

ABSTRACT

Small and Medium Enterprises (SMEs) are important especially in emerging economies like Tanzania in generating wealth and social stability through employment creation. One of the most important roles of SMEs includes poverty alleviation through job creation. Despite of their importance in the economy of many countries, SMEs are facing problems when seeking finance from financial institutions.

The main objective of the study was to evaluate the impediments to SMEs in access to finance from financial institutions for further expansion of their business within Arusha municipal. The sources of materials for the study were both primary and secondary. Primary data were collected by the use of structured questionnaires which were administered to SMEs and Loan officers of the National Microfinance Bank (NMB). Secondary materials were extracted from relevant sources like textbooks, newspapers, articles, journals and documents presented policy planners.

Findings from the study reveal that most of the SMEs did not acquire initial capital of their business from financial institutions. At start-up most of them finance their business by using funds from their own self saving, family, friends and by entering into partnership. The study also found that, the factors hindering SMEs to access finance from financial institutions includes; asymmetric information, informality of SMEs properties, lack of skills and knowledge and misallocation of funds. The recommendations which were put forward by the researcher include, to reduce the problem of collateral which was found to be the most problem facing SMEs, the government should provide adequate legal and regulatory framework which provides a guarantee for creditor rights on how they can get back their money in case the borrower default; also the researcher recommend that, Financial Institutions should consider SMEs which have a good track record for a long time in payment of their loans to access a loan of more than 50% of their capital as the ability to repay their loan has already been recognized.

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