

ABSTRACT

The primary objective of this study was to determine the challenges that hinder SMEs to access finance from financial institutions. Explicitly, the study determined whether SMEs in Arusha City Council seek fund from financial institutions, the existing procedures that enterprises must follow in accessing external finance from formal financial institutions and assessed the factors that limit SMEs from accessing credit facilities from financial institutions.

Primary Data was collected through Quantitative Survey from 100 sampled owners -managers of small and medium enterprises in Arusha City Council. The sample was obtained through simple random sampling approach whereby respondents were visited at their working premises and requested to fill in the questionnaires. The collected data were analyzed using Statistical Package for Social Sciences version 20. T-test and Correlation model were used to establish the relationship of the researched variables. The findings reveal that lack of required collaterals and high interest rates for the loans from financial institutions are the highest limiting factors for SMEs to access external finance. This was evidenced by displaying P-value 0.000 for T-test and logic regression. Other limiting factors are credit history, ability of record keeping and quality of managers in managing finance.

The study recommends that financial institutions should conduct more research on the needs and demands from the MSMEs sector in order to understand how best to design their financial products in a flexible manner including cut short loan application procedures and use of alternative collaterals outside the traditional approaches. On the MSMEs side, the study recommends that proper records, formality and early relationship with financial institutions are keys towards preparation to external finance. Also, the study recommends that financial institutions should start designing formal group lending for small and medium enterprises as an up scaling strategy on the existing group loans for micro enterprises. The group lending requires no collateral rather than the group itself and therefore what is really required as new strategy by the financial institutions is to repackage the amount scale and make the approach more formal and accessible by the SMEs.

The study propose that further studies should focus on the operationalization and acceptability of group lending approach as a linking middle for SMEs with no collaterals to access external finance for their growth in Tanzania.

