

**CHALLENGES IN ACCESSING LOAN FOR SMALL AND MEDIUM
ENTERPRISES: A CASE OF SONGEA MUNICIPALITY**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT 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 acceptance by the Open University of Tanzania a dissertation titled: “*Challenges in Accessing Loan for Small And Medium Enterprises: A Case of Songea Municipality*” in partial fulfilment of the requirements for the degree of Master of Business Administration of the Open University of Tanzania.

.....

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Date

DEDICATION

This dissertation is dedicated to my late mother Leah Nyambita and the late father Zephania Opiyo Oindi who took me to school. I believe that they fulfilled the parental responsibility of educating children without knowing. I am also indebted to my family Mrs. Hyasinta J Opiyo, Flora J Opiyo, Henry J Opiyo, Alice J Opiyo and Erick J Opiyo for the moral support given to me. I love you all.

ACKNOWLEDGEMENT

Thanks to God whose guidance along the best pathway of my studies has made me realize they never filled room of growth in education as his counsel and care made abundant success throughout my academic life.

I wish to extend my gratitude to those of you who in one way or another have made my research a success. Firstly, I am deeply grateful to my Supervisor Dr Raphael Gwahula for his kindness, advice, guidance and support that made this work possible. Further to Mr. Andrew Komba, the then Director of regional centre Ruvuma for their close support, guidance, comments and criticism.

I would also like to express my sincere gratitude to my wonderful family, my relative's classmates and friends. Your prayers have always been with me. May God keep blessing you all.

Finally, who I must admit that it is impossible to mention everybody assisted me, but all their support remains valuable to me. However, regardless of all assistance I received, I remain wholly responsible for any shortcomings, misinterpretation and conclusion of this work.

ABSTRACT

This work is an attempt to determine challenges in accessing loan for small and medium enterprises sampled in Songea Municipal from three randomly selected wards. Specifically, it aimed at assessing SME identifying established requirement in accessing loan, examining awareness of requirements established in accessing loan and finally identify alternative strategies applied. The motive of this paper is that SME differ significantly in term of their financial decision and behavior hence there is a need to determine challenges on the various financing sources of SME as the access to finance is of crucial important for ongoing and sustainable growth and profitability of small and medium enterprises. The study employed quantitative method and instrument for Data collection was questionnaires and documentary reviews. The study reveal that, awareness of requirements is almost high and that all requirements in accessing loan were restrict to ensure community members getting quality and affordable services in loan provision. And meeting of banks requirements, use of micro finance, availability and awareness of alternative in getting loan were increased. Also collaterals which is expressed in terms of immovable asserts is found to be the most important requirement in accessing loans. In the study it is revealed that, when collaterals is limited to immovable asset it encourages them to look for alternatives sources of loans. Therefore, there is a need for more improvement in loan policy and there should be variation in terms of collaterals, in order to expand opportunity for owners of SME to access loan. Because collaterals which is limited on movable asserts is not supportive to provision of loans.

Key words: Collaterals, characters, small and medium enterprises

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LIST OF ABBREVIATIONS

BAYPORT	Non Bank Provider of Unsecured Credit and Allied Products
FAIDIKA	Register Name of One of Financial Institution
FINCA	Foundation for International Community Assistance
FF	Financial Facilities
GCB	Ghana Commercial Bank
KYC	Know Your Client
NBC	National Bank of Commerce
SACCOS	Saving and Credit Co-Operative Society
SIDO	Small Industries Development Organization
SME	Small and Medium Enterprises
SPSS	Statistical Packages for Social Scientist
TRA	Tanzania Revenue Authority
URT	United Republic of Tanzania
WWW	World Wide Web

CHAPTER ONE

CHAPTER OVERVIEW

1.1 Introduction

One the major problem facing small business enterprises is lack or rather shortage of capital and how to raise the capital that they need (Nkonoki, 2010). The paper determining challenges in which the owners of SME face in loan accessibility. Limited access to credit for these SMEs especially in developing countries has been identified as major bottlenecks especially in terms of capital i.e. Access to proper financing and capital constraints for establishment, development and expansion is the major constraints facing SME in Tanzania and other developing countries(ibid). Most of them obtain their capital through loan accessed from bank. Normally access of loan in any financial institution depends on five major conditions which are capacity to repay, capital invested in business, collateral (guarantees necessary to secure loan, conditions(reason for asking loan) character-(evaluation of trustworthy)according to(www.social enterprises), whereby it is difficult for SMEs to meet those requirements.

There are many studies conducted in different areas, which show challenges in accessing loan by small business enterprises. Some of studies associate access to credit to the bank with gender issues. For example, in Lagos it is recommended that factors that affect woman owned business are significantly different from factors that affect men business (Yusuff,2010). In most cases loan accessibility by many small business enterprises are affected by number of factors of which are generally analyzed as being conditions and requirements which should be flexible, affordable and

attractive in financing small business (Aliet al.,2013). In this study the interest was to determining challenges in accessing loan for small business enterprises in Songea Municipality the area which is the growing town with many people with small business enterprises and with greater interest to get loan from different banks.

1.2 Background of the Study

Since 1980' Tanzania has developed environment, which is conducive for investment and development of different enterprises (Musiba,2007). This has been marked with high development competition and development of macro and small business enterprises. The development of small business enterprises however is marked by development of different strategies including the development of small and medium enterprises policy. The motive behind the development of the small and medium enterprises policy has remarkable role in employment creation and income generation (URT,2003). It is argued that, SME plays a significant role in the development process of many developing countries (URT, 2003, Maziku, 2011, Mukiri, 2008).

The implementation of small business enterprises policy in Tanzania has based on three major areas; creating and enabling business environment, developing financial and non financial services and putting on place supporting financial institutional infrastructure (URT, 2003). Before and during the establishment of the policy SME sector experienced a problem of limited access to finance due to the fact that they are perceived as high risk, inability of operators to fulfill the collateral requirements, most banks do not operate an SME financing window, limited geographical area, lack of guarantee scheme to back up banks financing SMEs, and other challenges (Massaweet

al,1999). These SME account for large share of enterprises active in Tanzania (URT, 2003).

In Tanzania these SME faces many challenges including persistent of culture which does not recognize entrepreneurship, complex bureaucracy, regulation, insufficient competition and inadequate information on the credit market and banks, which discourage and not willing to lend SME. Apart from all challenges addressed above, limited access to credit for SME is very common in developing countries (URT, 2003; Oghenevwokeet al., 2013). According to Oghenevwokeet al. (2013), lack of proper credit schemes is one of the major challenges in accessing loan, which is also associated with limited access to credit.

However, the challenges in accessing credits are further related with the phenomenon of credit rationing. It is argued that credit rationing depends on the firms and entrepreneur characteristics, relationship characteristics, loan characteristics and supply condition (Maziku,2012).In most cases credit rationing is simultaneously expressed by owners of firms and credit officers.

According to Maziku (2012), the finding from credit owners and credit officers revealed that, credit rationing in Tanzania appears to be driven primarily by business and entrepreneur characteristics, managerial competence of the owner, quality of the business information and poor quality accounting practices, borrowers understanding of the requirement for obtaining credit, as well as inadequate collateral, poor relationship with bank and lack of credit history. In the aspect of borrower, it is expressed in terms of resource-based theory on the fact that access in obtaining credit from the bank is formally found essentially within the firm especially in terms of

resource that is available in the firm (Mukiri,2008).In this aspect it is found that, assets, capabilities, organizational process, firm attributes, information and knowledge that are controlled by the firm are some of resources that evaluated during credit purchase. For the purpose of resource it is well articulated that, resource is either property or knowledge based resource.

In this aspect it is difficult to understand what is really or specifically requirement for SME to access loan and how are they ranked. For example there others factors like entrepreneur orientation are a determinant to accessing credit, knowledge based resource gained from maturation age and low competence enhancing support. As far as it is theoretically argued that in order to get loan there as basic necessity which include capacity to repay, capital invested in business, collateral (guarantees necessary to secure loan), conditions (reason for asking loan) character- (evaluation of trustworthy. Condition necessary for accessing credit suggest many contradictions as far as different researchers tend to address them in different aspect.

According to (Mohamed, 2003) it is found that gender, education, income levels and degree of awareness on credit availability are factors, which influence credit accessibility by small business man including fisherman. It is very important to understand the major factors, which hinder the accessibility to credit (ibid). In fact it is important because it is argued that unfavorable credit terms and condition such as higher interest rate and commissions charged by banks and excessive collateral requirements in comparison to loan value, high monitoring cost and corruption of banks officials affect credit accessibility (Maziku, 2012). Apart of all factors still lack of appropriate collateral and understanding of bank requirement for obtaining loan are

paramount (Maziku 2012). It is suggested that, microfinance institutions and other banks must set more flexible, affordable and attractive requirements in the firms (Ali et al., 2013). In some studies access to credit is limited by many others factors like delay in disbursement of credit, secured inadequate capital and delay in firm set up (Benedicta, 2011). According to Nkonoki (2010), corruption and bureaucratic processes are some of factors, which limit access of credits.

With all these contradictions thus, it is important to provide logical explanation of really requirement for Small Enterprises in accessing loan for the case of National Micro finance bank for the case of Songea Municipality simply because there are emerging number of small business enterprises and most of SMEs lack or have a shortage of capital. The study is going to focus on determining challenges in accessing loan for small business firms or enterprises.

1.3 Statement of the Problem

Access to credits is very important for the growth and development of small and medium sized Enterprises (SME). However, access to credits is still a challenge to most SME especially those in developing economies and it is a key issue within private and public sectors. In Tanzania likewise one of the major problems facing SME is lack and shortage of capital. In an attempt to address the problems in purchasing loan, financial institutions have been the key solution. The URT for example had set good environment for the SME accessing credit. Apart their entire environment set as to support SME in accessing loan, still there are many obstacles in accessing loan, which are almost complex. In Songea Municipality SIDO has been

playing an important role in training SME. Despite of all training in running business still access to loan is limited to many owners of SME in Songea Municipality.

In an attempt to understand how are the condition in accessing loan for SME in Tanzania, the researchers found it very paramount to examine major condition in accessing loan for SME in the case of SME in Songea Municipality. Despite many companies providing entrepreneurship training, including business plan, SIDO being one of the agency providing training on business and entrepreneurship affairs, still accessibility of credits by SME, is low in Tanzanian. Therefore, there is a need to examine the condition required for SME in accessing loan as to understand specific established condition, weakness and strength, and strategies employed by SMEs in accessing loan in order to ensure SMEs have various means to boost their capital.

1.4 General Objectives

Determining challenges in accessing loan for small and medium enterprises.

1.4.1 Specific Objectives

- (i) To identify the established requirement in accessing loan.
- (ii) Assess of requirements established in accessing loan.
- (iii) To analyze alternative strategies employed by SME to access the loan.

1.5 Research Questions

- (i) What are the established requirement in accessing loan?
- (ii) What are strength and weaknesses in accessing loan for SME?
- (iii) What are the alternative strategies employed by SME to access loan?

1.6 Significance of the Study

This study has been very useful in understanding the implication of determining challenges in accessing loans for SME in Songea Municipality because challenges in accessing loans has not been adequately understood by many studies. This is due to the facts that many studies relied on conditions and other constraints in its broadest sense. The understanding of the basic requirement of SME in accessing loan was helpful in further suggestion of usefulness and weakness of requirements to SME. Moreover, generalization of these requirements in relation to level of economy of enterprises status was well addressed at the end of this study.

At the policy level the study was more helpful in addressing an alternative ways to help SME in opening opportunity for accessing loan especially through assessed weakness and strength of requirements.

1.7 Scope of the Study

This study had been made in urban area specifically Songea municipal in Ruvuma region Tanzania. The research deals with SMEs who are unable to access loan facilities from bank in order to boost their capital for business operation and their economic growth due to challenges they face to access credit from bank.

1.8 Limitation of the Study

The study faced different limitation including methodological challenges. This means that the study used purely quantitative approach where as some respondents demanded to provide details with in-depth explanation. In this case the open ended

questionnaires contributed much in extending information. Although the use of questionnaire was the main method of data collection, interview was applied as to cover the gap.

This study also faced the challenge of co-operation from respondents because most respondents are too much familiar with government officers who visit now and then for the sake of understanding the enterprises status. Question such as capital status, suggest tax rate, number of owners of SME who get loans. This demanded a researcher to clarify the objective of the study with the guide of introduction letter.

1.9 Organization of the Dissertation

The dissertation is organized into six chapters. Chapter one provides introductory parts of the studies in which there a reason behind the development of the study in the background and statements. Chapter two shows different literatures from different authors and available gaps. Chapter three indicates methodology, which was employed in understanding the research problem. In chapter four indicates the presentation of research findings. Chapter five show discussion of finding and results and chapter six describes conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Chapter Overview

This chapter attempt to show different literatures as developed by different scholars. In this section also there is the development of conceptual framework, which was used in explanation and interpretation of research findings. However this section is divided into three main sections. Section one is about general condition and requirements in accessing loan for SME, Section two is about challenges in accessing loan, and finally the conceptual framework.

2.2 Definition of Terms

2.2.1 Small and Medium Enterprises (SME)

In the Tanzanian context small or micro enterprises are those engaging up to four family members or with an investment not exceeding 5.0 million, majority of which fall under the informal sector. Sometime are formalized undertaking engaging 5-49 employees or with capital investment of 5.0 million to 200 million. Medium enterprises employ about 50 to 99 employees and use capital investment from 200 million to 800 million shillings, (URT- SME Policy 2003).

2.2.2 Capacity

Capacity is description of loan purchaser to repay loan. (Calice, 2012) A bank tends to lend to a business if they are sure that the business will repay the loan. In this aspect there is credit score, which is used to evaluate the ability to finance the business. Also

in the same aspect there financial statement, which imply the financial health of the business, which also demand a balance sheet for cash flow.

2.2.3 Collateral

This is sometimes referred to as the guarantees. They are things or items which the business or individual own which in one way or another may be sold when the business cannot repay loan. They may include equipment, buildings, inventory and accounts receivable. (Kothari, 2009).

2.2.4 Character

This refer the most subjective information the loan provide may seek in order to seek trustworthy of the loan purchaser. It also involves biographies and experiences on business. (Bondinuba, 2012).

2.2.5 Condition

Refer to restriction of loan provided to SMEs in order to get loan. (Calice, 2012)

Example for SMEs to qualify to obtain loan from financial institution, initial capital is one of restriction.

2.2.6 Capital

Is the amount invested is the firm or business without a specific repayment date. This amount can be raised internally or externally. Internal source is the current owner and the external sources are amount obtained outside the existing partner and their relative. (Maziku, 2012) & (Mukiri, 2008).

2.3 Theoretical Literature

2.3.1 Nature of Small and Medium Enterprises (SME)

There is no one definition of clear understanding SME. According to (Nkhuah, 2013) SME are business that are basically privately owned and operated with small number of personnel and relatively low volume of sale. Micros are those, which employ 6-9 while medium employ between 29-50 employees. According (Calice, 2012) SME should be defined in terms of size of employees and capital. According to (Nkonoki 2010), it is argued that the subjective definition bases on capitalization, sales and employment. In the context of Tanzania SME are those which involve at least 4 people in most cases family members employing capital at least 5 million or some time they may employs about 5-49 employees (URT, 2003). In case of medium they tend to employ 50-99 people and uses capital of about 200 million (URT, 2003)

2.3.2 Basic Conditions and Requirements in Accessing Loan for SME

In obtaining credits there are so many condition and requirements, which SME needs to meet. Some of which are used as assessment criteria. According to Mukiri (2008) important condition required in accessing are entrepreneurial orientation, knowledge based on resource, startup experience and competence of the firm. In most cases in the point of assessment of applicants Social associates enterprises summarizes major requirement, which are described in terms of 5C's of credits. They include capacity to repay loan, condition, capital, collateral and character. It is argued that, collateral requirements for SME is higher than for consumer loans because SME credit risk is usually more difficult to evaluate according to 63% of the banks (Calice, 2012). According to (Bondinuba, 2012) available assets is found to be the major requirement

for guarantees. According to (Mahembe E, 2011) it has been found that there is a strong correlation between the age of an enterprise because of affairs of profile risk as far most business fail after three years (Mahembe E, 2011). This is closely linked to the kind of deposit relationship to extent to which a SME has deposited in the particular banks. It has been argued that some of banks required most their SME clients to have a experience with a bank for at least 18 months or have a deposit first (Calice, 2012).

In this aspect bank with long standing relationship with SME clients had large access of loan than other with limited relationship. It is well described as Know Your Client (KYC) in the sense that business and regulatory requirements for SME is vital in understanding the clients (ibid). In the same aspect of regulation especially in terms of security, which is acceptable for SME, which is under prudential guideline is said to be too large extent property; while at the same time the definition of really acceptable security is still narrowly defined. It is further demanding more research to understand the reasonable collateral requirements for SME because some literatures shows that, where are SME tend to be more vulnerable to economic and political shocks than corporate the collateral requirement tend to be almost similar to all i.e. SME is sometime required to provide large lodge of security. All these information concerning basic requirements for SME accessing loan do not adequately specially show how are the requirements for SME to access credit are established as to meet the really need of SME. It has been suggested that in access of capital and financial support is not something to be overlooked, still major condition for SME accessing loan are not well analyzed. According to the study which, was conducted by (Ali *et al.*,

2013) in Mogadishu it has been argued that major requirements for SME to access finance are individual collateral, capacity and security of the guarantor. Although these requirements are obstacles in accessing finance still they are not well analyzed (ibid)

2.3.3 Challenges and Obstacles in Accessing Credit or Loan for SME

There are many challenges which facing SME. In this aspect the concern on challenges facing SME in accessing credits. According to (Nkonoki, 2010) there are internal and external challenges, which faces SME in Tanzania. Internal factors include lack of motivation and drive, lack of background and experience in the business, capital constraint, lack of a proper business plan/vision, theft/cheating and lack of trust in doing business, poor management, running informal/unregistered businesses, lack of proper record keeping, inadequate education and training, people factor/lack of needed talent, improper professional advice and consultation. In terms of external factors they include Corruption, Competition, government policy, technological barrier, in access to finances/funding, bureaucratic processes, unfavorable economic factors (ibid).

In access to finance and capital are two inseparable phenomenons. Capital constraints is failing to raise funds to start or establish a business while in-access to finance refers to as accessibility of fund in expanding or running maintaining business. Collateral constraints and inadequate business plan, state bureaucratic, procedures for applying loan/finance. However collateral constraints and bureaucratic procedures are sited as major challenges in accessing finance from financial institution (ibid). But how are the

requirements it is something to question. In the study of it has been evidenced that requirements hinder the possibility of borrowing money from microfinance institutions so as to start, run or expand small businesses because of the fact that small business owners cannot meet the requirements set by the Microfinance institutions.

This also supported by the report of (Maziku, 2012) it has been concluded that limited access to credit for these SMEs, especially in developing countries, has been identified as a major bottleneck in realizing this potential. It is found that apart from challenges based on knowledge about credits conditions, there are challenges on the side of bank namely inflexible loan eligibility criteria, unfavorable credits terms and interest rate (Maziku, 2012). There other arguments which, show that the majority of respondents experienced delayed disbursement of credit, secured inadequate working capital, and could not generate enough income to service debt obligations due to delay in firm set-up. A large segment of respondents registered their indignation over the inadequate supervision of GCB over implementation work of their firms (Benedicta, 2011). Delay of und disbursement implies difficult conditions, which are not yet studied.

According to (Bondinuba, 2012) major challenges in access are collateral, cash flow statement, total assets, business plan, lack of collateral requirement and weak institutional capacity. In the same text there is specification of barriers in accessing finance, which include information barriers, lack of management skills, weak institutional capacity and lack of managerial know how (ibid). It well stipulated that, inability of Small and Medium Construction firms to provide collateral and other information needed and financial couple with high cost of FF (financial facilities) in

terms of high interest rates makes it extremely difficult to access finance (ibid). However, all this has the implication of requirements and condition for SME in accessing finance in financial institutions. In addition to that there are few argument in that entrepreneurial characteristics are bases of credit due to the fact of the tendency venturing new opportunity like financial institution (Nkuah,2013). On top of that business registration, documentation, recording business, planning, asset ownerships, which also impact credit access (Nkuah, 2013).

Apart from all these challenges the principle of lending, which include management character namely knowledge of business experiences, past repayment records and reputation, key management and business styles and successful or succession plan; financial capacity namely the capacity of the business to repay loan which also determined by sufficient cash flow or other sources of payments; and Collateral which express the security offered to compensate or mitigate weakness in financial capacity and management character (Haron, 2013). It is argued that the absence of collateral, capacity and character suggest denial of loan (ibid). That is to say all challenges in accessing loan rest upon requirements, which need specific analysis. In Mogadishu these challenges in accessing loan by SME left on failure to meet the requirement. It has been argued that requirements like individual collateral, repayment capacity, and security deposit or guarantor hinder the possibility of borrowing money from micro finance institution as to start and run or expand business (Ali,A et al,2013).

Passing all literature, which was shown in this part it has been found that requirements for SME to access credits are identified simultaneously while its analysis is not well

shown with greater concern to the need and position of SME. In one way or another generalization of requirements is what calls for further understanding of the problems of loan accessibility for SME.

Table 2.1: Summary of Literature Review

Variables	Country	Methodology	Findings	Author
Roles of loans to SME	Tanzania	Mixed method	Loans is the basis for capital creation	(Maziku, 2012, Mukiri, 2008)
collateral, repayment capacity, and security	Mogadishu Somalia	Mixed method	Requirements like collaterals hinders accessibility of loan	(Ali,A et al, 2013)
Entrepreneur as SME	Ghana	Mixed method	Determinants of accessing loan credits are collaterals	(Nkuah, 2013)
internal and external challenges	Arcada	Mixed method	Example Internal are lack business backgrounds While external are based on bureaucratic process	(Nkonoki, 2010)
Collateral	Ghana	Quantitative methodology	major challenges in access loan are collateral, cash flow statement, total assets, business plan, lack of collateral requirement and weak institutional capacity	Bondinuba, (2012)

Source: Researcher Field Collection

2.4 Theoretical Issue on the Current Study

The competitive advantage is the ability gained by a firm through attributes and resources to perform at a higher level than others in the same market (Porter, 1985), (Bowen, 2009), extended by saying that a firm is said to have a competitive

advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential payer. The current researcher wanted to understand as to what extent credit facility financing could be a competitive advantage in which SMEs selected could be able to face the challenges for their growth and development in Songea Municipal.

Ntayi et al, (2010) examine the relationship between SMEs and supply chain performance in Uganda and found that SMEs in developing nation face a number of obstacle for their performance and survival in the long run. Supply chain being one of the areas for private SMEs to flourish. Very little is known by people relating to financial value chain and SMEs operations.

The most important on SMEs performance is link between finance accessibility and other essential factors in Songea municipal. Other factor could be considered apart from financial accessibility.

The theory behind could be true or not as one may consider financial accessibility to run the intended SMEs and their growth.

The current study focused on financial credit accessibility based on the fact that majority of Tanzanian lack capital for operation and to maintain it. Much focus was given in case SME determine the challenges in accessing loan in Songea municipal.

2.5 Research Gap Identified

In the discussion, a number of literatures on challenges in accessing loan have been reviewed. Most of the cited literatures are not empirical studies. Instead of looking the general challenges in accessing loan for SMEs, this study focused only on requirement

relating in accessing loan. Moreover it went further to identify their strength and weakness using a case study of Songea municipal.

2.6 Conceptual Framework

Basically there are many factors, which affect accessibility of loan by SME. In most cases fundamental factors, which affect loan approval are basically significant than general challenges. Factors which affect loan approval are management/character, collateral, initial capital condition and capacity (Haron, 2013). According him, the management/ character refers to the probability in fulfilling and honoring obligation by SME. It has been argued that the presence of management will increase the likelihood of loan approval. Capacity refers to as ability of the ability of business to repay the loan and its presence increase the likelihood of loan approval. Collateral according to (Haron, 2013) refers to the security or guarantor for the loan and it can acts as an indication of enabling the bank to attenuate or eliminate the adverse selection of problems caused by the existence of information asymmetries between the bank and the borrower at the time of loan decision. Likewise, the presence of collateral will improve the likelihood of loan approval.

On the other hand there is interaction between the five factors. For example the interaction between character and collateral will increase the likelihood of obtaining loan. Also, the interaction between capacity and collateral as well as the interaction between five. Refer Figure 2.1.

However, owners of SME as purchaser of loan who must meet requirements. Unawareness on the established requirements is sometimes can lead into failure to

access loan. Generally the established requirements are termed as character, capacity and collaterals capital and condition. Apart from awareness to the established requirements, still weakness and strength of requirements might obstacles to accessing loan, something which might push owners of SME to develop several strategies to access loan. In this case Loan approval for SME depends on either qualification of SME owner with respond to established requirement or other initiatives.

Independent Variables

Dependent Variable

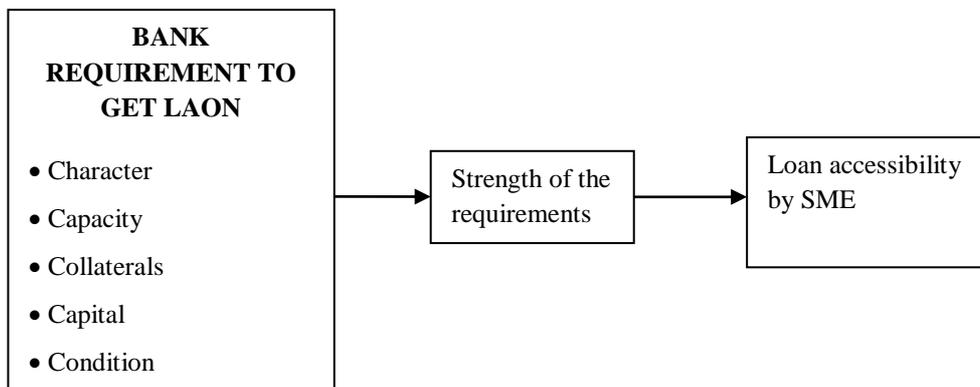


Figure 2.1: Conceptual Framework (Reviewing Linkages)

Source: Researcher's own construction (2018)

In any bank there are basic requirement in accessing loan, of which are generally termed as character, capacity, and collaterals, capital and condition. Accessibly of loan depends on their awareness on those requirements and strength of condition. On the other hand, it is questionable to whether SME will access loan if they requirement are not favorable as far as many literatures has shown that the barriers in accessing loan rely on number of factors some them are not favorable to them. In most case the requirement for accessing loon is are fundamentals in accessing loans, as stipulated by many scholars like(Nkonoki, 2010), (Bondinuba, 2012), (Ali,A *et al*, 2013) and other related studies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Chapter Overview

This chapter highlights research design and approach; study area; methods of data collections; data sources; sampling procedures and sample size and data analysis. Research methodology is a way to systematically solve the research problem. It is more than research methods because it demands the researcher to consider also the logic behind using particular methods, designs and context to which methods are applicable so that the research results can be evaluated by the researcher himself and others (Kothari, 2009).

3.2 Research Philosophy

Specific research philosophy has to clarify research design, identify workable research and to have a suitable research design according to the constraints of different knowledge construction (Saunders, et al, 2012; Voce, 2004). There are four major philosophical approaches (positivism, realism interpretivism and pragmatism) delineated by several core assumptions concerning ontology (reality), epistemology (knowledge), human nature (pre-determined or not), and methodology (Saunders et al., 2012). Positivism philosophy, collect data about the study object and search for causal relationships and knowledge is developed through objective measurement (Gray, 2009, Kothari, 2009).

Research Paradigm connotes ideas of mental picture or pattern of thought as the way of examining a social phenomenon by representing a world view that defines the

nature of that world and its parts (Voce, 2004; Guba and Lincoln, 1994). In other hand Kuhn 1970) refers the paradigm as cluster of beliefs and dedicates, which for scientist have influence on what should be studied, how research should be done and how results should be interpreted. This means that the researcher must undertake particular inquiries, their beliefs and experience influence how they view the environments and the world at large. These experiences influence how the knowledge is created and the process by which it is developed.

Creswell (1994) and Bryman (2008) identified two major research paradigms in social research namely quantitative and qualitative research. Quantitative research is viewed as a research strategy that is build and make an emphases on quantification of data while qualitative approach pinpoint and emphasis on the words rather than quantification of the data collection and analysis. Quantitative approach entails a deductive approach to the relationship between theory(ies) in which the accent is placed on finding the cause and effect of such constructs build from theories and norms of the natural science model of positivism(Saunders, et al., 2012). In other hand, according to Bryman (2008), qualitative research can be viewed as a strategy that usually emphasizes on words rather than quantification in data collection and data analysis. The distinction between the two paradigms is very important in selection of an approach in conducting research, which entail that its adoption contains important assumptions about researcher's view of the world whereby both quantitative and qualitative design was employed in this research.

3.3 Research Approach

This research employed quantitative research design. Quantitative design was employed in order to capture causal correlation of facts, magnitude and other quantifiable data. For example in this study requirements for accessing loans was examined on the bases of age of enterprises, size of enterprises, most frequently facts about requirements of accessing loan for SME etc. As purported by many scholars including Kothari (2009), quantitative approach has been helpful in capturing magnitude, frequency and other quantifiable information especially for questions with logistic responses. The intention of using quantitative is to provide quantitative measurements because it bases on measurements of quantity (Kothari, 2009). Qualitative was only used in few aspects to get additional information from the credit officers.

3.3 Study Area

This research was conducted at Songea Municipality due to high development of SME, which need capital from different financial institution. In Songea Municipality there are so many emerging SME, which are in need of loan from banks and other micro –finance agencies. It has been revealed that many of them end into microfinance institution like FAIDIKA, FINCA, and BAYPORT etc. This implies the high demand of loan from bank. These was selected for the search relevant in case of increased SME.

3.4 Methods of Data Collection

In this research, self administered questionnaire was a major method of data collection used in order to obtain quantitative information. Both closed and open ended

questionnaire was used as to capture reality and analytical facts about the problem. This was helpful and capturing quantifiable information lie socio-demographic information, economic status and other quantifiable analysis. Data concerning economic, age, sex, and status of enterprises were very well captured through this method. Sometime open ended questionnaire provided a room for obtaining and expanding information from credit officers.

3.5 Data Sources

Data sources was mainly primary. Primary sources shall include credit officers and managers of banks, and owners of Small business enterprises and owners of medium enterprises. Respondents in this study comprised of owners of SME, workers in the bank especially credit officers. They were all included in order to get insight of challenges in accessing loan per individual.

3.6 Sampling Procedures and Sample Size

Simple random sampling was the basic sampling procedures in the sense that all owners of SME shall have equal chance being selection. In this research sampling was simple random sampling. In the sense all owners of SME have equal chance of being selected. In most cases selection was based on the number of wards, which are in the town with many business people. According to SIDO survey and preliminary reports from TRA there are about 4200 owners of SME in that area. Most of them are concentrated in only 7 wards. In In this case then at least 10% of SME were selected which is equal to 16%. All these were taken from three town wards. There was only 60 respondents of which owners of SME was 55, bankers was 5. No gender consideration was used because loan in bank has little concern on gender. Access of

respondents was through snowball, which the researchers shall sometime be guided by subsequent information. In most cases information was initiated at the bank for further information accessibility.

3.7 Data Analysis

Data in this research was analyzed by general approach of developing statistical distribution and calculation of simple measures. Editing of raw data collected was done on all questionnaires followed by making data entry dictionary. The tool, which was used in development of statistical distribution is Statistical Package for Social Scientist (SPSS) version sixteen. Basing on SPSS program template and data entry sheet was prepared from which all data were well analyzed.

The econometric analysis using multiple regression models was used. The multiple regression model below was used to analyse these interaction

Access to loan = constant + collateral + Character + Capacity + Financial statements + Bank statement + Ongoing business + ε

To investigate this model, loan application is used as a dependent variable and is represented as a dummy variable Y coded by "1" accessing loan and "0" otherwise.

We estimate the coefficient "Y" by using the following model:

$$Y = \beta_0 + \beta_1 COL + \beta_2 CH + \beta_3 CA + \beta_4 FS + \beta_5 BS + \beta_6 OB + \varepsilon$$

Where:

Y = Loan access (1=accessing loan, 0=otherwise)

β_0 =a constant term

$\beta_1 - \beta_6$ = coefficient or parameter for the independent variable

ε = error term (random disturbance error)

The way to investigate this model is simply by represent dependent variable as a dummy variable Y coded by "1" (access of loan) and "0" (otherwise).

CHAPTER FOUR

PRESENTATION OF FINDING AND RESULTS

4.1 Chapter Overview

This chapter intends to present and provide a detailed finding on the results of study on challenges in accessing loan for small and medium enterprises in Songea Municipality. The results presented are based on the information obtained from sample respondents and examined by qualitative and quantitative statistical analysis. This chapter has sub-sections including an overview of the study, characteristics of sample respondents in terms of age, sex and level of education, to identify the awareness of requirements for SME in accessing loan, assessing strength and weakness of the requirements established in assessing loans and analyze alternative strategies employed by SME to access loans to banks.

4.2 Data Cleaning

After data collection the first stage was passing through all questionnaires as to crosscheck if all questions are well answered. This process involved proofread all responses and preparing the questionnaire for data entry.

4.3 Validity and Reliability

4.3.1 Validity Analysis

Validity is the degree to which instruments measures what is supposed to measure (Kothari, 2009). Validity for all quantitative was based on analysis tools, data presentation, statistical distribution tables. Instruments for data collection are shown in appendix I.

Researcher conducted test-retest pilot study to ensure the validity of the data tools. The participants were circulated and administered 20 questionnaires. The same participants were repeated after one week following the same procedure. Pre-test data collection tools are significant because it ensures validity in advance of the major survey (Lee et al., 2016).

4.3.2 Reliability Analysis

A measuring instrument is reliable if it provides consistent results. A reliable measuring instrument does not contribute to validity but valid instrument is always reliable (Kothari, 2004). For quantitative data in this study, reliability of data was tested by the use of Cranach's Alpha through Statistical Package for Social Science (SPSS). The findings of the experiment showed that, as statistically accurate data gatherings tool, the Cronbach coefficient of all factors was over 70 per cent. In the majority of social scientific studies, reliability coefficient of 0.7 or above is regarded acceptable (Seekeran, 2004).

Table 4.1: Reliability Analysis

Item	Number of Respondents	Cronbach's Alpha	Number of items
------	-----------------------	------------------	-----------------

Identify the established requirement	55	0.881	5
Assess of requirements established	55	0.823	5
Alternative strategies	55	0.872	5

Source: Researcher's Field Survey

4.4 Characteristics of Sample Respondents

Table 4.2 summarizes characteristics of sample respondents. About 38(69.1%) of respondents were males. Males have a great role to play on requirement for accessing loan for small and medium enterprises in Songea Municipality. This means that any intervention aimed at accessing loan for small and medium enterprises in the study area, should actively involve males and female.

The results showed that most of the respondents were aged between 36 - 45 years old (63.6%) followed by 46 - 55 years of age (12.7%) (Table 4.1). Age of the respondents is very crucial attribute on determining challenges in accessing loan for small and medium enterprises in Songea Municipality as it determines economically active group, very few respondents fall between 18 - 25 and between 26 – 35 years of age, which are either still young.

Economic activities, which were involved include trade, trade and farming and others. Trade and the combination of trade and farming were considerable due to the nature of the study area i.e. Municipality/ town where by trade and farming are common. Results in (Table 4.2) shows that about 55 respondents 41(74.5%) were traders, 5(9.1%) were traders and farmers and 9 (16%) were engaging in other business.

Results in (Table 4.2), shows that about 58.1% which is the greater proportion of the interviewed respondents in Songea Municipality attain secondary school. This implies that there is more emphasis on secondary school education due to Tanzanian education policy which emphasis on secondary education for all. Low level of education may results to low level of understanding, and if one of them get married to a person who is more educated they may differ in terms of perception on knowledge and understand.

Table 4.2: Characteristics and Distribution of Respondents

Variables	Frequency	Percent
SEX OF RESPONDENTS		
Male	38	69.1
Female	17	30.9
	55	100
AGE OF RESPONDENTS		
Between 18-25	2	3.6
Between 26-35	6	10.9
Between 36-46	35	63.6
Between 46-55	7	12.7
Between 56-Above	5	9.2
TOTAL	55	100
OCCUPATION		
Traders	41	74.5
Traders and farmers	5	9.1
Other business	9	16
TOTAL	55	100
EDUCATION		
Not gone to school	1	1.8
Standard seven	17	31

Secondary education	32	58.1
Others	5	9.1
TOTAL	55	100

Source: Researcher Fieldwork

4.5 To Identify the Requirements for SMEs in Accessing Loan

The first objective of this study was to identify the requirements for SMEs in accessing loan in the study area. To address this objective econometric analysis using multiple regression models used to identify the bank requirements that influence SMEs in accessing loan.

4.5.1 Assumptions of Multiple Linear Regression

Five assumptions of multiple regressions were tested before the main analysis. These included linearity, normality, homoscedasticity, autocorrelations, and multicollinearity.

4.5.2 Linearity Assumption

Linearity describes the dependent variable as the predictor (independent) variables' linear function. The connection between dependent and independent factors can be correctly evaluated by multiple regressions, where the relationship is linear in nature (Osborne & Waters, 2002). If linearity breaches all regression estimates including regression coefficients, standard errors, and statistically significant tests may be distorted (Keith, 2006).

Loan	.938**	.929**	.970**	.938**	.230	.929**	1
Access	.000	.000	.000	.000	.092	.000	
	55	55	55	55	55	55	55

** . Correlation is significant at the 0.01 level (2-tailed)

Source: Researcher's Field Survey

4.5.3 Multicollinearity Assumption

The researcher can interpret regression coefficients as the effects of independent variables in low collinearity. Multicollinearity happens when various independent variable correlates with one another at an elevated level or a nearly linear combination of other independent variables (Keith, 2006).

Table 4.4 indicate multicollinearity test results. VIF and tolerance rate indicated all variables had significant low collinearity as tolerance rate was high while VIF was low. The presence of multicollinearity is demonstrated by small tolerance values and large VIF values (Keith, 2006). VIF ranges between 1 and 10 whereas tolerance ranges between 0 and 1.

Table 4.4: Multicollinearity Test

Variables	Tolerance	VIF
(Constant)		
Capacity	.812	4.713
Financial statements	.845	4.880
Bank statement	.922	1.084
Ongoing business	.783	5.463

Source: Researcher's Field Survey

4.5.4 Autocorrelation Assumption

The level of autocorrelations between dependent and independent variables was calculated by Durbin-Watson. If autocorrelation is high, errors may not be independent such that the results and the significance of tests are affected (Osborne and Water, 2002; Stevens, 2009). The autocorrelation disclosed by Durbin-Watson was considerably small because the coefficient (2.1) is within an acceptable range as depicted on Table 4.5. Field (2009) indicates that Durbin-Watson may bring concern when is not in range between 1.5 and 2.5.

Table 4.5: Autocorrelations Test

Model	R	R Square	Adjusted R Square	Std. Error	Durbin-Watson
1	.995	.990	.989	2.400	2.081

Source: Researcher's Field Survey

4.5.5 Normality Assumption

This assumption is based on the normal distribution form and provides the researcher with understanding of the expected values. When the sample distribution of the mean is known, a new sample can be predicted (Keith, 2006). Using skewness and Kurtosis methods, assumptions of normality were made. The results show that, the variables were usually distributed because of the appropriate range of kurtosis and skewness values (Table 4.6). Stevens (2009) argues that when kurtosis ranges from -1.96 to 1.96 while skewing from -2.58 to 2.58, the variable is normally distributed.

Table 4.6: Normality Test

	Statistic	Statistic	Statistic	Statistic	S. E	Statistic	S. E
Collateral	55	79.25	11.651	-.875	.322	1.061	.634

Character	55	80.00	12.043	-.957	.322	.839	.634
Capacity	55	81.60	11.443	-.478	.322	-.566	.634
	N	Mean	SD	Skewness		Kurtosis	
Financial statements	55	79.25	11.651	-.875	.322	1.061	.634
Bank statement	55	17.82	9.922	.282	.322	.718	.634
Ongoing business	55	80.00	12.043	-.957	.322	.839	.634

Source: Researcher's Field Survey

4.5.6 Homoscedasticity

Homoscedasticity refers to the same difference between errors on all levels of independent variables (Osborne & Waters 2002). This means that researchers assume that errors are consistently spread across the variables (Keith, 2006). Figure 4.1 illustrates randomly dispersed residues around the horizontal line, which even depicts distribution. According to Osborne and Waters (2002), homoscedasticity can be examined by random dispersal of residuals across horizontal line.

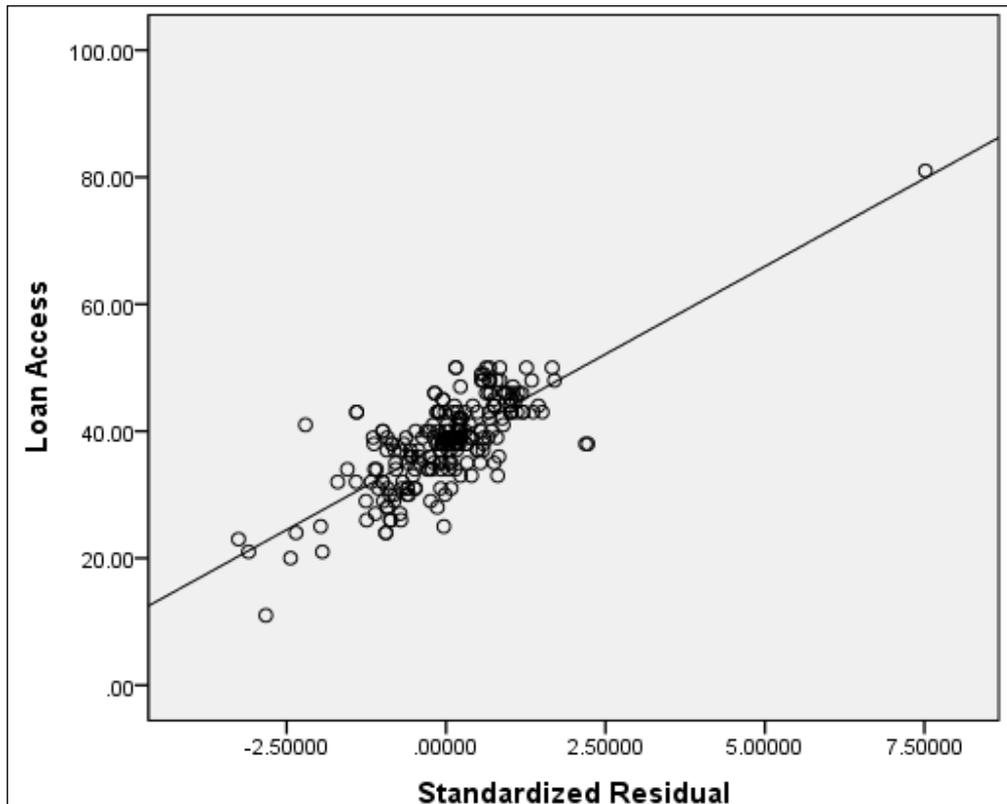


Figure 4.1: Homoscedasticity Test

Source: Researcher's Field Survey

Speaking the same, hypothesized requirements for SME in accessing loan, were collateral, Character, Capacity, Financial statement, Bank statement, and ongoing business. These factors were observed to explain the logistic regression model correctly by having a p value below 0.5. Hence the result of explanatory variable was shown in Table 4.7 and Table 4.8.

As indicated on Table 4.7, the factors had powerful effect on the model variation explaining 99.0% of the variation. This implies that, collateral, character, capacity, financial statement, bank statement, and ongoing business accounts for 99% of the requirements for the loan access.

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error
1	.995	.990	.989	2.400

Source: Researcher's Field Survey

Table 4.8: Results of Logistic Regression Analysis on Requirements for SME in Accessing Loan

Predictor Variables	Un standardized Coefficients		P>[Z]
	B	Std. Error	
(Constant)	1.467	.236	.000
Collateral	0.691	.001	.961
Character	.072	.053	.178
Capacity	-.008	.010	.393
Financial statement	-.072	.018	.000 *
Bank statement	-.011	.026	.666
Ongoing business	-.045	.124	.716
		Requirements for SME in accessing loan	
odds ratio		29.451	

Note * Significance at 5 %

Source: Researcher's Field Survey

The results in Table 4.8 revealed that, Collateral and Character were positively affecting the decision to loan access. While Capacity, Bank statement, and ongoing business had negative influence on loan access, except financial statement its coefficient was statistically significant as explained below.

In line with the above, Collateral influenced on requirement for SME in accessing loan by a multiplicative factor of 0.0691 and its coefficient is statistically insignificant at (P=0.96). The finding implies that, a marginal increase in Collateral

may stimulate accessing loan in the study area. In most cases it has been noticed that many loan seekers do not get loan in the right time or they total miss. In fact even bank owners noticed that. It has been noticed that collateral in terms of land, house or any immovable asserts is the only considerable. On the other hand the objective of business or business of SME is one of the important issues, which at least many loan seekers come up with.

Also character was one of the variables, showed positive influenced on accessing loan by a multiplicative factor of 0.072, however it coefficient is not statically significant at the ($P= 0.17$). The results portray that, character of the people influence in accessing loans. Consequently, capacity had a negative influenced on accessing loans by a multiplicative factor of 0.008. However it coefficient is statically insignificant at ($P=0.39$). This implies that, a marginal decrease in capacity requirement for SME in accessing loan by 0.8 %. This is based on the experience that highly capacity tend to secure loan than low capacity loose possibility of accessing loans in banks.

Furthermore the findings indicate that decreasing financial statement had a significant influence on requirements for SME in accessing loan at ($P=0.00$) by a multiplicative factor of 0.072. This is based on the facts that, a marginal decrease of the requirements for SME in accessing loan have high impact on the SME in accessing loans by 7.2 %. Hence financial statement is very important in securing loans.

Bank statement is the one of respondents determinant factor influencing on the accessing loan positively by a multiplicative factor of 0.011, however it coefficient is

statistically insignificantly at ($P=0.66$). This implies that, a marginal decrease probability of having bank statement reduces probability of accessing loans.

Lastly but not the least ongoing business of the respondents showed negative influenced to SME by a multiplicative factor of 0.045. Though it coefficient is statistically insignificantly at ($P=0.716$). This implies that, a marginal decrease of ongoing business reduces requirements for SME in accessing loan by 4.

Basing on the six consecutive requirements for SME in accessing loan which have been discussed above there is the need to know whether owners of SME cannot be effectively without identifying the conditions required in accessing loans.

4.6 Assessing the Requirements Established in Assessing Loans

4.6.1 Favorable Requirement Accessing Loan

The study showed that 80% of respondents agreed with the fact that all requirements in accessing loan are not favorable to SME (Table 4.9). These imply that in the study area it is very difficult in accessing loan in simple way in the study area. These results are similar to other study done by (Nkonoki 2010) reported that internal and external challenges which faces SME in Tanzania. Internal factors include lack of motivation and drive, lack of background and experience in the business, capital constraint, lack of a proper business plan/vision, theft/cheating and lack of trust in doing business, poor management, running informal/unregistered businesses, lack of proper record keeping, inadequate education and training, people factor/lack of needed talent, improper professional advice and consultation In terms of external factors they

include Corruption, Competition, government policy, technological barrier, in access to finances/funding, bureaucratic processes, unfavorable economic factors.

Table 4.9: Favorable Requirement Accessing Loan

Response	Frequency	Percent
Favorable	11	20
Not favorable	44	80
Total	55	100

Source: Researcher's Field Survey

4.6.2 Clearness of the Requirement

The study showed that 83.6% of the respondents agree that all requirements in accessing loan for SME are not clear (Table 4.10). This means they fail to understand the real requirement. In most cases it can be argued that they are not well defined or rather articulated. In most cases what is to be assessed in accessing loan is not clear for all respondents reached for this study. Assessment is another fact, which has been found to be a hindrance in accessing loan. What is assessed for SME sometime seems subjective than objective.

Table 4.10: Clearness of the Requirement

Response	Frequency	Percent
Yes	46	83.6
No	9	16.4
Total	55	100

Source: Researcher's Field Survey

4.6.3 Challenges in Assessment of Loan

The study showed that 84% of the respondents' agree that the major problem in accessing loans is an assessment than any other (Figure4.2). This means that, assessment affect requirements in accessing loan. Another weakness in loan issues is assessed on the collaterals. The questions were based on the limitation of collaterals. As responded before in this case, still suggest that collaterals is limited to land and plots. It seems to be very challenging on the fact that collaterals is very restrictive as far as only plots and land rather strictly immovable asserts are considered as collaterals.

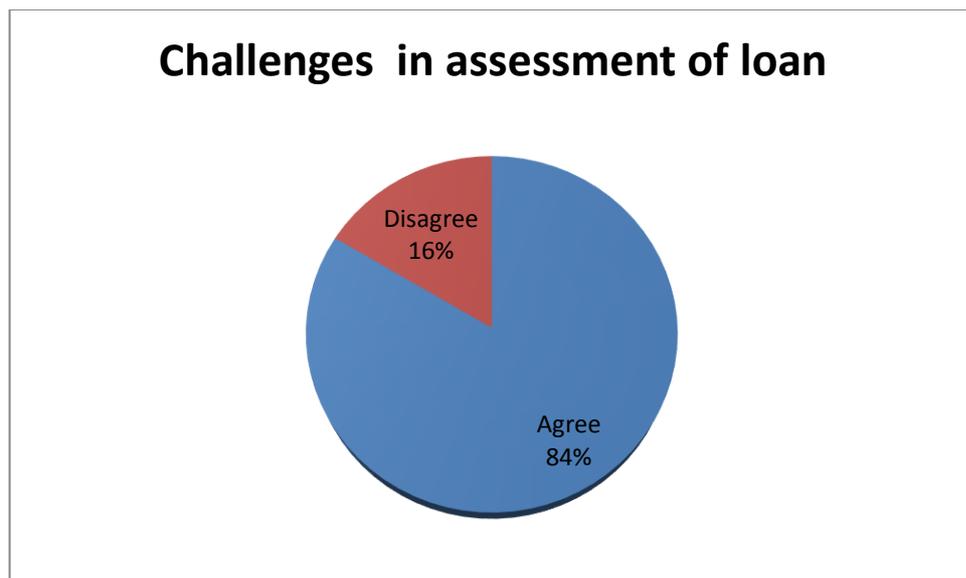


Figure 4.2: Challenges in Assessment of Loan

Source: Researcher's field survey

4.6.4 Restrictions of Collaterals in Accessing Loan

From (Table 4.11) it is found that, majority of respondents (94.5%) claim on the restrictions of collaterals on plots in the sense that, collaterals is limited on land and house only. The question is to whether these collaterals infer to the cost which is

proportional to the house value/ or land. These imply that in the area of that many borrowers do not have collateral which can help them to access loan.

Table 4.11: Restrictions of Collaterals in Accessing Loan

Response	Frequency	Percent
Yes	52	94.5
No	3	5.5
Total	55	100

Source: Field Data

4.6.5 Possibility of the known person to get loan

The study reported that that 56.4% of respondents agree with that fact people access loan through Possibility of the known person to get loan (Table 4.12). This results imply that many respondents from this study is found that loan provision is biased in the sense that the most known person is likely to get loan than any other. Although the different is so slight still more than half of respondents agree with that fact. That is to say there is a relationship between being known and getting loan for SME.

Table 4.12: Possibility of the Known Person to Get Loan

Response	Frequency	Percent
Possibility to get loans	31	56.4
Not Possibility to get loans	24	43.6
Total	55	100

Source: Field data

4.6.6 Value of Immovable Asserts

The study showed that 96.3% of the respondents agree that in order to access loan immovable asserts is applicable in accessing loan for SME because almost all

respondents agree with the fact that immovable asserts are useful in accessing loan (Table 4.13). From credit officers it has been noticed that, there are some weakness in some aspect of condition and requirement because majority despite fulfilling all requirement do not adhere to the repayment criteria in the fact that many people do not have immovable asserts. The logic is to get loan whether requirement were not met or otherwise.

There is one person came here with full requirement, and managed to get full loan of 15million of which were just used for wedding, and at the end he failed to pay on time because of diverting business. That is to say business analysis is more important than these character and collaterals because it can measure money circulation and ability to repay reported by Credit officer NBC

Table 4.13: Value of Immovable Asserts

Response	Frequency	Percent
Value of immovable asserts	53	96.3
Value of movable asserts	2	3.6
Total	55	100

Source: Researcher's Field Data

4.7 Analyze Alternative Strategies Employed by SME to Access Loans to Banks

4.7.1 Meet Requirement on Access Loans to Banks

The study reported that 78.2% (Table 4.14) of people in the area of study access loan and meet requirements needed in accessing loan. These imply that in order to get loan must fulfill the requirement needed in accessing loans. The researchers demanded first to get owners of SME views on the possible availability of alternative means of

getting loan. According to (Bodiuma,2012) available assets is found to be the major requirement for guarantees.

4.7.2 Availability of Alternative to Get Loan

The study reported that 78.2 % disagree that there is no other alternative in getting loan beyond meeting requirements (Table 4.14).This imply that there is very limited alternative to getting loan for SME if requirements are not met in Tanzania. Apart from possibility of alternatives to get loan still the awareness on alternative whether attained by individual SME owners or any was also questioned. In additional owners of SME have no alternative in getting loan and they have no any known on strategy to getting loan when they cannot meet the requirements in accessing loan.

Table 4.14: Presence of Alternative to Get Loan

Response	Frequency	Percent
Strongly agree	12	21.8
Agree	0	0
Strongly Disagree	43	78.2
Disagree	0	0
Total	55	100

Source: Researcher's Field Data

4.7.3 Use of Corruption in Getting Loan

The study reported that 87.3% disagreed with the fact in the study area very rarely to use corruption in providing or getting loans (Figure 4.3). These imply that transparency is very useful in getting or accessing loan. This corruption used some times when owners of SME fail to get loan due to failed requirement. In fact it has

been proved that, corruption is almost rarely applied in getting loan for SME in the study area.

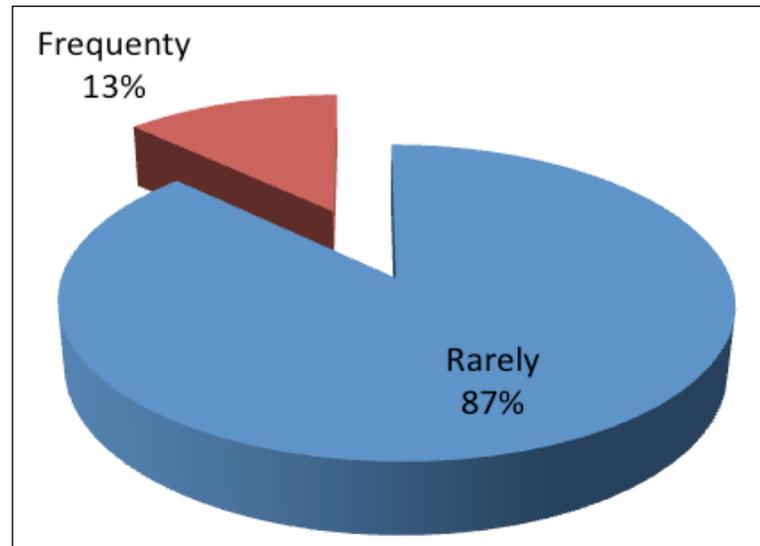


Figure 4.3: Use of Corruption in Getting Loans

4.7.4 Alternative Accessing Loan and Services Provided by Provision of Loans

As shown in Table 4.15, Chi-square test between Alternative accessing loan and services provided by provision of loans shows that significant association at $P=0.01$. This situation reported that 20 % of the people accessing loan in SACCOS Therefore the best alternative accessing loan and good services provided by provision of loans is moderate in SACCOS These strategies as suggested by SME owners, of which are getting loan from other microfinance institution like SACCOS, FAIDIKA and BAYPORT. It has been proved that majority can rethink of the alternative in getting loans from other microfinance with the possibility of getting loan from SACCOS, FAIDIKA, BAYPORT especially when denied access from Bank. Although the above alternatives were mentioned, they were found almost not applicable for majority.

Table 4.15: Showing Relationship between Alternative Accessing Loan and Services Provided by Provision of Loans

Alternative Accessing loans	Services provided by provision of loans				(Chi- square test) X ²
	Agree	Undecided	Strongly disagree	Others	
BAYPORT	0	8	1	0	0.01
FAIDIKA	0	15	1	1	
SACCOS	1	20	1	0	
OTHERS	1	5	1	0	
Total	3	48	4	1	55

4.7.5 Uses of micro finance

The findings revealed that, 45.4% loan provision, 49.0% transaction, 52.7% payment, 25.4% exchange dollars (Table 4.16). This imply that micro finance help to insure services on money transaction and payment. SME enterprises always prefer to get loan from Microfinance institution. In this study it has been revealed that, if loan purchaser join groups it is easy to get loan. In fact, joining groups is the approach, which attracts owners of small business enterprises. In most case it has been a suggested.

Table 4.16: Uses of Micro Finance

Uses of micro finance	Frequency	Percentage%
Loan provision	25	45.4
Transaction	27	49.0
Payment	29	52.7
Exchange dollars	14	25.4

Source: Researcher Field Data

CHAPTER FIVE

DISCUSSION OF FINDING AND RESULTS

5.1 Introduction

This chapter represents key findings and discussion of the study. The key findings are discussed on the basis of three objectives which were developed from the main objective of determining challenges in accessing loan for small and medium enterprises as being, to identify SMEs awareness on the established requirement in accessing loan, examining requirement established in accessing loan by assessing weakness and strength of requirements established in accessing loan and identify as well as analyze alternative strategies employed by SME to access the loan. The following are key findings.

5.2 Awareness on the Established Requirement in Accessing Loan

Issues which were raised concerning the awareness include the following; Knowledge about a bank which provide loan and awareness on the requirements, attempt to get loan, identification of requirements and defining requirements. The concern was on collateral, character, capacity, financial statement, bank statement and ongoing business.

It has been found that the awareness about basic requirements in accessing loan is almost high. Speaking the same to other study done by (Ali.A. et al 2013) who reported that collateral, character and capacity hinder accessibility of loan to financial institutions although they are well known to SMEs. Therefore, the study reveal that

hypothesized requirements for SME in accessing loan, were collateral, Character, Capacity, Financial statement, Bank statement, and ongoing business. All introduced requirements are well known by respondents especially those who have been able or rather tried to purchase loan from different bank. The results in Table 4.8, which revealed that, Collateral and Character were positively affecting the decision to loan access. While Capacity, Bank statement, and ongoing business had negative influence on loan access, except financial statement whereby its coefficient was statistically significant as explained below.

In line with the above, Collateral influenced on requirement for SME in accessing loan by a multiplicative factor of 0.0691 and its coefficient is statistically insignificant at ($P=0.96$). The finding implies that, a marginal increase in Collateral may stimulate accessing loan in the study area. This is similar to other study done by (Ono and Uesugi 2009) who found that a positive relationship between the use of collateral and the lender results in SMEs to external source of finance to become easier. In most cases it has been noticed that many loan seekers do not get loan in the right time or they total miss. In fact even bank owners noticed that. In this study, it has been noticed that collateral in terms of land, house or any immovable assets is the only considerable. On the other hand the objective of business or business of SME is one of the important issues which at least many loan seekers come up with.

Also character was one of the variables, showed positive influence on accessing loan by a multiplicative factor of 0.072, however its coefficient is not statistically significant at the ($P= 0.17$). The results portray that, character of the people influence in accessing

loans. This is similar to other study done by Ed Vos et al. (2007) who reported that access to credit depend on character of an entity which include business experience skill of owners and the ability to repay loan.

Consequently, capacity had a negative influenced on accessing loans by a multiplicative factor of 0.008. However it coefficient is statically insignificant at (P=0.39). This implies that, a marginal decrease in capacity requirement for SME in accessing loan by 0.8 %. This is based on the experience that highly capacity tend to secure loan than low capacity loose possibility of accessing loans in banks.

Furthermore the findings indicate that decreasing financial statement had a significant influence on requirements for SME in accessing loan at (P=0.00) by a multiplicative factor of 0.072. This is based on the facts that, a marginal decrease of the requirements for SME in accessing loan have high impact on the SME in accessing loans by 7.2 %. Hence financial statement is very important in securing loans.

Bank statement is the one of respondents determinant factor influencing on the accessing loan positively by a multiplicative factor of 0.011, however it coefficient is statistically insignificantly at (P=0.66). This implies that, a marginal decrease probability of having bank statement reduces probability of accessing loans.

Lastly but not the least ongoing business of the respondents showed negative influenced to SME by a multiplicative factor of 0.045. Though it coefficient is statistically insignificantly at (P=0.716). This implies that, a marginal decrease of ongoing business reduces requirements for SME in accessing loan by 4.

Basing on the six consecutive requirements for SME in accessing loan which have been discussed above and as the bank financing is the most important source of external financing for SMEs (Neuberger and R'thke, 2009), the study reveals that owners of SME cannot be effectively without identifying the conditions required in accessing loans.

It has been proved by credit officers that, requirement in accessing loan are good and clear because they provide income security for bank and SME owners. Those who fail to meet requirement always is relative to bank mission. There is nothing without condition as far as we are that much interested to liquidate or bankrupt a customer at the end or rather to send a customer to court.

5.3 Examining the Weakness and Strength of Requirements

The study showed that 80% of respondents agreed with the fact that all requirements in accessing loan are not favorable to SME (Table 4.9). These imply that in the study area it is very difficult in accessing loan in simple way in the study area. These results are similar to other study done by Nkonoki (2010) reported that internal and external challenges which faces SME in Tanzania. Internal factors include lack of motivation and drive, lack of background and experience in the business, capital constraint, lack of a proper business plan/vision, theft/cheating and lack of trust in doing business, poor management, running informal/unregistered businesses, lack of proper record keeping, inadequate education and training, people factor/lack of needed talent, improper professional advice and consultation. In terms of external factors they include Corruption, Competition, government policy, technological barrier, in access to finances/funding, bureaucratic processes, unfavorable economic factors (ibid).

In this study the most considerable one is weakness in collaterals, which demands them to access loan when there is limited capital. In this aspect limited capital affected by restriction on what should be as collaterals. For example SME might have capital not necessary house or plot because the capital is on business circulation. This has the implication to the fact that despite number of listed challenges when collaterals will be modified to more or less than immovable asserts perhaps loan might be accessible by SME. As it has been argued by (Ali, A.*et al*, 2013)that requirements like individual collateral, repayment capacity, and security deposit or guarantor hinder the possibility of borrowing money from micro finance institution as to start and run or expand business.

In this study however it is found that it is difficult to either establish or expand the business under such condition due to limited access to loan as basis of business development. As in the study of (Ali,A.*et al*, 2013) it has been evidenced that requirements hinder the possibility of borrowing money from microfinance institutions so as to start, run or expand small businesses because of the fact that small business owners cannot meet the requirements set by the Microfinance institutions. In this study on the other hand as reflected in table 4.9, in the fact that requirements in accessing loan are not favorable to SME. They are not only unfavorable, but also not clear and friendly to their socio economic status as it has been revealed in Table 4.10.

With all these complications in accessing loan however, the only known person who at least is known at the bank can be considered in accessing loan as revealed in table 4.6 where by 56.4% agree on the fact that, those who are known by bankers can access loan than those who are not known. This has the implication of corruption as

argued in (Nkonoki, 2010) that one of external limiting factors in accessing loan is corruption and Competition among loan purchaser.

With all those challenges which reflects weakness and strength of requirements the principle of lending which include management character namely knowledge of business experiences, past repayment records and reputation, key management and business styles and successful or succession plan; financial capacity namely the capacity of the business to repay loan which also determined by sufficient cash flow or other sources of payments; and Collateral which express the security offered to compensate or mitigate weakness in financial capacity and management character are left to be fundamental in lending as suggested by (Haron, 2013). There is no doubt that the absence of collateral; capacity and character suggest denial of loan (ibid).

5.4 Alternative Strategies used by Owners of SME to Get Loan

It has been found that, majority of respondents have no definite alternative to get loan when they don't meet the basic requirements. At least in the aspect of joining groups and getting loan from micro finance is the alternative for getting loan when they fail to meet requirements. This means it difficult or rather impossible to get loan when individual don't meet requirement. Less or little consideration on other asserts have the implication of limiting chance o SME to access loan. One of the conclusive statements from this aspect is on the fact that, all requirements in accessing loan are neither favorably nor friendly to owners of SME.

The study reported that 78.2% (Table 4.14.) of people in the area of study access loan and meet requirements needed in accessing loan. These imply that in order to get loan must fulfill the requirement needed in accessing loans. The researchers demanded first

to get owners of SME views on the possible availability of alternative means of getting loan. According to (Bondinuba, 2012) available assets are found to be the major requirement for guarantees.

Although in some studies like that of in (Nkonoki, 2010) shows that corruption is one of external limiting factors to loan accessibility in this aspect they don't show any suggestion. Even when the corruption itself was introduced almost more than 87% of respondent do not regard it as a base for getting loan (Figure 4.3).

The suggestion which at least sound for many owners of SME in getting loan is the aspect of using micro finance institution, SACCOS, FAIDIKA, BAYPOT as introduced this is similar to other study done by (Chittenden, Hall & Hutchson, 1996) reported that formal external source of finance represented by financial intermediaries such as Banks and financial institution.. Very few again inter joining groups. All the two suggestion have not been given too much weight (refer Table 15). This suggests the recommendation of (Haron, 2013) on the fact that absence of collateral, capacity and character suggest denial of loan.

CHAPTER SIX

CONCLUSION AND RECOMMENDATION

6.1 Chapter overview

This chapter presents summary, conclusion and policy recommendations based on findings of the study. In addition this chapter also includes areas for further research. It is organized as follows (i) Summary(ii) Conclusion (iii) Policy recommendations (iv)Areas for further research.

6.2 Summary

The main objective of this study was to determining challenges in accessing loan for small and medium enterprises. Three specific objectives were developed to accomplish this study. First, to identify the established requirement in accessing loan. Second, to assess requirements established in accessing loan. Third, to analyze alternative strategies employed by SME to access loan.

Consistent with the research objectives, three research questions were developed which were as follows: First, what are established requirement in accessing loan? Second, which are the weaknesses and strength of requirements established in accessing loan? Third, what are alternative strategies employed by SME to access loan? All the research objectives have been met and research questions answered.

6.3 Conclusion

In conclusion of the research findings, which were conducted with greater consideration some socio economic information including sex, occupation, and status

of enterprises in terms of employment supply and capital of owners of SME. From this study it is true to say that knowledge and awareness on the requirements in accessing loan is relatively high. This has been determined by their ability to identify and describe the nature the basic three requirements as being collaterals, capacity and character.

In terms of assessing strength and weakness, favorable requirement accessing loan, clearness of the requirement, challenges in assessment of loan, restrictions of collaterals in accessing loan, possibility of the known person to get loan and value of immovable asserts were restrict to ensure community members getting quality and affordable services in loan provision.

But the most considerable weakness falls on collateral, which is almost limited to immovable assets, some of which are not even favorable to their socio-economic status. Collateral is found to be the major and noticeable factor, which denies SME to access loan. In fact collateral is limited in immovable asserts something which limit the accessibility of loan for SME.

When analyzing strategies employed by SME to access loans to bank, Chi-square test between alternative in accessing loan and services provided by provision of loans and reveal that Meet requirement on access loans to banks, availability of alternative to get loan, awareness on the alternative in getting loan, and uses of micro finance were increases and improves in good condition due to strategies employed by SME to access loans to banks. Also strategy employed to get loan when they don't meet requirement the alternative is left on seeking microfinance like FINCA, SACCOS, and

Baypot or just joining groups. Moreover, it true to say that, SME are always marginalized and cannot get loan when they don't meet all requirements in accessing loan.

6.4 Policy Recommendation

There is the need of reviewing government policy on financial institution so as to provide loan without strict requirements in accessing loan because in most cases they are not friendly to economic status of SME.

The requirement in accessing loan should be written in Kiswahili language so that they can be clear for all customers.

There should be training to be conducted by credit officer because many SME seeks loan with little or no knowledge on what is exactly required in accessing loan.

There should be variation in terms of collaterals, because collaterals which is limited on movable asserts is not supportive to provision of loans.

6.5 Areas for Further Study

There is a need for similar study to be conducted by using qualitative approach so as to give room the respondents to explain further with regards to their experiences in accessing loan. Also similar study should be conducted as to understand nature of education that is being provided to customers regarding fitness to get loan.

There is the need for further study to understand nature of financial policies and regulation regarding loan so as to support customers to get loan without restriction.

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APPENDECES**Appendix A: Questionnaires for Owners of SME****PART ONE: PERSONAL INFOMATION**

1. Name (Optional),
2. Sex(Please tick the appropriate):
 - (i) Male []
 - (ii) Female []
3. What is your occupation? (Please tick the appropriate)
 - (i) trade []
 - (ii) farming, []
 - (iii) carpenter, []
 - (iv) engineer, []
 - (v) builders, []
 - (vi) others []
4. Do you employ in your business/enterprise (Please tick the appropriate)
 - (i) Yes[]
 - (ii) No []
5. If YES, How many labor in your enterprises(Please tick the appropriate)
 - (i) 10-20,[]
 - (ii) 21-49,[]
 - (iii) 50 and above[]

6. If you employ what is your Capital (Please tick the appropriate)

- (i) One Million,[]
- (ii) 5 Mill To 10 Mill. []
- (iii) 10-200 mill. []
- (iv) 200 Mill to 800 mill []

**PART TWO: SME AWARENESS ON THE ESTABLISHED REQUIREMENT
IN ACCESSING LOAN**

1. Do you know any bank to loan (please tick the appropriate)

- (i) YES []
- (ii) NO []

2. Have ever tried to purchase loan from any Bank (Please tick the appropriate)

- (i) YES []
- (ii) NO []

3. If Yes are you aware of requirements like Character, Collateral and capacity(Please tick the appropriate)

- (i) YES []
- (ii) NO []

4. If Yes what is considered as collateral for SME.....

.....

5. What is considered as Capacity for SME.....

.....

6. What is considered as Character for SME.....

.....
.....
.....

7. What are conditions to secure loan for SME.....

.....

8. Is there clear requirement in accessing loan for SME (Please tick the appropriate)

(i) YES []

(ii)NO []

9. Mention any three requirement you know, that you need to prepare in order to get business loan from any bank

(i)

(ii)

(iii)

10. Which of the following is the most difficult requirement in accessing loan for SME (Please tick the appropriate)

(i) Character, []

(ii) Collateral []

(iii) Capacity []

PART THREE: WEAKNESS AND STRENGTH OF REQUIREMENTS

ESTABLISHED IN ACCESSING LOAN(Please tick the appropriate)

No	STATEMENT	Yes	No	Don't Know
17	All requirement in accessing loan are not favorable to SME			
18	All requirement in accessing loan are not clear			
19	Ability to pay loan is not an issue for SME, the problem loan assessment criteria			
20	Normally collateral is limited on house and plot			
21	Requirement in accessing loan to address the economic status of SME			
22	Apart from all requirement, know who is the most factor for accessing loan			
23	Movable assets are not considered as collateral in accessing laon.			

1. Show weakness of all requirement in accessing laon for SME

.....

.....

.....

2. Show strength of all requirements in accessing loan for SME

.....

.....

.....

.....

.....

PART FOUR: STRATEGIES EMPLOYED BY SME TO ACCESS THE

LOAN(Please tick the appropriate)

		Strong disagree	disagree	neutral	agree	Strongly agree
26	Do you agree on the fact that there are other strategies to get loan even if you don't meet all requirement?					
27	There are other techniques to get loan when one requirement is missing					
28	Corruption is applicable in accessing loan					
29	Many people prefer to get loan to SACCOS, FAIDIKA, BAYPOT or any other microfinance due to failure to get loan from bank					
30	Is it true that when you join as a group you can easily get loan					

QUESTIONS FOR BANK LOAN OFFICERS

Name of the bank

Title of respondents

Experience.....

1. Which are the established requirement for owners of SME to get
.....

2. Which is the most challenging requirement or condition for owners of
.....

3. Why do owners of SME fail to adequately access loan from bank
.....
.....

4. Mention precondition for owners of SME to sufficiently access loan
.....
.....

Thank you very much for your consideration and corporation