

ABSTRACT

Small and Medium sized enterprises make a big contribution to economic growth and provide a major source of employment particularly in developing country. In the great extend, SMEs cannot grow well by using their own capital thus external finance through loans from financial institutions and commercial banks are the alternative to boost working capital, therefore most of the SMEs are borrowing from the Banks and other financial institutions to expand their businesses in return the principal attached with interest rates.

The study used research tool namely questionnaire, interviews, observation and secondary data in attempt to identify the factors cause the poor loans repayment performance, the study looked at a number of variables including management of working capital, tax regimes, interest rate, training competition and overtrading.

This study is the descriptive case study conducted at NMB-Arusha municipal where the researcher justified the existence of the problem of poor loans repayment. The researcher findings confirmed the following major factors which include multiple borrowing, lack of training, loans diversification, poor economic performance, competition, high interest rate, natural calamities tax regimes, borrower poor character and poor working capital management.

The study come up with recommendation that if would be implement properly, the problem will be minimized that include: establishment of central credit agent which will provide information for those who having more than one loan, establishment of centers for training entrepreneurs, borrower to insure their loans against the disaster e.g. fire, entrepreneurs should be pre-advised by lending institutions to proper managing inventories and deal effectively by debtors by having defined credit policies, there are must be visiting to the entrepreneurs to monitor proper utilization of loans given and lending institution, government borrowers, general public have to work together to set strategies through sensitization to reduce significant loans defaulting and poor repayment performance.