

This study was conducted with the aim of assessing the impact of financial institutions to small and medium enterprises for the case of Iringa. SMEs were consulted to provide primary data for this study as well as secondary data was gathered from different organization such as NBS and TLED.

4.2 Response Rate

A total of 90 questionnaires were submitted to small and medium enterprises and a total 67 were completed which makes up a response rate of 74.4 % of the total respondent to the questionnaires which is satisfactory for this study.

4.3 Basic Information of the Respondent

4.3.1 Gender of the Respondents

The majority of the respondents who participated in this study were males which form 60 percent of the total respondents and the remaining 40 percent comprised of female SMEs. This is the indication that for some reasons females may lack the opportunity as male in participating in different SME business as men. This may be caused by cultural belief which leads to gender inequality. Although there still exist some gap in terms of gender, this gap is not as significant compared to the previous period as the government has made efforts to improve gender balance in many aspects. Tanzanians rate their government very favourably on its performance on gender parity. Close to three-fourths (73%)of citizens say the government is doing “fairly well” or “very well" in promoting equal rights and opportunities for women. Only about two in 10 (19%) say the government is doing "fairly badly" or "very badly."(Gugu, 2018).

Table 4.1: Gender of respondents

Gender	PERCENTAGE
Male	60
Female	40

Source: Field Data, 2019

4.3.2 Age of the Respondents

According to the field study, it shows that a large number of people who are engaged in SMEs are aged above 35 years old which makes 50 percent of the whole sample This is contributed by several factors, such as lack of enough capital to run an SME by younger people as compared to those who above 35 since they have been working and accumulate their capital over a long period of time, also the age between 26-35 forms 30 percent this is because many of them are employed and busy with their jobs except for those who have failed to obtain a job a engaged in SME business as an alternative(NBS, 2012).

Table 4.2: Age of Respondents

AGE RANGE	PERCENTAGE
18-25	50
26-35	30
36 and above	20

Source: Field Data, 2019

The fewer number in the age range between 18-25 which are 20 percent according to the study is due to the fact most of people around this age are in higher learning institutions and focused on their studies hence have little time to get engaged in SMEs business.

4.3.3 Education Status of Respondents

The study surveyed the level of education of the respondents who answered the question with the aim to determine their understanding of business and financial institution. According to the field study about 49 percent of the respondents attained the secondary education while the other 37 have attended the higher level education from different universities and institutions. In such case the respondents have fair picture of SMEs and financial institution hence can provide reliable data for the purpose of this study.

Table 4.3: Education Status

Level of education	Percentage
Primary	14
Secondary	49
Higher	37

Source: Field Data, 2019

4.4 Business Information

4.4.1 Business Period in Years

Table 4.4: Business Period

Business period in years	Percentage
1-3	60
4-7	33
8 and above	7

Source: Field Data, 2019

Based on the survey conducted by this study it was identified that most of the business conducted by the SMEs does not last for longer period than 10 years. This contributed by number of reasons, which includes lack of expertise in running a business since most of the owners have inadequate knowledge in the area of business to survive the turbulent and dynamic business environment. Table 4.4 shows that 60 percent of the business surveyed have been existing for 1 to 3 years, while 33 percent existed for the period of 4 to six years and only 7 to percent only existed for 7 to 10 years.

4.4.2 Business Registration

According to the study about 64 percent of small and medium level enterprises have been registered by the authorities formally as SMEs and the other 36 percent have not completed the process of registration yet. Business registration is one of the factors considered by the financial institutions in provision of loans to business.

4.4.3 Tax Payment

According to the study it has been identified that 79 percent of the small and medium enterprises do pay taxes and hence according to the Modiglian and Miller theory of capital structure 1963, they can gain from tax shield and hence the value of the firm can be increased through using loan as source of financing a business. The other 21 percent includes the small and medium enterprises which do not actually pay taxes

Table 4.5: Tax Status

Item	YES	NO
Tax payers	79%	21%

Source: Field Data, 2019

And those which have been registered as informal small business which do not pay tax on profit only fixed amount TZS 20 000/= of which to them the theory of capital structure is limited.

4.4.4 Sources of Start-Up Capital

The study collected data on sources of capital for start-up of SMEs business to see the role played by the financial institutions on establishment of new SMEs.

Table 4.6: Sources of Funds

SOURCES	PERCENTAGE
Family	56
SACCOS	22
Bank loans	11
VICCOBA	11

Source: Field Data, 2019

About 56 percent of SMEs were established using funds owned by the family from its various sources, this type of financing has low cost since it has no interest and does not require any security to be pledged as a collateral. There other source of fund was from saving and credit cooperative society of which loans are provided to members of the society upon the fulfilment of the established conditions. While bank loans and VICCOBA comprises of 11 percent of the total respondents each.

4.4.5 Liquidity of SMEs

From the data gathered by this study adequacy of funds to run a business was assed as a measure of liquidity which explains the ability of the business to meet its short term obligations as they may become due and comprising enough cash for day to day operation of a business. From the data collected 37 percent had adequate funds to run the business while the other 63 percent were facing liquidity problem due to lack of enough funds hence failing to run the business.

4.4.6 Bank Loan

From this study it has been discovered that about 67 percent of small and medium enterprises have never applied for a bank loan for reasons such as lack of enough information of about the loans provisions from the banks, fear of losing their businesses and assets as a result of default on loan and also lack of information on tax advantages of loan financing. While the other 33 percent have successfully acquired bank loans.

4.4.7 Constraints on Application of Bank Loan

These are the factors which hinders SMEs owners to apply for the loan from bank. The majority fall in the category of others which have already been mentioned above which makes about 49 percent. While about 38 percent of the respondent do not apply for the loan due to higher interest rates from the banks.

Table 4.7: Loan Constraints

Factor	**Percentage**
No collateral	12
Interest too high	38
Others	49
I don’t like loan	1

Source: Field Data, 2019

And 12 percent of the SMEs fail to apply for the loan as result of not having enough security to pledge as a collateral for the loan which is among the basic requirement for loan application to the bank.

4.4.8 Lending Rates

Assessment was done for the small and medium enterprises those who have managed to acquire the loans from the bank to see if the lending rates are suitable for their business. And the following results were obtained.

Table 4.8: Lending Rates

	In Percent (%)
High	40
Extremely high	22
Acceptable	18
Low	20

Source: Field Data, 2019

40 percent of SMEs commented the lending rates to be just high, while 22 percent have commented that lending rates are extremely high, 18 percent said the rates are acceptable and 20 percent said the rates a low. Since the majority have said the rates to be high therefore it is likely not to be helpful in their business since the cost of serving the debt is high.

4.4.9 Impact of the Bank Loans to a Business

Table 4.9: Impact of Loans

	YES	NO
Increased investment	55	45
Increased liquidity	24	76
Increased product quality	31	69

Source**:** Field Data, 2019

In this section the study aimed to assess to what extent has the loan from financial institutions have benefited the SMEs in terms of investment, profitability, market share and others as seen in Table 4.9. From the table as the study suggests the loans from the bank have contributed to increase in investment by 42 percent, increased in product quality by 25 percent, increased in liquidity by 17 percent, increase in market share by 8 percent and has led to higher profits by 8 percent.

4.5 Reliability Test

The study applied the use of Cronbach's alpha to check the reliability of instrument used to collect the data. Is a measure of internal consistency, that is, how closely related a set of items are as a group (IDRE, 2019). From this study the Cronbach's alpha is 0.7183 which is equivalent to 71 percent which is considered sufficient since the acceptable cut off to is 70 percent. This means the instrument used in gathering the data is reliable (Nunnally, 1994).

Table 4.10: Reliability Test

Cronbach's Alpha	**0.71830036**
Split-Half (odd-even) Correlation	0.564575035
Split-Half with Spearman-Brown Adjustment	0.721697614
Mean for Test	1.328358209
Standard Deviation for Test	1.407740433

Source: Field Data, 2019

4.6 Testing Assumptions of Multiple Linear Regression

4.6.1 Multicollinearity Assumption

Table 4.11: Multicolinearity Assumption

	R^2	**$1-R^2$**	**VIF($1/1-R^2$)**
Increased liquidity	0.000134	0.999866	1.000134
Increased quality	0.024174	0.975826	1.024773
Bank loans	0.423833	0.576167	1.735608

Source: Field Data, 2019

This is the degree of relation between variables in the regression model. Hair Jr et al (2010), argues that it is the degree to which one variable could be expressed in terms of other variables within the regression model. The maximum acceptable value of VIF proposed by Ringle et al (2015) is 5 therefore according to the table above all the values of the variables falls below 5 which is the maximum acceptable value and hence no violation of multicolinearity.

4.6.2 Correlation

A correlation is statistical measure that can be used to show the relationship between variables. The correlation coefficient is normally between 1 and -1. Where it means the variables are either positively or negatively related respectively. Where the value close to zero shows variables have a weak relationship(Frost, 2016).

Table 4.12: Correlation Matrix

Variables		Bank loan	value of investment	liquidity	product quality
Bank loan	Pearson correlation	1			
	Sig (2 tailed test)				
Value of investment	Pearson correlation	0.65102452	1		
	Sig (2 tailed test)	8.90386E-05			
liquidity	Pearson correlation	-0.2575019	0.011558091	1	
	Sig (2 tailed test)	0.119776937	0.000110255		
product quality	Pearson correlation	-0.0141595	0.155480462	0.149802133	1
	Sig (2 tailed test)	0.358966353	0.001406867	0.1503172	

* Correlation is significant at the 0.05 level (2-tailed).

Source: Field Data, 2019

From the study it was discovered that the loans from the bank have a positive and greater correlation of 0.65 to increase in investment. This may be due to the fact that most of these SMEs have been in business for a short period of time hence their increase in investments needs time to mature for them to realise profits and increase in other variables.

4.6.3 Autocorrelation Test

Autocorrelation for the case of this particular study was measured using the durbin-waston test. Autocorrelation is the level to which the independent variables within the regression model correlates with each other. Durbin-watson test uses residuals to measure the autocorrelation statistics. The value of durbin-wason falls between 0-4 by general rule however the acceptable range is 1.5 to 2.5.

Table 4.13: Autocorrelation Test

Regression Statistics	
Multiple R	0.690897336
R Square	0.477339129
Adjusted R Square	0.452450516
Standard Error	0.370735187
Observations	67
Durbin-waston	1.554792671

Source: Field Study

Based on the test result of this study the value is 1.554 approximately 1.6 which falls with the acceptable range and hence the study has not violated the autocorrelation assumption which states the required range to be between 1.5 to 2.0.

4.6.4 Normality Assumption Test

This is used to check if the data is normally distributed by assessing the skewness and kurtosis. Skewness which represents the asymmetry and the kurtosis which reflects the peakedness should range between -2 to 2 for it to be generally acceptable as normally distributed (George & Mallery, 2010). From this study the values of skewness and kurtosis are within the range of -2 to 2 which is acceptable and therefore we can conclude it is normally distributed.

Table 4.14: Normality Test

increased investment		***increased liquidity***		***increased product quality***		***bank loan***	
Mean	0.552238806	Mean	0.23880597	Mean	0.31343284	Mean	0.343283582
Standard Deviation	0.501016606	Standard Deviation	0.42957175	Standard Deviation	0.46738976	Standard Deviation	0.478388672
Sample Variance	0.251017639	Sample Variance	0.18453189	Sample Variance	0.21845319	Sample Variance	0.228855721
Kurtosis	-2.01487526	Kurtosis	-0.44290865	Kurtosis	-1.3644888	Kurtosis	-1.5923704
Skewness	-0.214947582	Skewness	1.25348453	Skewness	0.82290075	Skewness	0.675344008
Count	67	Count	67	Count	67	Count	67
Confidence Level (95.0%)	0.122207552	Confidence Level (95.0%)	0.10478078	Confidence Level (95.0%)	0.11400532	Confidence Level (95.0%)	0.116688166

Source: Field Data, 2019

For increase in investment the value of skewness is approximately -0.2 and kurtosis of -2.0, increase in liquidity is 0.4 skewness and 1.3, increased product quality has skewness of 0.8 and kurtosis 1.4 and bank loans have the skewness of 0.7 and kurtosis of -1.5. A distribution is said to be a normal distribution when its values of skewness and kurtosis are zero, however, the values for skewness (asymmetry) and kurtosis ranging between -2 and +2 are acceptable for accurate interpretation. (George & Mallery, 2010) Hence this study has not violated the normality assumption since the values falls within the acceptable range.

4.6.5 Homoscedasticity Assumption Test

The study used the residual scatter graph for visually testing the homoscedasticity of the independent variables. A residual scatter graph is a figure that has predicted scores and errors of prediction. The variance of the residuals and the residual should be similar for all independent variables to ensure homoscedasticity Green (2003). for the assumption to be true, the points should be concentrated close to the horizontal line The graphs shows that the majority of the points are fairly close to zero within the range of -0.5 and 0.5 hence the homoscedasticity have not been violated.

4.7 Regression Analysis

4.7.1 Linear Regression Assumption

This assumes to exist a linear relationship between independent and dependent variables. This relationship can be identified by applying the regression technique to set of data of dependent and independent variables.

Table 4.15: Linear Regression

	Coefficients	*Standard Error*	*t Stat*
Intercept	0.207376058	0.070904	2.924724
Bank loan	0.72974607	0.098753	7.3896
Increased liquidity	0.198307134	0.111219	1.783025
Increased product quality	0.149939541	0.098783	1.517865

Source: Field Data, 2019

From our given sets of data as the table suggests where an increase in investment which can be regarded the dependent variable (Y), and bank loan(X_1), liquidity (X_2), and product quality (X_3). The linear relationship between the variables can be expressed as**:**

$$\mathbf{Y = 0.2074+0.7297X_1+0.1983X_2+0.1499X_3+\varepsilon}$$

Table 4.16: Regression Statistics

Regression Statistics					
Multiple R				0.690897336	
R Square				0.477339129	
Adjusted R Square				0.452450516	
Standard Error				0.370735187	
Observations				67	
ANOVA					
	Df	*SS*	*MS*	*F*	*Significance F*
Regression	3	7.908156	2.6361	19.17902	5.99E-09
Residual	63	8.659008	0.1374		
Total	66	16.56716			

Source: Field Data, 2019

From the table above it can be seen that the R square is 0.4773 which means that the variance of increase in investment by 47 percent is explained by increase in liquidity, increase in product quality and loans from the bank. It also shows a unit increase in bank loans will increase the investment by 73 percent which is the highest followed by 20 percent and 15 for liquidity and product quality respectively. And hence bank loans have a major contribution in the increase in the level of investment to small and medium enterprises.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.1 Overview

This part of the study is based on discussion of findings presented from the previous chapter that have been discovered from field study. Based on the tools results used for data analysis several facts were identified through different models established by different scholars such as regression, descriptive statistics and correlation between variables which are going to form the basis for discussion in this study.

5.2 Product Quality and the Value of Investment

Financial institutions offer different kinds of loan product to its customers. These entire product are set for specific segments of customer's requirement in the market. Features of the products offered by financial institutions determine the product quality. The loan product is said to be of good quality to SMEs when it meets the specific SMEs needs, however the quality of the products also depends upon availability of funds for making the product with competitive qualities. However the relationship between the product quality and bank loans is negligible -0.01 this is an indication that most loans offered by the banks do not meet the specific needs of SMEs as shown on the table from previous chapter they are characterised by high rates of interest which is not friendly to SMEs.

For the same reason its contribution on the regression model is actually low as it contribute by 0.149 only. Since these loans offered are of low quality they cannot contribute enough to the growth of SMEs as it has been shown by beta coefficient of product quality on the regression model. The results were supported by Makundi

(2015) on his study on features of loans provided by financial institution and SME performance conducted in Morogoro for the case study of CRDB which he concluded that loans provided by the banks have characteristics which impinge access to those loans by SMEs and the possibility of non-repayment due to high interest cost and payment period. Similarly to results by Leah (2015) who also suggested that loan quality should not be the only consideration since there are some other factors such as competition, business skills and others also makes a great impact on the growth and performance of SMEs.

5.3 Contribution of Bank Loans to the Growth of Small and Medium Enterprises

Based on the findings which has been presented in this study it was discovered that loans from the bank as the major financial institution for providing funds to SMEs plays a greater role than the other variables used in this study. The relationship between the bank loans and the increase in investment value is great and positive which is 65 percent which means loan from the bank can bring positive increase in the value of investment by 65 percent. On the other hand based on the regression model it has been discovered that a unit increase in loans from the financial institution contributes 0.729 on unit increase in the value of investment compared to all other variables presented. This is almost 73 percent and is largest compared to any other variable in the regression model.

Also as it was presented on the previous chapter the majority of SMEs have been registered and paying taxes for that reason they able to enjoy the tax benefits from loans interest which they pay as their deductible expenses and for such case based on the models which have been explain in this study the value of the firm is increased through paying taxed as proposed in the second preposition of MM II model. Similar result were similar from the study which was done in Nigeria assessing the impact of bank loans to real domestic product on the growth of small and medium level enterprises to which there was a positive relationship between the two based on the regression model which shows that there is a positive impact of bank loans on SMEs performance with the 0.09(Valentine, 2014).

Also the case was similar with the study which was done by Lucumay (2014) in Dodoma district Tanzania on assessment of access to finance to SME's growth, the study shows the correlation coefficient between bank loans and SME growth to be 0.169 which is positive showing that loans from the bank positively affects SME growth as it leads to increase in investment. Also the regression model from the study made by Lucumay (2014) supports this results as bank loans has the beta coefficient of 0.326 which means a unit increase in bank loans contributes by 0.326 in the growth of SMEs.

5.3 Liquidity Position of SMEs

Liquidity of a firm refers to the situation in which the firm is able to meets its obligation when they become due. It is the ability to pay the debts as they mature as well to take advantage of the dynamic conditions of a business by making investment on marketing, promotions, R&D etc. For the case of SMEs the liquidity position of most of SMEs is at stake as they lack enough funds to run their daily operations which sometimes may cause to production hold ups and loses. About 63 percent of the respondents based of the data from this study have claimed to face an acute problem in terms of maintaining liquidity position. Also liquidity problem could be solved by bank borrowings but as it has been seen from this study SMES borrow money from the banks with their primary purpose of acquiring fixed assets such as plants and machinery which costs a lot leaving them with deficit in terms of working capital.

From the study it has been observed that the relationship between liquidity and the increase in the value of investment is quite negligible with the correlation coefficient of 0.012 which shows that liquidity position of SMEs has very weak relationship with the increase in investment value. But also based on the regression model the contribution of firm's liquidity is 0.198 which is also quit low compared to bank loan which is the most significant variable with the highest contribution as it has been seen previously. Supporting results were found from the study which was conducted in Nairobi Kenya evaluating the impact of liquidity of SMEs on its growth. From this study the relationship between liquidity and SMEs growth which was shown by the correlation coefficient was 0.188 with beta coefficient from the regression model of 0.001. However the coefficient weak but still it plays appositive contribution on the growth of SMEs (Ombworo, 2014).

Lamberg and Varmin (2009) In their study concerning the impact of liquidity on the growth of SME's business concluded that liquidity of the firm is the most significant factor for growth hence firm should maintain their liquidity position to a good standard to avoid production holdups, in their study they argued that liquidity increases profitability of the firm by at least 45.6 percent compared to other variables in the regression model.

5.4 Business Support Services

As it was the aim primary aim of this study to assess the role of financial institutions in the growth of SMEs, the study found that despite the efforts made by financial institutions still exists a stagnation in the growth of SMEs as result of lacking business support services needed for the business. For the financial institutions to be effective in the growth of SMEs it is important for the SMEs to form a base of understanding the business environment and other important aspects of business such as financial management, marketing, operations management, record keeping etc. From the field study on the mentioned area being the case study for this research it was found that 67 percent of the respondents are not receiving any business support service to help them manage their businesses. And the rest have been receiving business support and training from Tanzania Local Enterprise Development. T-LED.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1 Overview

This chapter is concerned with the conclusive summary of findings which have been identified by the study as presented and discussed above in the previous chapter of this study and also put forward recommendations from the researcher based on the study which have been conducted.

6.2 Summary and Conclusion

6.2.1 Summary

From findings and discussions above in this study it was discovered that the majority of SMEs are 60 percent owned by males of total respondents which shows that female own 40 percent that indicates there is a small gap of ownership between male and female. Also SMEs are mainly owned by people of the age above 35 years old which have obtained their monies from retirement package or long term accumulation of funds which gives a picture of how difficult it is for young people to engage themselves in this sector following the above complexities to obtain start-up capital. They are also afraid to confront the reality and imagining new possibilities due to lack of new creative ideas, innovation and energy to compete as a result only 7 percent of these SMEs survive for about 7 to 10 years 4

Business support has also been identified as a problem by SMEs about 63 percent of the SMEs have claimed that their business have been lacking the required skills needed to run their business effectively such as record keeping, financial management and business management skill without forgetting marketing.

This has been an issue for most of these SMEs founded by individuals who are not experts in business. The study also identified that 64 percent of the SMEs are registered with the required authorities and 79 of these SMEs do pay taxes. Many claimed to pay a fixed amount of small entrepreneurs which is TZS 20,000/= the challenge to this is due to this method of payment the theory of capital structure will apply only to small limit and SMEs wont enjoy full benefits of tax savings on loan.

From the findings 63 percent of the respondents are suffering from liquidity problem but only 33 percent have been able to successfully secure a loan from the bank and other financial institutions. The findings shows that 49 percent do not apply for the loan as result of fearing to lose their properties pledged as collateral due to the risk of default on the loans while another interesting fact is 38 percent which do not apply for the loans as they claim that the interests are high. Among those who were able to secure the loans 42 percent claimed to have benefited from increase in their investment as result of the loans.

Findings of this study have shown that there is a strong positive relationship between loan and investment by 0.65 which means the bank loans are effective on the side of increasing the level of investment but on the other hand there has been a slightly weak and opposite relationship to liquidity and product quality by -0.257 and -0.014159 on product quality.

This shows that money from banks are used to expand the production mainly other than product quality and since the investment on equipment and properties takes time and the SMEs are young they lack liquidity as they wait for investments to start giving out returns. Regression on the findings shows that bank loans per unit have contributed by 72.9 percent on the increase of investment which is even highest compared to other variables in the regression model analysis.

6.2.2 Conclusion

Hence therefore, from the facts elaborated in the summary part above, it is clearly seen that although some respondents sourced their funds from multiple different sources, there is a positive relationship of 0.65 between bank loans and investments growth from the correlation matrix, and also from the regression analysis shows bank loans to have contributed for about 72.9 percent on the growth of SMEs compared to other variables on the regression model.

So it can be strongly stated with facts financial institutions plays a great role on the growth of small and medium enterprises. This is also supported by the fact that financial institutions are the most reliable source and that their basic functions is to provide financial services including loans. However for this to be more effective other factors that contributes to this growth such as business management skills, marketing, provision of business information and other needs to be enhanced and taken into considerations.

6.3 Recommendations

Following study results, there are needs for government and other agencies should raise awareness and promote women and youth to be engaged to participate and take this opportunity for uplifting their own living and contribute to the national income through payment of taxes. Policies should be enacted to inspire and provide incentives and capital to women and youth to motivate them to employ themselves in this sector. This should be together with reviewing the processes of providing loans of 10 percent from local government earning to these groups to make it effective.

Consultancy firms and business consultancy units from the higher learning institutions should make arrangements on how to reach out to these SMEs and help them on business information and support skills for uplifting their own living Also the findings shows many SMEs fails to sustain for longer period due to lack of business skills in terms of financial managements, competing in both local and global markets and even some lose their properties due to poor loan management. Therefore these consultancy units should make arrangements to reach out to SMEs as their customers at affordable costs and grow with them.

The tax authority should make plans of registering and educate SMEs on the importance of paying taxes to their country and how they will benefit from paying taxes on their business. This should go in hand with simplifying the registration process and remove unnecessary payments to create convenience and certainty on tax payment. Lastly but not least financial institutions especially bank should design a special start up pack for SMEs with back-end load in which there will be no or very small loan repayments at the beginning of the loan period and the payments should increase as the business matures and become stable to reduce stress on business finance.

6.4 Implication of the Study

This study can be used by the government institutions to refine policies related to financing of small and medium enterprises to ensure they accommodate the need of these SMEs so as the can positively impact their growth. Such policies may include financial and business policies which directly impact small and medium enterprises.

Findings from this study can contribute to improvement to services offered by NGOs and consultancy firms which are focused on poverty alleviation and SMEs development by focusing on the main key areas as identified by the study and eliminate factors which hinders growth of small and medium enterprises. The study may also help other researchers to further explore and study other problems relate to SMEs growth.

6.5 Area for Further Study

Based on the results of this study which shows that bank loans actually do contributes to the growth of SMEs as it has been seen on the analysis above, other factors such as business support services which includes the skills and other technical trainings need for running a business should be carefully studied to understand what causes these SMEs to lack those important skills that contributes to their growth.

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APPENDECIES

APPENDIX 1: QUESTIONNAIRE FOR SMEs

SECTION A

BACKGROUND

No.	Information needed				
1	Gender of respondent	MALE		FEMALE	
2	Age (tick where applicable)	18-25yrs	26-35 yrs	36-45 yrs	Over 45
3	How many people lives in your house?	Under 15	Male: Female:	Over 15	Male: Female:
4	Marital status (put a tick)	Single	Married	Other (specify)	
5	Level of education attained				

SECTION B:

Business information:

6. What business are you in?.. Please state the product(s) your business produce or service rendered ....

7. What position are you in the business? Tick the appropriate

   i. Chairman ( )

   ii. Director ( )

   iii. Manager ( )

   iv. Employee ( )

8. How many years have you been working with this business?...................... When your business was established? .... (provide the year)

9. Is your business registered? Yes/No (circle the appropriate)

10. Do you pay Tax? Yes/No (circle the appropriate) If yes How much per year? .... (in Tshs)

11. How many employees the business has? ....

12.

No of permanent employees	No. of temporary employees	No. of seasonal employees

13. What is your business average annual turn-over? ....(in Tshs)

SECTION C

FINANCIAL CONDITION

14. How much was your start-up capital? .... (in Tshs), Provide the estimate value of your total investment ?.......................(in Tshs)

15. What was the Sources of funding for start-up of your Business (Sources of Finance)...Is the source sustainable? Yes/No

Give reasons..

16. What problems if any you faced on acquiring capital during start up? ....

....

17. Is your capital adequate for the business? Yes/No (Circle the appropriate)

18. What was the source of finance for expansion of your business?

…………………………………………………………..

19. What other sources of financing your business do you know? ....

20. Has your company ever applied for credit from a Bank? Yes / No

21. If No, why not?

(i) Do not like Bank Loan ( )

(ii) Interest Rate too high ( )

(iii) No collateral to pledge ( )

(iv) Others (specify) …………………………………

22. How did you find the lending rates?

i. Extremely High ( )

ii. high ( )

iii. Acceptable ( )

iv. Low ( )

23. What are the general conditions of getting loan? And what are/were the difficulties of getting loans? ....

24. Has the loan from the financial institution ever been helpful in your business? If yes please tick where appropriate

Increased investment	
Increased Liquidity	
Higher profits	
Market growth	
Increased product quality	

25. What were the criteria or conditions used in granting the credit?

a. Annual turn-over [ ]

b. Total investment outlay [ ]

c. Business plan [ ]

d. Collateral security [ ]

Others (please specify)..

26. Is your business insured? Tick the appropriate

a. Yes [ ] b. No [ ]

SECTION D

Business support

27. Is there any organization or institution that support or enhance business development? Yes/No (circle the appropriate)

28. Do you have access to any form of technical or managerial support (or training) to grow your business? Yes/No (circle the appropriate)

29. If Yes, state the source (organization or institution) ....

30. Comments on the prospect of your business in the medium to long-term growth (5 – 10 years) ....

31. What are the major challenges or difficulties that your business is facing (especially in the area of infrastructures and institutional support)? ....

....

32. Suggest ways of enhancing or facilitating credit delivery to the SMEs sub-sector that will ensure its growth, development and sustainability in Tanzania

....

....

....

....