

**ST JOHN'S UNIVERSITY OF TANZANIA**

**FACTORS INFLUENCING THE GROWTH OF COMMERCIAL SMALL AND  
MEDIUM ENTERPRISES IN TANZANIA:  
A CASE OF AKIBA COMMERCIAL BANK'S SME CLIENTS IN DODOMA  
MUNICIPALITY**

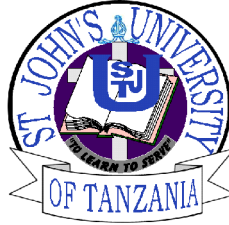
**IDDO GLORY.G**

**MASTERS OF SCIENCE IN FINANCE (MSc. FINANCE)**

**ST JOHN'S UNIVERSITY OF TANZANIA**

**2015**

**ST JOHN'S UNIVERSITY OF TANZANIA**



**FACULTY OF COMMERCE AND BUSINESS STUDIES**

**MASTERS OF SCIENCE IN FINANCE**

**FACTORS INFLUENCING THE GROWTH OF COMMERCIAL SMALL AND  
MEDIUM ENTERPRISES IN TANZANIA**

**IDDO GLORY G.**

**M.2013/5124**

**A dissertation submitted in partial fulfillment of the requirements for the  
degree of Masters of Science in Finance (Msc. Finance) of St John's  
University of Tanzania**

**2013-2015**

**Supervisor: Dr. Geoffrey Kiangi**

## **COPYRIGHT STATEMENT**

No part of this dissertation may be reproduced, stored in any retrieval system, or transmitted in any form or by any means without prior written permission by the author or St John's University of Tanzania.

© 2015 St John's University of Tanzania and Iddo Glory's.

## **CERTIFICATION**

I **Dr. G. Kiangi** certify that I have read and hereby recommends for acceptance by the St John's University of Tanzania the Dissertation entitled: Factors contributing to the growth of commercial small and medium enterprises in Tanzania, in partial fulfillment of the requirements for the degree of Masters of Science in Finance of the St John's University of Tanzania

.....

**Dr. Geoffrey Kiangi**

**(Supervisor)**

## DECLARATION

I, **Glory Iddo** declare that this dissertation is my own work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

**Signature**.....

**Date**.....

## **DEDICATION**

This study is dedicated to my heavenly father, my beloved parents Mr. & Mrs. Iddo, my siblings Daniel, Martin and Davis, my friend Denis Christopher, class mates and every one that participated towards accomplishment of this study.

## TABLE OF CONTENTS

<b>COPYRIGHT STATEMENT</b> .....	<b>i</b>
<b>CERTIFICATION</b> .....	<b>ii</b>
<b>DECLARATION</b> .....	<b>iii</b>
<b>DEDICATION</b> .....	<b>iv</b>
<b>TABLE OF CONTENTS</b> .....	<b>v</b>
<b>LIST OF TABLES</b> .....	<b>x</b>
<b>LIST OF FIGURES</b> .....	<b>xi</b>
<b>LIST OF APPENDICES</b> .....	<b>xii</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>xiii</b>
<b>ABBREVIATIONS</b> .....	<b>xiv</b>
<b>ABSTRACT</b> .....	<b>xv</b>
<b>CHAPTER ONE</b> .....	<b>1</b>
<b>INTRODUCTION</b> .....	<b>1</b>
1.1 Chapter overview.....	1
1.2 Background of the study .....	1
1.3 Statement of the Problem .....	4
1.4 Research Objectives .....	5
1.4.1 The General objective .....	5
1.4.2 Specific objectives .....	5
1.5 Research questions .....	6
1.6 Significance of the Study .....	6
1.7 Limitations of the study .....	6
1.8 Definition of key terms .....	7
1.8.1 Small and medium enterprises (SMEs) .....	7
1.8.2 SMEs growth .....	8
1.8.3 Micro Finance Institutions.....	8

1.8.4 Financial services .....	8
1.8.5 Non-Financial Services .....	8
1.8.6 Entrepreneurship .....	9
1.9 Organization of the dissertation .....	9
<b>CHAPTER TWO .....</b>	<b>10</b>
<b>LITERATURE REVIEW .....</b>	<b>10</b>
2.1 Chapter Overview .....	10
2.2 Small and Medium Enterprises .....	10
2.2 .1 Literature review on SMEs Policy .....	10
2.2.2 Small and Medium Enterprises and benefits on growth .....	12
2.3 Theoretical Literature Review .....	13
2.3.1 Growth of Small and Medium Enterprises .....	13
2.3.2 Stochastic and Deterministic Model approaches .....	16
2.3.3 Stochastic theory .....	16
2.3.4 The stochastic process of firm growth is as in Gibrat's Law. ....	17
2.3.5 Passive Learning Model .....	19
2.3.6 The Life Cycle of SMEs .....	20
2.4 Empirical literature review .....	22
2.5 Development of financial institutions in Tanzania .....	30
2.5.1 Role of Financial institutions in financing SMEs' in Tanzania .....	31
2.6 Literature Gap .....	33
2.6.1 Theoretical gap .....	33
2.6.2 Empirical gap .....	34
2.7 Conceptual framework .....	34
2.7.1 Loan services .....	34
2.7.2 Saving Services .....	34
2.7.3 Payment Services .....	35

2.7.4 Insurance services .....	35
2.7.5 Business Training.....	36
2.7.6 Advisory services .....	36
2.7.7 Information services .....	37
2.7.8 Custodial services .....	37
2.8 Summary of the conceptual framework .....	38
2.9 Chapter Summary .....	39
<b>CHAPTER THREE .....</b>	<b>40</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>40</b>
3.1 Chapter Overview.....	40
3.2 Research Design .....	40
3.3 Location of study .....	40
3.4 Study Population .....	41
3.5 Unit of Analysis.....	41
3.6 Sampling Unit or Sample Size .....	42
3.7 Sampling Techniques .....	42
3.8 Types and Sources of Data .....	43
3.8.1 Primary data.....	43
3.8.2 Secondary data .....	43
3.8.3 Data Collection Methods .....	44
3.8.3.1 Self Administered Questionnaires .....	44
3.8.3.2 Documentary review .....	44
3.9 Data Analysis.....	44
3.9.1 Model of relationship between financial services, non-financial services and growth of SMEs' .....	45
3.10 Consent and Confidentiality.....	46
3.11 Validity and Reliability.....	46

3.11.1 Validity.....	47
3.11.2 Reliability.....	47
3.12 Chapter Summary .....	48
<b>CHAPTER FOUR .....</b>	<b>49</b>
<b>PRESENTATION OF FINDINGS.....</b>	<b>49</b>
4.1 Chapter Overview.....	49
4.2 Social demographic features .....	49
4.2.1 Distribution of respondents by gender.....	49
4.2.2 Age of the Respondents.....	50
4.2.3 Education levels of the respondents.....	51
4.2.4 Respondents Distribution by marital status .....	51
4.2.5 Duration of existence in the business.....	52
4.3 The financial services that contribute to the growth of SMEs'.....	53
4.3.1 Categories of Financial Services.....	53
4.3.2 Respondents' opinion on ranking the importance of financial services .....	53
4.3.3 Respondent's opinion according to contribution of financial services on SMEs' growth .....	54
4.4 Non-financial services that contribute to the growth of SMEs' .....	55
4.4.1 Category of non-financial services .....	55
4.4.2 Respondents' opinion according to ranking the importance of non-financial services.....	55
4.4.3 Respondents' opinion on contribution of non-financial services to SMEs' growth .....	56
4.5 Respondents' opinion according to cost of services.....	57
4.6 Respondents' opinion according to quality of services .....	58
4.7 Respondents opinion according to satisfactory of services .....	58

4.8 Contribution of financial and non-financial services to growth of SMEs. ....	59
4.9 Respondents' opinion according to criteria of SMEs' growth .....	59
4.10. The relationship between financial services, non-financial services and growth of SMEs' .....	60
4.10.1 Relationship between social demographic variables and financial and non-financial services.....	60
4.10.2 Opinion on contribution of financial services to SMEs' growth...	62
4.10.3 Contribution of financial services to SMEs' growth.....	63
4.10.4 The relationship between financial and non-financial services ....	63
4.10.5 Binary Logistic regression model.....	64
<b>CHAPTER FIVE .....</b>	<b>67</b>
<b>DISCUSSION CONCLUSION AND RECOMMENDATIONS .....</b>	<b>67</b>
5.1 Chapter overview.....	67
5.2 Social Demographic Features .....	67
5.3 The financial services that contribute to the growth of SMEs'.....	69
5.4 Non-financial services that contribute to the growth of SMEs' .....	70
5.5 The relationship between financial services, non-financial services and growth of SMEs .....	71
5.6 Contribution of research findings to knowledge .....	73
5.7 Conclusion.....	74
5.8 Recommendations.....	76
5.9 Areas for Further Studies .....	77
5.10 Chapter Summary .....	77
<b>REFERENCES .....</b>	<b>78</b>

## LIST OF TABLES

TABLE 1.1: CATEGORIES OF SMES IN TANZANIAN CONTEXT .....	7
TABLE 4.1: RESPONDENTS' DISTRIBUTION ACCORDING TO CATEGORIES OF FINANCIAL SERVICE.....	53
TABLE 4.2: DISTRIBUTION OF RESPONDENT'S OPINION ON RANKING THE IMPORTANCE OF FINANCIAL SERVICES.....	54
TABLE 4.3: DISTRIBUTION OF RESPONDENTS' OPINION ACCORDING TO CONTRIBUTION OF FINANCIAL SERVICES ON SMES' GROWTH.....	54
TABLE 4.4: RESPONDENTS' DISTRIBUTION ACCORDING TO CATEGORY OF NON-FINANCIAL SERVICE .....	55
TABLE 4.5: DISTRIBUTION OF RESPONDENTS' OPINION ON RANKING THE IMPORTANCE OF NON-FINANCIAL SERVICES.....	56
TABLE 4.6: RESPONDENTS' OPINION ON CONTRIBUTION OF NON-FINANCIAL SERVICES TO SMES' GROWTH.....	57
TABLE 4.7: DISTRIBUTION OF RESPONDENTS' OPINION ACCORDING TO COST OF SERVICES.....	57
TABLE 4.8: RESPONDENTS' DISTRIBUTION ACCORDING TO OPINIONS ON THE QUALITY OF SERVICES.....	58
TABLE 4.9: DISTRIBUTION OF RESPONDENTS' OPINION ACCORDING TO SATISFACTION OF SERVICES OFFERED.....	58
TABLE 4.10: DISTRIBUTION OF RESPONDENTS' OPINION ON CRITERIA OF SMES' GROWTH .....	60
TABLE 4.11: RELATIONSHIP BETWEEN SOCIAL-DEMOGRAPHIC VARIABLES AND FINANCIAL AND NON-FINANCIAL SERVICES .....	61
TABLE 4.12: RESPONDENTS' OPINION ON CONTRIBUTION OF FINANCIAL SERVICES ON SMES' GROWTH. ....	62
TABLE 4.13: RESPONDENTS' OPINION ON CONTRIBUTION OF NON-FINANCIAL SERVICES ON SMES' GROWTH .....	63
TABLE 4.14: RELATIONSHIP BETWEEN FINANCIAL AND NON-FINANCIAL SERVICES.....	64
TABLE 4.15: BINARY LOGISTIC REGRESSION MODEL .....	65

## LIST OF FIGURES

FIGURE 2.1: STAGES OF SMES' DEVELOPMENT .....	21
FIGURE 2.2: CONCEPTUAL FRAMEWORK .....	38
FIGURE 4.1: DISTRIBUTION OF RESPONDENTS BY GENDER.....	50
FIGURE 4.2: AGE OF RESPONDENTS.....	50
FIGURE 4.3: DISTRIBUTION OF RESPONDENTS ACCORDING TO EDUCATION LEVEL .....	51
FIGURE 4.4: DISTRIBUTION OF RESPONDENTS BY MARITAL STATUS	52
FIGURE 4.5: RESPONDENTS' OPINION ON DURATION OF EXISTENCE IN THE BUSINESS.....	52
FIGURE 4.6: CONTRIBUTION OF FINANCIAL AND NON-FINANCIAL SERVICES TO GROWTH OF SMES .....	59

## LIST OF APPENDICES

APPENDIX A: INTRODUCTION LETTER .....	86
APPENDIX B: QUESTIONNAIRES .....	87
APPENDIX C: RESEARCH CLEARANCE CERTIFICATE .....	93

## **ACKNOWLEDGEMENT**

First and Foremost I would like to express my gratitude to my almighty God for keeping me alive, and enabled me to overcome all sorts of obstacles, so that I can reach the far successfully. Also I wish to extend my sincere appreciation to my parents for their financial and moral support since I was born to-date when am about to attain masters degree.

To my Supervisor Dr. G. Kiangi, your guidance, suggestions, constructive criticisms and encouragements at all stages during the course of this research have been intellectually resourceful and supportive without which I would not have completed. May God bless your skills and hands that were so kind to me. I also acknowledge the support I got from the staffs and customers of Akiba Commercial Bank for giving me information that was very necessary for this study.

My acknowledgement with deep gratitude goes to my friends for their academic and moral support especially their words of encouragement that made this research a success. May the God almighty bless them.

## ABBREVIATIONS

ACB	Akiba Commercial Bank
APEC	Asian Pacific Economic Cooperation
BOT	Bank of Tanzania
CRDB	Cooperative Rural Development Bank
C-SME's	Commercial Small and Medium Enterprises
ILO	International Labor Organization
MFIs'	Micro Finance Institutions
NMB	National Microfinance Bank
PLM	Passive Learning Model
SBA	Small Business Administration
SIDO	Small Industries Development Organization
SJUT	St John's University of Tanzania
SMBA	Small and Medium Business Administration
SMEDAN	Small and Medium Enterprises development Agency of Nigeria
SMEs'	Small and Medium Enterprises
SPSS	Statistical Package for Social Science
SWIFT	Society Worldwide Interbank Fund Transfer
TBA	Tanzania Bankers Association
TIOB	Tanzania Institute of Bankers
TISS	Tanzania Interbank Settlement System
TPB	Tanzania Postal Bank
UNIDO	United Nations Industrial Development Organization
URT	United Republic of Tanzania
UYF	Umsobomvu Youth Fund

## **ABSTRACT**

The purpose of the study was to identify the factors contributing to the growth of Commercial Small and Medium Enterprises in Tanzania. A study was conducted in Dodoma Municipality using Akiba Commercial Bank (ACB) as a case study.

The research applied a descriptive cross sectional design. From the sampling frame provided by ACB, a representative sample of 91 respondents was obtained randomly to represent the entire population. Data generated was both qualitative and quantitative. Primary data was collected using questionnaires while secondary was obtained from review of literature, reports and documents. Data analysis was done using Statistical Package for Social Science (SPSS) version 20.

The findings of the study revealed that respondents gave priority on loan where, 59.4 percent of all respondents on their opinion ranked loan as important financial service for the growth of SMEs' followed by savings 52.7 percent and training 44 percent. However it was further revealed that SMEs' gave less priority on non-financial services. It can be concluded that financial and non-financial services are essential for the growth of SMEs'. Based on the findings it can be recommended that financial institutions have to work closely with SMEs' in order to build their capacity in the essence of managing SMEs and emphasize the importance of non-financial services.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Chapter overview**

This chapter introduces the context of the research on the factors contributing to the growth of commercial small and medium enterprises in Tanzania. This chapter is divided into seven sections. The first sections provide the background of the study including overview of the sector and the theoretical explanations of the background of SMEs in Tanzania. The second section puts forward the statement of the problems. The third section addresses the objectives of the research. Section four addresses the research questions. Sections five address the significance of the study and limitation of the study. Section six put more to explain definition of related terms, lastly section seven outlines the structure of the dissertation

#### **1.2 Background of the study**

In developing countries, Small and Medium Enterprises (SME's) are generally regarded as the driving force for growth of economy, employment opportunities and poverty alleviation. According to Snodgrass and Biggs, (1996) in the developing countries, on average, almost two thirds of the workers are employed in small enterprises with less than five (5) employees and most of the rest, work for large enterprises.

The history of SMEs' is one where many have started but a few had succeeded. Take the United States, for example. As pointed out by Mason, (2009) who points out that: The Small Business Administration (SBA), keep the starts on business failure and claims that more than half of new businesses will disappear in the first five years (Private Sector Foundation

Uganda, 2006). Also the author reported that, most businesses, are failing within the first five years while only 5 to 10% survive and make it to maturity.

Worldwide, according to Harper, (1984) Small and medium enterprises have been recognized as engines of growth and development. Ayyagari, M., Beck, T., & Lobe, D. A. (2011). reported that, a World Bank survey of 47,745 businesses across 99 countries revealed that firms with between 5 and 250 employees accounted for 67% of the total permanent full time employment between year 2000 and 2010. De Kook et al. (2011) also contend that on average, 85% of total employment growth was attributable to SMEs.

In Africa, Small and Medium Enterprises (SME's) also play a major role in economic development in every country. Ayyagari, M., Beck, T., & Lobe, D. A. (2011), indicate that in both advanced economies and developing countries, SMEs contribute an average of 60 percent of the total formal employment in the manufacturing sector for African economies.

In Tanzania, according to United Republic of Tanzania, Ministry of Industry and Trade, (2002) the SMEs' sector has been recognized as a significant sector in creation of employment opportunities, income generation, poverty alleviation and as a base of industry development. Several organizations including business associations, voluntary organizations, commercial banks, none banking financial institutions and other non-governmental organizations have set up programs to enhance factors that influence development of SME, especially as they are related to economic growth and development (World Bank, 2013). Despite the large number of assistance programs, the growth and development of SMEs has not been satisfactory. According to Memba et al. (2012) business Ventures have collapsed as soon as assisting organizations that were pulled out of the project and the remaining ones were

small. However a large portion of SME sector does not have an access to adequate and appropriate forms of credit and equity, or indeed to financial and non-financial services more generally (Parker et al, 1995).

In addition to financial services, some financial institutions provide non-financial services such as training, information, development of self-confidence (Ledgerwood, 1999). In Tanzania, constraints include limited access to non-financial services related to training; information and SMEs' can hardly afford to pay for the services (URT, 2002).

Formal financial institutions, have failed to provide loans to the poor and most of whom are found in developing countries and to be more specific in the rural areas. The reasons given by von Pischke, (1991) are that, their policies are not meant to favor the poor, the poor are mostly illiterate and banks lack those skills to target these rural customers. The growing rate of unemployment in Tanzania poses a challenge not only to individuals but also to the government (Olagunju, 2004). At the individual level, the establishment of business enterprises particularly small business has been a resort to gainful employment. Several problems have presented limitations to most of the Tanzania SME's to grow, in addition not only is the growth of their business affected, but also survival threatened (Muktar, 2009).

Therefore, this study seeks to fill the gap in knowledge on the influence of both financial and non-financial services towards the growth of SME's, a case study of ACB Dodoma Municipality.

### **1.3 Statement of the Problem**

SMEs are known to be drivers of economic growth, and significantly essential to generate employment (Harvie & Lee, 2005; World Bank, 2009). However, for SMEs' to grow they need several requirements which may be in the form of financial and non-financial services.

Research on influence of financial and non-financial services on SMEs' growth or failure, has sparked a controversial discussions among researchers and scholar worldwide. Sievers and Vandenberg, (2004) found that, SME's need both Financial and non-financial services to enhance their productivity, profitability and growth. But according to Buckley, (1997) in study conduct three counties; Kenya, Malawi and Ghana found that, there was little evidence that indicated significant impact of financial and non-financial services on SMEs' growth, increase income flows and level of employment. Also in a study conducted by Diagne and Zeller, (2001) in Malawi showed that, microfinance services have no effect on SME's growth.

In Tanzania, the debate among researcher and scholars on contribution of financial and non-financial services to the growth of SMEs has also been reported. According to Kessy and Urio, (2006) financial services and non-financial services such as loans, savings mobilization, training, consultancy, advisory services and information, are very essential for SME sustainability and growth. Moreover in the same study, the authors pointed out that, MFIs operation have brought positive changes in the standard of living of people, who access both financial and non-financial services (Kessy and Urio, 2006).

According to URT, (2012) National baseline survey report for SME's indicate that in Tanzania, nearly 20% of all enterprises failed and closed their businesses, within an average period of 4 years, the report provided by

Minister for Trade and Industry 2012 shows that such observation was more common in Zanzibar (55.5%) and Dar es Salaam (31.4%). This could partly be explained by lack of both financial and non-financial services which are essential in sustaining SMEs growth.

Although financial and non-financial services are essential in explaining SME's growth, in Tanzania there is insufficient information on the contribution of financial and non-financial services on the growth of SMEs', and it has remained controversial. Indeed there has been no scientific agreement on the contribution of financial and non-financial services in sustaining growth of SMEs'. This study therefore seek to contribute to this research debate and most importantly to attempt to solve this controversy of how financial and non-financial services have influence to the growth of SMEs, a case study of ACB Dodoma Municipality.

#### **1.4 Research Objectives**

The study was guided by the following general and specific objectives.

##### ***1.4.1 The General objective***

The general objective of this study, is to identify financial and non-financial services that influence the growth of SME's in Tanzania (using clientele commercial SMEs of ACB Dodoma Municipality).

##### ***1.4.2 Specific objectives***

The researcher specifically addressed the following specific objectives among clientele commercial SMEs of ACB:

- i. To assess financial services that influences the growth of SMEs'.
- ii. To examine non-financial services that influences the growth of SMEs'.

- iii. To find out the relationship between financial services, non-financial services and growth of SMEs.

### **1.5 Research questions**

To be able to meet the above objectives, the study adopted the following guiding questions:

- i. What are the financial services that influence the growth of SME's?
- ii. What are the non-financial services that influence the growth of SME's?
- iii. What is the relationship between financial services, non-financial services and growth of SME's?

### **1.6 Significance of the Study**

The study contributes a vital to body of knowledge of SME's in the following ways:

- The study suggested some ways that will help in improving and formulating appropriate strategy of providing relevant financial and non-financial services to SMEs in Tanzania.
- The research helped the Government, policy makers, and subscribers to take necessary steps for the development of financial and non-financial services to enhance SMEs Growth in Tanzania. Hence enable formulation and improvement /Review of MFIs policies.

### **1.7 Limitations of the study**

To cover all the regions in the entire country was impossible because of the limited time frame and amount of funds for this research. For this reason, the research was covered one regions of Tanzania which is Dodoma. The choice of Dodoma region is due to the fact that it has large number of SMEs and

high concentration of MFIs and also the region is well distributed therefore this region was provided good source of data.

The study applied purposive sampling due to limited time and financial resources to accomplish its objective: therefore the study did not use a more representative sample since only ACB was selected out of many financial institutions available in Dodoma municipality.

## **1.8 Definition of key terms**

### ***1.8.1 Small and medium enterprises (SMEs)***

The Europeans commission gave rise to the term SMEs in 1996 and defined the term as organizations employing fewer than 250 people. In order for a business to qualify as SME, it should be subdivided into three parts; both the employee and the independence criteria have to be satisfied, plus either the turnover or the criteria for the balance sheet should be met (Burns, 2001).

In the context of Tanzania, the National Microfinance Policy (URT, 2000) categorize SMEs as follows; Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs. 5 million to Tshs 200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs. 200 million to Tshs. 800 millions. This is elaborated in the table 1.1 below;

**TABLE 1.1: CATEGORIES OF SMES IN TANZANIAN CONTEXT**

Category	Employees	Capital Investment
Micro Enterprises	1-4	Up to 5million
Small Enterprises	5-49	Above 5mill to 200million
Medium Enterprises	50-99	200million to 800million
Large Enterprises	More than 100	More than 800million

**Source:** URT (2003) The SMEs Development Policy

### **1.8.2 SMEs growth**

SME growth means a corresponding increase in financial fortunes for owners and employees alike. In addition, expansion is usually seen as a validation of the entrepreneur initial business startup idea, and of his or her subsequent efforts to bring that vision to fruition. But as Churchill and Lewis, (1983) sales may be considered as a precise indicator of how a firm is competing relative to that market. Business owners themselves often treat sales as key motivator and indicator of performance (Koech, 2011).

### **1.8.3 Micro Finance Institutions**

Micro finance institution refers to the provision of appropriate financial services such as savings, credit, insurance, payment services and non-financial services such as training, advisory, consultancy to SMEs with an end objective to alleviate poverty (Mosley, 2001).

### **1.8.4 Financial services**

Financial services generally refer to savings and credit; but can also include other financial services such as insurance and payment services. They are also called financial intermediation; these services are provided by financial institutions to qualified clients they serve (Chijoriga, 2000).

### **1.8.5 Non-Financial Services**

According to Ledgerwood, (1999) defined that non-financial services refers to social intermediation services such as training services, advisory services, information, development of self-confidence, and management capabilities among members of a group, these are non-monetary kind of services offered to clients of financial institutions.

### **1.8.6 Entrepreneurship**

Nieman et al. (2003) defined entrepreneurship as an event that introduces a new product, a product method, new markets or a new form of organizations, thus in a nutshell can be defined as the process of coming up with a particular idea and implementing it in the most innovative manner to ensure the success of the business in the long run.

### **1.9 Organization of the dissertation**

Chapter one - The first chapter provides introduction and background to the focus of the study. The following description is followed: It states background of the problem, statement of the problem, objectives of the study, research questions, significance of the study, limitations of the study and definition of key terms.

Chapter two - This contains the literature review of SME policy, SME life cycle, theoretical literature review on SMEs growth and the empirical studies.

Chapter three - This chapter discuss the research methodology of the study, it states the research design, the sample study area, sampling techniques, sampling size, data types and collection methods, data analysis and presentation and lastly the reliability and validity of the study.

Chapter four - This chapter applies the findings from the research to introduce and provide a discussion of the results, it exhausts the findings in relation to the objectives put forward in the study.

Chapter five - This chapter is about the conclusion and recommendations of the study. The researcher concluded the study and put forward some recommendations in relation to the study.

## CHAPTER TWO

### LITERATURE REVIEW

#### **2.1 Chapter Overview**

This chapter gives theoretical literature review, empirical literature review, SMEs policy in different countries and Tanzania context, The goal is to come into familiar with the work of others and how tried to solve the problem under the study. The result is to identify gaps in literature, concerning the effects of MFIs financial and non-financial services on the growth of small businesses in Dodoma.

#### **2.2 Small and Medium Enterprises**

##### ***2.2 .1 Literature review on SMEs Policy***

Worldwide the importance of SMEs to the economy of a country indicates how important it is to have government policies that support them, including regulations that enable them to operate efficiently. According to Harvie and Lee, (2005) in Japan SME policy says that, in order to facilitate fund supply for SMEs, the state shall strengthen the functions of governmental financial institutions, develop credit enhancement projects, direct private sector financial institutions to conduct proper lending for SMEs, and take any other necessary measures. In United States of America SMEs' policy, (2006) Small Business administration (SBA) provides small business with an array of financing for small businesses from small needs in micro lending. In Korea, Small and Medium Business Administration (SMBA) offers the necessary land for start-up by financing support for SMEs' to ensure that, creative and innovative SMEs will not fail because of difficulties with financing, in order to meet the rising needs of SMEs, SMBA was reconstructed with office of planning and management, SME policy bureau, entrepreneurship and

venture business bureau, business growth service bureau and technology assistance bureau. In Thailand the department of industrial promotion (DIP), under the United republic of Tanzania, Ministry of industry act as the lead agency of government for SMEs promotion and development and follow the guideline set by the United Republic of Tanzania, ministry of industry and the National planning in elaborating its own policies to support the sector (Jones,1999).

In African, South Africa created the Umsobomvu youth fund (UYF) was created in 2001,UYF runs a number of schemes such as Advisory services to SMEs, linking youth owned SMEs' to procurement opportunities and offering funding and loans. SME policy, (2010) of Rwanda focus is put on removing constraints that prevent SMEs from accessing finance, influencing change in attitude of banks and micro finance institutions, consolidation of all scattered SMEs' support fund into one SME development fund, resolving the issue of complication in accessing the fund. In Nigeria, in order to enhance the flow of financial and non-financial services, the Small and Medium Enterprise development agency of Nigeria (SMEDAN), an umbrella agency to coordinate the development of SME sector was established by the government in 2003. In the same year, the National Credit Guarantee Scheme for SMEs to facilitate its access to credit without stringent collateral requirements was reorganized and the entrepreneurship development programme was revived in terms of financial and non-financial services (Babajide, 2012).

In Tanzania, recognition of the important role played by SMEs', the Government of Tanzania initiated the SMEs' development policy in 2003. The vision of the 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. The mission of the policy is to stimulate development and growth of SME activities through improved infrastructure, enhanced service provision and creation of conducive legal and institutional framework so as to achieve competitiveness. Policies and strategies for development of the SME sector are legal and regulatory framework, improving physical infrastructure. Also Business development services such as, entrepreneurship development were promoted by government through facilitating improvement of access of SMEs' to financial and non-financial services. Business training as one which the government put emphasis in order to enhance the capacity of institutions providing business training to SMEs, information where government facilitate and support programs aimed at increased access of information pertinent to the development of SMEs, access to finance, where the government enhance financial reforms aimed at further liberalization of the financial sector and the creation of financial intermediaries to cater for SMEs, acquisition and adaptation of technologies so as to raise productivity and competitiveness of the sector, improving SME access to market, enhance financial reforms aimed at further liberalization of SME sector and creation of financial intermediaries to cater for SMEs, strengthening of institutions and associations supporting the SME sector such as Small Industries Development Organization (SIDO) (SME policy, 2003).

### ***2.2.2 Small and Medium Enterprises and benefits on growth***

According to MFPED, (2008) report the findings show that SMEs' contribute greatly to the economies of all countries, regardless of their level of development. For instance about 80 percent of the Labor force in Japan and

50 percent of workers in Germany are employed in the SME sector. The SME sectors have made a significant contribution to the gross domestic product of Uganda (20 percent), Kenya (19.5%) and Nigeria (24.5%). According to URT, (2012) in Tanzania, it was estimated that about 2.75 million micro, small and medium enterprises (MSME) owners own and manage about 3.16 million MSMEs and the sector is estimated to contribute TZS 6.9 trillion or about 27% of the country's Gross Domestic Product (GDP). Therefore SME sector is one of the most important sector for enhancing economic development and growth. Therefore, SMEs' sector is important to social economic development in Tanzania and there is a need to identify and take a number of measures to promote the business growth of SME sector.

### **2.3 Theoretical Literature Review**

This part of literature review provides explanations and meaning to key terms and the concept involved in the study.

#### ***2.3.1 Growth of Small and Medium Enterprises***

The goal or aim for any firm or an enterprise is to grow or expand its business operations. Several arguments about type of support that should be used to develop the SME sector have been presented. The two basic arguments have emerged which are market forces and an intervention approach. The study by Cook and Nixson, (2000) indicated that the first argument is based on the position to relay principally on the market forces. Underlying this approach is the notion that the previous policies pursued in developing countries have led to bias in favor of development for large scale enterprises. Most of the support that was developed for small scale industry was that of direct kind and was at the micro level which involved the forms of managerial and technical support through provision of training, credit and a

range of service facilities. Later this approach was replaced by the structural adjustment policies which aimed directly at removing the market distortions so as to create a level playing field which the enterprises of all size will have an equal access to the resources. Therefore it was then argued that the market based approach would reduce the scope of arbitrary decision making and also lessen the opportunity for privileged to the resources though bribery and patronage.

The second approach with the structural school of thought, this approach argues pro-actively for the continuance of forms of interventions so as to assist the small enterprise development. The general difference between these two approaches is not in the questioning on the importance of the most appropriate macroeconomic environment for small scale development, but in the nature of the type of changes that are required to bring about greater improvements. However the infant argument underlies in the second approach and it envisages forms of intervention that are unacceptable to the first. According to Ghoshall et al. (2001), the consensus in the structuralist approach it retains on the need to improve the overall policy environment to the small scale industry and to remove the bias towards large scale industry in particular.

The efforts to support small business in developing counties are not new, the reasons and the type of support have changed overtime (Cook and Nixson, 2000) indicated that the earlier support mechanisms centered on the direct assistance program were usually initiated by the state or the parastatal agencies.

However, most of the earlier attempts made to shape their institutional environment for small scale enterprises were largely divorced from the

general industrialization policies which were laid down in the development plans. In recent years the more complex picture of the extent, range and the underlying rationale for supporting mechanisms has emerged. Also apart from ongoing support to small enterprises, set in place to mitigate the constraining operational environment that was historically developed. Those designed to cushion any adverse effect or conversely reaping the benefits of adjustments measures. The new focus for supporting is currently being emphasized. Cook and Nixon, (2000) further argued that evidence is emerging of a trend towards the development of the multi layered network of support ranging from the government policies to the microfinance interventions by non-government organizations. The factor determining a firm or SMEs' growth is the resources availability to the firm enterprise business development services or non-financial services and financial services provided by financial institutions.

Various theoretical models have been developed which describe the growth of SMEs. Churchill and Lewis, (1983) pointed out, this may be because the definition of the firm is multiple and complex. This complexity has led to the emergence of scholars with different perspectives and, more importantly, with different predictions of the evolution of growth. One class of theoretical models focuses on the learning process, either active or passive, and the other models refer to the stochastic and deterministic approaches.

This wide range of determinants is represented by several theories. These different theories are the result of the relevance of the topic and the difficulty in analyzing it (Churchill & Lewis, 1983). The main schools of thought can be divided into four groups: (i) classical economists; (ii) behaviorist economists, who emphasize the role of managers on increases in firm size; (iii) stochastic

theory, which assumes that firm growth follows a stochastic process; and (iv), models of learning and selection, which are linked to the stochastic firm growth theory. This study will be guided by the stochastic theory in which the external environments are taken care of explaining the small businesses growth.

### ***2.3.2 Stochastic and Deterministic Model approaches***

The other set of growth theories of firms, include the stochastic and deterministic approaches. The stochastic model, which is also known as the Gibrat's Law, argues that all changes in size are due to chance. Thus, the size and age of firms has no effect on the growth of SMEs. According to Becchetti and Trovato (undated) empirical of the law has indicated that it only considers size and age as potential variables which may significantly affect firm growth by neglecting other explanatory variables which may significantly affect firm growth. The deterministic approach assumes, on the contrary, that differences in the rates of growth across firms depend on a set of observable industry and firm specific characteristics, Pier Giovanni et al. (2002). This study will be guided by the stochastic theory in which the external environments are taken care of explaining the small businesses growth.

### ***2.3.3 Stochastic theory***

The stochastic firm growth theory has developed simultaneously to these theories. Stochastic growth models have two main objectives; to detect the existence and persistence of the stochastic factors affecting firm behaviour and to detect the presence of inequality and concentration among firms. Three of the main stochastic growth models are those of Gibrat, (1931), Kalecki, (1945) and Champernowne, (1973). Broadly speaking, the models of Gibrat, (1931) and Kalecki, (1945) follow a lognormal distribution of firm

sizes, while that of Champernowne, (1937) follows a Pareto distribution. Gibrat, (1931) suggested that there is no relationship between the size of a firm and its growth. This is known as Gibrat's Law or the Law of Proportionate Effect. In fact, firm growth is the result of a multiplicative process that affects the initial size. The factors that can affect firm growth relate not only to the firm, but also to its environment. The main consequences of Gibrat's Law are, there is no optimum size to which firms will converge, the likelihood of growth is independent of initial size, and so expected growth and its variability are the same for all firms. Past growth does not affect current growth since there is no serial correlation (both between firms and over time). Firm size dispersion increases over time, so market concentration is higher if the number of firms' remains constant, the variance of firm growth rates is equal for all sizes. This means that the variance of firm growth rates for small firms is equal to the variance of firm growth rates for large firms.

In other words, Gibrat's Law postulates that the "probability that the next opportunity is taken up by any particular active firm is proportional to the current size of the firm". (Kalecki, 1945) formulated a stochastic growth model that assumes that the logarithmic variance of size is constant over time and, therefore, that the logarithm of size and the logarithm of the random variables are negatively correlated.

#### ***2.3.4 The stochastic process of firm growth is as in Gibrat's Law.***

There is no increase in the concentration of the market since large firms find impediments to grow proportionate to their size. Champernowne, (1937) presented a model of income distribution that can be applied to the distribution of firm assets. In this case, the model assumes that firm size

follows a Markov process that depends on the previous state and a random element Saleh and Farouk, (2011). The probabilities of changing firm size will depend on the distance: the greater the difference between the current size and the desired size, the lower the probability that this change occurs

- As in Gibrat's Law, firm growth is independent of firm size.
- As in Kalecki, the "growth" process remains non-dissipative but in a much more restrictive sense.

Champernowne imposes a stability condition that causes the expected value of variations to be negative for all firms. Consequently, concentration decreases.

Greiner, (1998) states that; stochastic factors have a high impact on the distribution of firms in the market. The result is a highly skewed firm distribution in which a large number of small firms live with a low number of large firms. This approach has been criticized in the literature, however, because it assumes that the firm growth process is a random walk in which factors such as luck have a high weight. Greiner, (1998) pointed out some firm determinants in which there is a component of stochastic. Some of these are the hiring of key executives, research and new product development decisions, legal disputes involving critical patents, the choice of an advertising campaign theme, or a thousand and one other decisions among attractive but uncertain alternative courses of action. Given the operation of chance in these elemental decisions, high or low sales growth follows in a more traditionally deterministic manner. Therefore, from a managerial point of view, firm growth is full of characteristics that can cause the randomness of firm growth.

### **2.3.5 *Passive Learning Model***

In the Passive Learning Model (PLM), (Jovanic, 1982 cited in Agaje, 2004) a firm enters a market without knowing its own potential growth. Only after entry does the firm start to learn about the distribution of its own profitability based on information from realized profits. By continually updating such learning, the firm decides to expand, contract or to exit. This learning model states that, firms and managers of firms learn about their efficiency once they are established in the industry. Firms expand their activities when managers observe that their estimation of managerial efficiency has understated actual levels of efficiency. As firm ages, the owner's estimation of efficiency becomes more accurate, decreasing the probability that the output will widely differ from one year to another. The implication of this theoretical model is that, smaller and younger firms should have higher and more viable growth rates Stranova, (2001), Cunningham and Maloney, (2001) and Goedhuys, (2002).

According to O'farell and Hitchens (1988) in their study have classified available business growth theories into four groups. Most static equilibrium theories delivered from field of industrial economic which state that, there are mainly concerned with attainment of economies of scale and the long run unit cost minimization. Stochastic model of firm growth in summary suggest the opinion that "Many factors affect growth" and therefore there is no dominant theory. On the other hand, strategic management perspectives on SMEs' growth have "Focused attention upon strategic dimension of achieving the sustained growth and the way in which the owner manager do respond to business and personal environmental indicators. Theories according to

growth of SMEs' are viewed as a series of phases or stages towards development in which a business may pass in the business life cycle.

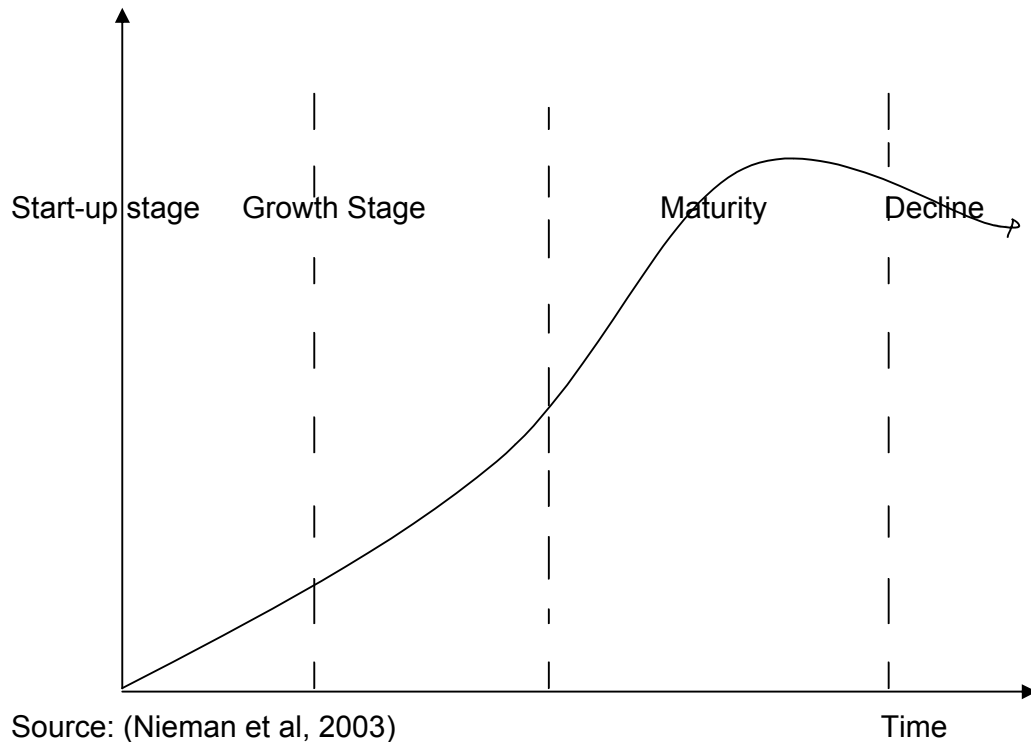
Schmitt-Degenhardt et al. (2002) in their study they have established different enterprise growth theories by focusing on static and dynamic concept and the internal and external reasons for the growth of SMEs. The static approaches consider the "Locally oriented SMEs" whose development stage is limited to a certain area and is therefore a limit to its size "arrested development" where by the owner manager chooses to maintain the company size to be limited. The life cycle of the firm is the one which is just large enough to guarantee the owner and manager a quality life and the argument formalization as the argument to further business growth. The dynamic approach considerably make use of the biological metaphor of the life cycle where in the enterprises are born grow and decline. These corresponding growth phases can be labeled "Start up", "Growth" "Maturity" and "Decline". Among these growth stages it is said there can occur the failure. From the analysis of both approaches the study gave conclusion that neither one can give the satisfactory explanation for the observed growth gap.

### ***2.3.6 The Life Cycle of SMEs***

When establishing a business, the SME owner should remember that the business has to pass through certain stages. This process can also be referred to as the Life cycle of the business venture. Nieman et al. (2003) Explained that the main stages of entrepreneur development can be seen in figure 2.1

Life cycle models present a series of generally three to four stages through which an SME will typically pass throughout its development.

**FIGURE 2.1: STAGES OF SMES' DEVELOPMENT**



Source: (Nieman et al, 2003)

- ❖ **Start up stage:** In the first phase the business is set up, products are developed and first experience is made on the market place. It usually marked by relatively low growth rate, this phase is typically labeled “Start-up” Hans et al. (1993) or “Formation phase” (Robbins, 1992). Market demand is usually not very certain at this stage and the ability to reap the benefits of profit are less, this stage is associated with an increasing risk and potential for business failure (Nieman et al, 2003).
- ❖ **Growth stage:** When the small business manages to pass successfully through this early stage, it may enter the “Expansion” or “Growth stage” This phase is generally characterized by a rapid expansion of production, turnover and employment. According to Nieman et al (2003) this is usually a good time for the owner to think about harvesting, although it may not be a very important consideration for an average entrepreneur.

- ❖ **Maturity stage:** After sometime the development reaches a point where the initial business idea and concept will no longer guarantee a further dynamic expansion, Growth rates will decline, the company enters in the ‘Late Growth’ (Robbins, 1992) or “Maturity stage” Hans et al. (1993). This stage is characterized by tougher competition, with pressure in the distribution elements of the concept of offering Niemal et al (2003).
- ❖ **Decline stage:** The future lies in a more defensive role of maintaining the conquered market position “Stability” (Robbins, 1992) or alternatively in the advancement towards a broader business concept within which each new line of products or services may again pass through the described S-shaped growth process. Hanks et al. (1993). Entrepreneurs normally do not perceive this stage until it is too late Nieman et al (2003).

Each of these stages mentioned need a different approach and thus it is important for SME owner to change the business plan of the firm at each stage. Many businesses fail because they move on to the next stage too early and consequently any actions may contribute to business failure. Each of these stages has primary areas of concern, namely planning, implementation and organization. Thus it is crucial for the owner to acknowledge each of the stages of entrepreneurial development; otherwise the business could well experience failure.

## **2.4 Empirical literature review**

This research is not the first one to research on the matters related to financial and non-financial services. A number of studies have highlighted the issue of financial and non-financial service in SME growth.

In Europe particularly Italy majority of firms accounted more than 95% are SMEs (Felsenstein, 1990). While the proliferation of small-scale enterprises

has often been pointed to as one of the reasons for Italy's economic success, the limited types of external funds available to Italian companies make them prone to financing constraints. In Italy, once internal funds are depleted, the banking channel is often the only way for Italian SMEs (Biggs, 1996).

In some countries in Asia and Latin America continent financial institutions are not the only source of money for SMEs (Smith, 2011). Large firms are a major potential source of finance because big firms can do a lot to help SMEs get finance more easily by transferring resources (money and factors of production) and guaranteeing SME solvency with financial institutions (Meyer, 2001). Links with major companies can also help SMEs get export credits, which are especially important in countries with weak institutions, since commercial partners are better informed than other creditors (especially financial institutions) about the ability of their customers to repay debts. Working together also means firms can get supplier credits and can borrow from each other when necessary, which reduces general costs (Snodgras, 2012).

In Nigeria, (Omeke, 2010) stressed that microfinance institutions provide a wide range of financial and non-financial services to small and medium entrepreneurs, loans, savings mobilization, micro insurance, money transfer and financial education. Microfinance industry has been recognized for its major contribution towards the growth of SMEs, this however requires a great deal of cooperation between SMEs and financial institutions so as to ensure that, there is a good working relationship.

According to World Bank, (2002) a study identified poor access to finance as the most critical constraint on small and medium scale enterprises growth in Nigeria. In fact, 50 percent of the surveyed enterprises received external

finance while 79 percent indicated lack of financial and non-financial services as a major constraint. Though the study identified poor access to finance by SMEs, the Bankers Committee at the initiative of the CBN developed an interventionist strategy called the Small and Medium Industries Equity Investment Scheme in 1999. This scheme requires banks to set aside 10 percent of their profit before tax to fund SMEs in equity participation. The pooled money has to be invested in SMEs in so doing reduces the extra risk of lending to SMEs.

According to World Bank, (2013), lack of access to credit is a major constraint inhibiting the growth of SMEs' sector. SMEs' need no barriers to access credit and other financial and non-financial services to enhance the growth of their business, failure to access credit and other services which are essential for SMEs' growth may lead to poor business performance.

In London, Ozkan and Ozkan, (2004) in their argument maintain that, establishing MFI relationship with SMEs reduces information asymmetry and agency problem, since valuable information about SME quality can be disclosed. Thus, establishing stable links with financial institutions can improve both the availability and the condition of financing.

In a study by Fidrmuc et al. (2009) about Banks and SMEs in emerging markets, it was established that there is a lot of uncertainty about the risks involved in lending. It was found that, out of loans granted to SMEs in Slovakia, on average 6% of SMEs defaulted and did not grow. This affected the relationship between banks and SMEs hence deflecting the possibilities of accessing financial and non-financial services in future, because the terms would change and become more stringent against the SMEs for fear of more defaults.

Research by Cohen, (1999) indicates that, participation in microfinance program contributes to reduce vulnerability to liquidity risks among SMEs. Microfinance services help the SMEs to diversify their income sources and focus on good money management.

Asian Pacific Economic Cooperation, (APEC, 2003),found that it is recognized that financial and non-financial services are very important for development of SMEs, at least two main goals of giving access for SMEs through development of micro finance institutions namely, increasing business activity of SMEs through working capital and developing spirit of entrepreneurship. This without a close relationship between MFIs and SMEs may not be achieved.

In a study about MFI-SME financing (2009), in Afghanistan by Mennonite Economic Development Associates it was established that, financing interventions that focus exclusively on SMEs may in the end prove to be a high credit risk. While there is value in focus and specialization in financial and non-financial service delivery, it can also become a weakness if the needs of SMEs are set as to limit its affordability and access.

According to Bhattacharya et al. (1997) SMEs in developing countries are considered to be too unstable by banks to invest in. Due to this instability, the banks consider SMEs to have high risk and the costs to monitor the activities of the SMEs are always high. Author argue that formal financial institutions (banks) are reluctant to provide financial and non-financial services to SMEs since investing in SME activities is considered by banks to be very risky. They find it risky in the sense that if invested in, in an event of unfavorable business conditions, they have low financial power, low asset base, and easily go bankrupt. As a result SMEs fail due to lack of bank services.

Recent studies (ILO, 2001) have shown that many SMEs lack access to financial and non-financial services for starting operating and expanding their businesses. The financial service such as loan, estimated demand for SMEs credit was 2.5million borrowers compared to about 50,000 borrowers being served currently .The largest demand for credit is in the range of Tshs 50,000 to Tshs 500, 000. Access to formal finance by SMEs is constrained by many factor including the fact that most formal financial institutions still insist on traditional characteristics of borrower some of which being capital ,collateral capacity and character which excludes most of the SMEs. Most of the SMEs are poor they have few valuable assets they can offer as collateral.

According to Meyer, (2001), financial services such as saving facilities, credits, insurance, and money transfer build up productive assets and hence improve productivity and SMEs' growth. Access to financial services can bring impact on SMEs' security in three ways. First, through improved income generating methods as loans provide relief in the short run. Second, SMEs' access to finance reduces the costs of self-insurance and hence induces changes in household and SMEs' assets base and level of liabilities. Consequently, "precautionary savings" in the form of non-productive assets, which are held to cushion adverse shocks such as illness, and bad weather, are made available for productive investments. Thirdly, credit enhances consumption.

According to Fielden, Davidson and Makin, (2000) the ability of a business to overcome the impediments to growth by securing support such as financial assistance, advice and training determines the success or failure of the business.

Abiola, (2012) reports on a study in Nigeria with a sample size of 502 Micro Small and Medium Enterprises operators of Microfinance bank. He noted that saving and loan are the most financial services provided by financial institution to meet the need of client towards the performance of SMEs.

According to Blockhouse, (2001) loan, Savings and Insurance helps smooth out income fluctuations and maintain consumption levels even during lean periods. Also the author noted that, non-financial services such as is limited in its effectiveness if provided in isolation, but should be included to loan and savings for the growth of SMEs'. Therefore it can be concluded that, SMEs' need financial services together with non-financial services for the growth of their businesses.

According to Grade, (1984) findings, loans enable individual members or enterprises to enjoy the benefit of economies of scale and additional to working capital.

According to Naituli, (2006) agree on the crucial small and medium enterprises of training and management to the successful performance of enterprises. Factors affecting the performance of business can be divided into two categories: (a) management competence and (b) environmental factors. Management competence encompasses functional knowledge, management skills and managerial behavior. Thus, competencies such as marketing, financial control, training and networking among others, are management functions.

In Kenya, Kisaka and Mwewa, (2014) reports on a study with a sample size of 100 SMEs' and found that, there is upward trend in total expenditure on training by SMEs' rising from 11 percent in 2009 to 24 percent in 2012. This

implies that, SMEs' are increasingly realizing the importance of training on the survival and lifespan of SMEs'.

According to Chijoriga, (2000) Microfinance institutions provide a broad range of services including deposits, loans, payment services, money transfer and insurance to low income households and their enterprises. Also the same author argued that training is rarely conducted in most of the financial institutions and little considered during loan provision and annual meetings. This results to poor performance and growth of SMEs'.

Moreover, Cook and Nixson, (2000) found that, despite of MSEs' large contribution in countries development and economic growth, their growth and development in developing countries were mainly inhibited by access of finance, poor managerial skills and lack of training opportunities and high cost of inputs.

According to (Chijoriga and Cassimon, 1999), financial problems of most SMEs' arise due to poor financial management, existence of information asymmetry and bank credit rationing. Also formal financial institutions regard low income households as too poor to save and are not personally known to them, do not keep written accounts or business plan and they usually borrow small and uneconomic sums. Also the author revealed that, to get a loan from MFIs' involve high transaction costs due to bureaucratic procedures and time involved in processing the loan, the study also pointed out that asymmetric information between lenders and borrowers is very high and this led to MFIs' imposing tight monitoring and supervision rules to borrowers.

According to Bwana and Mwakujonga, (2013) in Tanzania cooperatives (including SACCOS) are essential for the growth of small and medium

enterprises also microfinance provides training to its members towards SMEs' operation and management.

According to Christabell, (2009) the findings of his study revealed that borrowers may incur costs ranging from cost associated in screening group members for solidarity group borrowers, cost of forming a group, cost of negotiating with lender, cost of filling paper work, transportation to and from financial institution, cost of time spent in project appraisal and cost of attending meetings.

According to Bennett, (1994) the study found that, SMEs' also need to be trained so as to have the skills for specific production and business management together with better access to markets in order to make the profitable use of financial resources which they receive from financial institutions. The author also argue the view that, some microfinance institutions provide services such as skills training, marketing, book keeping and production to develop enterprises and the services provided can improve the ability of SMEs' to operate enterprises either directly or indirectly.

Buckley, (1997) argues that, the indicators of success of micro credit programs namely high repayment rate, outreach and financial sustainability do not take into consideration what impact it has on micro enterprise operation and only focus on " microfinance evangelism" carrying out research in three countries, Kenya, Malawi and Ghana. The author came to the conclusion that, there was little evidence to suggest that any significant and sustained impact of microfinance services on clients in terms of SME development, increased income flows or level of employment. The focus in this argument is that, improvement to access to microfinance and market for

the poor people was not sufficient unless the change or improvement is accompanied by changes in technique and or technology.

## **2.5 Development of financial institutions in Tanzania**

In 1991 the Government initiated financial sector reforms in order to create an effective and efficient financial system according to the former governor of the Bank of Tanzania (Rutihinda, 1993). The principal elements of the financial sector reform included liberalization of interest rates, elimination of administrative credit and foreign exchange allocation, strengthening of the BOT's role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing entry of private banks both local and foreign. As of now, the country has 35 banks compared to only seven (7) banks existing in 1991 (TBA report, 2008).

Despite of the proliferation of banking institutions and the wide range of banking products and services, it seems very little attention has been paid to help SMEs' capital enhancement and growth (BOT, 2006). However the evidence showed the formal financial institutions find it difficult to deal with SMEs because of the lack of collateral, high incidence of defaults and high transactions costs associated with issuing of small credits Kashuliza et al. (1998). Due to this, SMEs face a daunting obstacle whereby only few have access to regulated banks, savings and loan associations, investment funds. The level of provision of financial services to the small business sector and other sectors largely depends on the state of the financial system. Existing evidence suggests that despite the financial sector in Tanzania undergoing various development phases, growing small businesses are still constrained in terms of credit accessibility (Satta, 2002).

Furthermore according to the study done by Shayo and Temu, (1998), on the financing sources to small businesses found that only 36% of them have made attempts for credit application from financial institutions. Out of these only 9.5 % managed to get a loan from financial institutions.

According to Olaitan, (2006) the study found that, despite of the fact that loan has been recognized as the most essential tool for promoting SMEs', savings also plays an important contribution next to credit. Generally the savings culture in Tanzania, particularly among rural areas is very low as such both startup capital and operational capital by SMEs' is then becoming a difficult task.

#### ***2.5.1 Role of Financial institutions in financing SMEs' in Tanzania***

According to BFI Act 1991 commercial banks have established microfinance oriented products. In Tanzania the main commercial banks serving SMEs include ACB, Tanzania Postal Bank (TPB), CRDB Bank and National Micro Finance Bank (NMB) Satta, (2002). These banks have the most explicit orientation towards micro finance. They have well defined strategies to expand their operations in this market (Randhawa and Gallardo, 2003). It is obvious that these banks do not use the famous commercial lending models like the credit scoring models neither do they use the micro finance models like the Grameen models. They have their own perspective of serving this segment.

Commercial banks are seen to be very important for serving this segment because they have a wide branch network that can reach most micro enterprises. They also operate accounts, which make it possible to monitor their clients closely. Although there are limitations that commercial bank encountered for example, most of them are located in urban areas thus

making it difficult to provide services to those enterprises located in rural areas. Other limitations of commercial bank lending to the SME sector in Tanzania are the lack of appropriate savings instruments to mobilize savings to the SMEs and the restrictions on withdrawals, which discourages savers who would like frequent access to their savings. Their location away from many enterprises also implies high transaction costs (National Microfinance Policy, 2000).

In Tanzania several studies has been done on microfinance institutions service, one of the researcher who have done research on MFIs service is (Kuzilwa and Mushi, 1997) examined the role of credit in generating entrepreneurial activities. The findings reveal that the output of enterprises increased following the access to the credit. It was further observed that those enterprises, whose owners received business training and advice, performed better than those who did not receive training. He recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by SMEs.

A study by Kessy and Urrio, (2006) reports that to large extent MFIs operations in Tanzania have brought positive changes in the standard of living of people who access their services, clients of MFIs complained about high interest rate charged, the weekly meeting was pointed out as barrier as the time spent in weekly meeting could be used to other productive activities. The study recommended MFIs to lower its interest rate, increase grace period and provide proper training to SMEs.

Furthermore Kuzilwa and Mushi, (1997) examines the role of financial and non-financial services in generating entrepreneurial activities. He used

qualitative case studies with a sample survey of businesses that gained access to credit from a Tanzanian government financial source. The findings reveal that the output of enterprises increased following the access to financial and non-financial services. It was further observed that the enterprises whose owners received business training and advice, performed better than those who did not receive training. He recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses.

According to Rugumamu, (1997) in Tanzania lack of access to financial and non-financial services was identified as one of the most severe constraint by small and medium size enterprises. It was ranked the highest constraint by most established local and foreign entrepreneurs. It inhibited their capacity to expand technologically and upgrade their business. Undoubtedly, this constraint signaled the presence of critical bottlenecks in Tanzania's formal financial system and these financial institutions are considered were not entrepreneur new friendly since they tended to discriminate against the private sector. Private entrepreneurs in Tanzania resorted to financing their operations from their own savings, support from members, short term credit provide by supplies, advances offered by buyers or loans from informal community based financial intermediaries (Hyuha et al. 1990).

## **2.6 Literature Gap**

### ***2.6.1 Theoretical gap***

Many theories on financial and non-financial services have touched a little on contribution of financial and non-financial services to the growth of SMEs' but have deep into loans only which is the major financial service.

### **2.6.2 Empirical gap**

Different research worldwide have been done on factors contributing to growth of SMEs' which are financial and non-financial services but all of them lie in developed countries and little research have been done in developing countries specifically Tanzania. For example the study by Olomi, (2009) on Africa Entrepreneurship and small business development in Dar es Salaam, also the same author Olomi, (2006) wrote on opportunities and challenges for Rural SMEs' development in Tanzania. So this study is to fill this gap.

## **2.7 Conceptual framework**

### **2.7.1 Loan services**

Loans are usually relatively short for the first time, less than 12 months in most instances and are generally for addition to working capital with immediate regular weekly or monthly repayments, they are also disbursed quickly after approval, particularly for those seeking repeat loan. For personal loans lenders require collateral such as property, land. While for group loans members guarantee each other and are mutually responsible for ensuring that their loans are repaid (Khan, 2008).

### **2.7.2 Saving Services**

Accepting deposits from a customer in local and foreign currency, it may be in form of fixed deposit where a customer deposit a certain amount, for a specific period of time at a rate determined by management from time to time for a term agreed between management and the account holder. Also savings may be in form of operating bank account through deposits and withdraw when needed. ACB operations processes and procedures manual (2013)

### **2.7.3 Payment Services**

Are service of fund transfer from one person or institution (entity) to another, fund transfer can also be made from ACB bank account to another bank account. Fund transfer methods are Tanzania Interbank Settlement System (TISS), Society Worldwide Interbank Settlement System (SWIFT), Internal Fund Transfer (IFT), Wire transfer. Other method is a letter of credit which is a document that a financial institution issues to a seller of goods or services which provides that the issuer will pay the seller for goods or services the seller derives to a third party. The issuer then seeks reimbursement from the buyer's bank. The document serves essentially as a guarantee to the seller that it will be paid by the issuer of the letter of credit regardless of whether the buyer ultimately fails to pay. In this way, the risk that the buyer will fail to pay is transferred from the seller to the letter of credit's issuer (ACB, 2012).

### **2.7.4 Insurance services**

Is a financial service offered by banks to customers, loan customers are covered by insurance in case of death, permanent disability, when a customer becomes insane, also when a loan customer faces calamities in business area and the business enterprise fails, a customer is compensated with certain percentage of money to enable business to continue with operations. Customers who deposit their money with bank are also assured to take their money even if a bank is destroyed by calamities such as fire or becomes bankrupt. (ACB loan manual, 2013). According to Sanders, (2007) banks provide insurance for loan customers with total coverage of the remaining amount of loan in case of death, permanent disability approved by professional doctor and insane.

### **2.7.5 Business Training**

Training covers a broad interventions based around teaching-style inputs, usually not on a one-to-one basis, involving facilitators/trainers and groups of trainees. Training is aimed at enhancing SME learning. It covers both business management/entrepreneurship subjects and vocational subjects. It seeks to develop knowledge and skills covering on what SMEs do: subject-based training on marketing, book-keeping, production techniques, product development, etc; how to deal with problems; how to find new customers; get higher prices, reduce material costs, develop new product ideas, and who introducing or pointing SME owner-managers to useful resource people, potential customers, suppliers or collaborators, and how to deal with them (BDS for SMEs, 1997).

### **2.7.6 Advisory services**

Moha, (1999) stated that advisory service is a government program that can be categorized into two namely; management consultancy services; and product quality, control and design improvement. Ndubisi, (2008) categorized advisory services into two namely; business and management advisory and technical advisory. Advice on marketing, accounting, finance, information technology and auditing were related to business and management advisory while R & D on production technology, technical information on intellectual property, product innovation and certification, incubator programs and assistance to technology start-ups were put under technical as cited in International Journal of Business and Management, (2012).

Furthermore, (Schaper and Volery, 2001) defined business adviser as a person who can offer specialized skills and knowledge in one or more aspects that is related to business operation. Business adviser also can be

either an organization or individual who provide advisory services in the form of verbal or published advice that relate to financial statement, taxation, legal, business financing and operation (Stanger, 2004).

### ***2.7.7 Information services***

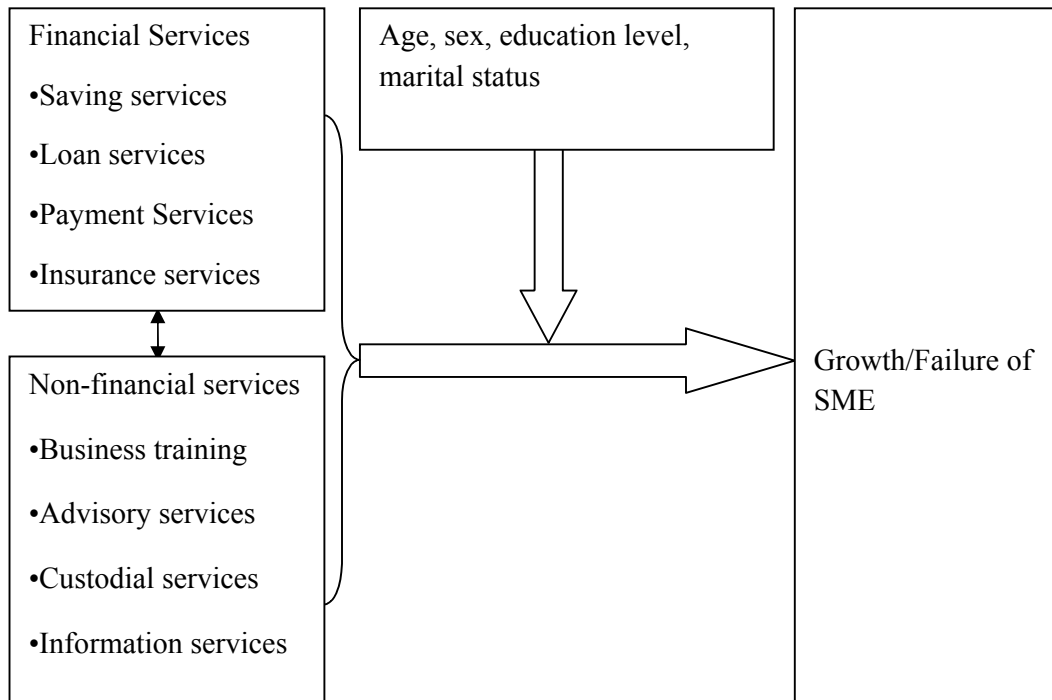
SMEs need to have access to adequate information to enhance productivity and to facilitate market access. The establishment of an active SMEs sector and the effective utilization of quality business information have been identified as crucial in attaining long-term and sustainable economic growth for developed and developing countries, alike (Corps, 2005). However, in most developing countries, the SMEs sector suffers from inadequacies in the provision of business information - which is only available from stand-alone institutions; is often slow and cumbersome to access; is limited in scope; and is not provided in an integrated manner (UNIDO, 2005).

### ***2.7.8 Custodial services***

The holding of certificates, deeds, wills or a locked deed box on behalf of customer by financial institution. Securities are often held under the customer's name in a locked cabinet in the vault so that if the customer wishes to sell the bank can forward the relevant certificated to the broker .A will is also usually held in this way so that it may be handled to the executor on the customer's death. Deed boxes are always described as "Content unknown to the bank" (TIOB, 2013).

**FIGURE 2.2: CONCEPTUAL FRAMEWORK**

**Independent Variables      Moderating Variables      Dependent Variables**



### **2.8 Summary of the conceptual framework**

The conceptual framework is composed of three major areas; the Independent variables (financial and non-financial services), Dependent variables (Growth or failure of SME's), and moderating variables (age, sex, education, marital status).

The conceptual framework emphasize that for SMEs growth to be achieved, they need financial and non-financial services such as; business training, advisory services, information services, Loan services, savings services and insurance services. On the other hand, the Growth (dependent variable) as outcome of access to financial and non-financial services was measured based on measurable indicators such as increase in net worth, profitability, number of employees, branches and premises, and product range depending on the size and nature of business undertaken by SMEs owners/managers.

## **2.9 Chapter Summary**

This chapter focused on the core concepts of the research study. This section reviewed literature associated with the concept of financial and non-financial services, the contribution of these services to the growth of SMEs. This section also examined the literature review from earlier similar studies, theory and end up with conceptual framework.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Chapter Overview**

Kothari, (2004) defines research methodology as a way to systematically solve the research problems. Research methodology sets out the procedures to be used in conducting the study and the logic behind with an aim of providing essential information that a reader needs to understand how the data were collected and analyzed. In this chapter it has been organized in the following sub-section.

#### **3.2 Research Design**

According to Creswell, (2007) research design refers to the plan or strategy of shaping the research that might include the entire process of research from conceptualizing a problem to writing research questions, and on to data collection, analysis, interpretation and report writing.

This study used descriptive cross sectional research design, also both qualitative and quantitative research methods were used, Cross sectional research design was selected because it provide description and explanation of various situational influences through a single point. Also it allows the researcher to be flexible to obtain and interpret meaning and experience of the respondents as the study itself relies on financial and non-financial services in influencing the growth of SMEs'.

#### **3.3 Location of study**

The study was conducted in Dodoma Municipality, Dodoma Region lies at 4° to 7° latitude South and 35° and 37° east, (URT, 2003).

People of Dodoma majority are peasants, livestock keepers and Fishing activities done at Mtera and Hombolo dam while minority employed in formal sectors, though different organizations and other informal sector are doing different business activities.

The research was carried out for clientele commercial SMEs of ACB Dodoma Municipality. The organizations are selected due to the fact that ACB vision and mission is provision of financial and non-financial services to commercial micro, small and medium enterprises.

### **3.4 Study Population**

According to Adam and Kamuzora, (2008) a study population is the totality of the objects under investigation. In this research, the study population refers to SMEs clients of ACB in Tanzania. It is worth mentioning that ACB Dodoma branch is a relatively new (opened in 2013) and a fast growing commercial bank. SMEs of ACB were used as a study population because policies and procedures on getting financial and non-financial services on financial institutions are similar throughout Tanzania. Above all, SMEs in Tanzania are guided by the National SMEs policy (2003) where financial matters are clearly stated in the policy.

### **3.5 Unit of Analysis**

The unit of analysis is the major entity that you are analyzing in a given study. For this purpose, the unit of analysis was Commercial Small and Medium Enterprises (C-SMEs).

### 3.6 Sampling Unit or Sample Size

According to Kothari, (2004) Sampling unit may be a geographical one such as a state, district, and village. Or it may be an individual. For example, when studying a group of SMEs, a single enterprise could be a sampling unit.

Sampling frame provided by ACB consisted of 1011 SME's that are being served by ACB. From the sampling frame a sample of SMEs' were selected. The research covered a sample size of 91 respondents which was obtained using a formula developed by Yamane, (1999). This formula was used because it provides an ample estimating technique.

$$n = \frac{N}{(1 + N(e)^2)}$$

(Source: Yamane, 1999)

Where;

n=sample size,

e=Level of significance (10%)

N=Total population

1=Constant

From the data, there is an estimation of the total population of 1,011 which consist of SMEs of ACB

Therefore:  $n = 1,011 / 1 + 1,011 * (10\%)^2 = 91$

### 3.7 Sampling Techniques

For the purpose of this study, two main methods were used in sampling. These methods included Purposive sampling and Simple random sampling. The study employed purposive sampling in identifying area of study which is ACB Dodoma Municipal Council. ACB was chosen purposively because it is

commercial bank which has ample number of Commercial SMEs' that are getting services compared to other big and long saving commercial banks which provide services such as loans to agricultural sectors. And hence they can provide the correct information and among of them each participant use financial and non-financial services in term of loan, savings and payment services. In such researcher decided to use such sampling population. In addition, since the bank was very cooperative and provided the researcher with sampling frame, Simple random sampling was used to get sample of the study.

### **3.8 Types and Sources of Data**

#### ***3.8.1 Primary data***

According to Adam and Kamuzora, (2008) Primary data is the data collected by the researcher himself/ herself or by research assistants from the field for the purpose of answering a research question/ issue. The study secured and made use of this type of data from selected case and targeted respondents and primary data was collected through questionnaires.

#### ***3.8.2 Secondary data***

Secondary data are data obtained from literature sources or data collected by other people for some other purposes. Thus secondary data provide second hand information and include both raw data and published ones (Saunders et al. 2000). For the purpose of this study, data from Publications, articles, journals, textbooks, reports from distinguished academicians, newspapers, policy and procedure manual for loan provision and via On-line sources such as Internet was used.

### **3.8.3 Data Collection Methods**

For the purpose of this study, the primary data required was collected through questionnaires. Meanwhile, secondary data was gathered through review of documentary and other second hand sources.

#### *3.8.3.1 Self Administered Questionnaires*

When the survey is confined to a local area, and the organization is willing and able to assemble groups of employees to respond to the questionnaires at the work-place, personally administering questionnaires is the best way to collect data (Sekaran, 1992). The study deployed this strategy of data collection tool since it is likely to offer the advantage of collecting the completed responses within a short period of time. Any doubt that the respondents might have regarding any question could be clarified on the spot, and the researcher also has the opportunity to introduce the research topic and motivate the respondents to give their honest answers.

#### *3.8.3.2 Documentary review*

The study reviewed ACB operating policy and procedure manual on SMEs, different journals, articles, published and unpublished materials, magazines and the like that reflect financial and non-financial services in influencing growth of small and mediums sized enterprises. The documentary reviewed again highlighted the role of financial institutions in resolving the problem. The documentary also assisted researcher to understand different theories and empirical studies from related field.

### **3.9 Data Analysis**

According to Kothari, (2004) data analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data groups. For the purpose of this study Data collected was entered

and analyzed using statistical package for social Sciences (SPSS version 20).

SPSS was used to provide quantitative techniques in which cross tabulations, bivariate regression and binary logistic regression model were the analytical methods used. Using these analytical tools various measures was deployed to establish and develop existing predictable relationship of variables. The use of SPSS was made using tables and figures according to research findings.

### ***3.9.1 Model of relationship between financial services, non-financial services and growth of SMEs'***

To estimate the relationship between financial services, non-financial services and growth of SMEs', the study adopted binary logistic regression model. The model was used by de Irala et al. (1997) in analysis of categorical data. This model was used because of the binary outcome which is SMEs' growth through access to financial services and non-financial services.

Presence of a cell with a frequency equal to zero implies that, an operation for which there is no definable outcome must be performed. Where it is impossible to estimate the coefficients and standard errors; and where it makes no sense to estimate the or for the category of the qualitative variable with a frequency equal to 0. Due to the numerical problem introduced, the programs fail; neither convergence nor correct results are obtained. In fact, because of the failure to achieve convergence, the calculation process is interrupted (at times the message "estimation terminated" is displayed).

The equation for the logistic regression model:

$$\ln\left(\frac{p}{1-p}\right) = \beta_0 + \beta_1x_1 + \dots + \beta_qx_q$$

Where:

$\beta$ =coefficients

X's=independent variables

### **3.10 Consent and Confidentiality**

This study was conducted among clientele commercial SMEs and employees of ACB Dodoma Municipality. Before initiating the study, research permission was obtained from the office of Director of postgraduate studies of St John's University of Tanzania. A letter of introduction to management of ACB for their clientele commercial SMEs was obtained.

In the field, no one was forced to fill the questionnaire, in preparing dissertation; researcher maintained high level of confidentiality for some data to avoid unauthorized users.

### **3.11 Validity and Reliability**

Validity and Reliability are two most important quality control concepts used in research design (Copper and Schindler, 2014). The importance of these concepts lies on the fact that the researcher has to make sure that the research methods are valid and reliable. Validity and Reliability are the two concepts, which any qualitative and quantitative research should take into consideration while designing a study, analyzing results and judging the quality of study.

### **3.11.1 Validity**

According to Babbie, (2007) Validity refers to the extent to which an empirical measure adequately reflects the real meaning of the concept under consideration. This was supported by Weinstein et al. (2006) who said the most critical was whether or not the results from a quantitative research study accurately reflect the phenomenon under investigation. In this study, content validity was assured by sharing the data collection tools (questionnaires, documentary review) with an expert in entrepreneurship. Rectification and adjustments of the content of the tools were made based on the technical advice given by the expert. Construct validity was observed by preparing the questions of the data collection tools focusing on the subject matter and arranging them in the orderly manner using simple English language to make the questions sound clear and understandable to the respondents when answering the questions.

### **3.11.2 Reliability**

According to Harrell and Wright, (1990); Copper and Schindler, (2014) Reliability refers to the relative absence of random measurement error in a measurement instrument or precision of a measurement instrument. The researcher tested the reliability of information collected from respondents through grouping questions in questionnaire into two groups of respondents being given exactly the same questions of the same concept to each group that is clientele commercial SMEs of ACB.

Therefore reliability was assured through pre testing of the research methods in a pilot study which involved 5 SMEs clients. Shortfall of the research methods were corrected after the pilot study of 5 SME clients.

### **3.12 Chapter Summary**

This chapter has discussed the research methods of this study. The research design of the study, types and sources of data, data collection methods, Questionnaire was used to collect the research data from the selected number of SMEs'. This was more convenient to get more data from the sample. Sampling unit, validity issues, data analysis methods and ethical consideration.

## **CHAPTER FOUR**

### **PRESENTATION OF FINDINGS**

#### **4.1 Chapter Overview**

This chapter aims at presenting the findings and discussion on the contribution of financial and non-financial services on the growth of SMEs' in Dodoma Municipality. The chapter also contains finding on social demographic features of respondents. And these findings are represented and interpreted in line with the financial services that contribute to the growth of SMEs', the non-financial services that contribute to the growth of SMEs' and the relationship between financial services, non-financial services and growth of SMEs.

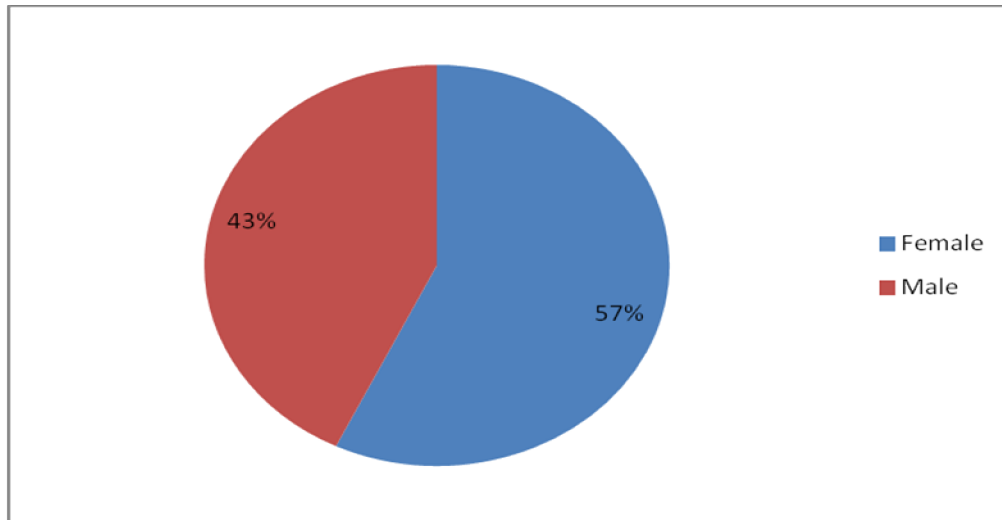
#### **4.2 Social demographic features**

The social demographic features of respondents in this study were measured in terms of gender, education levels, age, and how long their business had been in existence. This information is vital to the study since such education levels, registration of the businesses, number of employees in the business and the business existence are related to entrepreneurship (GEM Report, 2004).

##### ***4.2.1 Distribution of respondents by gender***

The findings on figure 4.1 indicated the distribution of respondents by gender, based on the findings, more than half of the respondents running SMEs' were females (57%) while slightly above two fifth of respondents (43%) were males.

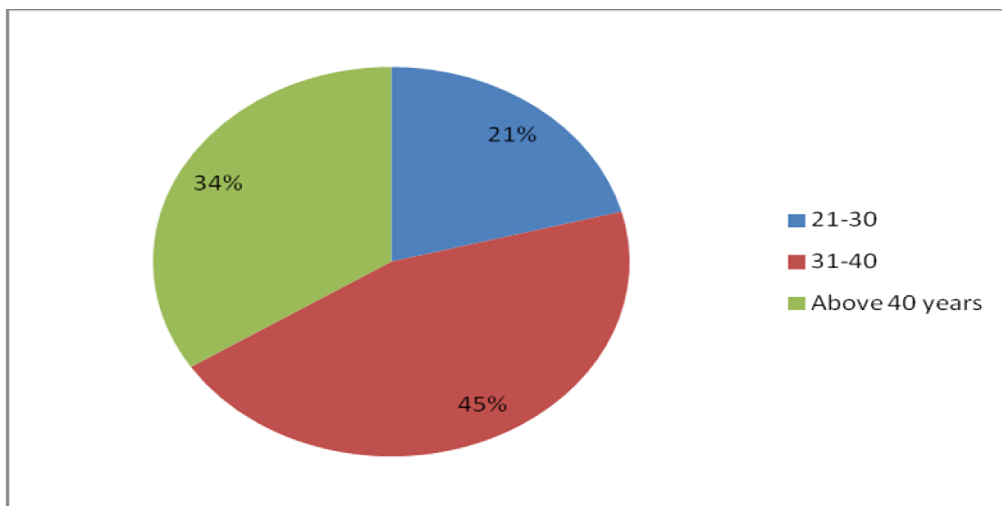
**FIGURE 4.1: DISTRIBUTION OF RESPONDENTS BY GENDER**



**4.2.2 Age of the Respondents**

The study was also put into consideration the sex of respondents; ages were condensed to give the accurate statistical answers. The findings revealed that, slightly above one fifth of respondents (21%) were of the age between 21-30 years old, (45%) were of the age between 31-40 years old, and nearly one fourth of respondents (34%) were of the age above 40 years old as indicated in figure 4.2.

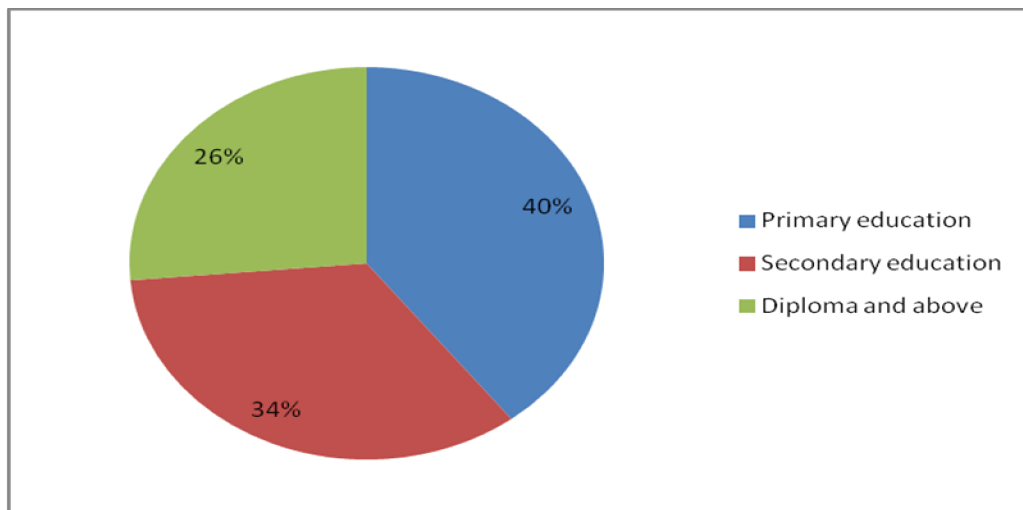
**FIGURE 4.2: AGE OF RESPONDENTS**



#### **4.2.3 Education levels of the respondents**

The level of education of the respondents was studied based on individuals response on their level of education, results were condensed to give the accurate statistical answers, The findings revealed that, about two fifth of respondents (40%) had primary education, nearly one fifth of respondents (34%) had secondary education. (16.5%) of respondents had diploma and above as indicated in figure 4.3. This was done so as know the level of education that majority of SMEs' belong.

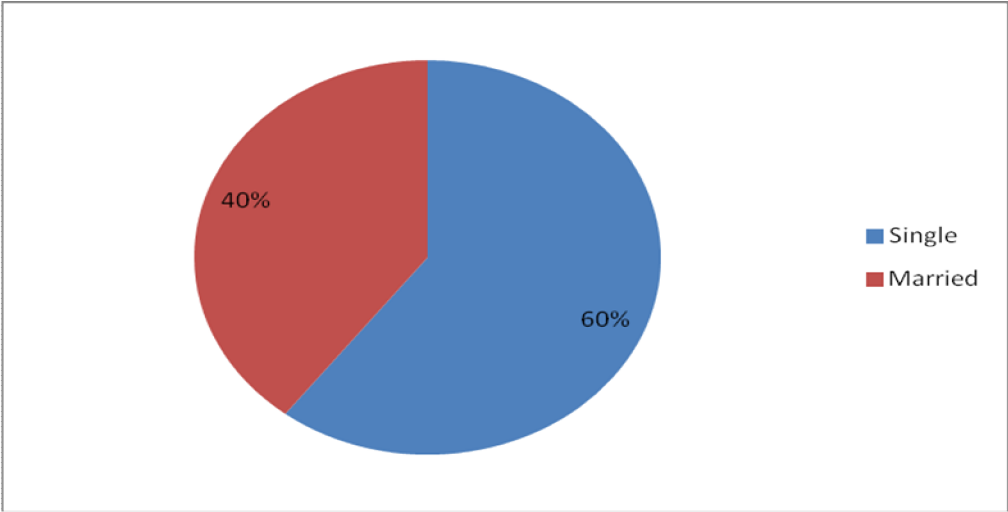
**FIGURE 4.3: DISTRIBUTION OF RESPONDENTS ACCORDING TO EDUCATION LEVEL**



#### **4.2.4 Respondents Distribution by marital status**

Respondents Distribution by marital status were also condensed to married and single where widow, widower, separated and divorced were regarded as single as indicated in figure 4.4. The findings depict that, about three fifth of respondents (60%) were single, two fifth of respondents (40%) were married. This was done so as to know marital status that many SMEs' possessed.

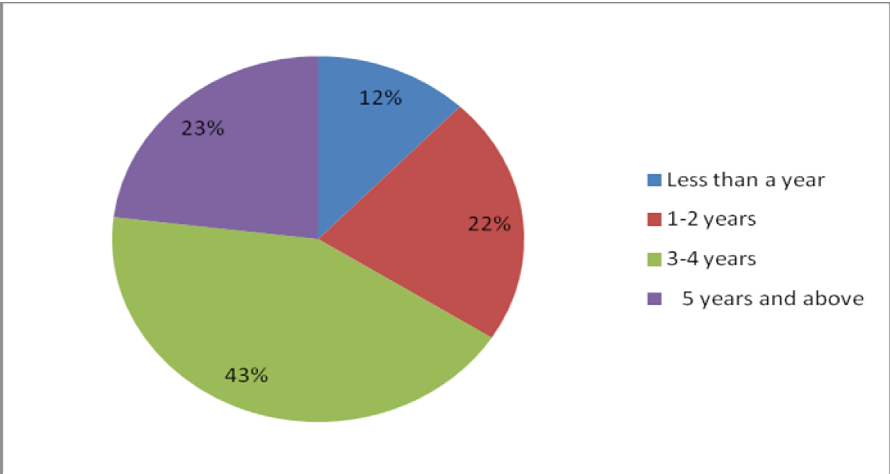
**FIGURE 4.4: DISTRIBUTION OF RESPONDENTS BY MARITAL STATUS**



**4.2.5 Duration of existence in the business**

Respondents' indicated also duration of existence in the business. The study findings revealed that (12.1%) of respondents operated SMEs' for less than a year, about one fourth of respondents (22.0%) operated SMEs' for 1-2 years, majority of respondents above two fifth (42.9%) operated SMEs' for 3-4 years and only about one fourth of respondents (23.1%) operated SMEs' for 5 years and above. This was done so as to know the life span of SMEs' as indicated in figure 4.5.

**FIGURE 4.5: RESPONDENTS' OPINION ON DURATION OF EXISTENCE IN THE BUSINESS**



### **4.3 The financial services that contribute to the growth of SMEs'**

This sub-section presented the category of financial services that contribute to the growth of SMEs, aspects such as categories of financial services and ranking of financial services according to respondents' opinion on their importance.

#### **4.3.1 Categories of Financial Services**

Respondents were asked to provide opinion on the category of financial service that contributes to the growth of SMEs'. Using multiple response analysis the findings of the study indicated that (42.2%) of respondents suggested on loan services, about (29.7%) of respondents said savings services, and very few respondents (13.5%) suggested payment services and (14.6%) for insurance services as presented in Table 4.1.

**TABLE 4.1: RESPONDENTS' DISTRIBUTION ACCORDING TO CATEGORIES OF FINANCIAL SERVICE**

<b>Category of financial service</b>	<b>Frequency(n)</b>	<b>Percent</b>
Saving services	57	62.6
Loan services	81	89.0
Payment facilities	26	28.6
Insurance services	28	30.8

Note: Respondents gave multiple responses

#### **4.3.2 Respondents' opinion on ranking the importance of financial services**

Respondents were asked on their opinion to rank on the importance of financial services contributing to growth of SMEs'. Results indicate that, more than half of respondents (59.3%) said Loan service is important financial service, (52.7%) of respondents' said savings service. (34.1%) said payment facilities and (41.8%) said insurance service as indicated in Table 4.2.

**TABLE 4.2: DISTRIBUTION OF RESPONDENT’S OPINION ON RANKING THE IMPORTANCE OF FINANCIAL SERVICES.**

<b>Respondents’ opinion on ranking the importance of financial services</b>	<b>Frequency (N %)</b>
Level of importance of loan as financial service	
Important	54(59.3)
Not important	37(40.7)
Level of importance of saving as financial service	
Important	48(52.7)
Not important	43(47.3)
Level of importance of insurance as financial service	
Important	38(41.8)
Not important	53(58.2)
Level of importance of payment facilities as financial service	
Important	31(34.1)
Not important	60(65.9)

**4.3.3 Respondent’s opinion according to contribution of financial services on SMEs’ growth**

Respondents were asked to give opinion on contribution of financial services to SME growth, Using multiple response analysis 45.5% of respondents said it help in additional to working capital through loans, 25.7% of the respondents said transforming risk,17.8% of respondents said facilitate transactions, 11% of respondents said mobilize savings as presented in Table 4.3.

**TABLE 4.3: DISTRIBUTION OF RESPONDENTS’ OPINION ACCORDING TO CONTRIBUTION OF FINANCIAL SERVICES ON SMES’ GROWTH**

<b>Opinion on contribution of financial services</b>	<b>Frequency(n)</b>	<b>Percent</b>
Addition to working capital	87	95.6
Transforming risk	49	53.8
Facilitate transactions	34	37.4
Mobilize savings	21	23.1

Note: Respondents’ gave multiple responses

#### **4.4 Non-financial services that contribute to the growth of SMEs'**

This sub-section describe non-financial services that contribute to growth of SMEs through category of non-financial services, ranking of non-financial services on their importance, cost of services, quality of services and satisfactory of services.

##### **4.4.1 Category of non-financial services**

The findings on Table 4.4 using multiple response analysis indicated respondents' distribution according to categories of non-financial services. About 38.5% of respondents indicated business training, slightly above one third of respondents 32.5% indicated advisory services, 21.2% of respondents indicated information services and only 7.8% of respondents indicated custodial services.

**TABLE 4.4: RESPONDENTS' DISTRIBUTION ACCORDING TO CATEGORY OF NON-FINANCIAL SERVICE**

<b>Category of non-financial services</b>	<b>Frequency (n)</b>	<b>Percent</b>
Business training	89	97.8
Custodial services	18	19.8
Advisory services	75	82.4
Information	49	53.8

Note: Respondents gave more than one responses

##### **4.4.2 Respondents' opinion according to ranking the importance of non-financial services.**

Respondents were asked to rank the importance of each non-financial service that influences growth of SMEs'.

The findings in Table 4.5 indicate that (44%) of respondents said training is important, (39.6%) said advisory service is important, (36.3%) said Information services and (23.1%) said custodial services.

**TABLE 4.5: DISTRIBUTION OF RESPONDENTS' OPINION ON RANKING THE IMPORTANCE OF NON-FINANCIAL SERVICES**

<b>Respondents' opinion on ranking the importance of non-financial services</b>	<b>Frequency (n %)</b>
Level of importance of training as non-financial service Important Not important	40(44) 51(56)
Level of importance of advisory service as non-financial service Important Not important	36(39.6) 55(60.4)
Level of importance of information as non-financial service Important Not important	33(36.3) 58(63.7)
Level of importance of custodial service as non-financial service Important Not important	21(23.1) 70(76.9)

**4.4.3 Respondents' opinion on contribution of non-financial services to SMEs' growth**

Respondents were asked to give their opinion on contribution of non-financial services to SMEs growth, using multiple response analysis on Table 4.6 the findings indicated that more than quarter of respondents 18.5% reported that non-financial services provide self awareness through training and advisory, about 33.2% of respondents reported that it provide business management skills, 23.2% of respondents reported that it provide knowledge information, 12.8% of respondents reported that it provides self confidence and only 12.3% reported that it provides innovativeness.

**TABLE 4.6: RESPONDENTS' OPINION ON CONTRIBUTION OF NON-FINANCIAL SERVICES TO SMES' GROWTH**

<b>Opinion on contribution of non-financial service</b>	<b>Frequency(n)</b>	<b>Percent</b>
Self confidence	27	29.7
Business management skills	70	77.0
Knowledge information	49	53.8
Self awareness	39	42.9
Innovativeness	26	28.6

Note: Respondents gave multiple responses

#### **4.5 Respondents' opinion according to cost of services**

The findings on Table 4.7 indicate respondents' distribution opinion on costs and other charges from services providers. The results show that, (22.0%) of total respondents opinion was cost and other charges are very expensive, about one fifth of respondents (20.9%) opinion was services are expensive, nearly half of respondents (49.5%) opinion was services are fairly expensive, and very few respondents 7.7% said cost and other charges are not expensive at all.

**TABLE 4.7: DISTRIBUTION OF RESPONDENTS' OPINION ACCORDING TO COST OF SERVICES**

<b>Opinion on cost and other charges</b>	<b>Frequency(n)</b>	<b>Percent</b>
Very expensive	20	22.0
Expensive	29	30.9
Fairly expensive	35	39.5
Not expensive at all	7	7.6
<b>Total</b>	<b>91</b>	<b>100.0</b>

#### 4.6 Respondents' opinion according to quality of services

The findings show that, (26.4%) of respondents said very high quality services, and about quarter of respondents (26.4%) said high quality, followed by (22%) who said poor quality, the least but not last were respondents who said very poor quality (14.3%), followed by only (1.1%) said not sure as indicated in Table 4.8.

**TABLE 4.8: RESPONDENTS' DISTRIBUTION ACCORDING TO OPINIONS ON THE QUALITY OF SERVICES**

<b>Opinion on quality of services</b>	<b>Frequency (n)</b>	<b>Percent</b>
Very high quality	24	26.4
High quality	33	36.3
Poor quality	20	22.0
Very poor quality	13	14.3
Not sure	1	1.1
<b>Total</b>	<b>91</b>	<b>100.0</b>

#### 4.7 Respondents opinion according to satisfactory of services

The findings on Table 4.9 shows results on satisfactory of services provided, the results indicated that 27.5% of respondents were highly satisfied, nearly half of respondents 46.2% were somewhat satisfied.15.4% of respondents reported that, they were neutral, and very few respondents 7.7% were poor satisfied and while only 3.3% were not satisfied.

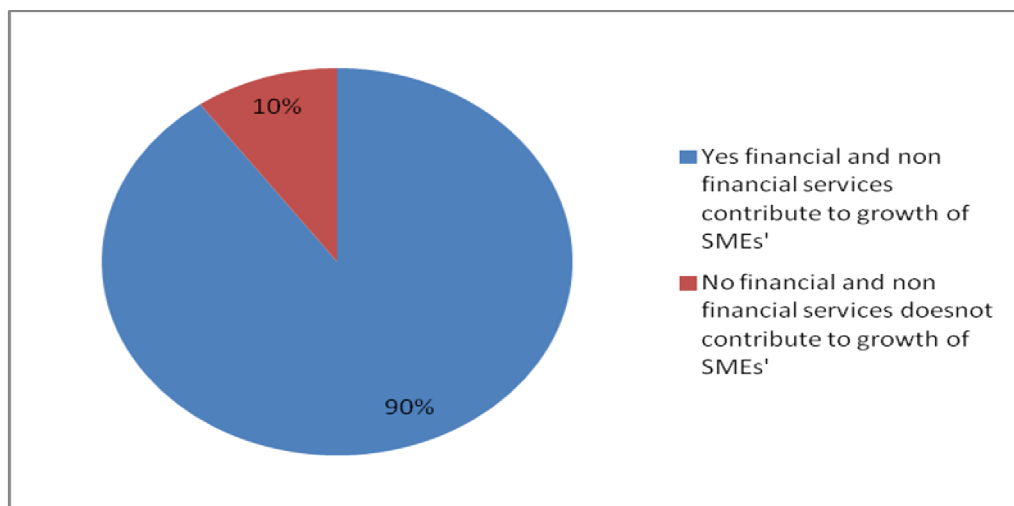
**TABLE 4.9: DISTRIBUTION OF RESPONDENTS' OPINION ACCORDING TO SATISFACTION OF SERVICES OFFERED**

<b>Opinion on satisfactory of services</b>	<b>Frequency (n)</b>	<b>Percent</b>
Highly satisfied	25	27.5
Somewhat satisfied	42	46.2
Neutral	14	15.4
Poor satisfied	7	7.7
Not satisfied	3	3.3
<b>Total</b>	<b>91</b>	<b>100.0</b>

#### **4.8 Contribution of financial and non-financial services to growth of SMEs.**

As to whether financial and non-financial services contribute to the growth of SMEs', respondents were asked if financial and non-financial services contribute to growth of SMEs'. The results indicated that 90% of respondents said "Yes" financial and non-financial services contribute to growth of SMEs and 10% of respondents said "NO" financial and non-financial services does not contribute to the growth of SMEs as indicated in figure 4.6.

**FIGURE 4.6: CONTRIBUTION OF FINANCIAL AND NON-FINANCIAL SERVICES TO GROWTH OF SMES**



#### **4.9 Respondents' opinion according to criteria of SMEs' growth**

The criteria of SMEs' growth in terms of respondents' opinion were also assessed; some of indicators were put forward by respondents in the findings on Table 4.10 using multiple response analysis, about 35.1% of respondents indicated that increase in sales was the most important criteria of SMEs' growth, about 29% of respondents said increase in staffs, 19.5% of respondents said increase in profitability. About 8.8% of respondents said in increase in customers and only 7.6% of respondents said increase in branches.

**TABLE 4.10: DISTRIBUTION OF RESPONDENTS' OPINION ON CRITERIA OF SMES' GROWTH**

<b>Opinion on criteria of SME growth</b>	<b>Frequency(n)</b>	<b>Percent</b>
Increase in Sales	49	53.8
Increase in customers	22	24.2
Increase in staffs	73	80.2
Increase in profitability	88	96.7
Increase in branches	19	20.9

Note: Respondents gave multiple responses

**4.10. The relationship between financial services, non-financial services and growth of SMEs'**

***4.10.1 Relationship between social demographic variables and financial and non-financial services.***

Bivariate analysis was conducted and Chi-square test was used to establish the relationship between the financial and non-financial services and social demographic variables. The social demographic variables included gender, age, marital status and level of education. During the test, the level of significance ( $\alpha=0.05$ ) was used. All the social demographic factors which had their computed p-values less than  $\alpha=0.05$  were regarded as significance with financial and non-financial services. All social demographic variables which were not associated with financial and non-financial services were identified using the p-values that is  $p\text{-value} > \alpha=0.05$ .

**TABLE 4.11: RELATIONSHIP BETWEEN SOCIAL-DEMOGRAPHIC VARIABLES AND FINANCIAL AND NON-FINANCIAL SERVICES**

Social demographic variables	Financial and non-financial services		
	Non-financial services	Financial services	P-value
Gender			.029 <sup>cc</sup>
Male	24(61.5)	15(38.5)	
Female	20(38.5)	32(61.5)	
Age group			<.0001 <sup>cc</sup>
21-30	3(15.8)	16(84.2)	
31-40	12(29.3)	29(70.7)	
>40	93.5(41.7)	6.5(58.3)	
Marital status			.55
Married	16(44.4)	20(55.6)	
Single	28(50.9)	27(49.1)	
Level of education			.39
Primary education	10(55.6)	8(44.4)	
Diploma and above	26(43.3)	34(56.7)	
Vocational education	8(61.5)	5(38.5)	

Key: <sup>cc</sup>=significance at  $\alpha=0.05$

Gender appeared to be significant related with the financial and non-financial services ( $p=0.029$ ), whereby majority of male respondents (61.5%) received non-financial services for the growth of their SMEs' and majority of female respondents (61.5%) received financial services for the growth of their SMEs'. Also age was significantly related ( $p<.0001$ ) with financial and non-financial services, majority of respondents who access financial services aged 21-30 (84.2%),while (15.8%) had access to no financial services. Respondents' aged 31-40 years old (70.7%) received financial services for the growth of their SMEs' while (29.3%) had access to non-financial services and those aged above 40years old, (58.3%) had access to financial services, while (41.7%) had access to non-financial services. The rest of the social-demographic variables, marital status and level of education showed no significance with financial and non-financial services for the growth of SMEs' as indicated in table 4.11.

#### 4.10.2 Opinion on contribution of financial services to SMEs' growth

The study also wanted to know respondents opinion on contribution of financial services to the growth of SMEs'.

**TABLE 4.12: RESPONDENTS' OPINION ON CONTRIBUTION OF FINANCIAL SERVICES ON SMES' GROWTH.**

Opinion on contribution of financial services to SMEs' growth	Financial and non-financial benefits		
	Non-financial benefit	Financial benefit	P-value
Level of importance of loan as financial service Important Not important	8(14.8) 36(97.3)	46(85.2) 1(2.7)	<.0001 <sup>cc</sup>
Level of importance of saving as financial service Important Not important	1(2.1) 43(100)	47(97.9) 43(100)	<.0001 <sup>cc</sup>
Level of importance of insurance as financial service Important Not important	38(100) 44(83.0)	38(100) 9(17.0)	<.0001 <sup>cc</sup>
Level of importance of payment facilities as financial service Important Not important	0(0) 44(73.3)	31(100) 16(26.7)	<.0001 <sup>cc</sup>

Key: <sup>cc</sup> =significance at  $\alpha=0.05$

All financial services appeared to be significant in providing the financial and non-financial benefits for growth of SMEs' as presented in table 4.12. Majority of respondents (85.2%) believed that it was important to get loan in order for SMEs' to grow. Followed by respondents (97.9%) who said it was important to have savings for SME to grow. Also majority of respondents (83%) said that it was not important to have insurance in order to attain growth of business. All respondents (100%) said that it was important to have payment facilities as financial service for their enterprise to grow.

#### 4.10.3 Contribution of financial services to SMEs' growth

The study also wanted to know respondents opinion on contribution of non-financial services to the growth of SMEs'.

**TABLE 4.13: RESPONDENTS' OPINION ON CONTRIBUTION OF NON-FINANCIAL SERVICES ON SMES' GROWTH**

Opinion on contribution of non-financial services to SMEs' growth	Financial and non-financial benefits		
	Non-financial benefit	Financial benefit	P-value
Level of importance of training as non-financial service			<.0001 <sup>cc</sup>
Important	0(0)	41(100)	
Not important	44(88)	6(12)	
Level of importance of advisory service as non-financial service			<.0001 <sup>cc</sup>
Important	0(0)	36(100)	
Not important	44(80)	11(20)	
Level of importance of information as non-financial services			<.0001 <sup>cc</sup>
Important	11(19.0)	47(81.0)	
Not important	33(100)	0(0)	
Level of importance of custodial service as non-financial services			<.0001 <sup>cc</sup>
Important	0(0)	21(100)	
Not important	44(62.9)	26(37.1)	

Key: <sup>cc</sup>=significance at  $\alpha=0.05$

All the non-financial services were significant in providing financial and non-financial benefits for the growth of SMEs'. Majority of respondents (100%) believed that training, information, advisory services and custodial services contributed significantly to the growth of SMEs' as presented in Table 4.13.

#### 4.10.4 The relationship between financial and non-financial services

The study wanted to know if there is relationship between financial and non-financial services, spearman rank correlation was run and the result is indicated in Table 4.14.

**TABLE 4.14: RELATIONSHIP BETWEEN FINANCIAL AND NON-FINANCIAL SERVICES**

Non-financial services	Financial services			
	Level of importance of loan	Level of importance of saving	Level of importance of insurance	Level of importance of payment facilities
Level of importance of training	.91 <sup>cc</sup>	.80 <sup>cc</sup>	-.64 <sup>cc</sup>	-.54 <sup>cc</sup>
P –Values	.000	.000	.000	.000
Level of importance of advisory service	.85 <sup>cc</sup>	.74 <sup>cc</sup>	-.59 <sup>cc</sup>	.50 <sup>cc</sup>
P –Values	.000	.000	.000	.000
Level of importance of information	.65 <sup>cc</sup>	.71 <sup>cc</sup>	.40 <sup>cc</sup>	-.52 <sup>cc</sup>
P –Values	.000	.000	.000	.000
Level of importance of custodial service	-.70 <sup>cc</sup>	.56 <sup>cc</sup>	.64 <sup>cc</sup>	.77 <sup>cc</sup>
P –Values	.000	.000	.000	.000

Correlation is significant at the .05 level (2-tailed)

Key: <sup>cc</sup> =Correlation coefficient

Table 4.14 indicate there relationship between financial services and non-financial services, the results revealed that there is strong positive relationship between loan and training with correlation coefficient .91, also there is strong positive correlation between training and savings with correlation coefficient .80, this means that access to financial services together with non-financial services can lead to growth of SMEs’.

**4.10.5 Binary Logistic regression model**

Binary logistic regression model was applied to determine the functional relationship between financial services, non-financial services, moderating variables and growth of SMEs’. Only gender, age group and loan appeared to be significant during the bivariate analysis, therefore they were included for the multiple logistic regressions. However, financial and non-financial services except loan as financial service were not included for the

multivariate since there exist discrepancy values across cells of the variable as displayed on cross sectional table 4.12 and table 4.13 and majority of these cells contain at least one cell with zero value.

All variables including moderating variables which showed significance with the growth of SMEs' during univariate analysis were included for multivariate analysis. Except all significant explanatory variables which had at least zero value in their cells during cross tabulation with growth.

**TABLE 4.15: BINARY LOGISTIC REGRESSION MODEL**

<b>SME growth</b>	<b>P-value</b>	<b>AOR, CI</b>
Gender		
Male	0.232	4.05(0.41-40)
Female	Reference	Reference
Age group		
21-30	0.177	5.84(0.45-75.63)
31-40	0.068	0.14(0.017-1.155)
>40	Reference	Reference
Level of importance of loan as financial service		
Important	<.0001	0.04(0.00-0.07)
Not important	Reference	Reference

AOR: adjusted odds ratio, CI: confidence interval

Those respondents aged 21-30 years old were six times (AOR=5.84,CI: 0.45-75.63,p=0.177) more to increase the growth of their business through financial and non-financial services as compared to those aged 31-40 years old. While those respondents aged 31-40 years old were seven times more (AOR=1/0.14,CI: 0.017-1.155,p=0.068) to increase the growth of their business through financial and non-financial services as compared to those aged above 40 years old.

Majority of respondents believed that it was important (AOR: 1/0.04, CI: 0.00-0.07,  $p < .0001$ ) to receive loan as financial service in order to attain growth of their business as compared to those who believed that it was not important as presented in Table 4.15.

## **CHAPTER FIVE**

### **DISCUSSION CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Chapter overview**

The chapter starts by presenting the discussion, conclusion and finally the recommendations on various issues that may be useful in contributing to the growth of SMEs'. This chapter presents the discussion on findings by comparing what was established in this study with what other scholars have established in literature review. Conclusion on issues found in the study and the recommendations were also presented. Suggestions for further studies were also made.

#### **5.2 Social Demographic Features**

The findings indicate the existence of sex imbalance due to existence of more females 57% running SMEs' than males 43%. This supports the study by Kayanula and Quartey, (2000) that majority of the SMEs are female owned businesses. Although there are other studies showed that more males were running SMEs' compared to females. In the findings of Kisaka and Mwewa, (2014) on their article 'Effects of credits, savings and Training on the growth of SMEs' in Kenya, they pointed out that males outweigh in number in terms of running SMEs. Generally, this can be concluded that larger numbers of females are running SMEs.

The findings of the study revealed that, majority of the respondents (45%) were in the age group between 31-40 years, followed by (34%) for respondents above 40 years. This is consistent with the studies conducted by Islam, Khan, Obaidullah and Alam, (2011) in their study on growth of SMEs' in Bangladesh, who found that approximately 49% of SME owners are between the ages of 31-40 years. The implication here is that most of

SMEs are owned and managed by the middle-aged people. This can be because middle aged people have already established themselves economically and hence are capable to have collateral for access to credit and other services such as savings, insurance and payment services.

Findings of the study indicated that majority of respondents running SMEs' had primary education (40%) followed by secondary education (34%), while only (26%) of respondents had diploma and above. This is consistent with the study of Kairuki, (2013) where most of the respondents nearly three quarter had primary education. The study findings indicated that most of the SMEs' are owned and managed by semi illiterate class of people. Therefore this can be concluded that, most people running SMEs have primary and secondary education level.

The study also found that, majority of respondents running SMEs' (40%) were married, while (60%) of respondents' were single. This is due to the fact that researcher condensed widower, widow, separated and divorced to the group of single .In financial institutions married are more trusted to be provided with services because they have permanent settlement compared to single.

Results indicate that majority of respondents, slightly above two fifth (43%) had been in operation for 3-5 years. This is consistent with the results obtained in the study by Mbugua, Wangoi, Ogada and Kairuki, (2013) who argued that, the mean business age was 3.5 years. Barton and Gordon, (2000) also concluded that, an SME established today will most likely not be around after 4 years. In the United States of America, (Stangler, 2011) found that, most SMEs have been operating for between 1 to 5 years in 2009. Rungani, (2009) also found that in South Africa most SMEs' operated

between the ages of 0-5 years. Therefore, this can be concluded that majority of SMEs have life span between 0 and 5 years old.

### **5.3 The financial services that contribute to the growth of SMEs'**

The study found that, majority of respondents (42.2%) said loan is the financial service that influences the growth of SMEs', followed by savings (29.7%). This indicates that loan and savings are financial services mostly used by SMEs' toward growth of business. Loans provide SMEs' with additional to working capital of the business, business expansion, purchasing of raw materials, stocks and any other business necessities. Savings is essential for SMEs' as it provides a good chance to accumulate capital and provides the greater capability for self investment, savings also reduce the need to borrow from financial institution at high interest rates, and also the ability to purchase more productive assets improved, moreover ability for self running of business without external assistance increase. The study by Olaitan, (2006) also found that despite of the fact that credit is recognized as essential tool for contributing to SMEs' growth, savings also play the important role next to credit. This is in line with World Bank, (2013) whose findings were, lack of access to loan is a major constraint inhibiting the growth of SMEs sector, similarly, Babajide, and (2012) found that saving and loan are the most financial services provided by financial institution to meet the need of client towards the performance of SMEs. Concurrently, Ahiawodzik and Adade, (2012) found that, mostly not all SMEs' access to saving and loan services from financial institution due to limitation of credit and conditionality attached to loan and saving. Thus, the growth of SMEs' can't be limited to realize its potential due to failure of saving and loan conditions. Therefore, from the findings of this study it can be concluded that

loan and savings are essential financial services that influence growth of SMEs'.

On the other hand results indicated that, more than half of respondents (59.3%) said loan and (52.7%) said saving were important financial service contributing to growth of SMEs'. This is consistent with the study by Brockhaus, (2001) found that Loans and savings are essential and important financial services which help SMEs' to smooth out income fluctuations and maintain consumption levels even during lean periods. But, Bwana, (2013) observed contradiction observation that microfinance institution provides not only loan and saving but also training to its members towards SMEs operation and management to recover the loan.

Furthermore, the study done by Meyer, (2001) reported that, financial services such as saving facilities, credits, insurance, and money transfer are essential to the success and performance of SMEs towards the business environment.

Also the study was able to found out respondents opinion on contribution of financial services to SMEs' growth, results indicated that 45.5% of respondents said addition to working capital. Similarly to study findings, Grade (1984), observed that, loans enable individual members or enterprises to enjoy the benefit of economies of scale and additional to working capital.

#### **5.4 Non-financial services that contribute to the growth of SMEs'**

The study found that 38.5% of respondents indicated that knowledge generated from training of SMEs owners is appropriate ingredient in the growth of SMEs. This is consistent with the study by Kessy and Temu, 2010) who found that, training has positive impact on the growth of SMEs. Similarly

Bwana, (2013) microfinance provides training to its members towards SMEs operation and management. Concurrently, Brockhaus, (2001) found that non-financial services such as training is limited in its effectiveness if provided in isolation, but should be included to loan and saving for the growth of SMEs.

The findings indicated that Training (56%), Information (45.1%) and Advisory services (40.7%) highest important This is consistent with the journal on “Effect of saving, credit and Training on the Growth of SMEs’ in Kenya by Kisaka and Mwewa, (2014) found that, there is upward trend in total expenditure on training by SMEs’ rising from 11% in 2009 to 24% in 2012. This indicates that, SMEs’ are increasingly realizing the importance of training on the survival and life span of SMEs’. Concurrently, Chijoriga, (2000) argued that training is rarely conducted in most of the financial institution, but little considered during loan provision and annual meeting. This mostly associated to poor evaluation of training in relation to the performance and growth of SMEs.

The key informant suggested that training provision should be directly connected to the performance of SMEs’. Training is the valuable non-financial service.

### **5.5 The relationship between financial services, non-financial services and growth of SMEs**

The findings indicated there is relationship between financial services and non-financial services, these findings could be critically related to Abiola, (2012) who found that training has high impact in the provision of loan. Mostly SACOSS management has significantly influence training and saving of microfinance clients. Similar observation by Meyer, (2001) training is highly related to loan provision in such a way that when SMEs’ owners receive

training on the uses of loan then more loan are provided. There is increasingly difficult to finance SME with training on the uses of loan. But Kessy and Temu, (2010) argued different not necessary any SME owners received training perform better on loan recovery, but depend on the economic condition and the rate charged by microfinance institution. Concurrently, Mason, (2009) observed that not necessary training connected to provision of loan, either one can influence growth of SMEs' in most of the developing countries. These findings witnessed the relationship between training and loan provision, this indicates that during training is high also saving of SME clients is higher, These findings supported by (Abiola and Babajide, 2012) that training and loan provision have close relationship and then influence performance of SME. Furthermore, findings observed the close relationship between financial services and growth of SME and Non-financial services and growth of SME, literature also indicated the close relationship between financial and Non-financial services to the growth of SME (Stangler, 2011; Rungan, 2009).

Contrary to these findings is the carried out research in three countries, Kenya, Malawi and Ghana. The author came to the conclusion that, there was little evidence to suggest that any significant and sustained impact of microfinance services on clients in terms of SME development, increased income flows or level of employment. The focus in this argument is that, improvement to access to microfinance and market for the poor people was not sufficient unless the change or improvement is accompanied by changes in technique and or technology.

Therefore it can be concluded that, there is relationship between financial services, non-financial service and growth of SMEs' who access financial services such as loans, also need non-financial service such as good advisory service and business training on how to use the loan properly without misallocation and diversion of funds so that they repay their loans on time and also it help to increase their working capital and growth of business as well.

### **5.6 Contribution of research findings to knowledge**

There are so many researches that have been conducted on SMEs' in different social, cultural and economic context, for example the study by Olomi, (2009), on Africa Entrepreneurship and small business development. Dar es Salaam .Also the study by Mukhtar, (2009) in Nigeria on the role of microfinance banks in the promotion and development of entrepreneurship in semi urban and rural areas. The studied SMEs' in this study were those that are clients of ACB and hence the findings obtained in this research were specific for geographical environment of Dodoma. Commercial banks do not necessarily provide similar financial and non-financial services like MFI's such as FINCA, BRAC, PRIDE that serve SMEs, this situation create financial and non-financial requirements that are different between the two(financial institutions and microfinance institutions) due to different policies, regulations, focus and practices.

The study has contributed knowledge on how financial and non-financial services can be provided to SMEs' in this particular social economic environment of Dodoma where social, geographical, commercial growth is growing and which are different from any other regions and countries

The study has provided knowledge on how SMEs' can access and utilize financial and non-financial resources effectively from commercial banks for their survival. Similarly the study has shown that SMEs' which access financial and non-financial resources from commercial banks they thrive if they utilize the available resources as intended and if they adhere to policies, regulations and practices of commercial banks.

In addition, the study has revealed that many SMEs' put more emphasis on financial resources compared to non-financial resources which are equally essential for their growth. This shows that financial literacy of SMEs is increasing.

### **5.7 Conclusion**

A large proportional of customers in the study area accept financial and non-financial services and its contribution to the growth of SMEs'.

Loan was found to be important financial service in growth of SMEs' through addition to working capital, followed by Savings, insurance and payment facilities in contributing to the growth of SMEs'.

Training was found to be the important non-financial service in the growth of SMEs' especially in assisting SMEs' in on time loan repayment and the use of loans for intended purpose.

However, findings indicate that, SMEs' are more concerned with loan as a financial services followed by savings and less concerned with non-financial services such as training, information, insurance and custodial services. Therefore this can be concluded as the reason to why SMEs' fail to repay back their loans on time and default because they lack non-financial service such as business training and advisory services on how to use loans.

Results also indicate that the social demographic factors, age group and gender had significant relationship with financial and non-financial services when binary logistic regression was run.

Also the findings of the study revealed that, there is a significant relationship between financial services, non-financial services and growth of SMEs'

From the findings of the study the researcher concludes that, financial and non-financial services have contribution to the growth of SMEs'. Access to financial services such as loans, require training and advisory services on how to use loan effectively so as to achieve growth of business. However, access to financial and non-financial services is not that easier from financial institutions considering many requirements one has to meet before the service is approved to the SME owners.

In nutshell, a general conclusion can be made that financial services and non-financial services positively affect the growth of SMEs'. This relationship is enhanced by the quality services, fair costs of services and satisfactory of services. Most of respondents said, when they applied for services from financial institutions, and received services such as loans on time, it affected their business positively. And when they applied for services and did not receive the service on time, it affected their business negatively. This is an indication that as financial services and non-financial services become more available, there is growth of SMEs'.

## 5.8 Recommendations

In view of foregoing observations and conclusions, the following recommendations were made;

- ❖ Based on the findings, it can therefore be recommended that in order for SMEs' to continuously access financial and non-financial services for their business growth, they need to build good working relationships with financial and non-financial service providers and build their capacity in utilizing both financial and non-financial services.
- ❖ Financial institutions should put their policies clear to be understood well by SMEs so that before they access any kind of financial and non-financial services they are aware of the policies associated with such services.
- ❖ It is recommendation of this study for financial institutions to extend their services to rural areas, so that SMEs in rural areas can also access financial and non-financial services for the growth of their enterprises and development of the country as whole.
- ❖ Financial institutions should provide financial support and other services such as loans to business startup, graduate students and to other categories of SMEs' such as Forestry and Agricultural.
- ❖ Because findings were not representative, we recommend having a more representative study on the topic that will cover many financial institutions and a large population of SMEs.
- ❖ Government should continue to design a number of policies and programs supportive to the development of the sector and monitor implementation of the policy through annual action plans including strengthening of monitoring capacity.

- ❖ The study also recommends for mechanisms of training where all SMEs' should be trained before they get services such as loans, savings, insurance so that they can understand well the type of service they intend to access in order to benefit from the service and hence attain growth of their business.

### **5.9 Areas for Further Studies**

This study was conducted to cover a small sample size, the future studies should be conducted in different areas and to cover a large sample size. I suggest also future researchers should keenly observe the impact of financial services to loan recovery among the microfinance clients.

The results of the study therefore point to a study a number of opportunities for further research. These include;

- There is need to research on the external factors that hinder access to financial and non-financial services by the SMEs'.
- Research on non-finance factors which affect SMEs' success and failure.
- Challenges of SMEs that have accessed financial and non-financial services but have not attained growth.

### **5.10 Chapter Summary**

This chapter presented the discussion on the findings of the study as per chapter four. The discussion based on the current findings in relation to different literatures, empirical review from the earlier similar studies and theory. Also the conclusions as well as recommendations were outlined.

## REFERENCES

- Abiola, B. (2012). Effects of Microfinance on Micro and Small Enterprises Growth in Nigeria. *Asian Economic and Financial Review* , 2 (3), 463-477.
- Adam, J., & Kamuzora, F. (2008). *Research Methods for Business and Social Studies*. Mzumbe Book Project. Retrieved October 22, 2015, from [http://scholar.mzumbe.ac.tz/MBA% 20cm/LLM-Dissertation](http://scholar.mzumbe.ac.tz/MBA%20cm/LLM-Dissertation).
- Agresti, A. (2002). *Categorical Data Analysis*. New York: Wiley Interscience.
- Ahiawodzik, P., & Adade, C. (2012). Access to credit and growth of Small and Medium enterprises in the Ho Municipality of Ghana. *African Journal of Business Management* , 6 (2), 41-69.
- Akiba Commercial Bank. (2012). *Operations Processes and Procedural Manual*. Retrieved May 19, 2015, from <http://www.acbtz.com>
- Akiba Commercial Bank. (2013). *Loans Processes and Procedural Manual*. Retrieved May 19, 2015, from <http://www.acbtz.com>
- Asian Pacific Economic Cooperation. (2003). *Small and Medium Enterprise Guide* (2nd ed.). Retrieved July 27, 2015, from <http://www.apecsec.org.sg>
- Ayyagari, M., Beck, T., & Lobe, D. A. (2011). *Small and Medium Enterprises across the globe*. World Bank Working Paper.
- Babajide, B. (2012). Funding of Small and Medium Enterprises. Business day. *Journal of business development* , 12 (15).
- Babbie, E., & Moutony, J. (2007). *The Practice of Social Research* (2nd ed.). Cape Town, Southern Africa: Oxford University Press.
- Bank of Tanzania. (2006). *Monetary Policy Statement*. Dar es Salaam: Government Printers.
- Beck, T., Demirguc-Kunt, A., & Levine, R. (2005). Small and Medium Enterprises, Growth and Poverty: Cross-Country evidence. *Journal of Economic Growth* , 10 (3), 197-227.
- Bennet, J. (1994). Adapting to climate change in Pacific Island countries: the problem of uncertainty. *Journal of World Development* , 29 (6), 977-993.
- Bhattacharyya, A., Lovell, C. A. K., & Sahay, P. (1997). The Impact of Liberalization on the Productive Efficiency of Indian Commercial Banks. *European Journal of Operational Research*, 98 (2), 332-345.

- Biggs, J. (1996). *The Determinants of Enterprise Growth in Sub Saharan Africa: Evidence from Regional Program on Enterprise Development*. World Bank, Washington.
- Blockhouse, B. (2001). Testing the tools of development: Credit Programmes, Loan Involvement and Empowerment. *Institute of Development Studies Bulletin* , 26 (3) , 56-58.
- Buckley, G. (1997). "Micro finance in Africa: Is it either the problem or a solution?" *World Development Report*, 25 (7), 1081-1093.
- Burns, P. (2001). *Entrepreneurship and small businesses* (2nd ed.). Great Britain: World Bank.
- Bush, R. P., Hair, J. F., & Ortinau, D. J. (2006). *Marketing Research: Within a changing information environment* (3rd ed.). New York: McGraw Hill Companies Inc.
- Bwana, M., Mwakujinga, A., & Msigwa, E. (2013). *Determinants of Relevancy of Microfinancial services to Small and Mmedium Eenterprisess and Clients Responsiveness* (2nd ed.). Tanzania: Dar es Salaam University press.
- Chijoriga, M. (2000). *The Performance and Sustainability of Micro Finance Institution in Tanzania*. Research Paper, College of Business Education, FCM.
- Chijoriga, M., & Cassimon, A. (1999). *Micro Enterprise Financing: Is there a Best model?*. (Rutashobya, & Olomi, Eds.). Dar es Salaam: DUP.
- Christabell, V. (2009). *Women empowerment through capacity building: The role of Microfinance institutions* (2nd ed.). Cape Town: University of Cape Town Press.
- Churchill, N.C., & Lewis, V. L. (1983). The Five stages of Small Business Growth. *Harvard Business Review* , 61 (3), 30-50.
- Cook, P., & Nixson, F. (2000). Finance and Small and Medium-Sized Enterprise Development. *Journal of development Entrepreneurs* , 6 (1), 51-60.
- Cooper, D. R., & Schindler, P. S. (2014). *Business Research methods* (12th ed.). New York: McGraw Hill/Irwin Inc.
- Creswell, J. W. (2007). *Qualitative Inquiry and Research Design: Choosing among Five Approaches* (2nd ed.). Thousand Oaks, CA: Sage.
- De Irala, F., Rafael, N., & Del Castillo, S. (1997). "Abnormally wide confidence intervals in logistic regression: interpretation of statistical program results": *Rev Panam Salud Publica/Pan Am J Public Health* , 2 (4).

- De Kok, J., Vroonhof, P., Verhoeven, W., Timmermans, N., Kwaak, T., Snijders, J., & Westhof, F. (2011). *Do SMEs create more and better Jobs? Paper presented by EIM Business Policy Research for the European commission*. Retrieved June 02, 2015, from <http://ec.europa.eu/enterprise/policies/sme/facts-figures/analysis/performance-review/files/supporting-documents/2012/methodological-reporten.pdf>
- Diagne, A., & Zeller, M. (2001). *“Access to Credit and its impacts in Malawi” Research Report No.116*. Washington DC, USA: International Food Policy.
- Fielden, S. L., Davidson, M.J., & Makin, P. J. (2000). Barriers encountered during micro and small business start-up in North-West England. *Journal of small Business and Enterprise Development* , 7 (4), 295-304.
- Global Entrepreneurship Monitor. (2004). *Uganda Executive Report*. Kampala, Uganda: Makerere University Business School.
- Grade, O. T. (1984). *Role of Rural Credit Projects in Reaching Poor: Group Based Savings and Credit for the Rural Poor*, Geneva. Retrieved September 23 2014, from studies in Rural Credit Projects: [http://rcprp.gbscr/article/vol80/800 abedin&moula.pdf](http://rcprp.gbscr/article/vol80/800%20abedin&moula.pdf)
- Greiner, T. (1998). Evolution and Revolution as organizations grow. *Harvard Business Review* , 50 (1), 37-56.
- Harper, M. (1984). *How effective are credit policies in Developing Countries*. London: The MIT Press.
- Harrell, A., & Wright, A. (1990). Empirical Evidence on the Validity and Reliability of Behaviorally Anchored rating Scales for Auditors. *Journal of practice & Theory*, 9 (3), 134 -149.
- Harvie, C., & Lee, B. (2005). Public Policy and Small Medium Enterprises Development in Sustaining Growth and Performance in East Africa. *African Journal of Business and Development Policies*, 10 (4), 187-205.
- Hilbe, J. M. (2009). *Logistic Regression Models*. Chapman & Hall/CRC Press.
- International Finance Cooperation. (2005). *Access to Finance Assessment*. Washington: World Bank Group.
- Kashuliza, A. K., Hella, J. P., Magayane, E. T., & Mvena, Z. K. (1998). The Role of Informal and Semi - formal Finance in Poverty Alleviation in Tanzania. *Research on Poverty Alleviation* , 98 (1), 65.

- Kayanula, D., & Quartey, P. (2000). The policy Environment for Promoting Small and Medium Enterprises in Ghana and Malawi. *Finance and Development research Programme*, 15 (1).
- Kessy, A.S., & Urio, M. F. (2006). *The Contribution of Microfinance Institutions to Poverty Reduction in Tanzania*. Retrieved September 22, 2014, from Research on Poverty Alleviation: <http://www.repoa.org/tz/new/documents/06.3kessyandurio.pdf>
- Kessy, S., & Temu, S. (2010). The Impact of Training on performance of Micro and Small Enterprises Served by Microfinance Institutions in Tanzania. *Research Journal of Business Management* , 4 (2), 103-110.
- Kisaka, E. S., & Mwema, M. N. (2014). Effects of micro-credit, micro-saving and training on the growth of small and medium enterprises in Machakos, country in Kenya. *Research Journal of finance and Accounting* , 5 (7), 2222-2697.
- Kothari, C.R. (2004). *Research methodology, Methods and techniques* (2nd ed.). New Delhi: New Age International (p) Ltd Publishers.
- Kuzilwa, J. A., & Mushi, E. K. (1997). Credit Needs for Small Businesses. *The Tanzania Bankers Journal* , 9 (1), 13-16.
- Ledgerwood, J. (1999). *Sustainable Banking with the Poor. Microfinance Handbook: An institutional and financial perspective*. Washington DC: The World Bank.
- Liedholm, C., & Mead, C. (1999). *Small Enterprises and Economic Development, The dynamics of micro and small enterprises, Rutledge Studies in Development Economics* (2nd ed.). New York: McGraw Hill Companies Inc.
- Mason, W. (2009). The small Business Administration SME's Life Cycle on Economic Development Associates Agricultural Market Research for Microfinance and SMEs Interventions. *Journal of Agricultural market research* , 14 (6), 3-12.
- Memba, E. (2012). Venture Capital It's Impact on Growth of Small and Medium Enterprises in Kenya. *International Journal of Business and Social Science*, 3 (6), 90-100.
- Meyer, F. (2001). *Credit-Union member's financial services*. Retrieved May 23, 2015, from <http://www.Fredmeyer.cu.org>
- Ministry of Finance, Planning and Economic Development. (2008). *Enhancing the Competitiveness of Micro, Small and Medium Enterprises. Kampala, Uganda*. Paper discussion 15. Retrieved June 6, 2015, from <http://www.mfped.ug.org>

- United Republic of Tanzania, Ministry of Finance. (2000). *National Micro Finance policy, United Republic of Tanzania*. Dar es Salaam: Government Printers.
- United Republic of Tanzania, Ministry of Industry and Trade. (2002). *Assistance to Small and Medium Enterprises*. Government of Tanzania: Government Printers.
- United Republic of Tanzania, Ministry of Trade and Industry (2012). ). *Assistance to Small and Medium Enterprises*. Dar es Salaam: Government Printers.
- Mlingi, B. A. (2000). 'State of the art' review of the informal sector in Tanzania, *prepared for the International Labor Office*. Dar es Salaam University Press.
- Mosley, I. (2001). Micro Enterprises Finance and a Trade off between Trade and Poverty Alleviation. *Journal on poverty alleviation* , 3 (1), 90-102.
- Mukhtar, M. (2009). *The role of microfinance banks in the promotion and Development of Entrepreneurship in Semi Urban and Rural Areas in Nigeria*. Retrieved on May 21, 2015, from <http://www.focus-Nigeria.com>
- Myers, S. (1977). Determinants of corporate borrowing. *Journal of Financial Economics*, 5 (3), 147–175.
- Naituli, G., Wegulo, F., & Kaimenyi, B. (2006). Entrepreneurial Human Capital and Growth of Micro and Small Scale Women enterprises in Rural Kenya. *Journal of entrepreneurial human capital and growth* , 2 (4), 33-40.
- Ngowi, H. P., & Milanzi, M. (2006). *Small and Medium Enterprises Competitiveness Facility:Export Market Prospects desk study in Tanzania.Mzumbe University*. Retrieved on December 22 nd 2014 from <http://www.muacademic.edu/1438908/2006/3.add.1.e.pdf>
- Ngugi, W., & Kerongo, F. (2014). Effect of Micro Financing on Growth of Small and Medium Enterprises in Mombasa coutry. *Business Management Review Journal* , 2 (4), 138.
- Nieman, G., Hough, J., & Nieuwenhuizen, C. (2003). *Entrepreneurship on a South Africa perspective*. South Africa: Paarl Printers.
- O'Farrell, P., & Hitchens, D. (1988). Alternative Theories of Small Firms Growth. *A critical review Journal of environment and planning* , 20 (2), 1365-1383.
- Olagunju, Y. A. (2004). *Entrepreneurship and Small Scale Business Enterprise Development in Nigeria*. Ibadan: University Press.

- Olaitan, M. A. (2006). Finance for Small and Medium Enterprises. *Journal for International Farm Management* , 3 (2), 1-9.
- Olomi, R. (2006). *Opportunities and Challenges for Rural SMEs development in Tanzania: Policy Dialogue Seminar Paper of Economic and Social Research Foundation in Dar es Salaam*. Retrieved November 05, 2014, from <http://www.olomidr.org>
- Olomi, R. (2009). *Africa Entrepreneurship and Small Business Development*. Dar es Salaam: Otme Company Limited.
- Ozkan, A., & Ozkan, N. (2004). Corporate Cash Holdings: an empirical investigation of UK Companies. *Journal of Banking and Finance* , 28 (1), 2103-2134.
- Parker, R., Riopelle, R. & Steel, W. (1995). *Small Enterprises Adjusting to Liberalization in Five African Countries*. African Technical Department Series. Washington DC: The World Bank.
- Private Sector Foundation Uganda. (2006). *Business Uganda Development Scheme*. Retrieved May 20, 2015, from <http://www.psf.org/uganda/43963252.pdf>.
- Randhawa, B., & Gallardo, J. (2003). *Microfinance Regulation in Tanzania: Implications for Development and Performance of the Industry*. Retrieved November 05, 2014, from <http://www.mrt.org.tz/documents.pdf>
- Republic of Rwanda, (2010). *The Small and Medium Enterprises Development policy Kigali*. Retrieved January 02, 2015, from <http://www.ror.org/chapters/c10216.pdf>
- Robbins, J. (1992). Entrepreneurship and Innovation in Ghana Enterprising Africa. *Small Business Economics* , 32 (3), 331-50.
- Rugumamu, L. (1997). *Entrepreneurship Development in Africa, Some Reflections from Tanzania*. Dar es Salaam University Press.
- Rungani, E. C. (2009). *Determinants of capital structure of Small and Medium Enterprises in the Buffalo City Municipality*. Eastern Cape Province, South Africa: University of Fort Hare.
- Rutihinda, G. (1993). The Financial Sector Reform in Bank of Tanzania. *Economic Bulletin for the first quarter*, 23 (1).
- Sanders, B. (2007). Source of Start up money. *Research Journal on Center for profitable Agriculture*, 9 (1), 132-135.
- Satta, T. (2002). A Multidimensional Strategy Approach to Improving Small Businesses Access to Finance in Tanzania. *The African Journal of Finance and Management* , 11 (8).

- Schaper, A. & Volery M, (2001). Understanding the grey entrepreneur. A review of the literature. *16<sup>th</sup> Annual Conference of Small Enterprises Association of Australia and New Zealand*. University of Ballarat Melbourne.
- Schmitt-Degenhardt, T., Stamm, O., & Zehdnicker, G. A. (2002). *Formalization and business development* (2nd ed.). Mozambique: German development Institute.
- Sekarani, U. (1992). *Research methods for business A skill building approach* (2nd ed.). United States of America: John Wiley & Sons, Inc.
- Shayo, T. (1998). The Impact of Financial Institution Reform in SMEs financing in Tanzania. *Business Management Review Journal* , 2 (9), 139-175.
- Sievers, M., & Vandenberg, P. (2004). *Synergies through linkages: Who benefit from linking microfinance and business development services?*. *Journal of World Development* , 35 (8), 1341-1358.
- Smith, M. (2011). *Entrepreneurship and the new firm* (2nd ed.). London: Croom Helm.
- Snodgrass, P. (2012). *Measuring Financial for People Internationally Comparable Core indicators*. London: The MIT Press.
- Tanzania Bankers Association, (2008). *Report on the meeting held at the Moven pick Royal Palm*. Dar es- Salaam: Government Printers.
- Tanzania Institute of Bankers. (2013). *Bankers Reports*. Retrieved September 10, 2014, from <http://www.tib.org/pdfid/53doce6b4.pdf>
- United Nations Industrial Development Organization. (2005). *Supporting Private Industry. Financing of Private Enterprises Development in Africa*. South Africa: France Printers.
- United Republic of Tanzania, (2000). *The National micro-finance Policy*. Dar es Salaam: Government Printers.
- United Republic of Tanzania, (2012). *National Baseline Survey Report on Micro, Small and Medium Enterprises in Tanzania*: Government Printers.
- United Republic of Tanzania. (2003). *The Small and Medium Enterprises Development Policy*. Dar es Salaam: Government Printers.
- United States of America, (2006). *Small and Medium Enterprises Policy*. New York: Government Printers.

- von Pischke, J, D. (1991). *Finance at the Frontier Debt Capacity and the Role of Credit in the Private Economy*. Economic Development Institute. Washington DC: The World Bank.
- Waithaka T., Marangu, N., & N'gondou, N. (2014). Effect on the growth of Micro and small Enterprises in Nairobi central Business District, *Journal on Entrepreneurship development by Micro Finance Institutions*, 6 (13), 177.
- Watson, J. B. (1993). Psychology as the behaviorist's views. *Journal on Psychological Review*, 20 (1), 158-177.
- Weinstein, J., Lurie, J., Olson, P., Bronner, K., & Fisher, E. (2006). *A short introduction to Social Research: The Analysis of Data*. New Delhi: Vistaar Publications.
- World Bank, (2013). *World Bank development report. A better investment climate for everyone*. Washington DC: The World Bank.
- World Bank. (2002). *Tanzania at the turn of the Century*. Background Paper and Statistics. Washington: The World Bank.
- World Bank. (2009). *World Bank development report: A better investment climate for everyone*. Washington DC: The World Bank.
- Yamane, T. (1999). *Statistics: An introductory analysis* (3rd ed). New York: Harper and Row.


## APPENDICES

### APPENDIX A: INTRODUCTION LETTER

*MANAGER*  
*AKIBA COMMERCIAL BANK PLC.*  
*DODOMA BRANCH* 31/05/15  
*DODOMA*

**ST JOHN'S UNIVERSITY OF TANZANIA**  
Directorate of Research, Consultancy and  
Postgraduate Studies

Tel: +255 26-2390044  
Fax: +255 26-2390025  
Website: [www.sjut.ac.tz](http://www.sjut.ac.tz)



PO Box 47  
DODOMA  
Tanzania

Date: 05.05.2015

**TO WHOM IT MAY CONCERN**

**Graduate Student's Research Clearance**

This letter serves to introduce **GLORY IDDO** (Registration Number M2013/5124), who is a bona fide student of St John's University of Tanzania in the Faculty of Commerce and Business

She is currently in the research stage of her Masters studies and is required to collect data. She has already obtained ethical clearance from SJUT Internal Review Committee.

Her approved research topic is:

**FACTORS INFLUENCING COMMERCIAL SMALL AND MEDIUM ENTERPRISES ACCESS TO FINANCIAL SERVICES AND GROWTH IN TANZANIA, A CASE OF ACB AND FINCA DODOMA MUNICIPALITY.**

I request that you grant this student all possible assistance to facilitate the completion of her research study.


Should you need further clarification please contact my office.

I wish to thank you for your kind assistance for this student.

Yours sincerely

*Asavage*

Dr Angela Savage  
Director of Research, Consultancy and Postgraduate Studies  
Email [asavage@sjut.ac.tz](mailto:asavage@sjut.ac.tz)

  
ST. JOHN'S UNIVERSITY OF TANZANIA  
P. O. Box 47 DODOMA  
Signature .....  
DIRECTOR  
POSTGRADUATE STUDIES

## APPENDIX B: QUESTIONNAIRES

### SECTION A: QUESTIONNAIRE FOR COMMERCIAL SMEs' OWNERS

Dear Respondent,

Thank you for volunteering to complete this questionnaire, your responses are important and your thoughtful considerations are highly appreciated.

The study is based at St John's University; the purpose of this questionnaire is to facilitate a research on Factors influencing SME's growth in Tanzania, by taking ACB in Dodoma municipality as a case study. Your responses will be used for academic purposes only and will be treated with at most confidentiality.

#### SECTION A: BASIC INFORMATION

1. Please indicate your gender  Female  Male

2. Which of the following age categories does your current age fall?

21-30  31-40  41-50  51-60  above 50 years

3. Please indicate your current marital status

Single  Married  separated

Divorced  Widow/widower

4. Please indicate your highest level of education

Primary  Secondary  Vocational training

Diploma  University education

## SECTION B: GENERAL BUSINESS INFORMATION

5. Please indicate for how long your business has been in existence by choosing and tick one most appropriate

Less than a year  1-3 years  3-5 years  above 5 years

## SECTION C: FINANCIAL AND NON-FINANCIAL SERVICE PROVISION

### STATUS INFORMATION

6. Please indicate the category of financial service(s) you receive from ACB

Savings  Loan  Insurance

Payment facilities  other, specify,

7. Please indicate the category of non-financial services you receive from ACB

Information  Training  Advisory

Safe custody  other means (Specify) \_\_\_\_\_

8. What is your opinion about the costs and other charges incurred from ACB services

Very expensive services  expensive services  fairly expensive

Not expensive at all

9. What is your opinion about the quality of services provided by ACB?

Very high quality  High quality  poor quality

Very poor quality  Not sure

10. What is your opinion about the satisfaction of the services provided by ACB?

Very satisfactory

Satisfactory

Poor satisfactory

Not satisfactory

11. Please, rank the ACB financial and non-financial services in order of their importance. 1. Most important 2. less important 3. least important 4. not important.

A. Financial services

Loan  Savings  Insurance  payment facilities

B. Non-financial services

Training  Safe custody  Information

Advisory services

#### **SECTION IV: INFORMATION ON SMEs GROWTH**

12. Based on the current status of your business, how do you think your organization will grow in 4 years to come?

13 Based on your experience, how do you measure the growth of your SME?

Increase in net worth  Increase in profitability

Change in number of workers since start up  Increase in branches

Other, Specify.....

15. Does financial and non-financial services contribute to the growth of your business?

Yes

No

15. How do financial services you receive contribute to the growth of your business? .....

16. How do non-financial services you receive contribute to the growth of your business?

**Thank you very much for participation in this study! Your time and opinions are greatly and deeply appreciated.**

**SECTION B: QUESTIONNAIRE FOR ACB STAFFS**

As stated prior on the purpose of this study, the questions intend to capture information related to provisions of financial and non-financial services undertaken by ACB in order to assess the effectiveness of delivery on supporting the growth of SMEs.

- 1. Please indicate your position at ACB \_\_\_\_\_
- 2. For how long have you been dealing with business related field \_\_\_\_\_
- 3. Do you think that financial and non-financial services have contributed the growth of SMEs obtaining services at ACB?

❖ If Yes, why do you think this intervention is very crucial

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 4. What ACB's competitive advantage with regarding to the financial and non-financial services provided for supporting the growth of SMEs?

\_\_\_\_\_, \_\_\_\_\_  
\_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_

- 5. Are there any barriers that hinder ACB in providing financial and non-financial services for supporting the growth of SMEs?

Yes  No

If yes, what are the barriers?

- i. \_\_\_\_\_
- ii. \_\_\_\_\_
- iii. \_\_\_\_\_

What is your opinion on the best strategies which could be used to support SMEs growth?

.....

**6.** Does the ACB have business and management collaboration with any other MFI providing financial and non-financial service to SMEs in Dodoma Municipality?

A.  Yes  No

➤ If Yes, List the areas of collaboration

●.....

●.....

●.....

➤ Which MFIs does ACB have relationship to support SMEs?

.....

.....

.....

**APPENDIX C: RESEARCH CLEARANCE CERTIFICATE**



ST JOHN'S UNIVERSITY OF TANZANIA  
DIRECTORATE OF RESEARCH AND CONSULTANCY  
INTERNAL REVIEW COMMITTEE  
**RESEARCH CLEARANCE CERTIFICATE**  
FOR MASTER'S AND DOCTORAL STUDENTS

Date of Review: 03<sup>rd</sup> March, 2015

Project title: FACTORS INFLUENCING COMMERCIAL SMALL AND MEDIUM ENTERPRISES ACCESS TO FINANCIAL SERVICES AND GROWTH IN TANZANIA, A CASE OF ACB AND FINCA DODOMA MUNICIPALITY.

Researcher: GLORY IDDO

Supervisor: Dr. G.S. KIANGI

Faculty / Institute / School: FACULTY OF COMMERCE AND BUSINESS

Degree being studied for: MSc In Finance

This is to certify that the research proposal herein detailed has been examined and approved by the Internal Review Committee of St John's University of Tanzania

Handwritten signature of Dr. Angela Savage in blue ink.

PP Dr. Angela Savage  
Director, DRCPGS

Handwritten signature of Prof. C. Rubagumya in blue ink.

Prof. C. Rubagumya  
DVCA

