

**CHALLENGES AND PROSPECTS FACED BY SMALL AND MEDIUM
ENTERPRISES IN ACCESSING CREDIT FACILITY: A CASE OF
AGRICULTURAL INPUTS SELLERS AND DISTRIBUTORS IN ARUSHA
CITY**

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**A DISSERTATION SUBMITTED AS A FULFILLMENT OF THE
REQUIREMENTS FOR THE MASTERS DEGREE IN BUSINESS
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CERTIFICATION

The undersigned certifies that he has read and hereby recommend for acceptance by The Open University of Tanzania as a dissertation entitled: “The Challenges and Prospects of Small and Medium Enterprises (SMEs) in Accessing Credit Facility: A Case Study of Agricultural Inputs Sellers and Distributors in Arusha City” in partial fulfillment of the requirements for the award of Masters Degree in Business Administration (MBA) of the Open University of Tanzania.

.....
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.....
Date

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DECLARATION

I, Sarah Ernest Lyimo, do hereby declare that the contents of this report are the results of my own study and findings and, to the best of my knowledge, have not been presented elsewhere for a Degree or any professional awards in any other University.

.....

Signature

.....

Date

DEDICATION

This piece of work is dedicated to my late father Ernest Lyimo. What a great job you did for me! Who laid down the foundation of my education with a lot of sacrifices. May your souls rest in peace, Amen! It also dedicated to my aunt Lyina Alson for moral, material support and encouragement during my studies. May the Almighty God bless you.

ABSTRACT

This study examined challenges and prospects which sellers and distributors of agricultural input in the SMEs sampled from the City of Arusha face in accessing credit from financial institutions. The study aimed to attain three objectives, namely: To assess the nature of the SMEs in which the sellers and distributors of agricultural input belonged, identify the challenges faced in accessing financial credit and lastly to identify the strategies used in accessing financial credit from financial institutions. Both purposive and random sampling techniques were used to obtain 100 respondents from SMEs. The instruments of data collection were questionnaires and checklists. The findings from the study indicated a 50% of the SMEs dealing with agricultural input in Arusha had registered as the Family Owned Businesses. Moreover, the retail traders were many (constituting 62%) of the SMEs studied. Data revealed that 70% of the total respondents faced the challenge of lack of collateral/security. Moreover, the SMEs operating in Arusha city are skewed more towards the internal sources of funding. The study concluded that the constraints faced in accessing credit from financial institutions inhibit the growth of SMEs. There study recommends that there is a need of reinforcing the Credit Reporting Act to regulate and focus on how to flexibility to accommodate SMEs. Furthermore, the government has to provide incentives and subsidy for the banks with outstanding records of lending to SMEs. It is also recommended that the Ministry of Industry and Trade need to intensify campaigns through the mass media aimed at educating the general public in Tanzania about the potentials of SMEs to the national development.

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LIST OF ABBREVIATIONS

| | | |
|---------|---|--|
| GDP | - | Gross Domestic Product |
| ILO | - | International Labour Organization |
| MBA | - | Masters in Business Administration |
| OUT | - | The Open University of Tanzania |
| SACCOS | - | Savings and Credit Co-operative Society |
| SMEs | - | Small and Medium Enterprises |
| SMIDEC | - | Small and Medium Industries Development Corporation |
| SPSS | - | Special Package of Social Science |
| TFA PLC | - | Tanganyika Farmers' Association Public Liability Company |
| UN | - | United Nations |
| UNIDO | - | United Nations Industrial Development Organization |
| URT | - | United Republic of Tanzania |

CHAPTER ONE

1.0 BACKGROUND TO THE STUDY PROBLEM

1.1 Background to the Problem

According to African Development Bank Group Report (2012) Small and Medium Enterprises are the best candidates to achieve inclusive growth in Africa as they contribute significantly to the income generation and job creation. However, financial access is consistently reported as one of the major obstacles to SME's growth and development. Only 20 percent of African SMEs have a line of credit from a financial institution. There has been a growing recognition of the importance of the role that Small and Medium Enterprises (SMEs) play in the economic development globally and Tanzania in Particular. Nonetheless, in order for Tanzania's Small and Medium Enterprises (SME's) to continue to fulfill social economic needs, they need access to finance to carry out their business operation and expansion.

In particular, small and medium scale appear to play a significant role in the economy in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to the country's export earnings. However, despite their importance to the economy, most SMEs are not able to stand up to the challenges of globalization, mainly because of difficulties in the area of financing (Macintosh, 2003 and Saeed 2002).

UN Report, (2008) highlighted the role of SMEs in stimulating growth widely been recognized, as the case of Ghana, where SMEs constitute of about 90 percent of the

total business units and account for 60 percent of the employment labour force. However, access to medium and long term financing necessary for capital investment has been so problematic.

Nkuah *et al.*, (2013) highlights that substantial increased bankers lending to private sector has been there, but limited access to credit, high interest rates and prohibitive collateral requirements still pose significant constraint to the growth of SMEs. Irwin *et al.*, (2010) reported that due to the challenges faced by these SMEs, many interventions have been made by the Government of Ghana through its monetary policy and financial sector reforms.

In developing countries like Tanzania, where the farming system is at its traditional level, the industrial and services sectors are at the infant stages, the role of small and medium enterprises (SMEs) appears significant in terms of their employment generation capacity, quick production response, and adaptation to weak infrastructure uses of local resources and as means of developing indigenous entrepreneurial and managerial skills for sustainable growth need (URT, 2002). In Tanzania the full potential capacity of the SME sector has yet to be tapped due to the existence of the number of constraints such as unfavourable legal and regulatory framework, undeveloped infrastructure, poor business development services and planning, limited access of SMEs to finance, ineffective and poor coordinated institutional support framework and so on.

The objective of the National Vision 2025 is to transform the predominantly agricultural economy to semi-industrialized one. The SMEs sector has a significant

role to play towards attaining this goal. It is on the above basis that the sustainable industrial policy identified specific strategies, targeting at stimulating the SMEs sector to be able to play a crucial role. The vision of SME development policy is to have a vibrant and dynamic SME sector that ensures effective utilization of available resources to attain accelerated and sustainable growth. Current researcher needed to evaluate on the above focus and the extent in which SMEs face to play in terms of prospects and challenges of accessing credit facility in Arusha City, being one of crucial entrepreneurial city of Tanzania.

The private sectors have started playing an ever – increasing role in creating incomes and employment. Small and Medium Enterprises (SMEs) account for a large share of the enterprises active in Tanzania. In fact, small and medium enterprises are the emerging private sector and so form the base for private sector – led growth. With current emphasis by the Government, that private sector should be an engine for economic growth, SMEs needs to evaluate the coming challenges and prospects of different grounds. Arusha was therefore selected to be a case for the present study due to its background and dynamism in SMEs and business strata operations in Tanzania.

Economical Reform Programmes implemented by the Tanzania Government have been based on the philosophy that Tanzania is committed to a market economy whereby the private sector will take the lead in creating incomes, employment and growth. Also due to insufficient competition and inadequate information on the credit markets of Tanzania, banks are discouraged and not willing to lend SMEs.

Legislation and regulation on collateral exclude movable assets as mortgage, thereby putting smaller businesses that own more of these assets into a disadvantaged position vis-a-vis their larger business counterparts. SMEs have lower demand for business development services such as training, counseling, advising and consultancy due to cost considerations and lack of knowledge about the benefits of external services in improving competitiveness (Mbatia, 2006).

In the course of implementing the economic reforms the government has put in place a number of strategies and programmes aiming at addressing some of the major constraints such programmes and strategies includes. Rural development strategy, agricultural sector Development Strategy, strategic trade policy, BEST programme, microfinance policy and poverty alleviations strategies. To implement these and other existing initiatives, this SMEs Development policy shall ensure that SMEs related components are adequately implemented, harmonized and coordinated (URT, 2003).

SMEs appear to have a potential of helping the community items of socio-economic problems, not only in rural but also across urban structure to boost the economic development as well as growth in Tanzania. Kilasi (2011) noted that the pressure of changing environment translated into a need to equip graduates with necessary skills as well as build them with entrepreneurial mind set.

The researcher wanted to evaluate with all the above potentials in SMEs as the unemployment becomes a critical challenge not only in Tanzania, but also around the

world, SMEs should be able to flourish to solve such challenges but one of the challenges faced by SMEs as it appears from several studies is inaccessibility in financial services, which drives them away from flourishing and contributing effectively in socio-economic challenges such as employment generation.

Though, small business owners often have more information about the potentials of their own businesses in some situations it can be difficult for the business owners to articulate and give detailed information about the business as the financiers want (Aryeetey *et al.*, 1994). The current researcher takes the above highlight focusing on SMEs in Arusha, to observe critical challenges and prospects for Arusha City SMEs in accessing credit facility to operate and grow their business.

Inferring from the foregoing discussion, despite the importance of the Small and Medium Enterprises (SME) sector in the economic development, it has been facing critical challenges particularly linked to inability to access credit facilities. This study explored on the challenges and prospects that SMEs face focusing on the market and financial issues, especially access to finance. The study used the case study of agricultural inputs Sellers and distributors sampled from Arusha City. This stands to be not only the research ground for the current study, but prepares the coming researchers for more critical researches on SMEs as Tanzania and the world is changing every day.

1.2 Statement of the Problem

Though, small business owners often have more information about the potential of their own businesses, in some situations it can be difficult for business owners to

articulate and give detailed information about the business as the financiers want (Aryeetey *et al.*, 1994). In addition, some small business managers tend to be restrictive when it comes to providing external financiers with detailed information about the core of the business since they believe that information about their business may leak through to the competitors (Winborg and Landstrom, 2009).

Lack of planning, improper financing and poor management have been reflected as the main cause of failure to small enterprises to obtain credit has been revealed by (Longenecker *et al.*, 2006). This is yet to be evaluated in the context of a growing self employment environment and SMEs platform such as Arusha city in Tanzania. Though shortage of credit facility has ever being identified as one of the most serious constraints, facing SMEs and hindering their development in Millenium Goals Reports.

Tanzania has been changing, the Medium Enterprises (SMEs) operation have been striving to cope with the process of changes in the business climate particularly linked to credit accessibility and market competitions. The business entrepreneurs have been the most directly affected by the changing business climate. The study explored on challenges and prospects face SMEs in accessing finances in the dynamic world using a case of sellers' and distributors of agricultural inputs in Arusha City Arusha is among the regions.

1.3 Objectives of the Research

The current research had the following objectives to be fulfilled:

1.3.1 General Objective

The general objective of the study was to assess the challenge and prospects faced by SMEs related to agricultural inputs Sellers and distributors in Tanzania to access financial credit.

1.3.2 Specific Objectives

The following were specific objectives for the current research study:

- (i) To assess the nature of SMEs agricultural inputs sellers and distributors in accessing financial credit across Arusha city.
- (ii) To identify major challenges faced by agricultural input sellers and distributors SMEs in accessing financial credit in Arusha city.
- (iii) To examine on strategies and opportunities for agricultural inputs sellers and distributors SMEs in accessing financial credit in the existing financial institution in Arusha city.

1.4 Research Questions

The following were research questions for the current study, which shaped the flow of the research study to be analysed:

- a) What are the nature of agricultural inputs sellers and distributors SMEs across Arusha city?
- b) What are the key challenges faced by the agricultural inputs sellers and distributors SMEs in Arusha city to access financial credit?
- c) What could be potential and strategies for agricultural inputs sellers and distributors SMEs to access financial credit facility in Arusha city?

1.5 Significance of the Study

The study will be significant to the policy makers-especially in the Ministry of Industry and Trade to understand the challenges and prospects of enhancing SMEs to accessibility to financial credit not only in Arusha but generally in Tanzania.

Additionally, to other researchers, the study will be useful since it will add knowledge to other researchers intending to study about SMEs financial credit accessibility, their strategies and operations. To Small and Medium Scale Enterprises, the present research will build an understanding of the challenges and prospects of SMEs in regard to financial credit markets. This will provide them with a high range choices, opportunities and knowledge of the challenges that are being faced by business entrepreneurs, especially the small and medium enterprises.

The current study provides a way forward on how SMEs should be able to adapt themselves across changes in Tanzania and Global arena in this era of competitive business and economy. Furthermore the study germinates a clear view for researchers in the future to have a background for them to extend towards new frontiers of the study for the future-best of SMEs growth and operations.

Critical policy issues will benefit the current and future government and policy makers in understanding the challenges and needed solution for SMEs to serve socio-economic issues. To other sectors of the economy, a better understanding of SMEs and financial credit operations provide a chance for stakeholders and other sectors to utilize resources more rationally through linking the sectors of the economy

efficiently. Tanzania needs SMEs for a common man livelihood and also linkage between agricultural sector and industrial sector development SMEs perspectives need to be understood clearly.

1.6 Organization of the Study

This dissertation is organized into the following chapters. Chapter one is composed of introduction and the background to the study. Chapter Two presents a review of literature. Chapter Three provides the research methodology. Chapter Four contains research results and analysis of data. Finally is Chapter Five which is about summary, conclusion and recommendations drawn from the findings of the study.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

2.1.1 Organization of the Study

This chapter reviews various literature selected to the study. It relates, analyse and evaluate the gaps within existing literature relating to the present study. Various concepts in financial operation and SMEs socio-economic operation are evaluated, based on several authors and researchers.

This chapter introduces the reader to a review of the literature related to the study. The Chapter begins with a discussion about characteristics of SMEs and their sources of funds. Moreover, it provides an overview on the situation of SMEs in Tanzania and the challenges faced by SMEs. Finally, it identifies the knowledge gap.

2.2 SMEs Characteristics, Size and Finance

Finance is the life-blood of the economic system. The financial system is the vessel that carries this life-blood through the economic system (Sowah, 2003). According to Mishkin (2008), banks are the most important sources of external funds, especially for loans. This suggests that the bank plays an important role in financing business activities, especially in developing countries. The SMEs differ from large firms in that the latter have direct access to international and local capital markets whereas the former are excluded because of the higher intermediation costs of smaller projects.

The acronym SMEs refers to small, micro, medium scale enterprises. Occasionally, it is used synonymously with micro, small and medium enterprises (URT, 2002). SMEs are defined using criteria such as the number of employees, sales volume, and total value of assets and ownership of the business.

Moreover, SMEs are defined in terms of characteristics which distinguish them from large firms. Yet it is even harder to define SMEs in terms of characteristics and draw a precise line from a number of sources within a company and are more frequently employed. Sources that are external to a firm include owners, friends and relatives, commercial banks, suppliers and distributors, government and non-government agencies. It has been stated that differences in the financial institution structure and lending infrastructure affect the availability of funds to SMEs (Mensah, 1999).

There exist a number of financial sources available for financing of the SMEs sector. These include, among others, the own savings, banks, microfinance and informal money lenders.

The Tanzania Government defines SMEs according to sector, employment size and capital investment in machinery. Accordingly, SMEs are defined as micro, small and medium size enterprises in non-farm activities, including manufacturing, mining, commerce and services. A micro enterprise with 5 to 49 employees, a medium enterprise with 50 to 99 employees and a large enterprise with more than 100 employees. Capital investment ranges from less than 5 Tshs million to over Tshs. 100 million.

The above may give a challenge as the changes of business and economic environment, especially in Arusha city. This had to be re-evaluated in the present research.

Companies can enjoy some form of credit from their business suppliers. This is a very important source of credit, especially for SMEs. The suppliers allow the company some time to pay for the supplies. The credit periods vary from few days to several years. For example, it may take 30, 60 or 90 days credit (World Bank, 2007a). Loans and contributions from friends and relatives are the common sources of funds, especially for new businesses since financial institutions are unwilling to provide the funding for start-up business because of the risks that are involved (Bank of Ghana, 2006). Kuriloff *et al.*, (1993) noted other personal resources that are available apart from personal savings. These include borrowing using one's personal assets such as house and bonds as collateral.

Longenecker *et al.*, (1994) observe that the personal savings of the owners and partners of businesses constitute an important source of funds, particularly in the formative stages of a firm. The personal contributions also help to raise additional funds from other sources. Much is yet to have been translated in terms of what are SMEs generally and what should be a common structure and criteria to re-define what SMEs are.

2.3 SMEs Based on Capital Investment and Labour Force

Table 2.1, thrive to observes through SMEs Development Policy (2002) of Tanzanian. This reflects the operating policy of 2002, but time and socio-economic

status of the community changes and even the requirements in terms of labour force and capital for investment. This has challenged the SMEs policy frameworks of 2002. Much needs to be understood in terms of SMEs structural dynamics and operations in Tanzania SMEs do not conform to any clearly defined parameters. The criteria used to define these enterprises also depend on the industry in which they operate (Ephraim, 2013).

The United Nations Industrial Development Organization (UNIDO) defines SMEs in developing countries based on the number of employees in an enterprise. A small enterprise has between 5 and 49 workers. Examples of SMEs may be found almost everywhere. Such examples include small shops in the cities such as hair dressing salons and cellars, among others. A medium enterprise has 50 to 99 workers and these include manufacturing firm and exporting company (John *et al.*, 2011).

The above criterion needs to meet the environment of Tanzania as it generalizes the measurement of SMEs and how should they be perceived. Arusha SMEs is not far from these and the current researcher had to see challenges and prospects based on Arusha distributors and Sellers of agricultural inputs as SMEs, but went beyond and see their challenges on accessing financial credit facility.

However, Tanzania has never had a specific policy focusing on the development of the SME sector. The programmes and interventions aimed at supporting the sector has had so limited impact. This has resulted into a number of gaps leading to inability to address the core constraints hindering the growth of the sector. Thus the

potential of the SMEs sectors in promoting the national economy appears not to have been adequately tapped.

Table 2.1: Categorization of SMEs: Capital Investment and Labour Capital Structure

| SN | Base on | Category | Labour Force (Employees) | Capital Investment (Tshs.) | Researchers Noted Criterion |
|----|------------------|-------------------|--------------------------|----------------------------------|-----------------------------|
| 1 | Policy Structure | Micro-Enterprise | 1-4 | Up to 5 million | Could change |
| 2 | Policy Structure | Small-Enterprise | 5-49 | Above 5 million to 200 million | Could change |
| 3 | Policy Structure | Medium-Enterprise | 50-99 | Above 200 million to 800 million | Could change |
| 4 | Policy Structure | Large-Enterprise | 100+ | Above 800 million | Could change |

Source: Researcher's Field Collection and SMEs Development Policy (2002)

2.4 Policy Issue on SMEs Generally

Based on the importance of this sector and its potential, the SMEs development policy has been designed to revitalize the sector to enable it to contribute to the objective of the National Development Vision 2025 (Magutu, 2010). The policy aims at creating a mechanism to put in place an effective institutional framework for its implementation, coordination, monitoring and evaluation. Central to all these strategies is the ultimate objective of attaining rural industrialization in line with Poverty Reductions Strategy and the Vision 2025. The policy aims at revolutionizing the SMEs sector to make it a vibrant and sustainable agent of stimulation of growth of the economy. In reorganization of this, various interventions, including policies and programmes have been initiated to develop the sector. Based on all these

conditions, it is of paramount important that a special tailored policy to take into account the development of this sector is envisaged.

A distinguishing feature of SMEs from large firms is that the latter have direct access to international and local capital markets whereas the former are excluded because of the higher intermediation costs of smaller projects. In addition, SMEs face the same fixed cost as Large Scale Enterprises in complying with regulations but have the limited capacity to market products abroad. Much needed to be re-captured based on areas differences and operations of SMEs.

In Tanzania, the SMEs sector has been recognized as a significant sector in employment creation, income generation, and poverty alleviation as a base for industrial development (Magutu, 2010). The sector generates about one third of GDP, employs about 20% of the Tanzania labour force and has the greatest potential for further employment generation. If SMEs are recorgnized to have potentials, then much needed to be researched and re-evaluated in terms of policies in place, structure and operations of SMEs in Tanzania and therefore the current researcher focus on challenges, opportunities of SMEs in relation to financial credit accessibility by agricultural inputs distributors and Sellers in Arusha city.

2.5 Potential Challenges Faced by SMEs

The main factors that contribute to failure of SMEs may be categorized into internal and external factors. The external factors include financing (such as the availability of attractive financing), economic conditions, market competition, government

regulations, technology and environmental factors. The internal factors are managerial skills, workforce, accounting systems and financial management practices. These are some of common potential challenges, but differ from one area to another. The researchers need to understand the SMEs conditions and operation in Arusha when the city grows and extends its potentials in terms of enterprising spirit, markets, products and policy changes.

Coleman, (2000) comments that most of SMEs in the country lack qualified personnel. As a result, they are unable to publish the same quality of financial information as the big firms. They are incapable of providing audited financial statements. The said statements are one of the essential requirements for accessing credit from financial institutions. Financial conditions, earnings and prospects may be incomplete or inaccurate. Thus, a lender may be denied credit. Sometimes the firms that are credit worthy may be unable to report their financial statements (ibid).

In the situation where some SMEs are able to provide collateral, they often end up being inadequate for the amount they needed to embark on their projects as SMEs assets-backed collateral are usually rated to ensure that the loan is realistically covered in the case of default due to the uncertainty. Much is yet to be understood in terms of financial knowledge on information in terms of SMEs such as accounting practices and opportunities relating to credit facility and accessibility. This was focuses on Arusha city reflecting on agricultural inputs distribution and Sellers SMEs. It is very difficult to provide information on their income and expenses, in

presenting their financial position, management decisions and this leads to problem on access to finance (Karagozoglou, 1998).

In most countries, especially developing nations, lending to small business and entrepreneurs remain limited because financial intermediaries are worried about supplying credit to business due to their high risk, small portfolios and high transaction costs (Broom *et al.*, 1983, Joshua *et al.*, 2006) indicated that access to bank credit by SMEs has been an issue repeatedly raised by numerous studies as a major constraint to industrial growth.

The common explanation for the alleged lack of access to bank loan by SMEs is their inability to pledge acceptable collateral. Several potential factors need to be understood based on the challenges and prospects of SMEs accessibility to finance for their daily operations and survival. The current researcher wanted to re-confirm on SMEs of special category across Arusha without having a general perception for all SMEs in Tanzania or in the world.

The government policy has to create a favorable environment for SMEs development such as preferential tax, interest loans and discounts. An effective way is to set up special funds for those who comply with the national industrial policy. In addition to that, the government in collaboration with local research institutions such as universities and chambers of commerce can provide service through legal advice, policy recommendations, marketing management, finance and training in order to improve SMEs credit access.

Policy issues are still very weak to interpret, in boosting the SMEs operational facilities such as credit facilities, for growth. Therefore the current researcher has reflected in this.

2.6 Environmental and Influence on SMEs

Tanzania is endowed with a rich natural resource base. Even with all these resources. The country remains categorized as one of the least developed countries. The challenge lays in the ability to transform efficiently and effectively the resources into goods and services that can be availed to the market a competitive price (URT, 2003).

One of the major limiting factors is the lack of entrepreneurs at different levels. Some of the traditions, perceptions and values have tended to create a culture that is ant-entrepreneurship. In addition, the education system has tended to create employment seekers rather than job creators. (Magutu, 2010) lists down some constraints which include: insufficient infrastructure such as premises and inability to access finance. In addition, business development services (service related to entrepreneurship), business training, marketing, technology, development and information are not readily available.

On the other hand, SMEs operators lack information as well as appreciation for such services and can hardly afford to pay for the services. Moreover, most of the SMEs operators have low skills. Besides that, there is no umbrella association for SMEs. At the same time, the institutions and associations supporting SMEs are weak,

fragmented and uncoordinated partly due to lack of clear guidance and policy for the development of the sector. This needed to be reflected on the case study selected at Arusha city.

Since SMEs provide employment, speed up competition and support large companies, they appear to contribute to the National GDP (economy) substantially. (SMIDEC, 2008) commented that in Malaysia, SMEs contribute up to 32 percent of GDP, provide 56.4 percent of employment and 19 percent of exports. In the case of India, which is well advance in the area of SMEs and Europe SMEs contribute significantly in the development of several countries economies.

2.7 Theoretical Issues on the Current Study

Competitive advantage is the ability gained by a firm through attributes and resources to perform at a higher level than others in the same industry on 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 player. 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 push the limitation for growth and development across Arusha city.

Ntayi *et al.*, (2010) examined the relationship between SMEs and supply chain performance in Uganda and found that small and medium enterprises in developing nations face a number of challenges that affect their performances 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.

In the research done by Katunzi, (2010) he compares the differences in perception of SMEs against large enterprises employing a cross sectional survey of Tanzanian enterprise engaged in agricultural processing. He found out less attention of supply chain value was given to the financial resources accessibility and their factors. Much needed to be understood on SMEs performance in link between financial accessibility and other essential factors, across Arusha city. Several factors could be considered apart from financial accessibility.

Considering the growth or failure of SMEs, several variables in context in Figure 2.1 can be considered as mentioned and linked above. The theory behind could be true or not as one may consider financial accessibility to run the intended SME and its sustainability.

The current study focused on financial credit accessibility, based on the fact that majority of Tanzanians lack capital to be motivated to own or run an SME or to maintain it. Much focus was given in the case of agricultural SMEs distributing and selling agricultural inputs in the city of Arusha.

2.8 Research Gap Identified

In the foregoing discussion, a number of literatures on the challenges faced by SMEs have been reviewed. It is notable that the writers have addressed the general challenges that are faced by SMEs. It is also notable that most of the cited literatures

are not empirical studies. Instead of looking at the general challenges faced by SMEs, this study focused only on the challenges related to SMEs financial credit accessibility. Moreover, it went further as to explore on how the challenges could be surmounted, using a case study of sellers and distributors of agricultural inputs in Arusha City.

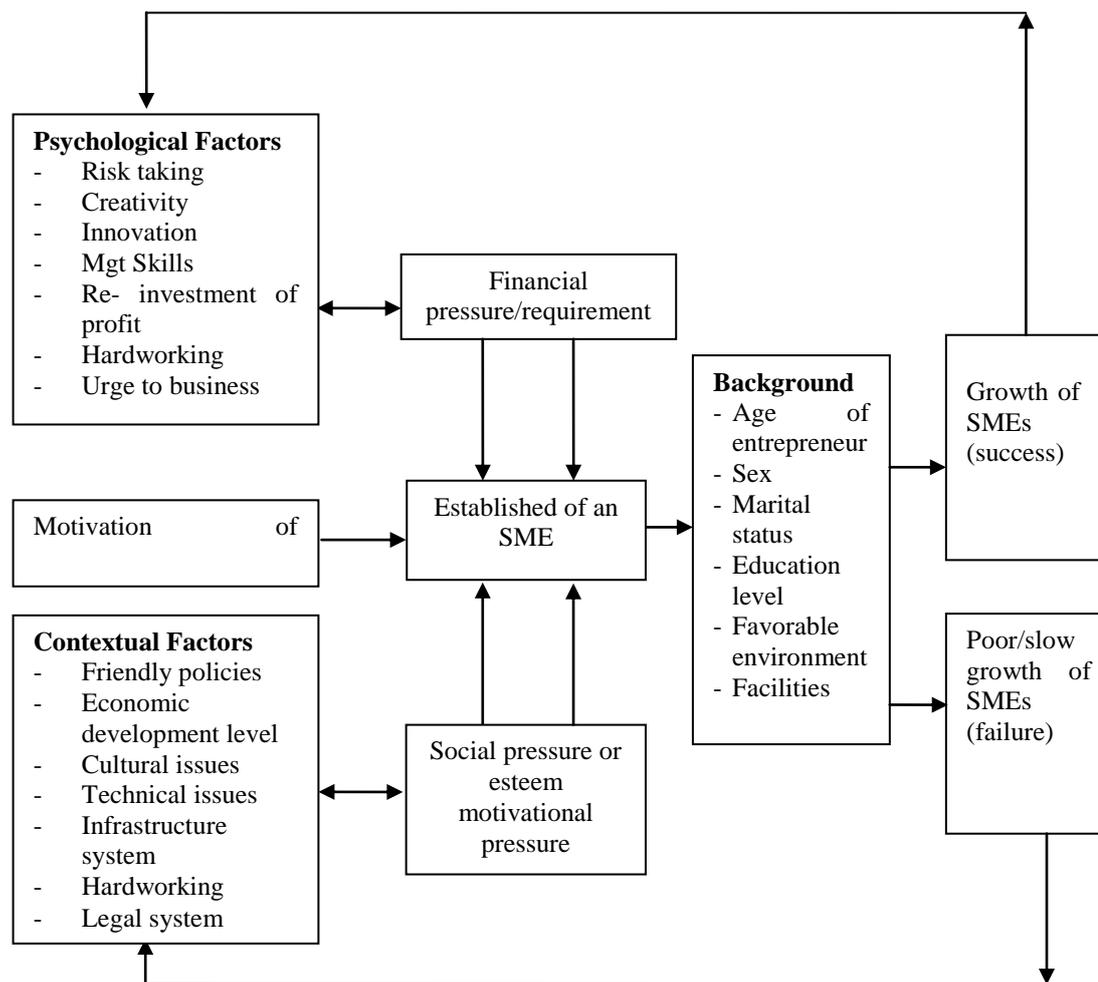


Figure 2.1: Theoretical Framework on Several Factors: SMEs

Source: Researcher in Consultation with Supervisor, (2013)

In Figure 2.2 shows the variables that explain the challenges and opportunities of SMEs. It suggests that SMEs financial credit facility is an independent variable. On

the other hand, population needs, business operation, dynamics in markets and financial systems, economic environment, society needs and SMEs capital needs are the dependent variables for SMEs credit accessibility. Finally, the intervening variables are the policy framework, financial infrastructure, SMEs recognition, business trust and level of market operations. Several factors are considered but not all where, the current researcher had to stay focused on credit accessibility factors for SMEs to flourish, challenges and prospects ahead. Much had to be rediscovered after the analysis.

The researcher had to be keen in observing core issues and linkages in how SMEs related to agricultural inputs, Sellers and distributors across Arusha city, focusing on their challenges and prospects in accessing financial credit along financial institutions.

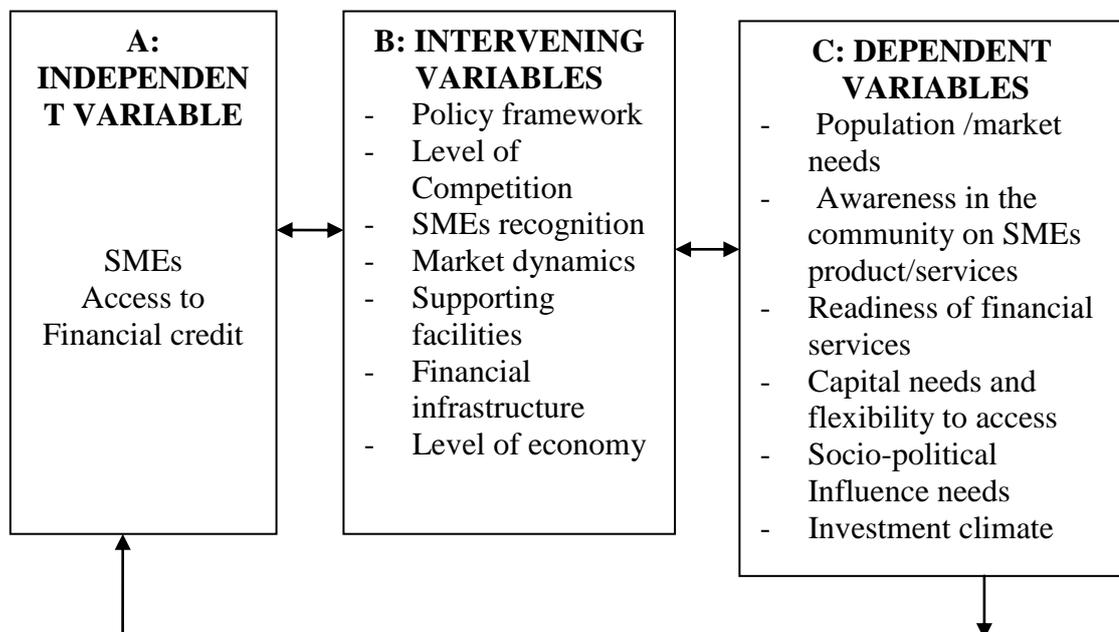


Figure 2.2: The Conceptual Framework: (Reviewing Linkages)

Source: Researcher Own Construction, (2013)

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter introduces the reader to several key factors considered in regard to the methodology of the study. They include description of the study area, justifications for selection of the study area and research design. Other components in the chapter include sampling procedures, data collection procedures and data analysis.

3.2 Research Study Strategy and Design

A cross sectional research design and distribution were used. The researcher intended to use such design as it was convenient for her study journey to be focused, cover and try to be accurate with precision, considering time and resources limits to fulfill research objectives, where by both qualitative and quantitative approaches were used.

3.3 Description of the Study Area

The study was being conducted in Arusha City. The Region is situated in the Northern highlands of Tanzania. To the North, Arusha is bordered by the Republic of Kenya. To the Northeast part, Arusha is bordered by Kilimanjaro Region. In the Eastern part is Tanga Region while Dodoma Region is found in the South. In the West, the region is bordered by Manyara Region. In the Northwest, the region is bordered by Mara Region.

Arusha Region combines both the highlands, which include Mount Meru (4,566 mm)

and the low lands. Arusha covers a total of 86,999 sq. km. of which 3,571 sq. km (4.1%) is water URT, 2003a. Arusha is widely known especially because it is a tourist centre. Its popularity as a tourist region is partly attributed to the natural beauty of the land. Hand in hand with that are the favorable climatic conditions and the rich volcanic soils. These factors have contributed to a steady increase of population. Furthermore, the city of Arusha is adjacent to Kilimanjaro region. The former region is also renowned for, among other distinctive features, tourism, availability of industries and a number of entrepreneurs. Arusha is also popular for Tanzanite minerals whereby this is the mineral only found in Tanzania all over the world.

The indigenous inhabitants of Arusha Region are Waarusha and Maasai. However, Arusha City has lately been so mixed up with people from various regions of Tanzania, as well as foreigners working with International organizations.

3.4 Justification for Selection of the Study Area

Arusha City was purposively selected because the Region is among the regions with many small and medium scale enterprises. The main economic activity conducted in Arusha City is business. Tourism is very critical to the economy of Arusha city because it is the gateway to National Parks. Tourism has brought a lot of benefits to the people of Arusha and to the nation of Tanzania as a whole. It has been creating jobs, generating tax revenue and fostering private enterprises. As such, the researcher chose the City of Arusha as the case study area based on the awareness that she would find the required data about SMEs, and focused on the Sellers and distributors of agricultural inputs. There appears to be other sectors which link with agricultural sector, in terms of minerals, tourism, agricultural exporting and so on.

3.5 Sample and Sampling Procedure

From the population of Arusha agricultural inputs sellers and distributors SMEs, the researcher picked randomly 100 SMEs, represented by the owners of the business but further, used stratified sampling to select form of SMEs ownership that is family business owned business, private limited company, public limited company, partnership firm, and sole proprietor at the places mentioned in population.

Purposive sampling was used in this study in order to reach the targeted sample quickly. Likewise, it was used because proportionality was not the main concern of the study. The researcher ensured that the respondents who were interviewed fitted the purpose of the study. Three banks in Arusha city were selected purposively these were CBA, NMB and CRDB on how were linked with focused SMEs.

3.6 Survey Population

The population of this study consisted of the categories of SMEs of Sellers and distributors in agricultural inputs in Makao Mapya, Kaloleni, Sakina, Njiro, Ngulelo, Majengo, Mianzini and Ngarenaro in Arusha City. The study was estimated to cover a population of 100 SMEs on a random basis.

3.7 Data Collection Procedure

The below are the types of data and collection procedures used in the present study:

Both quantitative and qualitative data were gathered. Quantitative data were collected using structured questionnaires which contained both closed and open-ended questions. The likert scale was used in the questionnaires which aimed to measure the attitudes of the respondents towards the challenges faced by SMEs in

obtaining the bank credit. The research data indicated that out of 100 respondents studied, 50 had their businesses registered as the Family Owned business. The rest were registered as a Private, Public, Partnership and Sole proprietors. The data from the study are summarized in Figure 4.1. It is noted that majority of SMEs were family-based who responded and were registered SMEs as Family owned business.

3.8 Data Based on Documentary Review

The current researcher had to review several documents based on SMEs from the world perspective to Tanzanian perspective and refocus on selected SMEs in Arusha seen in table 3.1 sampling. Mostly Secondary data for this study were collected from various sources such as semiannual, annual reports, journals, articles, the internet, published and unpublished papers. These were obtained from SMEs firms in the study area and various banks and Government offices and libraries. Other sources such as research reports were obtained from the library, including the library of The Open University of Tanzania and National Library in Dar es Salaam.

Table 3.1: Sampled SMEs Based on Ownership/Population Composition

| S/N | Itemized SMEs | Frequency | Percentages Estimate | Percentages level |
|-----|-------------------------|-----------|----------------------|-------------------|
| 1 | Family Owned Business | 50 | $50/100 \times 100$ | 50 |
| 2 | Private Limited Company | 23 | $23/100 \times 100$ | 23 |
| 3 | Public Limited Company | 15 | $15/100 \times 100$ | 15 |
| 4 | Partnership | 11 | $11/100 \times 100$ | 11 |
| 5 | Sole Proprietor | 1 | $1/100 \times 100$ | 1 |
| | TOTAL | 100 | $X/100 * 100$ | 100% |

Source: Researcher's Estimation (2013)

3.9 Primary Data Collection

The researcher had to do direct interview with all 100 sampled SMEs in Arusha city, observe the reality across financial institution and SMEs in Arusha as well.

Furthermore, in quantitative questionnaires were administered by the researcher (both closed and open ended) covering essential part of the current research needed information. Qualitative data were collected using a checklist of the questions given to the key informants to supplement the information collected from questionnaires.

3.10 Data Processing and Analysis

Data from the respondents were verified, compiled, coded, and summarized before analyzed by using Statistical Package for Social Sciences (SPSS Version 16). Descriptive analysis such as frequency and percentage was calculated.

3.11 Validity and Reliability of Instrument

To have a comprehensive view of research data, the researcher used a combination of tools and methods, with intension to confirm on information from the field and reflection on the wider population, case and situations. (Cohen *et al.*, 2000) refers validity as ability of the research instruments to the degree to which the result can be generalized to the wider population, cases or situations and reliability as whether the process of the study carries consistency. Therefore the researcher has tried to follow the above.

CHAPTER FOUR

4.0 DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This Chapter provides the findings obtained from the study. The findings are presented, analysed and discussed in line with the objectives of the study and the research questions articulated in Chapter One.

The study was intended to:

- i) Assess the nature/character of the SMEs into which the Sellers and distributors of agricultural input belong in Arusha City.
- ii) Identify the challenges faced by Sellers and distributors of agricultural inputs in SMEs in Arusha City.
- iii) Identify the strategies used by Small and Medium Enterprises (SMEs) in accessing financial credit from financial institutions in Arusha City.

4.2 Nature of SMEs

4.2.1 Nature of Sellers and Distributors of Agricultural Input SMEs

The first specific objective of this study sought to assess the nature of the SMEs in which the sellers and distributors of agricultural input belonged. The motive behind this objective was to ensure that any kind of analysis related to SMEs had to start with an understanding of this concept which is a major focus of the study. Thus, the researcher was convinced that it was so important to understand the nature and typology of the SMEs found in Arusha before investigating on the challenges they were facing and the prospects for overcoming the challenges, currently and in the

future as Arusha and Tanzania in general keep on changing.

Findings as presented in Figure 4.1 show that majority 50% of the respondents were family owned business and 23% were private companies while 15% were public limited companies and 11% were partnerships. Only 1% was sole proprietor.

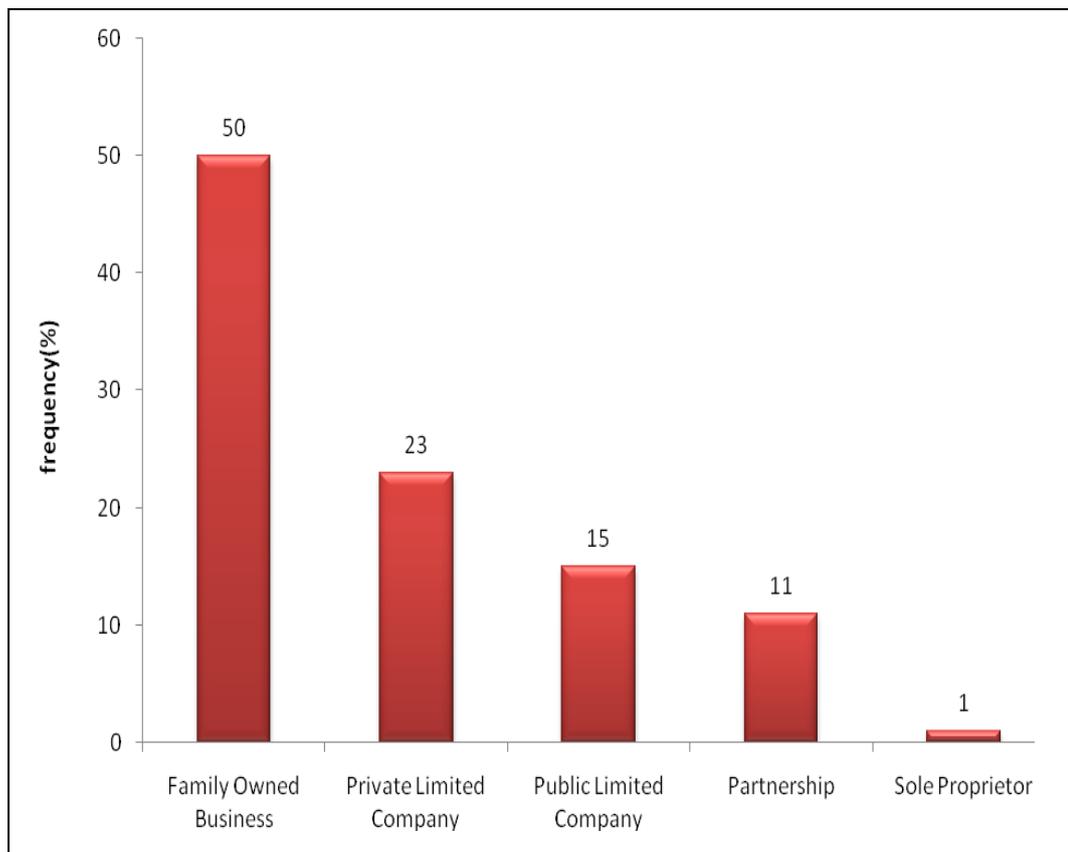


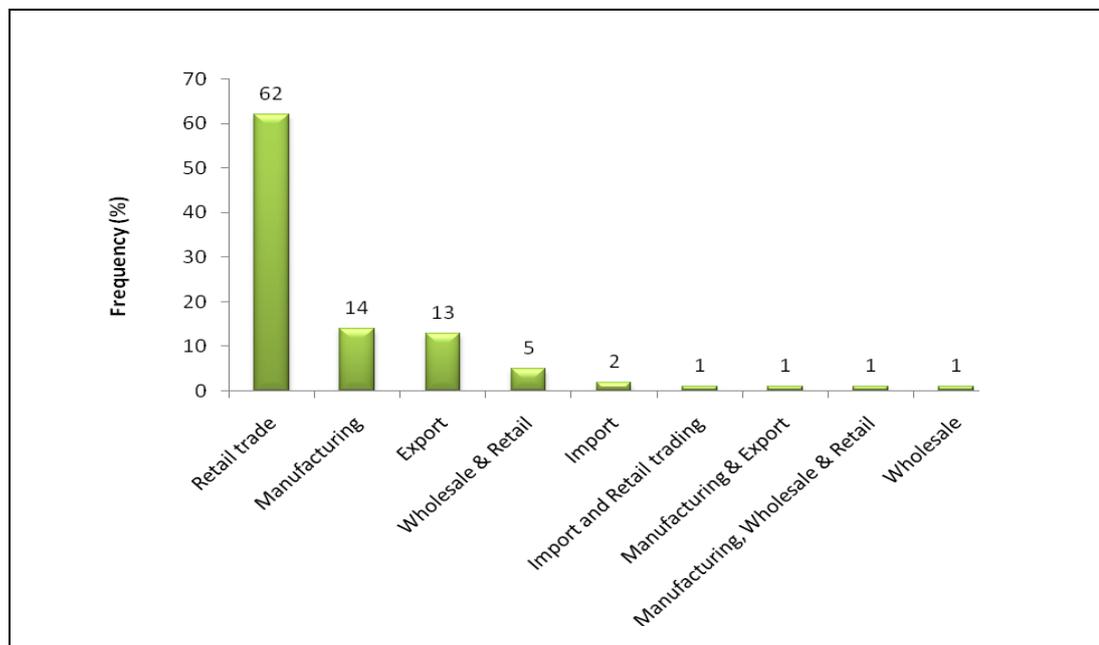
Figure 4.1: Sampled SMEs Based on Ownership/Population Composition

Respondents were requested to mention kinds of their organization. The data from the study as presented on Table 4.1 show that retail traders were (62%), manufacturers were (14%). Export trades were (13%), import were 2%, import and retail trading were (1%); manufacturing and export were (1%), manufacturing and wholesale and retail were (1%) and wholesale were (1%).

Table 4.1: Nature /Character of Organization

| S/N | SMEs Category | Frequency | Percentages | Rank |
|-----|-------------------------------------|-----------|-------------|-----------------|
| 1 | Retail trade | 62 | 62 | 1 st |
| 2 | Manufacturing | 14 | 14 | 2 nd |
| 3 | Export | 13 | 13 | 3 rd |
| 4 | Wholesale & Retail | 5 | 5 | 4 th |
| 5 | Import | 2 | 2 | 5 th |
| 6 | Import and Retail trading | 1 | 1 | 6 th |
| 7 | Manufacturing and Export | 1 | 1 | 6 th |
| 8 | Manufacturing, Wholesale and Retail | 1 | 1 | 6 th |
| 9 | Wholesale | 1 | 1 | 6 th |
| | Total | 100 | 100 | |

Source: Researcher's Field Work (2014)

**Figure 4.2: King of Organization**

Source: Researcher's Field Work, (2014)

4.2.2 Monthly Turnover for Sellers and Distributors of Agricultural Inputs SMEs in Arusha

Findings as indicated in Table 4.2 revealed that majority (55%) of the respondents' monthly turnover were less than Tsh 20 million while 13% were above Tsh 100 million and 11% were Tsh 61- 80 million. About 8% of the respondents' monthly turnovers were Tsh 21 – 40 million and 7% were Tsh 81-100 million while 6% were Tsh 41 – 60 million. Arusha market is growing in most of SMEs field and therefore there is a potential market for SMEs at Arusha and no one can specify a consistency in growth of particular type of SMEs.

Furthermore, it was observed that the ones with large turnover are the ones which have large access to financial credit, as they keep building assets and income flow, in turn make the goodwill for accessing credit facility and expand their business volume and operations at Arusha.

Table 4.2: Monthly Turnover for SMEs

| S/N | Turnover in Tshs | Frequency | Percentages | Ranks |
|-----|--------------------------|------------|-------------|-----------------|
| 1 | Less than 20,000,000 | 55 | 55 | 1 st |
| 2 | 21,000,000 - 40,000,000 | 8 | 8 | 4 th |
| 3 | 41,000,000 - 60,000,000 | 6 | 6 | 6 th |
| 4 | 61,000,000 - 80,000,000 | 11 | 11 | 3 rd |
| 5 | 81,000,000 - 100,000,000 | 7 | 7 | 5 th |
| 6 | Above 100,000,000 | 13 | 13 | 2 nd |
| | Total | 100 | 100 | |

Source: Researcher's Field Work, (2014)

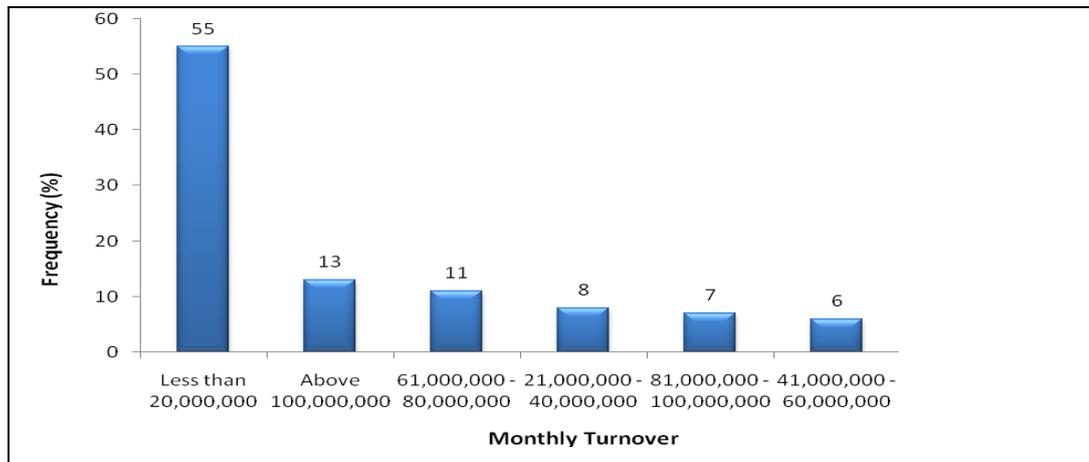


Figure 4.3: Monthly Turnover for SMEs

Source: Researcher's Field Work, (2014)

4.3 Challenges to Access Credit Facility

The second specific objective of this study sought to find out the challenges faced by sellers and distributors of agricultural inputs in Arusha in accessing financial credit. The SMEs operators who took part in the study were asked to rank the challenges they were facing in accessing financial credit from financial institutions. In the first place, the researcher was interested in studying the pattern of the SMEs which applied for loans from financial institutions in order to ascertain the possibility of getting or not getting the loan. The data in Table 4.3 provides an illustrative picture:

Table 4.3: Flow of Credit with Reasons

| S/N | Reasons | Frequency | Percentages |
|-----|----------------------|-----------|-------------|
| 1 | Collateral | 54.0 | 54 |
| 2 | Good will network | 18.0 | 18 |
| 3 | No information | 12.0 | 12 |
| 4 | Difficult conditions | 8.0 | 8 |
| 5 | Risky business | 8.0 | 8 |
| 6 | TOTAL | 100 | 100 |

Source: Researchers Field Work (2014)

The current researcher tried to observe the flow of the credit to 100 SMEs evaluated and the summary is indicated in Figure 4.4 with reasons. Showing out of total 100 SMEs selected 54 percent were denied access to credit facility due to lack of collateral, while only 18 percent were given, reason being good network with financial institutions official and so on. 12 percent were not sure why not being given access to credit, and 8 percent were given half of what was required from financial institutions and 8 percent had never tries. This shows majority are yet to have access enough for their SMEs to prosper and his shows more trust is needed between financial institutions and SMEs for not only SMEs development, but to improve the liver hood of community at Arusha based on the growth of SMEs.

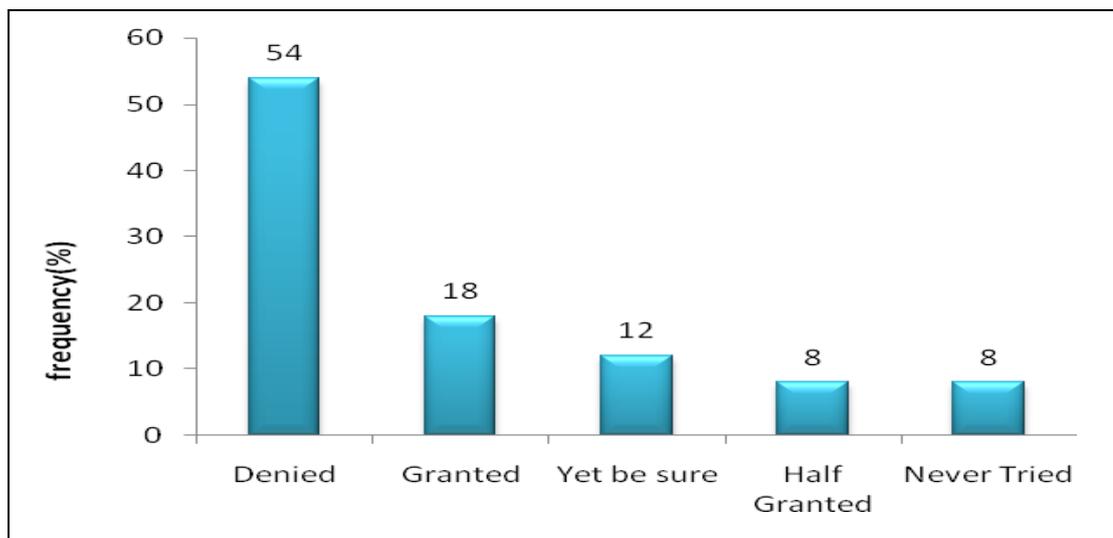


Figure 4.4: Flow of Credit with Reasons and Conditions

Source: Researchers Field Work (2014)

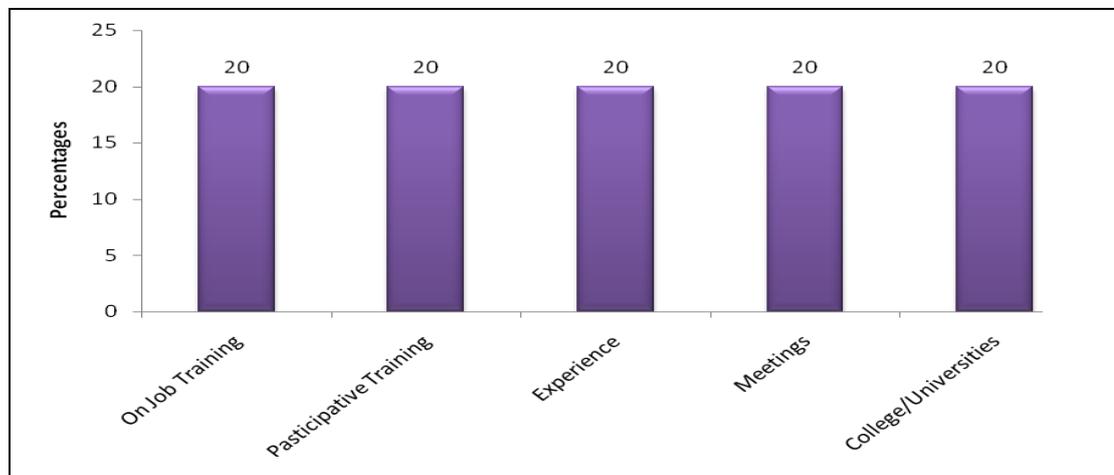
4.3.1 Efforts Made by the SMEs to Equip their Staff

In Table 4.4 show the result on how SMEs prefer to impart their staff with knowledge as classified into 5 major groups to run their company and link with financial institution.

Table 4.4: What Efforts Made by the SMEs to Equip their Staff

| SN | Method used | Response | Frequency | Weight | Percentage |
|----|------------------------|----------|-----------|--------|------------|
| 1 | On Job Training | Yes | 10 | 20 | 20 |
| | | No | 0 | | 0 |
| | | TOTAL | 10 | | 20 |
| 2 | Participative Training | Yes | 8 | 20 | 18 |
| | | No | 2 | | 4 |
| | | TOTAL | 10 | | 20 |
| 3 | Experience | Yes | 10 | 20 | 20 |
| | | No | 10 | | 0 |
| | | TOTAL | 0 | | 20 |
| 4 | Meetings | Yes | 10 | 20 | 4 |
| | | No | 2 | | 16 |
| | | TOTAL | 8 | | 20 |
| 5 | College/Universities | Yes | 10 | 20 | 18 |
| | | No | 9 | | 2 |
| | | TOTAL | 1 | | 20 |
| | | TOTAL | | | 100 |

Source: Researchers Field Work, (2014)

**Figure 4.5: What Efforts made by the SMEs to equip their staff**

Source: Researchers Field Work, (2014)

4.3.2 Attitude towards the Amount of Loan Interest

The researcher investigated on the amount of the interest rates which respondents were paying. Data indicated that the Sellers and distributors of agricultural input

were facing a critical challenge of paying the high interest rates. About 39% of the respondents were paying the interest of 11% to 15% per annum, while 7% were paying between 6% to 7%. The extremely high interest rate charged was above 21%. Approximately 31% of the respondents did not take the loans from the bank. This percentage of the SMEs traders who do not take loans from the bank is largely attributed to the high interest rates charged by the banks and also lack of collateral. The high interest rates charged by financial institutions make the business unprofitable. The profits made are so negatively affected by huge financial costs. The respondents' attitudes towards the interest rates charged by banks are summarized in Table 4.5

Table 4.5: Attitude towards the Amount of Loan Interest

| S/ N | Reflections | Frequency | Percentage | Rank |
|---------|----------------|-----------|------------|-----------------|
| 1 | High | 57 | 57 | 1 st |
| 2 | Acceptable | 39 | 39 | 2 nd |
| 3 | Extremely high | 3 | 3 | 3 rd |
| 4 | Low | 1 | 1 | 4 th |

Source: Researchers Field work, (2014)

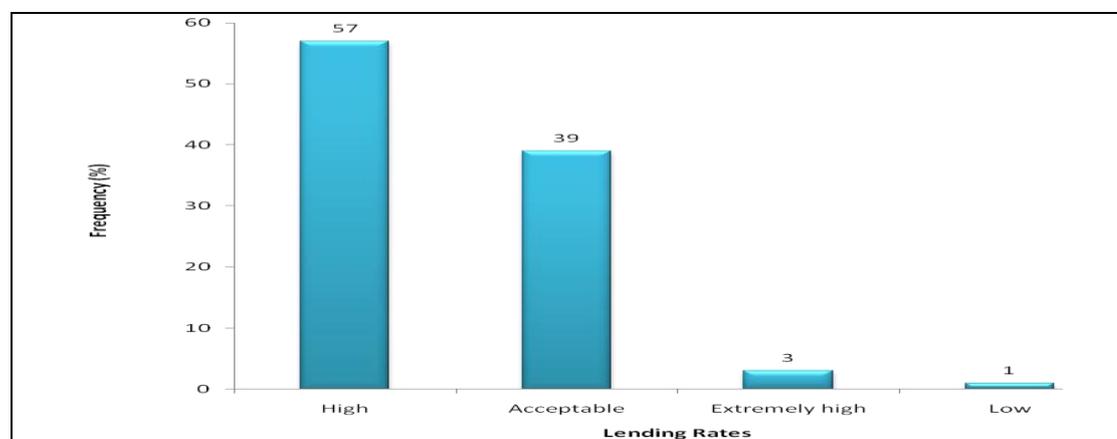


Figure 4.6: Attitude towards the Amount of Loan Interest

Source: Researchers Field Work, (2014)

From Table 4.5, it is clear that the SMEs traders studied had negative attitudes towards the amount of the loan interest charged by banks. The majority of the respondents 57% perceived the interest rates as high, while 39% were of the opinion that the interest rates were normal, hence acceptable. However, the high interest rates charged by financial institutions are largely attributed to the high risks associated with the nature of the SMEs business. The business is marked with high default rates. The high default rate was also said to cause delay in receiving payments for the goods ordered by SMEs.

4.3.3 Major Challenges in the Growth of SMEs

Among all the problems faced by SMEs in their operation, the participants in this study viewed lack of credit facilities as the major limitation. In Table 4.6 shows the various challenges faced by SMEs in Arusha City. The challenges/ constraints for the agricultural SMEs according to the ranks from first rank to the problem (constraint) where majority lack access to finance and the common was focused on credit facility across Arusha SMEs agricultural inputs Sellers and distributors. Majority showed that high interest rate was not the major factor but, contributes to the major challenges on securing credit facility from financial institutions. Therefore SMEs don't fear high interest rate, but lack of finances for capital building.

Table 4.6: Major Challenges in the Growth of SMEs

| S/N | Condition Operating | Frequency | Percentage | Rank |
|----------|------------------------------|------------|------------|-----------------|
| 1 | Lack of Finance | 52 | 52 | 1 st |
| 2 | Market Competitions | 22 | 22 | 2 nd |
| 3 | High Government Taxes | 15 | 15 | 3 rd |
| 4 | High Interest Rates on Loans | 11 | 11 | 4 th |
| 5 | Total | 100 | 100 | |

Source: Researchers Field Work, (2014)

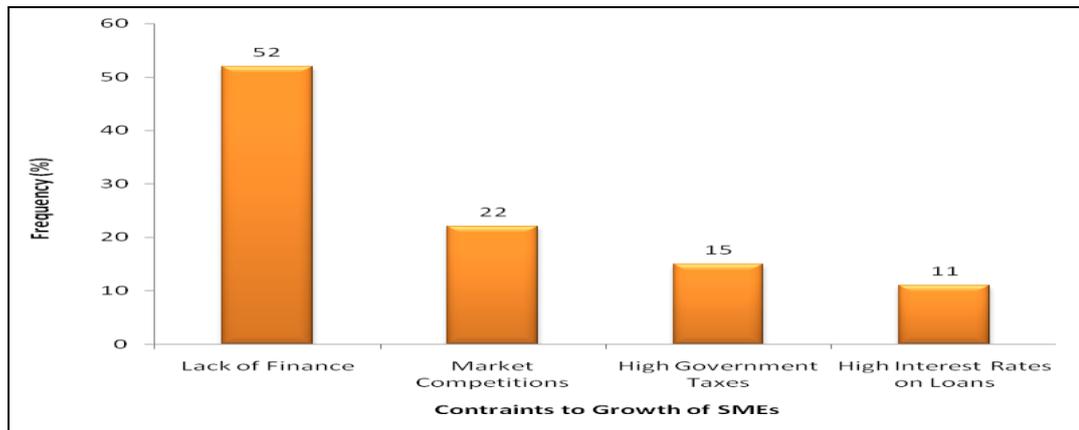


Figure 4.7: Major Challenges in the Growth of SMEs

Source: Researchers Field Work, (2014)

4.4 Strategies used by SMEs to Access Financial Credit

The third specific objective of this study sought to identify the strategies used by Small and Medium Enterprises (SMEs) in accessing financial credit from financial institutions in Arusha City. In figure 4:8 shows that the potential strategies attained to access financial credits to maximize profit by 34%, while personnel 19%. Furthermore, 17 % were business plan and 13% were balance sheet, 11% reliable source of income and 6% cost cutting.

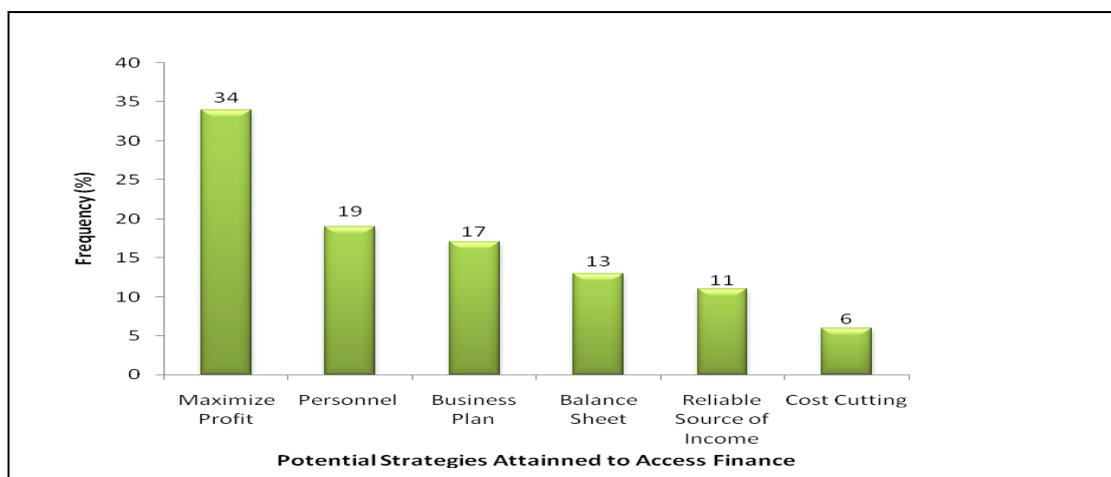


Figure 4.8: The Potential Strategies Attained to Access Finance

Source: Researchers Field Work, (2014)

Data indicated that most of the SMEs depend on retail profits, personal savings and private institutions. Table 4.7 presents the sources of SMEs' funding as it was in the field.

Table 4.7: Sources of Funding SMEs: Financing

| S/N | Financial variable | Frequency | Percentages | Rank |
|------------|---------------------------|------------------|--------------------|-----------------|
| 1 | Retained profits | 41 | 41 | 1 st |
| 2 | Personal savings | 29 | 29 | 2 nd |
| 3 | Bank loan | 25 | 25 | 3 rd |
| 4 | Private institutions | 5 | 5 | 4 th |
| | Total | 100 | 100 | |

Source: Researchers Field Work, (2014)

In Figure 4.9 one can see that 41% out of the total respondents ranked their major sources of funding from retained profits while 29% getting from personal savings. The word "retained profits" here means the kind of profit which the SMEs traders re-circle in the business. Stated otherwise, it is the net profit they re-invest in the second round, the third, and so on after having realized the net profit after a business transaction period. Twenty five percent of SMEs stated that they obtained loan from the banks, while 5% obtain loans from private institutions.

These data suggest that the most potential of source of income for SMEs traders was retained profits. These data show that the SMEs operating in Arusha city are skewed more towards the internal sources of funding. This implies that it is not easy to access credit from financial institutions, which has inhibited the growth of SMEs in Arusha.

These are connected to what was highlighted by Mason, (2011) argues that the kinds

of banks operating in Tanzania are reluctant to provide funding to SMEs, especially those seeking funds as startup capital for their businesses because of the risks associated with new businesses. He found that 8 out of 10 new businesses fail within the first three years. Thus, the potential of the SMEs sectors in promoting the national economy has not been adequately tapped. Based on the importance of the SMEs sector, the SMEs development policy has been designed to revitalize the sector to enable it to contribute to the objectives of the National Development Vision 2025 Magatu, (2010). Therefore the Government should investigate on how the agricultural inputs Sellers and distributors were getting the money for start-up businesses.

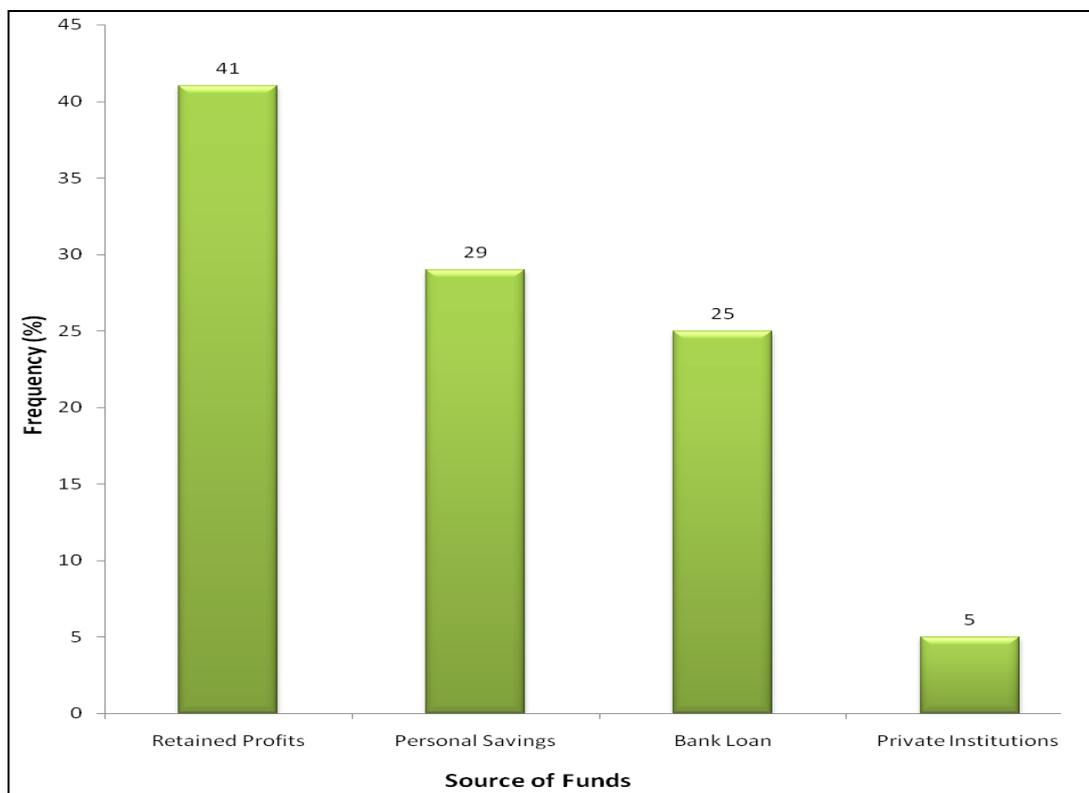


Figure 4.9: Sources of Funding SMEs: Financing

Source: Researchers Field Work, (2014)

4.4.1 Sources of Funds for Start up Business

The data in Figure 4.10 show the distribution of SMEs sources of funding in establishing their businesses. From the figure, it is evident that 62% and 24% of the funds are generated from personal savings and bank credit, respectively. Eight percent get their funds from other sources which are SACCOS, donor, trade credit, retained profits and private institutions. In addition to that 6% of the SMEs get their start up finance from friends and relatives. Therefore, sources of funds for starting up businesses among sellers and distributors of agricultural inputs in Arusha City are the personal savings and credit from the bank.

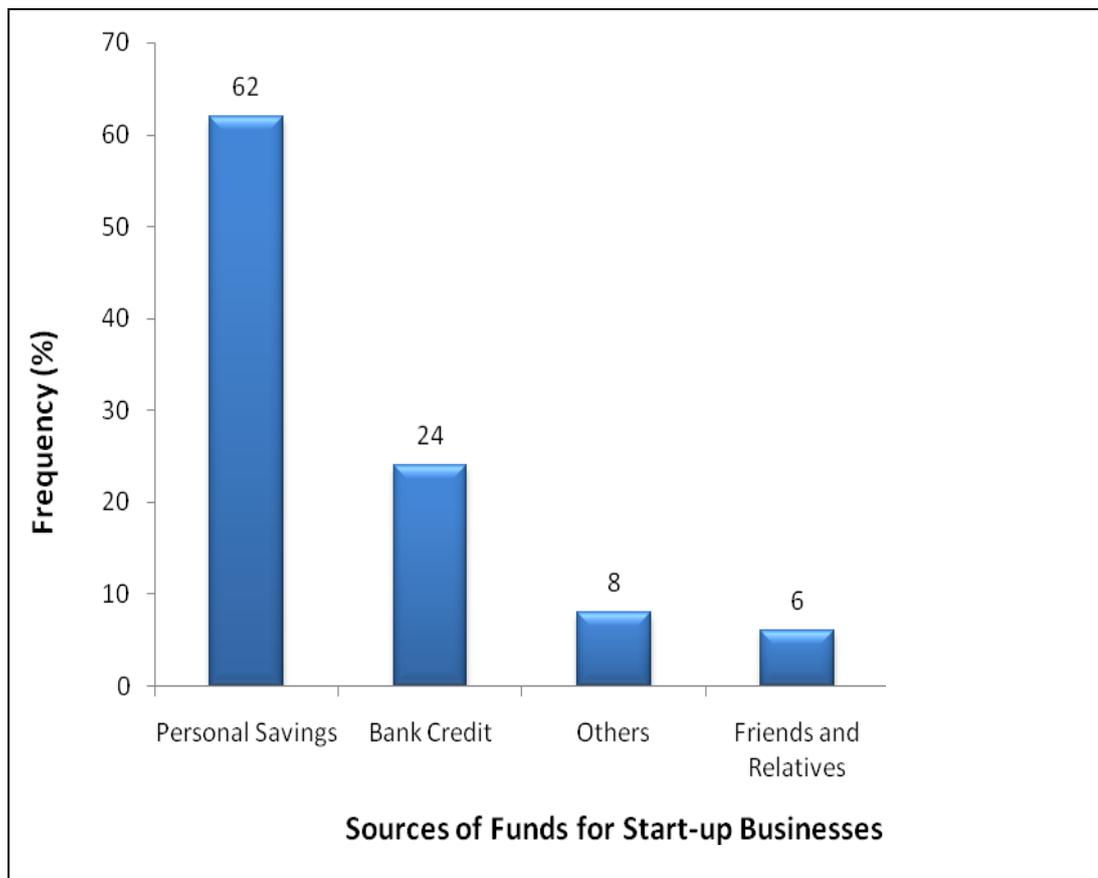


Figure 4.10: Sources of Funds for Start up Business

Source: Researchers Field Work, (2014)

Table 4.8: Sources of Funds for Start up Business

| SR. No | Financial Source | Frequency | Percentage | Rank |
|--------|-----------------------|------------|------------|-----------------|
| 1 | Personal Savings | 62 | 62 | 1 st |
| 2 | Bank Credit | 24 | 24 | 2 nd |
| 3 | Others | 8 | 8 | 3 rd |
| 4 | Friends and relatives | 6 | 6 | 4 th |
| 5 | TOTAL | 100 | 100 | |

Source: Researchers Field Work, (2014)

4.4.2 Willingness of SMEs Focused to Establish New or More Branches

Respondents were asked whether or not they would like to expand their business to other cities within the country assuming that they would be financed. About 68% of the respondents showed an interest as indicated in Table 4.9. The results show that 68% of the respondents agreed that they would be willing to expand their businesses in other cities of the country if they had the financial ability to do so. About 24% agreed that they would do so if they had the financial means allowing them to do so. Only 3% strongly agreed. Additionally, 3% were not sure whether they would expand the business or not.

Table 4.9: Willingness of SMEs focused to Establish new or More Branches

| Sr. N | Response | Frequency | Percentages | Rank |
|-------|-----------------|------------|-------------|-----------------|
| 1 | Agreed | 68 | 68 | 1 st |
| 2 | Disagree | 24 | 24 | 2 nd |
| 3 | Strong agree | 3 | 3 | 3 rd |
| 4 | Not sure | 3 | 3 | 4 th |
| 5 | Strong disagree | 2 | 2 | 5 th |
| 6 | Total | 100 | 100 | |

Source: Researchers Field Work, (2014)

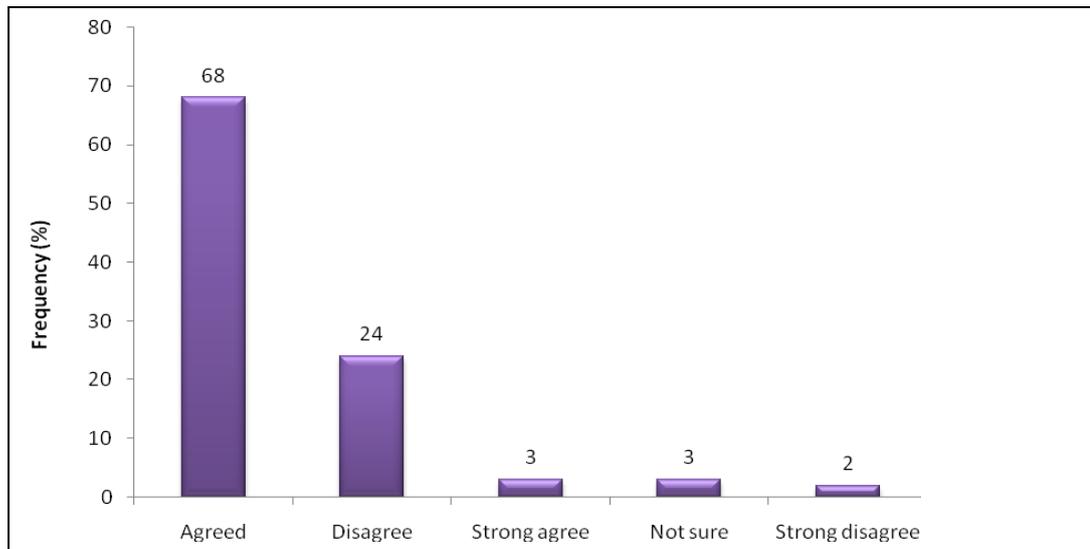


Figure 4.11: Willingness of SMEs focused to Establish new or More Branches

Source: Researchers Field Work, (2014)

4.5 The Response Rate and Limitations in Data Collection

The collection of data for this study was done through questionnaires. A population of 120 SMEs was targeted, out of the 120 questionnaires circulated, 100 were returned. In terms of percentages, the response rate was about 83%. This was quite an impressive response rate considering the short time given to respondents. A higher response rate would have been preferred, but there were some limitations which made it difficult to attain 100% response rate. Two of the most crucial reasons were: In the first place, the respondents complained that the time given to them to respond to the questions was insufficient. Secondly, some SMEs were reluctant to answer the given questions. They were afraid that the information they were to provide would be published and disseminated to the tax authorities. These unfounded fears prevailed despite the assurance given to the respondents well in advance that all the information they were to provide would be treated with utmost confidentiality.

Despite these two limitations, the response rate of 83% which was attained was enough to conclude that the quantity of the data was negatively compromised.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The present chapter gives a summary, conclusion and recommendations of the study carried extensively by the current researcher from the research topic set.

5.2 Summary of the Study

The study was carried, focusing on challenges and prospects of SMEs in accessing credit facility taking a case study of agricultural inputs sellers and distributors at Arusha city. Major objectives specifically set for study were,

- i) To assess the nature, trend and behavior of SMEs agricultural inputs sellers and distributors in accessing financial credit across Arusha city.
- ii) To identify major challenges faced by agricultural inputs sellers and distributors SMEs in accessing financial credit across Arusha city,
- iii) To examine on potential strategies and opportunities for agricultural inputs SMEs in accessing financial credit in the existing financial institution across Arusha city.

5.3 Summary of Literature Review

This study evaluated the challenges and prospects faced by small and medium enterprises in accessing credit facility with a view of finding out how finance value addition could be attained. The study was conducted in Agricultural Inputs sellers and distributors in Arusha City. The literature review covered the concept of

challenges in relation to finance operations. The reviewed literature established that there was knowledge gap on the challenges faced SMEs in obtained facility. The study employed a descriptive research design. Data were obtained through questionnaires and documentary reviews. Purposively sampling was used to obtain the data from the respondents. The sample for the study constituted 100 respondents.

5.4 Summary of the Major Findings

5.4.1 Nature of SMEs in Accessing Credit

The first specific objective of this study assessed the nature of the SMEs in sellers and distributors of agricultural input belong in Arusha City. The findings from the study have shown that majority of the SMEs had registered as the Family Owned Business.

5.4.2 Challenges on SMEs at Arusha

The second specific objective of this study identified the challenges facing SMEs who deal with selling and distributing agricultural inputs in Arusha city in accessing financial credit. Majority of respondents lack collateral which hinder them in accessing loans from financial Institutions.

5.4.3 Strategies used by SMEs in Accessing Financial Credit

The third specific objective of this study aimed to identify the strategies used by Small and Medium Enterprises (SMEs) in accessing financial credit from financial institutions in Arusha City. In view of these findings, maximizing profit, personnel and business plan are strategies which help access financial credits to SMEs deal with agricultural inputs Sellers and distributors.

5.5 Conclusion

Based on the research findings SMEs in agricultural inputs sellers and distributors in Arusha City represent other SMEs in the country still face challenges in accessing credit. This study has consistently shown that the traders in the sampled SMEs are so determined to excel in their businesses. The point is justified by data in which 68% of the respondents said they were willing to invest in other regions of Tanzania and even beyond if they had the financial ability to do so. This implies that the SMEs sector in Tanzania remains largely unexploited. Due to the importance of the SMEs sector, there is a need to revitalize it so that it may positively contribute to the implementation of the National Development Vision 2025.

Most of the SMEs required training in the area of finance, legal aspect for them to be able to control their finances assets and build trusts in their operations.

Financial institutions policies and regulations need to be focused not only on security but also on how flexibility to accommodate more SMEs for financial accessibility to raise their capital for operation in Arusha city so as to help socio-economic issues of the community. Less than half of the SMEs samples are yet to access financial credit facility from financial institutions.

Taxes and interest rates are hinder accessibility of SMEs to access reasonable finances from financial institutions. In addition to that, lack of planning, information and financial knowledge is factors which hindering SMEs acceding financial credits.

Majority of SMEs found in Arusha city are based in retail trade. Most of the SMEs found to have large turnover are the one have more chances to access financial credit

from financial institutions which in turn build their assets and income flow again gives sense of collateral trust.

5.6 Recommendations

5.6.1 Recommendations for Future Actions

- i) There is a need to establishing of factoring services by bank and non bank services to help the SMEs sellers and distributors in agricultural inputs to access financial services for growth.
- ii) The government should make financial regulations and policies flexible to usher growth for SMEs sellers and distributors in agricultural inputs.
- iii) The government has to provide incentives and subsidy for the banks with outstanding records of lending to SMEs sellers and distributors in agricultural inputs, to encourage them to boost operation to SMEs, which helps SMEs to contribute to economy.
- iv) The Ministry of Industry and Trade need to intensify campaigns and training through the mass media aimed at educating the general public in Tanzania, about SMEs sellers and distributors in agricultural inputs and their potentials to development and progress of the Nation.
- v) Mentoring SMEs sellers and distributors in agricultural inputs before and after accessing financial credit from the financial institutions in Tanzania.
- vi) All opportunities concerning financial services and accessibility should be made public, whereby information will lead to the growth of knowledge and awareness of sources of finances for SMEs and individuals to use.
- vii) There is a need for Tanzania to research and observe on how SMEs sellers

and distributors in agricultural inputs are doing in other in terms of management and financial operations.

5.6.2 Recommendations for Further Studies

It is recommended that further studies need to be conducted on the following:

- i) Investigating the link between SMEs sellers and distributors in agricultural inputs and educational backgrounds of those who run them, in making them develop and grow.
- ii) The growth of SMEs in the future will focus on the capital or ideas to venture in?
- iii) Who would the power economy of own nation in the future SMEs sellers and distributors in agricultural inputs or big industries?
- iv) What is the potential for SMEs sellers and distributors in agricultural inputs in Tanzania to capture development from other Nationalities?

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APPENDICES

APPENDIX 1: Questionnaires

My Name is Sarah Ernest Lyimo, a student under The Open University of Tanzania pursuing Masters in Business Administration. I request your humble and kind assistance to fill in the questionnaire supplied to you for a while.

My topic of academic research is as follows “Challenges and Prospects Faced by Small and Medium Enterprises (SMEs) in Accessing Credit Facility: A Case of Agricultural Inputs Sellers and Distributors at Arusha City”

All the information will be used and kept confidentially and purposely for academics.

Thank you,

Signature.....

Section A: General Information of the Company

1. Name of the Organization/ Enterprise. *(Please tick the appropriate)*
 - i) Private Limited Company
 - ii) Public Limited Company
 - iii) Partnership
 - iv) Sole Proprietor
 - v) Family Owned Business

2. Nature/Kind of organization (*Please tick the appropriate*)

- i) Retail trade
- ii) Export
- iii) Manufacturing
- iv) Wholesale and retail
- v) Import
- vi) Real Estate
- vii) Farming
- viii) Other (specify).....

3. For how long has your company been operationing? (*Please tick the appropriate*)

- i) Less than 1 year
- ii) Between 1 and 5 years
- iii) Between 6 and 10 years
- iv) Between 11 and 15 years
- v) Over 15 years

4. How many people are employed by your company? (*Please tick the appropriate*)

- i) Less than 20 people
- ii) Between 21 and 40 people
- iii) Between 41 and 60 people
- iv) Between 61 and 80 people
- v) Between 81 and 100 people
- vi) Above 100 people

5. Do you have professionals in managerial positions in your company? (*Please tick the appropriate*)
- i) Yes
 - ii) No
6. What is the qualification of your management team? (*Please tick the appropriate*)
- i) Senior High School Certificates
 - ii) Diploma
 - iii) Degree
 - iv) Masters
 - v) Other (specify).....
7. Does your organization have an existing business plan? (*Please tick the appropriate*)
- i) Yes
 - ii) No
8. What is the average monthly turnover of your business (*Please tick the appropriate*)
- i) Less than Tshs. 20 million
 - ii) Between Tshs. 21 million to Tshs. 40 million
 - iii) Between Tshs. 41 million to Tshs. 60 million
 - iv) Between Tshs. 61 million to Tshs. 80 million

- v) Between Tshs. 81 million to Tshs. 100 million
- vi) Over Tshs. 100 million

Section B:

The following questions relate to the financing issues of your company: the difficulty in accessing credit, the options that your company has and the future of your business.

9. Has your company ever applied for credit from a Bank? *(Please tick the appropriate)*

- i) Yes
- ii) No

10. If No, why not? *(Please tick the appropriate)*

- i) Do not like the loan from Bank
- ii) Interest Rate too High
- iii) No collateral to pledge
- iv) Others (specify).....

11. How do you rate your relationship with your bankers? *(Please tick the appropriate)*

- i) Excellent
- ii) Good
- iii) Average
- iv) Poor

12. Have you ever been refused or denied credit from a bank?

(Please tick the appropriate)

- i) Yes
- ii) No

13. What was the main reason your Bankers refused offering you the loan?

(Please tick the appropriate)

- i) Default on previous loan
- ii) No security to pledge
- iii) Too small equity base
- iv) Lack of experienced Management
- v) Other (please specify).....

14. What was the highest amount your company ever borrowed from a Bank:

(Please tick the appropriate)

- i) Less than Tshs. 30 million
- ii) Between Tshs. 30 million to 60 million
- iii) Between Tshs. 61million to 90 million
- iv) Between Tshs. 91million to 120 million
- v) Above Tshs. 120 million

15. What was the purpose of the loan? *(Please tick the appropriate)*

- i) Startup Capital
- ii) Working Capital

- iii) Expansion of Business
- iv) Other (specify).....

16. What information did your bank asked for? (*Please tick the appropriate*)

- i) Collateral,
- ii) Cash flow Statement,
- iii) Total Assets,
- iv) Audited Financial Statement (Account),
- v) Business Plan
- vi) Other (specify).....

17. Have you ever had problem repaying a bank loan? (*Please tick the appropriate*)

- i) Yes
- ii) No

18. If the response to question 17 is Yes, what created the problem? (*Please tick the appropriate*)

- i) Short duration
- ii) High monthly repayment amount
- iii) High Interest rate
- iv) Low turnover
- v) Other (specify).....

19. What was the maturity period of the loan? (*Please tick the appropriate*)

- i) Up to 1 year
- ii) Up to 2 years
- iii) Up to 3 years
- iv) Other (specify).....

20. How did you find the lending rates? *(Please tick the appropriate)*

- i) Extremely High
- ii) High
- iii) Acceptable
- iv) Low

21. What percentage of interest is on the loan? *(Please tick the appropriate)*

- i) 1% to 5%
- ii) 6% to 10%
- iii) 11% to 15%
- iv) 16% to 20%
- v) 21% and above

22. How did you finance the start up of the business? *(Please tick the appropriate)*

- i) Personal Savings
- ii) Bank credit
- iii) Friends and relatives
- iv) Other (specify).....

23. What are your sources of funding for the business? *(Please tick the appropriate)*

- i) Bank Loan
- ii) Personal Savings
- iii) Retained Profits
- iv) Private Institutions
- v) Trade Credit
- vi) SACCOS
- vii) Donor
- viii) Family/Friends
- ix) Other (specify).....

24. In your opinion, what are the major constraints to the growth of your company?

(Please tick the appropriate)

- i) Lack of Finance,
- ii) Competition,
- iii) High interest on bank loans,
- iv) Government Taxes
- v) Lack of Finance,
- vi) Other (specify).....

25. Have you accessed credit from other sources other than a bank? *(Please tick the*

appropriate)

- i) Yes
- ii) No

26. If Yes, where? *(Please tick the appropriate)*

- i) Microfinance Institution
- ii) SACCOS
- iii) Venture Capital Funds
- iv) Others (specify).....

27. Would you say the nature of requirements demanded by these institutions is less stringent? *(Please tick the appropriate)*

- i) Yes
- ii) No

28. What information was requested? *(Please tick the appropriate)*

- i) Collateral,
- ii) Cash flow statement,
- iii) Total assets,
- iv) Audited financial statement (account),
- v) Business plan.
- vi) Other (specify).....

Please state if you agree or disagree to the following statements by ticking the appropriate box below.

| | Strong | Agree | Not sure | Disagree | Strong |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Agree | | | Disagree | |
| 29. I would like to employ more Hands in the future | <input type="checkbox"/> |

| | | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 30. I would like to establish more branches in the major cities of the country | <input type="checkbox"/> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|

| | | | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 31. I would welcome professio- nal help from banks when given credit to help manage it | <input type="checkbox"/> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|

32. What are the potential strategies attained to access financial credit across financial institutions? *(Please tick the appropriate)*

- i) Business Plan,
- ii) Personnel,
- iii) Balance Sheet,
- iv) Cost Cutting,
- v) Maximize Profit,
- vi) Reliable Source of Income.
- vii) Other (specify).....

33. Is there any relationship between the policy framework and SMEs on accessing credit? *(Please tick the appropriate)*

- i) Yes
- ii) No

34. If Yes, please tick strategic policy for Small and Medium Enterprises (SMEs)

- i) Rural Development Strategy,
- ii) Agricultural Sector Development Strategy,
- iii) Strategic Trade Policy,
- iv) BEST Programme,
- v) Micro-finance Policy,
- vi) Poverty alleviation strategies.

Thank You Very Much for Your Cooperation

APPENDIX 2: Bank Checklist

1. Formal letter of application including the business profile and fully name and curriculum vitae for management team.
2. Actual audited accounts for past three years
3. Management accounts including creditors list, debtors list and stock balances
4. Cash flow projections for 12 month
5. Projected income statement and cash flow for the next 3years
6. Bank statement for the past two years
7. Memorandum and articles
8. Business license and TIN certificate
9. Proposed securities and their values
10. If land and building are security then provide Valuation reports