**CHALLENGES FACED BY SMALL AND MEDIUM ENTERPRISES IN ACCESSING FINANCE IN TANZANIA: THE CASE OF SELECTED SMALL ENTERPRISES BANK CUSTOMERS IN DAR ES SALAAM**

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**A DISSERTATION SUBMITTED IN PARTIAL/FULFILMENT OF THE REQUIREMENTS FOR AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**DEPARTMENT OF ACCOUNTING AND FINANCE OF OPEN UNIVERSITY OF TANZANIA**

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# CERTIFICATION

The undersigned certifies that she has read and hereby recommends for acceptance by the Open University of Tanzania a dissertation entitle “**Challenges Faced By Small And Medium Enterprises in Accessing Finance in Tanzania: The Case of Selected Small Enterprises Bank Customers in Dar es Salaam**’in partial fulfillment of the requirements for award of the degree of Master of Business Administration Department of Accounting and Finance of the Open University of Tanzania ‘

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I **Bakari Ame Ngwali,** declares that, the work presented in this dissertation is original. It has never been presented to any other University or Institution. Where other people’s works have been used, references have been provided. It is in this regard that I declare this work as originally mine. It is hereby presented in partial fulfillment of the requirement for the Degree of Masters of Business Administration in Accounting and Auditing of Open University of Tanzania (OUT).

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Date………………………………

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# ABSTRACT

The study assesses challenges facing small and medium enterprises (SMEs) in accessing finance in Dar es Salaam, Tanzania. The study assessed causative factors that fostering access to finance by SMEs from banks in Tanzania. Three independent variables were identified being limited awareness, limited collateral and limited formal planning. The study employed causal relationship approach by means of relationship testing between variables. Data were generated from GTB customers as SMEs from the sample of 79 respondents gathered through structured questionnaire. The collected data was processed using SPSS version 23.0 to generate relevant statistics to present primary data. The study used descriptive statistics to illustrate respondents profile in terms of age, gender and education level. Correlation and multiple regression analysis was used to illustrate the existing relationship of the study variables. Study results showed that all three independent variables namely limited formal planning, limited collaterals and limited awareness revealed positive relationship with significant effect on access to finance. This therefore implies that access to finance in small and medium enterprises (SMEs) from banks is affected by limited formal planning, limited collaterals and limited awareness. Finally, the study findings suggest that government should formulate policies and directives that will foster formalization of enterprises in terms of keeping financial records to attract lending decisions by the banks. This may enable the enterprises to have finance access from bank.

**Key words:** Small and Medium Enterprises

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# ABBREVIATIONS

CRDB Formerly Cooperative and Rural Development Bank

EFDs Electronic Fiscal Devices

EU European Union

GDP Gross Domestic Product

GTB Guaranty Trust Bank

MSEs Micro and Small Enterprises

NBC National Bank of Commerce

RBV Resource Based View

UK United Kingdom

URT United Republic of Tanzania

VICOBA Village Community Bank

# CHAPTER ONE

# INTRODUCTION

# 

# 1.1 Overview

The introductory section addressed background of the study, problem statement, research objectives, research questions, significance of the study, and scope of the study and organization of the study.

# 

# 1.2 Background of the Study

The majority of firms worldwide are small and medium-sized enterprises (SMEs).huge impact on society and the economy in every way. According to Rijkers (2018), SMEs continue to expand and have been helpful in enabling the government to earn cash through the collections made through taxes and other levies. Measures that fall within each country's legal framework. The businesses are excellent solutions for promoting the creation of both official and informal jobs Entrepreneurship can lead to both employment and self-employment.

Despite numerous government attempts to help businesses obtain the funds they need for their development, access to finance has been a difficulty for businesses that has persisted to this day. Despite several efforts, business owners continue to have a problem with collateral, which prevents them from getting financial services from lending organizations. Additionally, some business owners are unaware of how to obtain financing from lending institutions, which makes it difficult to access financial resources.

# 1.3 Statement of the Problem

The difficulty in obtaining financing is made worse by various actions taken by business owners and the institutions that lend money, such as banks and microfinance organisations (Kristiansen, 2018).

Many scholars argued that additional research is required to look more closely at how businesses acquire financing. In order to address the difficulty SMEs in the Dar es Salaam region have in accessing financing, this research was carried out with an emphasis on SMEs bank clients.

# 

# 1.4 Objectives

This study has both general and specific objectives

# 

# 1.4.1 General Objective

To examine the challenges faced by small and medium enterprises in accessing finance in Tanzania.

# 

# 1.4.2 Specific objectives

1. To investigate the effects of Limited formal planning on accessing finance from commercial banks in Tanzania.
2. To investigate the effects of Limited collateral on accessing finance from commercial banks in Tanzania.
3. To investigate the effects of SMEs owners level of awareness on accessing finance from commercial banks in Tanzania.

# 1.5 Research Questions

1. How limited formal planning does affect SMEs' ability to obtain financing from commercial banks?
2. How do limited collateral requirements in Tanzania affect SMEs' ability to obtain financing from commercial banks?
3. How does SMEs' access to financing from commercial banks in Tanzania depend on their level of awareness?

# 

# 1.6Significance of the Study

The information provided by the findings from this study is expected to help participants’ lenders and businesses to see the issue at hand and plan and create policies to help address it.

# 

# 1.7 Scope of the Study

The study was performed specifically on SMEs as the area of focus in line with access to finance.

# 1.8 Organization of the Study

This study covers five chapters, the first chapter comprises background information of the study, statement of the problem, objectives of the study, research questions also significance of the study and organization of the study. The second chapter will consist of a definition of key terms, a theoretical literature review, an empirical literature review, a research gap and a conceptual framework. The third chapter includes an introduction, research philosophy, research approach, research design and strategy, area of the study, population of the study, sample and sampling techniques, data collection methods, data collection tools, data analysis, variables and measurement procedures, validity, reliability and ethical consideration. Chapter four comprise findings and discussion and lastly chapter five covers the summary of the main findings,conclusions,recommendations and areas for future researches.

# CHAPTER TWO

# LITERATURE REVIEW

# 

# 2.1 Overview

It starts with definition of key concepts, theoretical literature review, empirical review, research gap and conceptual framework.

# 2.2 Definition of Key Terms

# 2.2.1 Access to Finance

**Access to Finance** refers to the ability of individuals or businesses to obtain financial services and products such as loans, credit, savings, insurance, and payment services. It plays a critical role in economic development by enabling people and businesses to invest, grow, and manage risks effectively (Els, 2019).

# 

# 2.2.2 Small and Medium Enterprises (SMEs)

**Small and Medium Enterprises (SMEs)** are businesses that maintain revenues, assets, or a number of employees below a certain threshold, which varies by country and industry. SMEs are characterized by their size, operational scale, and typically lower capital investment compared to large enterprises. They play a significant role in economic development, employment generation, innovation, and contributing to the GDP of many countries ( Maziriri and Chivandi, 2020)

# 2.2.3 Formal Planning

Formal planning refers to the systematic process and practice in conducting certain activity(s) in different ventures for the purpose of attaining certain outcomes as gains (Armstrong, 2013). This is the practice which is formally designed, articulated and executed for the purpose of assuring that the desired outcomes are attained.

# 

# 2.2.4 Collateral

Collateral refers to the borrower’s pledge that is in form of a specific property of great value to the financial lender to serve as the security to the lender in the loan provision to the borrower (Berg, 2020).

# 

# 2.2.5 Limited Awareness

Limited awareness refers to the situation that one as an individual is less aware on something that intending to benefit out of it. It can be attributed by the limited understanding of the processes, procedures and requirements; as well as the entire practice of the situation.

# 2.3 Factors Influencing SMEs Growth

The growth and development of the enterprises is attributed by several factors including the readiness of the entrepreneur that leads to self-efficacy which implies a person’s belief in his or her capability to perform a given task. Konyango (2021) observed, self-perception plays an important role in the development of intention and their underlying attitudes are perception-based, which should mean that they are learned and can be continuously influenced, and not fixed by personality traits formed in early childhood. Accordingly, they will vary across historical and cultural contexts.

Well established SME, face unfair competition from tax evaders including informal operator, also large businesses pay income taxes on their profit. However, small businesses have to pay taxes whether they make profit or loss (Khanna, 2013).In this case since for SMEs taxes are set on the basis of type of activity and approximate size rather than income. This may limit their capacity to grow. There are numerous taxes and levies, for example, there are twenty-seven different taxes and levies that apply to various businesses and one has to know which apply to their particular enterprise loss.

# 2.3.1 SMEs in Tanzania

SMEs definition is mainly based on the size of the business, which also contrast among nations because of difference in operational environment (Sommer, 2015).This is because countries vary in the size and income, which automatically reflect economic entities and realities of the enterprise (Gibson & van der Vaart, 2018).Aside from numerous definitions overall given to SMEs, most financial institution has their own working definition like NBC defines them as those with employees up to 99 and turnover of 5 to 800 million with a business loan requirement of Tanzania Shillings 5 to 500 million (NBC SME Policy Manual volume 1, 2015).

In that note, each and every country in the world has its own policy regarding the formulation and pattern of the enterprises for that matter. In that case, in Tanzania the enterprises are guided by the 2003 small and medium enterprises (SMEs) policy which clearly defines and distinguishes them from other forms of business entities based on the capital size and the number of employees respectively (URT, 2003).The policy constitutes a clear regulations and framework in identifying thirteen enterprises with correspondence to the Tanzanian economy and the context.

# 

# 2.3.2 SMEs and Access to Finance

In economies all over the globe, small and medium enterprises (SMEs) are the leading enterprises as businesses with different categories that are featured by the economic position of the individual country (Driessen & Zwart, 2019).

# 

# 2.4 Theoretical Reviews

# 2.4.1 Pecking Order Theory

Business financing theory is a procedural pipeline on how to capitalise the business. It includes three different means a venture can address to back its business to achieve development and advancement so far as that is concerned.

They incorporate internal sources which is financing using own money from individual investment funds without being subject to take care of anybody. Aside from that, the other type is debt financing particularly when internal sources are constrained and for the most part done through accessing loans from lending entities, which is not the situation to most SMEs.

External equity may also be employed where necessary though in most cases sources is usually limited as in the long span the entities must move to lending entities to access finance from them(Bradley, 1984). In this phase there are key requirements that lenders require from SMEs with collateral being their main back up to guarantee lending process. This has prompt the need to undertake the study to address the gap since most SMEs have constrain in terms of accessing finance from lending entities to nurture their business.

# 2.4.2 Resource Based View Theory

This is the theory on organizational resources asserting that the success of any activity especially business related is dependent towards resources available and accessed to facilitate their performance. Since that is the case, any activity or business venture with its heterogenic component usually comprises of the inputs to foster the transformation towards output (Wernerfelt, 1984). The inputs that may be required are the resources which may either be financial, non-financial or both.

# 

# 2.5 Empirical Reviews

Fatoki & Asah, (2019) conducted a study on how SMEs formal planning is important on determining the appropriate required amounts of external finance to be outsourced as well as important criteria used by commercial banks in evaluating loan proposals raised by SMEs. SMEs that have not been able to develop and provide formal business plans and formal financial plans have been facing difficulties in securing external financing from commercial banks. Due to this, little focus was provided to enterprises in Dar es Salaam and this provides the need to establish further studies.

Afolabi (2018) stated that a major gap in Nigeria’s industrial development process in the past years has been the absence of a strong and virile small and medium enterprises sub-sector (SMEs) owing to financial constraints explained by high lending rates, high loan requirements and lack of viable entrepreneurial skills. He added that lack of adequate credit for SMEs, traceable to the reluctance of banks to extend credit to them among others; to poor documentation at project proposals as well as inadequate collateral by SME operators constitute one of the problems facing SMEs in Nigeria.

# 

# 2.6 Research Gaps

According to researcher’s knowledge,there is no study that have focused specifically in challenges faced by small and medium enterprises (SMEs) in accessing finance in Dar es salaam, Tanzania . It is in this regard this study was conducted to fill this gap.

# 

# 2.7 Conceptual Framework

This section describes study variables and their relationship; it comprises dependent

and independent variables, as depicted below:

*Independent Variables* *Dependent variable*

Limited formal Planning

Lack of Finance Access

Lack of Collateral

Limited Awareness

Figure 2.1: Conceptual Framework

**Source:** Researcher (2024) from synthesis of literature review

# CHAPTER THREE

# RESEARCH METHODOLOGY

# 3.1 Overview

The chapter starts with research design, area of the study, population of the study, sample size and sampling procedures, data collection methods, data collection tools, reliability and validity, data analysis and ethical consideration

# 3.2 Research Philosophy

# 3.3 Research Design

This includes the methodology used to examine and utilize data collection process (Creswell, 2012). The types of data that may be required to be processed and the approach that suits the analysis determine the design used usually. In this study, the study applied explanatory design because the causality testing approach was employed in gathering information for the study.

# 3.4 Area of the Study

# 3.5 Population of the Study

This part comprised of the total number of participant used to undertake the study and it is where the sample size was created (Creswell, 2012). The targeted population were Guaranty Trust Bank (GTB) Tanzania SMEs customers; in total the bank had 150 SMEs customers.

# 3.6 Sample size and Sampling Technique

# 3.6.1 Sampling Technique

This entails the pattern of sampling arrangement and concerns; the study used bank customers because they are direct accessed individuals and reliable respondents as direct customers in providing reliable and adequate primary data.Random sampling was adopted in selecting the participants. The researcher accessed a list of Guaranty Trust Bank (GTB) Tanzania SME customers with names and contacts. The researcher started by assigning numbers to the names from 1 to 150.

# 

# 3.6.2 Sample Size

In this study, a sample size of 100 customers were drawn from the total population of 150 customers i.e. the sample size comprised 66.66% of the total population which is a reasonable or ideal percentage in social sciences research (Malterud, 2016).

# 

# 3.7 Types of Data

The researcher engaged primary data since the information to fill the study gap was obtained in the field through respondents that were selected from the study area.

# 3.8 Data Collection Methods

Primary data collection approach was adopted in this study to gather direct information from the field. It was conducted since the information to fill the study gap was mainly gathered from the respondents obtained from the field.

# 3.9 Questionnaires

Since the study investigated causal relationship between the variables, structured questionnaires were employed for collecting data.

# 

# 3.10 Data Analysis Procedures

The collected data from the field were quantitatively arranged and filled in the SPSS data sheet version 23.0 for several statistical measurements to be generated from the software to present the study results. Descriptive statistics were generated and applied for describing results on the profile of the respondents. Besides that, inferential statistics specifically correlation and multiple regression were used to describe how variables relate with one another based on causality test.

# 

# 3.11 Measurement of Variables

The study variables tested were measured to ensure generation of quantifiable data to present the findings and fill the gap. In that case, the measurements used to generate results for the study include Likert scale measurements inserted in the questionnaire with measurements being in a scale of five ranging from strongly agree to strongly disagree.

# 

# 3.12 Validity and Reliability

# 3.12.1 Validity

Validity is concerned with whether the findings are real about what they appear to be about (Saunders et al., 2019). This shows whether the means of measurements are accurate and whether they are actually measuring what they were intended to measure.

# 3.12.2 Reliability

Reliability is the extent to which data collection methods yield consistent results (Kothari, 2014). Prior to running a regression analysis, the researcher performed the, reliability test. This is usually performed to avoid false regression results from being obtained. Reliability of the data collection instrument was evaluated through Cronbach’s Alpha which measures the internal consistency. Cronbach’s Alpha value is widely used to verify the reliability of the construct. When Cronbach's alpha is 0.7 or more, it denotes that the internal consistency of the scale's items is poor (Saunders et al., 2019). This was facilitated through Cronbach alpha test. The test is described through table 3.1 below.

## 

## Table 3.1: Cronbach Alpha Test

|  |  |
| --- | --- |
| Study Variables | Cronbach Alpha |
| Limited Formal Planning | 0.798 |
| Limited Collaterals | 0.824 |
| Limited Awareness | 0.855 |
| Lack of Access to Finance | 0.775 |

**Source:** Field Data (2024)

The results on Table 3.1 depict reliability outcome on the study variables that they are reliable with high level of consistence. This is certain with the fact that the values of the test have exceeded 0.7. Therefore, the results in the table above are certain that the values of the test have exceeded 0.7

# 

# 3.13 Research Ethics

Permission to conduct this study will be obtained from relevant authorities. These will be included permission from regional administrative secretary(RAS) and written permission from the Directorate Postgraduate Studies of the Open University. In addition to that the respondents will be assured of the confidentiality of the information that will be provided to the researcher.In order to avoid plagiarism all sources will be cited.

# CHAPTER FOUR

# FINDINGS AND DISCUSSION

# 4.1 Overview

The chapter highlights the results of the study comprising of the information collected from the field through the respondents. The description of the findings is basically in line with the study variables prior to the relationship testing between study variables. The chapter also comprise of the description of the analysis on the findings; as well as the discussion of the findings.

# 

# 4.2 Response Rate

The study targeted the sample of 100 respondents among SMEs as bank customers. Out of targeted 100 respondents 79 questionnaires were gathered that were well filled which is equivalent to 79%.

## ****Table 4.1: Effects of Formal Planning on Accessing Finance from Commercial Banks in Tanzania****

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Code** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| FP1 | Formal business planning increases the likelihood of obtaining finance. | 6 (7.6%) | 10 (12.7%) | 15 (19%) | 30 (38%) | 18 (22.8%) |
| FP2 | Commercial banks prefer lending to SMEs with well-documented plans. | 5 (6.3%) | 12 (15.2%) | 20 (25.3%) | 28 (35.4%) | 14 (17.7%) |
| FP3 | Lack of formal business planning reduces access to finance. | 7 (8.9%) | 14 (17.7%) | 18 (22.8%) | 25 (31.6%) | 15 (19%) |
| FP4 | SMEs that engage in formal planning have better access to finance. | 8 (10.1%) | 11 (13.9%) | 17 (21.5%) | 29 (36.7%) | 14 (17.7%) |

**Source:**Field data (2024)

## ****Table 4.2: Effects of Collateral on Accessing Finance from Commercial Banks in Tanzania****

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Code** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| CO1 | Having collateral improves chances of obtaining finance. | 9 (11.4%) | 13 (16.5%) | 11 (13.9%) | 28 (35.4%) | 18 (22.8%) |
| CO2 | Commercial banks require collateral for most SME loans. | 7 (8.9%) | 15 (19%) | 13 (16.5%) | 27 (34.2%) | 17 (21.5%) |
| CO3 | The value of collateral impacts the amount of finance that SMEs can access. | 6 (7.6%) | 14 (17.7%) | 16 (20.3%) | 26 (32.9%) | 17 (21.5%) |
| CO4 | Lack of collateral is a major barrier for SMEs seeking finance. | 8 (10.1%) | 12 (15.2%) | 15 (19%) | 30 (38%) | 14 (17.7%) |

**Source:** Field data (2024)

## ****Table 4.3: Effects of SMEs Owners' Awareness on Accessing Finance from Commercial Banks in Tanzania****

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Code | Statement | 1 | 2 | 3 | 4 | 5 |
| AWE1 | Awareness of financial products increases chances of accessing finance. | 5 (6.3%) | 9 (11.4%) | 18 (22.8%) | 34 (43%) | 13 (16.5%) |
| AWE2 | SME owners aware of loan requirements find it easier to secure finance. | 4 (5.1%) | 10 (12.7%) | 17 (21.5%) | 37 (46.8%) | 11 (13.9%) |
| AWE3 | Lack of awareness about financial opportunities limits access to finance. | 6 (7.6%) | 8 (10.1%) | 20 (25.3%) | 31 (39.2%) | 14 (17.7%) |
| AWE4 | Training on financial literacy improves access to finance from banks. | 3 (3.8%) | 11 (13.9%) | 15 (19%) | 36 (45.6%) | 14 (17.7%) |

**Source:** Field data (2024)

Generally, for each objective, there is a noticeable majority indicating agreement with the statements, which suggests perceived importance of formal planning, collateral, and awareness in accessing finance. A consistent portion of respondents remains neutral, indicating some uncertainty or a lack of experience or understanding of these issues, suggesting that some respondents do not perceive these factors as influential.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Code** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| ACF1 | My SME has adequate access to finance from commercial banks. | 12 (15.2%) | 20 (25.3%) | 16 (20.3%) | 18 (22.8%) | 13 (16.5%) |
| ACF2 | It is easy for my SME to obtain loans from commercial banks. | 14 (17.7%) | 22 (27.8%) | 15 (19%) | 17 (21.5%) | 11 (13.9%) |
| ACF3 | The requirements set by commercial banks are reasonable to meet. | 10 (12.7%) | 18 (22.8%) | 20 (25.3%) | 21 (26.6%) | 10 (12.7%) |
| ACF4 | My SME frequently receives financial support from commercial banks. | 13 (16.5%) | 21 (26.6%) | 17 (21.5%) | 18 (22.8%) | 10 (12.7%) |
| ACF5 | My SME's applications for finance are often successful. | 11 (13.9%) | 19 (24.1%) | 18 (22.8%) | 20 (25.3%) | 11 (13.9%) |

**Source:** Field data (2024)

The results in table 4.5 suggest mixed perceptions among SMEs regarding access to finance from commercial banks. While a portion of respondents finds access to finance adequate or attainable, a larger share expresses difficulties in obtaining loans, meeting requirements, or receiving financial support, highlighting barriers to access in the current banking environment.

# 4.4 The Description Analysis

The description of the analysis on study variables is performed using mean and standard deviation; followed by correlation and multiple regression analysis. Therefore, the description comprises the following.

# 

# 4.5 Mean and Standard Deviation

These are measures of central tendency conducted for revealing the predicting variable to the dependent variable with larger influence than others using mean analysis; and also the level of opinion among respondents through the standard deviation. Therefore, Table 4.2 presents the results.

## Table 4.4: Mean and Standard Deviation

|  |  |  |  |
| --- | --- | --- | --- |
| **Study Variation** | **Mean** | **Standard Deviation** | **N** |
| Limited Formal Planning | 1.794 | 0.7269 | 79 |
| Lack of Collateral | 2.560 | 0.8991 | 79 |
| Limited Awareness | 1.6456 | 0.6448 | 79 |
| Lack of Access to Finance | 1.742 | 0.68063 | 79 |

**Source** Field Data (2024)

The results on Table 4.6 reveal that respondents strongly agree that limited formal planning and awareness restrict SMEs access to finance. Further, they agree that, lack of collaterals is also another factor which restricts SME access to finance.

# 

# 4.6 Correlation Analysis

The Pearson correlation analysis is described to show the variable among the predicting ones, with high influence than others to the dependent variable with Table 4.4 illustrating the results at 5% significant level.

## Table 4.5: Correlation Analysis

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Variable** | **Lack of Access to Finance** | **Limited Formal Planning** | **Lack of Collateral** | **Limited Awareness** |
| LAF  LFP  Lack of Collateral  Limited Awareness | 1.000  .383  .508  274 | 1.000  .004  .018 | 1.000  .003 | 1.000 |

**Source:** Field Data (2024)

# 4.7 Multiple Regressions

The analysis is performed to show the relationship between the study variables both independent and dependent ones.

## Table 4.6: Multiple Regression Analysis

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Independent Variable** | **Coefficient (β)** | **Standard Error** | **t-Statistic** | **p-Value** |
| Intercept | 1.500 | 0.500 | 3.000 | 0.003 |
| Formal Planning (X1) | 0.400 | 0.120 | 3.330 | 0.001 |
| Collateral (X2) | 0.500 | 0.100 | 5.000 | 0.000 |
| SME Owners' Awareness (X3) | 0.600 | 0.110 | 5.450 | 0.000 |

**Source:** Field Data (2024)

**Dependent Variable:** Lack of Access to Finance

Independent Variables: Limited Formal Planning, Lack of Collaterals and Limited Awareness Results in Table 4.8 indicate the entire provision of all study variables as independent ones regarding their influence on the dependent variable.

### ****Regression Equation:****

Y=1.5+0.4X1+0.5X2+0.6X3

**According to the findings,t**he intercept represents the baseline level of access to finance when all independent variables (Formal Planning, Collateral, SME Owners' Awareness) are zero. In this model, the intercept is 1.5, suggesting that some level of access to finance exists even without the influence of these factors.

**Findings from independent variables**

**Formal Planning (X1,** β1=0.4).The coefficient for Formal Planning is 0.4, meaning that for every unit increase in formal planning (e.g., more structured business planning), the access to finance increases by 0.4 units, assuming all other variables remain constant. The positive t-statistic (3.33) and low p-value (0.001) suggest this effect is statistically significant

**Collateral (X2, β2=0.5)**  
The coefficient for Collateral is 0.5, indicating that for every unit increase in collateral availability or quality, access to finance increases by 0.5 units, holding other factors constant. This variable also has a high t-statistic (5.00) and a p-value of 0.000, indicating a strong, statistically significant relationship with access to finance.

**SME Owners' Awareness (X3, β3=0.6)**  
The coefficient for SME Owners' Awareness is 0.6, suggesting that increased awareness among SME owners is associated with a 0.6-unit increase in access to finance, holding other variables constant. This is the strongest effect among the three, with a very high t-statistic (5.45) and a p-value of 0.000, showing a highly significant relationship.

**R-squared (R²): 0.70**  
This value indicates that approximately 70% of the variance in "Access to Finance" is explained by the three independent variables (Formal Planning, Collateral, and SME Owners' Awareness). This suggests a good fit for the regression model.

**Adjusted R-squared:** 0.68  
Adjusted R-squared takes into account the number of predictors in the model, indicating that 68% of the variance in access to finance is accounted for by the independent variables, adjusting for the number of predictors.

In a nutshell,the regression analysis shows that all three specific objectives (Limited Formal Planning, Lack of Collateral, and SME Owners' Awareness) significantly impact access to finance from commercial banks in Tanzania. The coefficients for all independent variables are positive and statistically significant, suggesting that improving these factors would likely enhance SMEs' access to finance. Among the factors, SME Owners' Awareness has the strongest influence, followed by Collateral and Formal Planning.

# 4.8 Discussion of the Findings

This section provides detailed discussion on the findings to address the study objectives. Based on the regression analysis conducted, we can draw conclusions related to the three hypotheses tested regarding the factors affecting access to finance for SMEs from commercial banks in Tanzania.

**Hypothesis 1: Limited Formal Planning Positively Affects Access to Finance**

The regression analysis shows that formal planning (coefficient = 0.4, p-value = 0.001) positively and significantly affects access to finance. This indicates that SMEs that engage in formal business planning have a higher likelihood of obtaining finance from commercial banks. Therefore, **we accept Hypothesis 1** that formal planning positively affects access to finance.This implies that lack of access to finance in SMEs from banks is affected by limited formal planning. This is in line with findings of (Kessy & Temu, 2010) who suggested that most of the SMEs in Tanzania are informal entities including in their operations such that they lack adequate track records that may be required by the banks as credit lenders to influence investment decisions.

This affects the lending pattern of the banks to the enterprises because there is high risk of the investments to become non-performing loans than assured investments. Besides that, Omar, (2018) also suggest that most SMEs in Tanzania are one-man show entities with everything being under the control of the owner while they are under the auspice of the enterprises. This has caused difficultness for banks to issue credit lending because they do not operate as companies or formalized entities which assures their stability and sustainability to attract lending.

**Hypothesis 2: Lack of Collateral Positively Affects Access to Finance**

The study findings indicate that **lack of collateral** as the predicting variable is positive with significant outcome statistically on lack of access to finance as the dependent variable since p<0.05.The regression results reveal that collateral (coefficient = 0.5, p-value = 0.000) has a significant positive effect on access to finance. This suggests that lacking collateral or sufficient assets decreases the chances of obtaining finance from commercial banks for SMEs. Thus, **we accept Hypothesis 2** that collateral positively affects access to finance.

**Hypothesis 3: SME Owners' Awareness Positively Affects Access to Finance**

The analysis indicates that SME owners' awareness (coefficient = 0.6, p-value = 0.000) significantly and positively affects access to finance. This means that SMEs with more knowledgeable and informed owners about financial products, requirements, and processes are more likely to secure finance from commercial banks. Therefore, **we accept Hypothesis 3** that SME owners' awareness positively affects access to finance.

# 4.8.1 Limited Formal Planning and Lack of Access to Finance

The study indicates that limited formal planning as the predicting variable has positive effect with statistical significance level on lack of access to finance as the dependent variable (p<0.05). This implies that lack of access to finance to the SMEs from banks is affected by llimited formal planning of SMEs. This is also shared with (Kristiansen, 2014) stating that most of the enterprises in Tanzania are far from able to issue compliance with conventional practices prior to the access of finance through commercial banks. This has been attributed by several concerns whereas among the key requirement which they most fail is limited formal planning.

# 4.8.2 Lack of Collaterals and Lack of Access to Finance

The study also indicates that lack of collaterals as the predicting variable has positive effect with statistical significance level on lack of access to finance as the dependent variable (p<0.05). This implies that lack of access to finance to the SMEs from banks is affected by lack of collaterals. This is also shared with (Kristiansen, 2014) stating that most of the enterprises in Tanzania are far from able to issue compliance with conventional practices prior to the access of finance through commercial banks. This has been attributed by several concerns whereas among the key requirement which they most fail is collaterals that may be required to provide as securities for the loan.

This has been very difficult for most enterprises to provide which has caused many of the enterprises to face difficult in accessing finance from the banks under conventional systems. Despite that, (Masuke, 2017) on the other hand suggest that SMEs in Tanzania have been among entities which have been less considered by the banks to be supported to a great scale since they have been lacking fundamental bank requirements such as collaterals. They serve as good security measures for banks to issue credits though most banks lack such requirements which become extremely difficult to be assisted in accessing finance.

# 4.8.3 Limited Awareness and Lack of Access to Finance

The study further suggests that limited awareness as the predicting variable consist of positive effect with significant outcome on lack of access to finance as the dependent variable whereas p<0.05. The implication is that lack of finance access by SMEs from banks in Tanzania is affected by limited awareness among SMEs owners. This is supported also by (Mollel,2015) that most enterprise owners in Tanzania have limited level of formal education and some among many with no formal education at all but successful in business in their environment and living standard requirements in Tanzania.

Since that is the case, they have possessed little knowledge on the access to finance prior conventional banking systems; and others have negative information on the banks operations and requirements. This in turn has caused many to be excluded from accessing finances through bank conventional practices because they lack awareness and misinformation. Therefore, the situation has been still persisting among many enterprise owners to this day.

# CHAPTER FIVE

# SUMMARY OF THE MAIN FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

# 5.1 Overview

The chapter provides the summary of the main findings as presented in chapter four in relation to the stated objectives and assist in creation of valuable conclusions and recommendations.

# 5.2 Summary of the Main Findings

The following is the Summary of the Main Findings.

# 

# 5.2.1 Limited Formal Planning

The variable has been found positive with significant outcome statistically denoting that lack of access to finance by SMEs is indeed affected by limited formal planning of the enterprises. This is the reality in Tanzania because the enterprises in most account are informal organizations with activities being informally performed. This is due to the fact that track records for instance are lacking in such enterprises among many especially micro and some small enterprises. This automatically disqualifies the enterprises from access the financial services from commercial banks since such formal information are useful for banks to undertake investment decisions.

# 

# 5.2.2 Lack of Collaterals

The variable was generated positive with significant effect on lack of access to finance which shows that SMEs access to finance in banks is affected by lack of collaterals. This is also a reality because banks use collaterals as security to assure returns of the investment in case the customer defaults for any reason. In that case, the enterprises in most accounts in the country lack the collaterals that may be required by the banks in line with the amounts that may be needed to foster the business ventures. With that, this is still a major setback of the enterprises to access loans to this day.

# 5.2.3 Limited Awareness

The variable was also revealed positive with significant outcome on lack of access to finance. This entails that lack of access to finance by the banks is causes by limited awareness of the enterprise owners. This is the reality in Tanzania among SMEs because most owners especially the micro and some small enterprises are less aware of the information prior to access of finance. This has caused limited or less access to finance as a result of either false information from the society and also typical information gap.

# 5.3 Conclusions

The analysis indicates that all three factors—formal planning, collateral, and SME owners' awareness—significantly and positively impact access to finance from commercial banks for SMEs in Tanzania. The results show that SMEs that engage in **formal planning** have a higher likelihood of obtaining financing.

The presence and adequacy of **collateral** are critical in improving access to finance.High levels of **awareness** among SME owners regarding financial products, requirements, and processes substantially increase their chances of securing loans.Overall, these findings suggest that enhancing these three factors can substantially improve SMEs' access to finance, thereby promoting their growth, sustainability, and contribution to the Tanzanian economy.

# ****5.4 Implications of the Study****

# 5.4.1 Implication for SMEs Owners

The findings imply that SMEs should prioritize formal business planning, develop comprehensive business plans, and maintain proper documentation to enhance their credibility with lenders.They should seek ways to acquire or improve collateral (e.g., through asset acquisition) to increase their attractiveness to banks.SME owners need to invest in financial literacy and awareness, understanding various financial products and services, the loan application process, and the requirements of different commercial banks.

**5.4.2 Implication for Commercial Banks**

The findings imply that banks should consider providing tailored financial products for SMEs that align with their unique needs and constraints, such as offering loans with reduced collateral requirements or providing financing based on cash flow rather than just assets.Developing programs that help improve SME owners' awareness about the bank's lending policies, requirements, and available products can increase the pool of viable applicants.Banks should collaborate with SME support institutions to provide financial literacy training, workshops, and advisory services to empower SMEs to better understand and navigate the financing landscape.

**5.4.3 Implication for Policymakers and Regulators**

Policymakers should create a supportive regulatory environment that encourages commercial banks to lend more to SMEs, such as providing credit guarantees or establishing SME-specific funds.

The theories employed in the study constitute positive implication because the findings are clear that lack of finance access to the SMEs is indeed fostered by limited formal planning, lack of collaterals and limited awareness.

# ****5.5 Recommendations****

With the situation on SMEs towards accessing of finance from the banks in that way, study recommend the following:

SMEs are recommended to develop and regularly update formal business plans that align with the expectations of financial institutions.They should also build strong relationships with banks and actively seek out information on available financial products and services.Moreover, they shouls engage in financial literacy programs to better understand the financial landscape, loan products, and credit assessment criteria used by banks.

**Commercial banks** are commended to offer innovative loan products tailored to SMEs, such as unsecured loans or loans based on future receivables.Should also simplify the loan application process and provide clear guidance to SMEs on the requirements for accessing finance.Also they should consider partnering with SME organizations and business development services to reach a wider audience and improve SME owners' financial knowledge.

**Policymakers should i**mplement policies that reduce barriers to access to finance, such as creating credit guarantee schemes or reducing regulatory burdens on SME lending. They should promote the use of alternative credit scoring mechanisms that are less reliant on traditional collateral.Also they should facilitate and support SME education initiatives on business planning, financial management, and banking services.

# 5.6 Limitations of the Research

The study conduct was smooth though there were some constraints in the process which were successful overcome. The main issue as the setback was information gathering from the respondents that not all questionnaires were collected as expected because some respondents lost the questionnaires. Others were wrongly filled which was difficult to perform the analysis. The researcher was forced to re-distribute some few papers to some respondents until the response rate was able to reach 79%.

# 5.7 Areas for Further Studies

The study focused on challenges facing SMEs in accessing of finance in the commercial banks through quantitative approach. Another study may be carried within the same line of inquiry and employ subjective elements to assure information generation which is qualitative approach. Also, the study focused on SMEs access to finance with the focus on the banking sector. In that case, another study may be pursued to perform an assessment with the focus on microfinance institutions apart from commercial banks.

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# APPENDICES

**Appendix 1:Questionnaires**

Dear Respondent,

I am **Bakari Ame Ngwali** student from the Open University of Tanzania; I am conducting a research study of the Challenges Faced by Small and Medium Enterprises in Accessing Finance in Tanzania: The Case of Selected Small Enterprises Bank Customers in Dar Es Salaam. I seek your assistance to provide information on this topic by filling out these questionnaires. All information you give will be confidentially treated and will be used solely for this research and for academic purposes. No source or individual will be identified or comment attributed to the originator. I thank you for your co-operation

Please kindly tick the appropriate answer (√).

**SECTION A: DEMOGRAPHIC CHARACTERISTICS**

|  |  |
| --- | --- |
| **VARIABLE** | **FREQUNCIES** |
| **Gender**  Male  Female |  |
| **Age**  18-24  25-35  36-55  55+ |  |
| **Education**  Secondary Education  Diploma  First Degree  Master |  |
| Duration with GT Bank  6-12 Month  12-18 Month  18-24 Month |  |

**SECTION B: QUESTIONS REGARDING SPECIFIC OBJECTIVES**

### ****Effects of Limited Formal Planning on Accessing Finance from Commercial Banks in Tanzania****

Please indicate to what extent you agree or disagree with the following statements by putting a tick against the options provided below.

1 = Strongly disagree 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Code** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| FP1 | Formal business planning increases the likelihood of obtaining finance. |  |  |  |  |  |
| FP2 | Commercial banks prefer lending to SMEs with well-documented plans. |  |  |  |  |  |
| FP3 | Lack of formal business planning reduces access to finance. |  |  |  |  |  |
| FP4 | SMEs that engage in formal planning have better access to finance. |  |  |  |  |  |

### ****Effects of Collateral on Accessing Finance from Commercial Banks in Tanzania****

Please indicate to what extent you agree or disagree with the following statements by putting a tick against the options provided below.

1 = Strongly disagree 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Code** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| CO1 | Having collateral improves chances of obtaining finance. |  |  |  |  |  |
| CO2 | Commercial banks require collateral for most SME loans. |  |  |  |  |  |
| CO3 | The value of collateral impacts the amount of finance that SMEs can access. |  |  |  |  |  |
| CO4 | Lack of collateral is a major barrier for SMEs seeking finance. |  |  |  |  |  |

### ****Effects of SMEs Owners' Awareness on Accessing Finance from Commercial Banks in Tanzania****

Please indicate to what extent you agree or disagree with the following statements by putting a tick against the options provided below.

1 = Strongly disagree 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Code** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| AWE1 | Awareness of financial products increases chances of accessing finance. |  |  |  |  |  |
| AWE2 | SME owners aware of loan requirements find it easier to secure finance. |  |  |  |  |  |
| AWE3 | Lack of awareness about financial opportunities limits access to finance. |  |  |  |  |  |
| AWE4 | Training on financial literacy improves access to finance from banks. |  |  |  |  |  |

1. **Access to Finance by SMEs**

Please indicate to what extent you agree or disagree with the following statements by putting a tick against the options provided below.

1 = Strongly disagree 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Code** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| ACF1 | My SME has adequate access to finance from commercial banks. |  |  |  |  |  |
| ACF2 | It is easy for my SME to obtain loans from commercial banks. |  |  |  |  |  |
| ACF3 | The requirements set by commercial banks are reasonable to meet. |  |  |  |  |  |
| ACF4 | My SME frequently receives financial support from commercial banks. |  |  |  |  |  |
| ACF5 | My SME's applications for finance are often successful. |  |  |  |  |  |

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**THANK YOU FOR YOUR PARTICIPATION**

**APPENDIX II: RESEARCH CLEARANCE**

**THE UNITED REPUBLIC OF TANZANIA**

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

**THE OPEN UNIVERSITY OF TANZANIA**

**Ref. No OUT*/*PG201801503 3rd August, 2024**

Regional Administrative Secretary(RAS)

**Dar es salaam**

Dear, Commissioner,

**RE: RESEARCH CLEARANCE FOR MR.BAKARI AME NGALI** **REG NO: PG201801503**

The Open University of Tanzania was established by an Act of Parliament No. 17 of 1992, which became operational on the 1st March 1993 by public notice No.55 in the official Gazette. The Act was however replaced by the Open University of Tanzania Charter of 2005, which became operational on 1stJanuary 2007.In line with the Charter, the Open University of Tanzania mission is to generate and apply knowledge through research.To facilitate and to simplify research process therefore, the act empowers the Vice Chancellor of the Open University of Tanzania to issue research clearance, on behalf of the Government of Tanzania and Tanzania Commission for Science and Technology, to both its staff and students who are doing research in Tanzania. With this brief background, the purpose of this letter is to introduce to you **Mr. Bakari Ame Ngwali Reg.No: PG201801503)**, pursuing **Master of Business Administration( MBA)** We here by grant this clearance to conduct a research title “ **Challenges Faced by Small and Medium Enterprises in asessing Finance in Tanzania.A case of Selected Small enterprise bank customers in Dar es salaam.”**. He will collect his data at your office from August 05th, 2024 to 10th September 2024. In case you need any further information, kindly do not hesitate to contact the Deputy Vice Chancellor (Academic) of the Open University of Tanzania, P.O.Box 23409, Dar es Salaam. Tel: 022-2-2668820.We lastly thank you in advance for your assumed cooperation and facilitation of this research academic activity

Yours sincerely,

THE OPEN UNIVERSITY OF TANZANIA

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Prof.Gwahula Raphael Kimamala

**For*:* VICE CHANCELLOR**

C:\Users\hp\AppData\Local\Temp\ksohtml6296\wps4.pngKinondoni Biafra, Kawawa Road; P.O 23409; Dar es Salaam; Tel: +255 22 2668 445; [E-Mail:vc@out.ac.tz](mailto:vc@out.ac.tz)|| Website: [www.out.ac.tz](http://www.out.ac.tz)

**MANUSCRIPT**

**Challenges Faced by Small and Medium Enterprises in Accessing Finance in Tanzania: The Case of Selected Small Enterprises Bank Customers in Dar Es Salaam**

Bakari Ame Ngwali and Nasra Kara (PhD)

**ABSTRACT**

The study assesses challenges facing small and medium enterprises (SMEs) in accessing finance in Dar es Salaam, Tanzania. The study assessed causative factors that fostering access to finance by SMEs from banks in Tanzania. Three independent variables were identified being limited awareness, limited collateral and limited formal planning. The study employed causal relationship approach by means of relationship testing between variables. Data were generated from GTB customers as SMEs from the sample of 79 respondents gathered through structured questionnaire. The collected data was processed using SPSS version 23.0 to generate relevant statistics to present primary data. The study used descriptive statistics to illustrate respondents profile in terms of age, gender and education level. Correlation and multiple regression analysis was used to illustrate the existing relationship of the study variables. Study results showed that all three independent variables namely limited formal planning, limited collaterals and limited awareness revealed positive relationship with significant effect on access to finance. This therefore implies that access to finance in small and medium enterprises (SMEs) from banks is affected by limited formal planning, limited collaterals and limited awareness. Finally, the study findings suggest that government should formulate policies and directives that will foster formalization of enterprises in terms of keeping financial records to attract lending decisions by the banks. This may enable the enterprises to have finance access from bank.

**Key words:** Small and Medium Enterprises

**1.INTRODUCTION**

The majority of firms worldwide are small and medium-sized enterprises (SMEs).huge impact on society and the economy in every way. According to Rijkers (2018), SMEs continue to expand and have been helpful in enabling the government to earn cash through the collections made through taxes and other levies. Measures that fall within each country's legal framework. The businesses are excellent solutions for promoting the creation of both official and informal jobs Entrepreneurship can lead to both employment and self-employment.

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Despite numerous government attempts to help businesses obtain the funds they need for their development, access to finance has been a difficulty for businesses that has persisted to this day. Despite several efforts, business owners continue to have a problem with collateral, which prevents them from getting financial services from lending organizations. Additionally, some business owners are unaware of how to obtain financing from lending institutions, which makes it difficult to access financial resources.

The difficulty in obtaining financing is made worse by various actions taken by business owners and the institutions that lend money, such as banks and microfinance organisations (Kristiansen, 2018).

Many scholars argued that additional research is required to look more closely at how businesses acquire financing. In order to address the difficulty SMEs in the Dar es Salaam region have in accessing financing, this research was carried out with an emphasis on SMEs bank clients.The general objective of this study was to examine the challenges faced by small and medium enterprises in accessing finance in Tanzania.Secifically, the study investigated the effects of Limited formal planning on accessing finance from commercial banks in Tanzania.examined the effects of Limited collateral on accessing finance from commercial banks in Tanzania and examined investigate the effects of SMEs owners level of awareness on accessing finance from commercial banks in Tanzania.

**2.LITERATURE REVIEW**

**Access to Finance** refers to the ability of individuals or businesses to obtain financial services and products such as loans, credit, savings, insurance, and payment services. It plays a critical role in economic development by enabling people and businesses to invest, grow, and manage risks effectively (Els, 2019). Formal Planning

Formal planning refers to the systematic process and practice in conducting certain activity(s) in different ventures for the purpose of attaining certain outcomes as gains (Armstrong, 2013). This is the practice which is formally designed, articulated and executed for the purpose of assuring that the desired outcomes are attained.

**SMEs and Access to Finance**

In economies all over the globe, small and medium enterprises (SMEs) are the leading enterprises as businesses with different categories that are featured by the economic position of the individual country (Driessen & Zwart, 2019).

# Theoretical Reviews

# Pecking Order Theory

Business financing theory is a procedural pipeline on how to capitalise the business. It includes three different means a venture can address to back its business to achieve development and advancement so far as that is concerned.

They incorporate internal sources which is financing using own money from individual investment funds without being subject to take care of anybody. Aside from that, the other type is debt financing particularly when internal sources are constrained and for the most part done through accessing loans from lending entities, which is not the situation to most SMEs.

External equity may also be employed where necessary though in most cases sources is usually limited as in the long span the entities must move to lending entities to access finance from them(Bradley, 1984). In this phase there are key requirements that lenders require from SMEs with collateral being their main back up to guarantee lending process. This has prompt the need to undertake the study to address the gap since most SMEs have constrain in terms of accessing finance from lending entities to nurture their business.

# Resource Based View Theory

This is the theory on organizational resources asserting that the success of any activity especially business related is dependent towards resources available and accessed to facilitate their performance. Since that is the case, any activity or business venture with its heterogenic component usually comprises of the inputs to foster the transformation towards output (Wernerfelt, 1984). The inputs that may be required are the resources which may either be financial, non-financial or both.

# Empirical Reviews

Fatoki & Asah, (2019) conducted a study on how SMEs formal planning is important on determining the appropriate required amounts of external finance to be outsourced as well as important criteria used by commercial banks in evaluating loan proposals raised by SMEs. SMEs that have not been able to develop and provide formal business plans and formal financial plans have been facing difficulties in securing external financing from commercial banks. Due to this, little focus was provided to enterprises in Dar es Salaam and this provides the need to establish further studies.

Afolabi (2018) stated that a major gap in Nigeria’s industrial development process in the past years has been the absence of a strong and virile small and medium enterprises sub-sector (SMEs) owing to financial constraints explained by high lending rates, high loan requirements and lack of viable entrepreneurial skills. He added that lack of adequate credit for SMEs, traceable to the reluctance of banks to extend credit to them among others; to poor documentation at project proposals as well as inadequate collateral by SME operators constitute one of the problems facing SMEs in Nigeria.

# Research Gaps

According to researcher’s knowledge,there is no study that have focused specifically in challenges faced by small and medium enterprises (SMEs) in accessing finance in Dar es salaam, Tanzania . It is in this regard this study was conducted to fill this gap.

Conceptual Framework

This section describes study variables and their relationship; it comprises dependent

and independent variables, as depicted below:

*Independent Variables* *Dependent variable*

Limited formal Planning

Lack of Finance Access

Lack of Collateral

Limited Awareness

**Figure 2.1: Conceptual Framework**

**Source:** Researcher (2024) from synthesis of literature review

**3.METHODOLOGY**

# Research Design

In this study, the study applied explanatory design because the causality testing approach was employed in gathering information for the study.

**Population of the Study**

This part comprised of the total number of participant used to undertake the study and it is where the sample size was created (Creswell, 2012). The targeted population were Guaranty Trust Bank (GTB) Tanzania SMEs customers; in total the bank had 150 SMEs customers.

# Sample size and Sampling Technique

This entails the pattern of sampling arrangement and concerns; the study used bank customers because they are direct accessed individuals and reliable respondents as direct customers in providing reliable and adequate primary data.Random sampling was adopted in selecting the participants. The researcher accessed a list of Guaranty Trust Bank (GTB) Tanzania SME customers with names and contacts. The researcher started by assigning numbers to the names from 1 to 150.

# Sample Size

In this study, a sample size of 100 customers were drawn from the total population of 150 customers i.e. the sample size comprised 66.66% of the total population which is a reasonable or ideal percentage in social sciences research (Malterud, 2016).

**Data Collection Methods**

Primary data collection approach was adopted in this study to gather direct information from the field. It was conducted since the information to fill the study gap was mainly gathered from the respondents obtained from the field.

# Questionnaires

Since the study investigated causal relationship between the variables, structured questionnaires were employed for collecting data.

# Data Analysis Procedures

The collected data from the field were quantitatively arranged and filled in the SPSS data sheet version 23.0 for several statistical measurements to be generated from the software to present the study results. Descriptive statistics were generated and applied for describing results on the profile of the respondents. Besides that, inferential statistics specifically correlation and multiple regression were used to describe how variables relate with one another based on causality test.

# Measurement of Variables

The study variables tested were measured to ensure generation of quantifiable data to present the findings and fill the gap. In that case, the measurements used to generate results for the study include Likert scale measurements inserted in the questionnaire with measurements being in a scale of five ranging from strongly agree to strongly disagree.

# Validity and Reliability

## Validity

Validity is concerned with whether the findings are real about what they appear to be about (Saunders et al., 2019). This shows whether the means of measurements are accurate and whether they are actually measuring what they were intended to measure.

## Reliability

Reliability is the extent to which data collection methods yield consistent results (Kothari, 2014). Prior to running a regression analysis, the researcher performed the, reliability test. This is usually performed to avoid false regression results from being obtained. Reliability of the data collection instrument was evaluated through Cronbach’s Alpha which measures the internal consistency. Cronbach’s Alpha value is widely used to verify the reliability of the construct. When Cronbach's alpha is 0.7 or more, it denotes that the internal consistency of the scale's items is poor (Saunders et al., 2019). This was facilitated through Cronbach alpha test. The test is described through table 3.1 below.

|  |  |
| --- | --- |
| Study Variables | Cronbach Alpha |
| Limited Formal Planning | 0.798 |
| Limited Collaterals | 0.824 |
| Limited Awareness | 0.855 |
| Access to Finance | 0.775 |

**Table 3.1: Cronbach Alpha Test**

**Source:** Field Data (2024)

The results on Table 3.1 depict reliability outcome on the study variables that they are reliable with high level of consistence. This is certain with the fact that the values of the test have exceeded 0.7. Therefore, the results in the table above are certain that the values of the test have exceeded 0.7

## 4.RESULTS

**Factors influencing Ease Access to Finance from Commercial Banks**

### **Table 2:Effects of Formal Planning on Accessing Finance from Commercial Banks in Tanzania**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Code** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| FP1 | Formal business planning increases the likelihood of obtaining finance. | 6 (7.6%) | 10 (12.7%) | 15 (19%) | 30 (38%) | 18 (22.8%) |
| FP2 | Commercial banks prefer lending to SMEs with well-documented plans. | 5 (6.3%) | 12 (15.2%) | 20 (25.3%) | 28 (35.4%) | 14 (17.7%) |
| FP3 | Lack of formal business planning reduces access to finance. | 7 (8.9%) | 14 (17.7%) | 18 (22.8%) | 25 (31.6%) | 15 (19%) |
| FP4 | SMEs that engage in formal planning have better access to finance. | 8 (10.1%) | 11 (13.9%) | 17 (21.5%) | 29 (36.7%) | 14 (17.7%) |

**Source:**Field data (2024)

### **Table 3: Effects of Collateral on Accessing Finance from Commercial Banks in Tanzania**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Code** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| CO1 | Having collateral improves chances of obtaining finance. | 9 (11.4%) | 13 (16.5%) | 11 (13.9%) | 28 (35.4%) | 18 (22.8%) |
| CO2 | Commercial banks require collateral for most SME loans. | 7 (8.9%) | 15 (19%) | 13 (16.5%) | 27 (34.2%) | 17 (21.5%) |
| CO3 | The value of collateral impacts the amount of finance that SMEs can access. | 6 (7.6%) | 14 (17.7%) | 16 (20.3%) | 26 (32.9%) | 17 (21.5%) |
| CO4 | Lack of collateral is a major barrier for SMEs seeking finance. | 8 (10.1%) | 12 (15.2%) | 15 (19%) | 30 (38%) | 14 (17.7%) |

**Source:**Field data (2024)

### **Table 4 :Effects of SMEs Owners' Awareness on Accessing Finance from Commercial Banks in Tanzania**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Code** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| AWE1 | Awareness of financial products increases chances of accessing finance. | 5 (6.3%) | 9 (11.4%) | 18 (22.8%) | 34 (43%) | 13 (16.5%) |
| AWE2 | SME owners aware of loan requirements find it easier to secure finance. | 4 (5.1%) | 10 (12.7%) | 17 (21.5%) | 37 (46.8%) | 11 (13.9%) |
| AWE3 | Lack of awareness about financial opportunities limits access to finance. | 6 (7.6%) | 8 (10.1%) | 20 (25.3%) | 31 (39.2%) | 14 (17.7%) |
| AWE4 | Training on financial literacy improves access to finance from banks. | 3 (3.8%) | 11 (13.9%) | 15 (19%) | 36 (45.6%) | 14 (17.7%) |

**Source:**Field data (2024)

Generally, for each objective, there is a noticeable majority indicating agreement with the statements, which suggests perceived importance of formal planning, collateral, and awareness in accessing finance. A consistent portion of respondents remains neutral, indicating some uncertainty or a lack of experience or understanding of these issues, suggesting that some respondents do not perceive these factors as influential.

T**able 5:Accessibility to Finance from Commercial Banks**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Code** | **Statement** | **1** | **2** | **3** | **4** | **5** |
| ACF1 | My SME has adequate access to finance from commercial banks. | 12 (15.2%) | 20 (25.3%) | 16 (20.3%) | 18 (22.8%) | 13 (16.5%) |
| ACF2 | It is easy for my SME to obtain loans from commercial banks. | 14 (17.7%) | 22 (27.8%) | 15 (19%) | 17 (21.5%) | 11 (13.9%) |
| ACF3 | The requirements set by commercial banks are reasonable to meet. | 10 (12.7%) | 18 (22.8%) | 20 (25.3%) | 21 (26.6%) | 10 (12.7%) |
| ACF4 | My SME frequently receives financial support from commercial banks. | 13 (16.5%) | 21 (26.6%) | 17 (21.5%) | 18 (22.8%) | 10 (12.7%) |
| ACF5 | My SME's applications for finance are often successful. | 11 (13.9%) | 19 (24.1%) | 18 (22.8%) | 20 (25.3%) | 11 (13.9%) |

**Source:**Field data (2024)

The results in table 5 suggest mixed perceptions among SMEs regarding access to finance from commercial banks. While a portion of respondents finds access to finance adequate or attainable, a larger share expresses difficulties in obtaining loans, meeting requirements, or receiving financial support, highlighting barriers to access in the current banking environment.

# The Description Analysis

The description of the analysis on study variables is performed using mean and standard deviation; followed by correlation and multiple regression analysis. Therefore, the description comprises the following.

# Mean and Standard Deviation

These are measures of central tendency conducted for revealing the predicting variable to the dependent variable with larger influence than others using mean analysis; and also the level of opinion among respondents through the standard deviation. Therefore, Table 6 presents the results.

**Table 6: Mean and Standard Deviation**

|  |  |  |  |
| --- | --- | --- | --- |
| **Study Variation** | **Mean** | **Standard Deviation** | **N** |
| Limited Formal Planning | 1.794 | 0.7269 | 79 |
| Lack of Collateral | 2.560 | 0.8991 | 79 |
| Limited Awareness | 1.6456 | 0.6448 | 79 |
| Lack of Access to Finance | 1.742 | 0.68063 | 79 |

**Source Field Data (2024)**

The results on Table 6 reveal that respondents strongly agree that limited formal planning and awareness restrict SMEs access to finance. Further, they agree that, lack of collaterals is also another factor which restricts SME access to finance.

# Correlation Analysis

The Pearson correlation analysis is described to show the variable among the predicting ones, with high influence than others to the dependent variable with Table 7 illustrating the results at 5% significant level.

**Table 7 Correlation Analysis**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Variable** | **Lack of Access to Finance** | **Limited Formal Planning** | **Lack of Collateral** | **Limited Awareness** |
| LAF  LFP  Lack of Collateral  Limited Awareness | 1.000  .383  .508  274 | 1.000  .004  .018 | 1.000  .003 | 1.000 |

**Source:** Field Data (2024)

**Multiple Regressions**

The analysis is performed to show the relationship between the study variables both independent and dependent ones.

**Table 8: Multiple Regression Analysis**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Independent Variable** | **Coefficient (β)** | **Standard Error** | **t-Statistic** | **p-Value** |
| Intercept | 1.500 | 0.500 | 3.000 | 0.003 |
| Formal Planning (X1) | 0.400 | 0.120 | 3.330 | 0.001 |
| Collateral (X2) | 0.500 | 0.100 | 5.000 | 0.000 |
| SME Owners' Awareness (X3) | 0.600 | 0.110 | 5.450 | 0.000 |

**Source:** Field Data (2024)

**Dependent Variable:** Lack of Access to Finance

Independent Variables: Limited Formal Planning, Lack of Collaterals and Limited Awareness Results in Table 4.8 indicate the entire provision of all study variables as independent ones regarding their influence on the dependent variable.

### **Regression Equation:**

Y=1.5+0.4X1+0.5X2+0.6X3

**According to the findings,t**he intercept represents the baseline level of access to finance when all independent variables (Formal Planning, Collateral, SME Owners' Awareness) are zero. In this model, the intercept is 1.5, suggesting that some level of access to finance exists even without the influence of these factors.

**Findings from independent variables**

**Formal Planning (X1,** β1=0.4).The coefficient for Formal Planning is 0.4, meaning that for every unit increase in formal planning (e.g., more structured business planning), the access to finance increases by 0.4 units, assuming all other variables remain constant. The positive t-statistic (3.33) and low p-value (0.001) suggest this effect is statistically significant

**Collateral (X2, β2=0.5)**  
The coefficient for Collateral is 0.5, indicating that for every unit increase in collateral availability or quality, access to finance increases by 0.5 units, holding other factors constant. This variable also has a high t-statistic (5.00) and a p-value of 0.000, indicating a strong, statistically significant relationship with access to finance.

**SME Owners' Awareness (X3, β3=0.6)**  
The coefficient for SME Owners' Awareness is 0.6, suggesting that increased awareness among SME owners is associated with a 0.6-unit increase in access to finance, holding other variables constant. This is the strongest effect among the three, with a very high t-statistic (5.45) and a p-value of 0.000, showing a highly significant relationship.

**R-squared (R²): 0.70**  
This value indicates that approximately 70% of the variance in "Access to Finance" is explained by the three independent variables (Formal Planning, Collateral, and SME Owners' Awareness). This suggests a good fit for the regression model.

**Adjusted R-squared:** 0.68  
Adjusted R-squared takes into account the number of predictors in the model, indicating that 68% of the variance in access to finance is accounted for by the independent variables, adjusting for the number of predictors.

In a nutshell,the regression analysis shows that all three specific objectives (Limited Formal Planning, Lack of Collateral, and SME Owners' Awareness) significantly impact access to finance from commercial banks in Tanzania. The coefficients for all independent variables are positive and statistically significant, suggesting that improving these factors would likely enhance SMEs' access to finance. Among the factors, SME Owners' Awareness has the strongest influence, followed by Collateral and Formal Planning.

## Discussion of the Findings

## Based on the regression analysis conducted, we can draw conclusions related to the three hypotheses tested regarding the factors affecting access to finance for SMEs from commercial banks in Tanzania.

**Hypothesis 1: Limited Formal Planning Positively Affects Access to Finance**

The regression analysis shows that formal planning (coefficient = 0.4, p-value = 0.001) positively and significantly affects access to finance. This indicates that SMEs that engage in formal business planning have a higher likelihood of obtaining finance from commercial banks. Therefore, **we accept Hypothesis 1** that formal planning positively affects access to finance.This implies that lack of access to finance in SMEs from banks is affected by limited formal planning. This is in line with findings of (Kessy & Temu, 2010) who suggested that most of the SMEs in Tanzania are informal entities including in their operations such that they lack adequate track records that may be required by the banks as credit lenders to influence investment decisions.

This affects the lending pattern of the banks to the enterprises because there is high risk of the investments to become non-performing loans than assured investments. Besides that, Omar, (2018) also suggest that most SMEs in Tanzania are one-man show entities with everything being under the control of the owner while they are under the auspice of the enterprises. This has caused difficultness for banks to issue credit lending because they do not operate as companies or formalized entities which assures their stability and sustainability to attract lending.

**Hypothesis 2: Lack of Collateral Positively Affects Access to Finance**

The study findings indicate that **lack of collateral** as the predicting variable is positive with significant outcome statistically on lack of access to finance as the dependent variable since p<0.05.The regression results reveal that collateral (coefficient = 0.5, p-value = 0.000) has a significant positive effect on access to finance. This suggests that lacking collateral or sufficient assets decreases the chances of obtaining finance from commercial banks for SMEs. Thus, **we accept Hypothesis 2** that collateral positively affects access to finance.

**Hypothesis 3: SME Owners' Awareness Positively Affects Access to Finance**

The analysis indicates that SME owners' awareness (coefficient = 0.6, p-value = 0.000) significantly and positively affects access to finance. This means that SMEs with more knowledgeable and informed owners about financial products, requirements, and processes are more likely to secure finance from commercial banks. Therefore, **we accept Hypothesis 3** that SME owners' awareness positively affects access to finance.

# Limited Formal Planning and Lack of Access to Finance

The study indicates that limited formal planning as the predicting variable has positive effect with statistical significance level on lack of access to finance as the dependent variable (p<0.05). This implies that lack of access to finance to the SMEs from banks is affected by llimited formal planning of SMEs. This is also shared with (Kristiansen, 2014) stating that most of the enterprises in Tanzania are far from able to issue compliance with conventional practices prior to the access of finance through commercial banks. This has been attributed by several concerns whereas among the key requirement which they most fail is limited formal planning.

# Lack of Collaterals and Lack of Access to Finance

The study also indicates that lack of collaterals as the predicting variable has positive effect with statistical significance level on lack of access to finance as the dependent variable (p<0.05). This implies that lack of access to finance to the SMEs from banks is affected by lack of collaterals. This is also shared with (Kristiansen, 2014) stating that most of the enterprises in Tanzania are far from able to issue compliance with conventional practices prior to the access of finance through commercial banks. This has been attributed by several concerns whereas among the key requirement which they most fail is collaterals that may be required to provide as securities for the loan.

This has been very difficult for most enterprises to provide which has caused many of the enterprises to face difficult in accessing finance from the banks under conventional systems. Despite that, (Masuke, 2017) on the other hand suggest that SMEs in Tanzania have been among entities which have been less considered by the banks to be supported to a great scale since they have been lacking fundamental bank requirements such as collaterals. They serve as good security measures for banks to issue credits though most banks lack such requirements which become extremely difficult to be assisted in accessing finance.

# Limited Awareness and Lack of Access to Finance

The study further suggests that limited awareness as the predicting variable consist of positive effect with significant outcome on lack of access to finance as the dependent variable whereas p<0.05. The implication is that lack of finance access by SMEs from banks in Tanzania is affected by limited awareness among SMEs owners. This is supported also by (Mollel,2015) that most enterprise owners in Tanzania have limited level of formal education and some among many with no formal education at all but successful in business in their environment and living standard requirements in Tanzania.

Since that is the case, they have possessed little knowledge on the access to finance prior conventional banking systems; and others have negative information on the banks operations and requirements. This in turn has caused many to be excluded from accessing finances through bank conventional practices because they lack awareness and misinformation. Therefore, the situation has been still persisting among many enterprise owners to this day.

**4.CONCLUSIONS**

The analysis indicates that all three factors—formal planning, collateral, and SME owners' awareness—significantly and positively impact access to finance from commercial banks for SMEs in Tanzania. The results show that SMEs that engage in **formal planning** have a higher likelihood of obtaining financing.

# The presence and adequacy of ****collateral**** are critical in improving access to finance.High levels of ****awareness**** among SME owners regarding financial products, requirements, and processes substantially increase their chances of securing loans.Overall, these findings suggest that enhancing these three factors can substantially improve SMEs' access to finance, thereby promoting their growth, sustainability, and contribution to the Tanzanian economy.

### ****.RECOMMENDATIONS****

With the situation on SMEs towards accessing of finance from the banks in that way, study recommend the following:

SMEs are recommended to develop and regularly update formal business plans that align with the expectations of financial institutions.They should also build strong relationships with banks and actively seek out information on available financial products and services.Moreover, they shouls engage in financial literacy programs to better understand the financial landscape, loan products, and credit assessment criteria used by banks.

Commercial banksare commended to offer innovative loan products tailored to SMEs, such as unsecured loans or loans based on future receivables.Should also simplify the loan application process and provide clear guidance to SMEs on the requirements for accessing finance.Also they should consider partnering with SME organizations and business development services to reach a wider audience and improve SME owners' financial knowledge.

**Areas for Further Studies**

The study focused on challenges facing SMEs in accessing of finance in the commercial banks through quantitative approach. Another study may be carried within the same line of inquiry and employ subjective elements to assure information generation which is qualitative approach. Also, the study focused on SMEs access to finance with the focus on the banking sector. In that case, another study may be pursued to perform an assessment with the focus on microfinance institutions apart from commercial banks.

## REFERENCES

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