THE ROLE OF SMALL AND MEDIUM ENTERPRISES (SMES) IN ECONOMIC GROWTH & POVERTY REDUCTION IN TEMEKE MUNICIPAL COUNCIL

By

Baragwiha Frederick.

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2013
CERTIFICATION

We, the undersigned certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled: The Role of Small and Medium Enterprises (SMEs) in Economic Growth and Poverty Reduction in Temeke Municipal Council, in fulfillment of the requirements for award of the degree of Masters of Business Administration-Corporate Management of Mzumbe University.

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ABSTRACT

Small Business Entrepreneurship has been seen as a hub in generating income for the majority of urban dwellers with no formal paid employment. In Tanzania, entry into small business entrepreneurship is usually not seen as a problem. One can start small business at any time and in any place.

However, the development of this informal sector has been profoundly characterized by two parallel phenomena which are perhaps contradictory in character. One is the increasing politicization effort encouraging people to engage in Small and Medium Entrepreneurship (SME).

The second is the parallel increase in events suggesting prevalence of crime and bureaucratic hurdles which affect SME and counter reaction from the small traders. While the second can be characterized as due to the increasing repressive action by city authority over vendors, the counter reaction behavior of itinerant and small traders toward city authority is also evident in most urban areas.

Generally, the sector is characterized by constant tension and feuds between small traders and urban authorities.

Drawing on research findings, the present paper challenges the possibility of reducing poverty in Tanzania using the strategy of developing the small business entrepreneurship under the situation where there is an increasing level of petty crime and bureaucratic hurdles. It is argued and indeed, concluded that if the present intricate and controversial situation surrounding SME and small business is not reversed, if not brought to rest, the development of SME is on slippery slope. The option suggested to tame the conundrum includes, developing discourse portfolio between small traders and bureaucratic authority and authorities formulating policies that can promote development of small business entrepreneurship.
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ACRONOMYS

SMEs – Small and Medium Enterprises

BOT – Bank of Tanzania

URT – United Republic of Tanzania

SIDO - Small Industries Development Corporation

NGOs – Non Governmental Organisations

GDP – Gross Domestic Product

MSMEs - Micro, Small and Medium Enterprises

WB – World Bank
CHAPTER ONE
INTRODUCTION

1.0 Introduction

There is consensus among policy makers, economists, and business experts that small and medium enterprises (SMEs) are drivers of economic growth and poverty reduction. A healthy SME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. The dynamic role of SMEs in developing countries insures them as engines through which the growth objectives of developing countries can be achieved (Mahembe 2011).

Over the past fifteen years, Tanzania has embarked on an ambitious and long process of economic, social, and political reforms to improve the business environment and to increase economic growth and reduce poverty. The rate of growth of national economy has not been high enough to generate the number of jobs required. That brings up the issue of the majority to enter into private sector in the form of entrepreneurship and small business (SMEs) (Mfaume and Leonard 2004).

Small and Medium Enterprise (SME) sector development is one of the recent key issues in developing countries in relation to poverty alleviation and economic growth (Davidson, 2004). The role of SMEs has been recognized as important by every nation around the world in poverty reduction and sustainable economic growth (World Bank Group, 2004). For example SMEs in China had helped nearly 200 million people escape from extreme poverty (World Bank Group 2004). SMEs, important as they are to the economy, have been facing a number of problems despite the on-going reform program.
This is due to a number of factors, one of which is a persistent culture that has not recognized the value of entrepreneurial initiative in improving the lives of the people.

Other factors include complex, bureaucratic and costly legal, regulatory and administrative environment where SMEs are at a greater disadvantage than their counterparts that are larger in size (Small and medium enterprise Development policy 2002).

1.1 Back ground to the Study

Despite the claims globally to the potential success of SMEs, Africa is yet to catch up with the fever of poverty. In the words of Asmelash (2002), despite the “repeated public announcements about their assumed importance as instruments of development, SMEs in many African countries enjoy a lukewarm support. They lack effective organization and knowledge of modern management techniques. Organizations created to promote SMEs are not sufficiently prepared for the task and the interference with policy-makers leaves much to be desired’’ Although this is true, it is not always so because one cannot overlook the initiatives some of African has embarked as a way of promoting the sector, Tanzania being one of them.

The Government of the United Republic of Tanzania began its first major attempt to promote the small industries sector as far back as 1966 with the formation of the National Small Industries Corporation (NSIC) under the National Development Corporation (NDC). The emphasis of the NSIC was to establish small industrial clusters, essentially training-production workshops, which in 1973 were taken over by the Small Industries Development Corporation (SIDO), and continue to operate. Development partners, donors and NGOs have over the years influenced the regulatory reform processing creating the right regulatory framework and institutions, and developing sectoral policies and programmes. They have also implemented, and continue to implement, grassroots skills training and micro-finance programmes to encourage income-generating activities.
It would appear that an inventory of these past and current MSME development initiatives has not been compiled, nor has there been a systematic effort to learn lessons from project assessments. This has limited the exchange of “good practice” models and approaches.

The report noted that efforts should be made to improve coordination between donors supporting the SME sector. Achieving coordination at the governmental level is also seen as a critical factor in improving the policy and programme environment for MSMEs (MIT, 2002).

Empirical evidence shows that a dynamic and growing SMEs sector can contribute to the achievement of a wide range of development objectives, including: the attainment of income distribution and poverty reduction (DFID, 2000); creation of employment (Daniels and Ngwira 1993); savings mobilization (Beck et al, 2005); and production of goods and services that meet the basic needs of the poor (Cook and Nixson, 2000). While estimates vary greatly depending on definitions, recent work by the World Bank suggests that almost 30 per cent of employment in developing countries and Tanzania alike is generated by the informal economy, while an additional 18 per cent is provided by (formal) small and medium enterprises. Together these two groups contribute 63 per cent of the GDP (Ayyagari et al. 2003).

SMEs are increasingly becoming more important for poor and developing countries (Khan, 2002). SMEs are considered an engine for economic growth and poverty reduction for the country through the creation of jobs and incomes for the people (Morris, May, Godden & Nicholson, 2001; World Bank Group, 2004; Ngasongwa, 2002; Hashim, 2004). SME development is also considered as a tool for economic survival during the country's crises (Tambunan, 1992; Frank & Landstrom, 1997). Also SMEs are considered as the private sectors for employment generation and sustainable growth” (World Bank Group, 2004).
SMEs help to improve and sustain the health of the market economy in terms of job creation, domestic production, and exports (McMillan & Woodruff, 2002). SMEs help to promote individual collective initiative, basic social values, and are highly viewed as a crucial tool towards achieving a social and regional integration (Clapham 1985).

Despite of SMEs 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 (Cook & Nixson, 2000).

Further studies conducted suggest that finance is the most important constraint for the SMEs sector (Green et al., 2002). The SMEs have very limited access to financial services from formal financial institutions to meet their working and investment needs (Kessy and Temu 2009).

There are several limitations towards growth of SMEs. Previous studies have examined the problems limiting SMEs growth. These problems can be due to the lack of entrepreneurial values, financing and markets (Allal, 1999; Kirby, 2003).

Other external factors such as the macroeconomic environment, government policies and regulations, and the availability of physical infrastructures also affect the growth performance of SMEs (Kirby, 2003). Reacting on those problems scholars has suggested the creation of more business-friendly environments through government policies, which has been shown to be another influential factor on SMEs growth performance (World Bank Group, 2004).

1.2 Statement of the Problem

SMEs have been seen as a hub in generating income for the majority of urban dwellers with no formal paid employment (ILO 2005). In the low-income country like Tanzania the role of SMEs is critical in pushing the socio-economic development agenda of the country further, as these enterprises contribute
substantially to job creation, economic growth and poverty alleviation. Sustainable jobs and opportunities for micro entrepreneurs are the key pathways out of poverty for poor people (World Bank, 2004).

The United Republic of Tanzania (URT), like any other developing countries, has taken a measure to promote the growth of (SMEs) through the creation of SMEs policy, with objectives of foster job creation and income generation through promoting the creation of new SMEs, and improving the performance and competitiveness of the existing ones to increase their participation and contribution to the Tanzanian economy and poverty alleviation (URT 2002).

However, evidence have shown that in Tanzania, the full potential of the SME sector in economic growth and poverty reduction has yet to be tapped, due to the existence of plethora of socio-economic and environment challenges which inhabit their growth and development beyond mere survivalist modes of activity, to potential approach of bringing about remarkable economic growth and poverty reduction. Some of these challenges are related to the SMEs themselves and other emanate from environment SMEs are operating.

Researchers are suggesting that if the present intricate and controversial situation surrounding SME and small business is not reversed, if not brought to rest; the development of SME is on slippery slope (Mfaume and Leornad 2004). Therefore it is worth studying the role of SMES in enhancing economic growth and poverty reduction in Tanzania. The study uses Temeke Municipal Council as its Case Study.

1.3 Objectives of the Study
The followings were the objectives of this study

1.3.1 General Objective
The main objective of this study will be to assess the contribution of SMEs on economic growth and poverty reduction in Temeke Municipal Council.
1.3.2 Specific Objectives
The specific objectives will be;

i. To assess if the SMEs sector is effectively utilized as catalyst for economic growth and poverty reduction in Temke Municipal Council

ii. To determine factors limiting the success/growth of SMEs in bringing about economic growth and poverty reduction in Temek Municipal Council

iii. To explore the impact of limiting factors for SMEs success on economic growth and poverty reduction in Temek Municipal.

1.4.1 Main research question
The main research question this research a will attempt to answer is what are the contributions of SMEs to on economic growth and poverty reduction in Temek Municipal Council?

1.4.2 Specific research question

i. Is SMEs sector effective utilized as catalyst for economic growth and poverty reduction in Temek Municipal Council?

ii. What factors limits the utilisation of SMEs in bringing about economic growth and poverty reduction in Temek Municipal Council?

iii. What are the impacts of limiting factors for SMEs success on economic growth and poverty reduction to in Temek Municipal?

1.5 Significance of the Study
First, the findings of this study may serve as provoking resource that can inspire other researchers’ curiosity to conduct research in deep in the area related to contribution of SMEs on economic growth and poverty reduction.
Second, this study will shed light on the factors for the growth of SMEs at Temeke municipal council with special focus on available threats and opportunities. This will help planners and policy makers in government, agencies and NGOs to come out with substantive possible alternative policy interventions which might help to address problems and challenges which SMEs face in order to enhance their contribution on economic growth and poverty reduction.

As well, this study will offer empirical evidence on strategies to be adopted by Temeke municipal council for use in short term and long term interventions especially in do away with challenges SMEs face. A study of this nature is equally very important because it is going to enlighten the government and the public on the role of SMEs on economic growth and poverty reduction.

1.6 Scope and Limitation of the Study

To cover all SMEs in all municipal council in the entire country was impossible because of the limited time frame and amount of funds for this research. For this reason, the research will cover only one municipal council in Dar es Salaam region, which is Temeke municipal council.

The choice of Temeke municipal council is due to the fact that the municipal has large number and high concentration of SMEs, as well the municipal is well distributed therefore this municipal will provide a good source of data for the study. The contribution of SMEs to the economic growth and poverty of Temeke Municipal Council specifically, will be analyzed, by looking upon the form and extent.

1.7 Organization of the Dissertation

The dissertation will be organized into five chapters, chapter one will coverer introduction and background of research problem, chapter two will cover literature review both theoretical review and empirical, chapter three will cover
the methodologies which facilitated the achievement of this work, while chapter four will cover the presentation of study findings and discussion. Chapter five will cover summary, conclusion and recommendation, at the last there will be some appendices.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, the researcher reviewed the available literature relevant to the study in order to obtain broader insights of what has already documented so far by different writers regarding the contribution of SMEs on economic growth and poverty reduction. This review is divided into two parts, the first part is on theoretical review and the other provides an empirical literature review.

2.2 Theoretical Literature review

2.2.1 The concept of SMEs

There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. People in different countries tend to define SMEs in different ways. For example, (Robinson, 1982; Young, 1985) define SMEs as an entity engaging in the economic activity irrespective of its legal form such as sole proprietorships and family businesses. (Frank 1999) define SMEs on the basis of number of employees, turnover and an economic definition that was based on the essential characteristics of the small firms.

Different country uses different measurement techniques to determine SMEs and it depends on their purposes. The commonly used yardsticks are total number of employees, total investment and sales turnover URT (2002). The SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services. URT (2003) According to kessy and Urio (2006), SMEs can be defined as a productive activity either to produce or distribute goods and or services, mostly undertaken in the informal sector The Tanzanian government defines SMEs according to sector, employment size, and capital investment in machinery.
A micro-enterprise is one with fewer than five employees, a small enterprise with 5-49 employees, a medium enterprise with 50-99 employees and a large enterprise with more than 100 employees. Capital investments range from less than Tshs 5 million to over Tshs 800 million.

This definition would exclude a number of informal economy enterprises, peasant farmers, and Tanzanians engaged in lower-level income-generating activities URT (2003).

Discourse on entrepreneurship and small business subject can take us long to pursue. However, practitioners share some common understanding when they describe entrepreneurship. For example, Thomas Zimmer and Norman (1996:52) describe entrepreneurship as a result of being disciplined and systematic in the process of applying creativity and innovation to needs and opportunities in the market place. It involves not only applying focused strategies to new ideas and new insights but also creating a product or a service that satisfies customers’ needs or their problems (ibid). Schumpeterian takes a rather traditional view when he describes entrepreneur as a person who identifies a market opportunity and transforms it into a profitable economic value. In his view entrepreneurship is seen as quality of a person, which includes both attitudes (disposition), takes responsibility for risk outcomes and behavior i.e. set of action necessary to implement a venture. Other traditions such as those of Morris and Lewis regard entrepreneurship as something that requires both an entrepreneurial event and an entrepreneurship agent.

There is a wide range of definitions for MSEs, but for the purpose of this study, a MSE is defined as a productive activity either to produce or distribute goods and or services, mostly undertaken in the informal sector.

A typical micro enterprise employs fewer than five workers, usually family members and has very limited fixed assets.
2.2.2 Factors Influencing SMEs

Factors influencing SMEs are of two fold including internal and external factors, these factors may affect SMEs as opportunity and as a challenges depending on scenario they stand for.

Morrison (2006) stipulate that businesses are affected by external macro-environments that they cannot control such as political, economic, social, technological, environmental and legal factors which can rarely be influenced by management decisions since they are external to the company, in other words, they are beyond the control of SMEs. As well Factors that are frequently considered part of the internal environment include the marketing objectives, HR strategies such as employee motivation, staff turnover and provision of training, leadership styles, investment in R&D and its organizational culture (Morrison, 2006).

2.2.3 Governmental Policies

The significance of SMEs within an economy emphasize the importance of having governmental policies that support SMEs; issuing regulations that help them and their ability to operate efficiently and regulations that imply low administrative costs (Harvie and Lee, 2005 b). Although there has been an increase in governmental policies promoting and supporting SMEs in order to achieve economic growth and reduce poverty, there is still a lack of laws, administrative procedures and access to assistance from governmental agencies.

2.2.4 Consumer Behavior

Consumer behavior pressure SMEs to constantly adapt in order to meet changes in demand for instance the spread of consumer awareness of sustainable development and environmentally friendly products force firms to adjust their business (OSMEP, 2007 a). (Cheah and Cheah 2005) argue that it is an opportunity for SMEs to incorporate sustainability policies in their business strategies and operational activities, though, there is a need for more institutional support and governmental encourage to promote the benefits.
In addition, (Hassan 2005) state that demand is changing due to globalization which also has a great impact on SMEs.

2.2.5 Access to Finance

According to APO (2001) insufficient capital or lack of financial sources is the major obstacle for SMEs and usually entrepreneurs need to utilize personal financial sources to start up their business and to expand the operations, since the internal financial sources are normally insufficient.

(Nichter and goldmark 2009) claim that there are policy biases towards large enterprises and small firms face problems in growing due to lack of access to finance. SMES have difficulty in growing due to insufficient collateral, high transaction costs and inability to deal with the complexity of formal financial institutions (Harvie 2005) Moreover, SMEs in developing countries generally do not get accepted formal bank loans (World Bank, 2009) because of perceived high risk of default, low profitability and incapability to demonstrate required physical collateral (Harvie, 2005). In order to cope with these concerns the Thai government has put together a stimulus package including an increase of the capital of the SMEs bank which is a government financial institution (World Bank, 2009).

2.2.6 Geographical Location

According to Holt (2006) geographical location has an impact on firm growth. Some of the main determinants of location are the availability of industrial sites, infrastructure, distribution and transport logistics, subcontractors, access to raw materials and skilled labor. APO (2001) highlights the problem for SMEs outside the Bangkok region to access information; they have less knowledge regarding tax, governmental regulations, marketing opportunities and production technology. Additionally Holt (2006) state that if an enterprise chose its location strategically such as near to universities or a science park, then the firm could benefit by formal or informal contacts since these institutions can provide resource advantages that reinforce existing technological and managerial skills.
2.2.7 Competition

By entering into competition an organization is searching for competitive advantage which to a great extent depends to the success of the business (Walley, 1998). SMEs are generally facing low competitiveness in terms of knowledge, innovation, prudent investment, business operation, and good management, which are important factors required to elevate the quality level. Developing countries are facing competition from other countries due to globalization and trade is increasing but restrictions generally favor developed countries (Lind, 2009). The competition is increasing from transnational firms that have advantage of high levels of know-how within management as well as increased competition from foreign firms.

Numerous SMEs find difficulties in complying with regulations set up by organizations such as the World Trade Organization (WTO), in other words technical barriers to trade due to poor quality (Lind, 2009 c).

SMEs must understand that the most important in business is not to compete in price since it can hamper their growth; therefore, SMEs need to concentrate in increasing added value in order to enhance competitiveness and stay out of the vicious circle.

2.2.8 Firm Management

Holt (2007) claim that firm growth is dependent on managerial knowledge. In comparison with LEs managers in SMEs are generally less trained (Tannock et al., 2001), consequently, they chose poor production technology, do not use proper accounting systems and underestimate required funding (APO, 2001).

Generally SMEs spend less on formal training than LE due to financial limitations and the fact that it can be difficult to take employees out of the production (Tannock et al., 2001).

Training is crucial for the productivity and quality as well as it influences the effectiveness, efficiency and motivation of the employees Managers of SMEs fail to listen to employees who really understand the process and product (Tannock et al., 2001).
This might be a problem due to the Thai culture which scores high in power distance and influence the business environment where managers have high authority and workers fear to communicate with their managers.

2.2.9 Lack of Skilled Labor
Lack of skilled labor is a hampering factor for SMEs in developing countries (Holden et al., 2007). Firms in all sectors and of all sizes can progress through greater use of graduate labor but there is generally a mutual distrust between graduates and SMEs (APO 2007).

The lack of skilled labor is one of the most crucial obstacles for SMEs, thus, it is difficult for them to attract highly educated workers and retain skilled employees (high labor turnover) since they prefer to work for LEs that can offer higher salary, job security and career possibilities, resulting in a slowdown in workforce development which has a negative impact on the quality of goods and services (Holden et al., 2007).

2.2.10 Marketing
According to Brush et al. (2009) marketing is another obstacle for companies to grow since many businesses confront challenges establishing effective distribution channels, communicating product features, pricing products and services in an attractive way, implementing sales and marketing efforts to win and retain customers and undertaking constant product development in order to sustain sales. Furthermore, the OSMEP, (2009) identifies other aspects such as the understanding of the domestic and international marketing; lack of capabilities to create innovation, image, exclusive branding; and the lack of appropriate support from marketing infrastructure.

2.2.11 Technology
SMEs tend to have low productivity and they are weak in terms of competition which is the result of using in advanced technology, not maximizing machinery utility and not improving in technology due to the limitation of funding and most
SMEs are mainly users of technology, not adaptors of technology (OSMEP, 2007a).

Many managers are not aware of applying the accurate technology in their business and they do not have the ability to choose appropriate technology for their business.

The World Bank (2009) claims that investments in technology are required in order to build up existing capacity and to improve the quality and productivity of production which will generate in higher value-added products that will improve the competitiveness for firms.

Additionally, it is crucial for small firms to make the most strategic business decisions hence government support of technology initiatives and networks with research institutions should assist SMEs in terms of technological development (WB 2008)

2.2.12 The Contribution of SMEs in Economic Growth and Poverty Reduction

SME sector plays a crucial role in the economy. The assistance of SME as a support industry helps to strengthen the large industries (LIs).

SME development is the future candidate of LI because every large enterprise (LE) has had the experience of starting their business as an SME (Kirchhoff, 1994). The role of SMEs has been recognized as important by every nation around the world.

It is considered an engine for growth and poverty reduction for the country through the creation of jobs and incomes for the people (Godden & Nicholson, 2001).

There are new entrants into the labor force every year; these are school leavers with few marketable skills. The public sector employs few entrants into the labor market, leaving others to join the unemployed or the underemployed reserve.
Most of these persons end up in the SME sector, and especially in the informal sector.

Also, SMEs are better positioned to satisfy limited demands brought about by small and localized markets due to their lower overheads and fixed costs. Moreover, SME owners tend to show greater resilience in the face of recessions by holding on to their businesses, as they are prepared to temporarily accept lower compensation. Evidence from the World Bank Group (2004) shows that SMEs in China helped nearly 200 million people escape from extreme poverty as a result of the economic reform in 1979 (Ministry of Economic Affair, 1997).

Given that situation and the fact that Tanzania is characterized by low rate of capital formation, SMEs are the best option to address this problem (World Bank Group, 2004; Ngasongwa, 2002; Hashim, 2004).

With various definitions from various countries, sometimes it becomes a difficult task for an individual to understand importance of SMEs. One may not know the important role that SMEs plays in developing any particular sector, economy of any country, alleviating poverty, increasing employment, and, above all providing various items of daily use at an affordable cost. Within the last few years many developed and developing countries have realized the importance of the sector.

According to World Bank (2003) report SMEs are the engine of growth; essential for a competitive and efficient market; critical for poverty reduction; and play a particularly important role in developing countries furthermore; SMEs are contributing to employment growth at a higher rate than larger firms.

SMEs form the backbone of a market economy and for the transition economies in the long-term might provide most of the employment. Support SMEs will help the restructuring of large enterprises by streamlining manufacturing complexes as units with no direct relation to the primary activity are sold off separately.
And through this process the efficiency of the remaining enterprise might be increased as well; they curb the monopoly of the large enterprises and offer them complementary services and absorb the fluctuation of a modern economy; through inter-enterprise cooperation, they raise the level of skills with their flexible and innovative nature. Thus women entrepreneurs in SMEs can generate important benefits in terms of creating a skilled industrial base and industries, and developing a well-prepared service sector capable of contributing to GDP (World Bank 2003).

SMEs are known to play a major role in social economic development which is the case also to Tanzania.

In Tanzania SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas, In-turn contributing to the development of the country as a whole economically, socially and even politically. In Tanzania it is estimated that about a third of the GDP originates from the SME sector. According to the informal sector survey of 1991, micro enterprises operating in the informal sector engaging 1.7 million small businesses consisted of about 20% of the labor force (3 million people then). Though data in Tanzania especially in the SME sector are somewhat unreliable and sketchy, the above data saves to show how crucial the SME sector is to the Tanzanian economy. Since SMEs tend to be labor intensive, they create employment at relatively low level of investment per job created.

With the current unemployment rate standing at a record high of 12.7 (NBS 2009 est.), most of these unemployed people opt for entrepreneurship which falls in the SME sector. Given the situation and the fact that Tanzania is characterized by low capital formation, SMEs are the best option to address to this problem (URT 2007).

Moreover, SMEs tend to be more effective in the utilization of local resources and affordable technology.
To a large extent they add value to the resources. Another importance is that SMEs facilitates distribution of economic activities within the economy thus promoting equitable distribution of resources.

The technology applied by SMEs is easier to acquire, transfer and adopt. Also SMEs are better positioned to satisfy limited demands brought about by localized and small markets due to their low fixed and overhead costs.

In addition SMEs owners tend to show more resilience in face of hardships holding on to their businesses since they are prepared to be compensated lower temporarily.

Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industries requirements. This is in terms of supplements of raw materials and other factors of production like labor and entrepreneurial skills. Since the linkages of large enterprises and SMEs in Tanzania are relatively weak, this advantage has not been realized per se (URT 2009).

MSEs all over the world are known to play a major role in socio-economic development. URT (2003) estimates that about 1/3 of the GDP originates from MSE sector; they tend to be labor intensive thus creating jobs: the International Finance Company (IFC) of the World Bank estimates that there are approximately 2.7 million enterprises in the country.

A large majority of these (98%) are micro enterprises (employing less than 5 people), effective in the utilization of local resources using simple and affordable technology; and complementing large industrial requirements through business linkages, partnerships and subcontracting relationships Olomi, (2001); URT (2003).
2.2.13 Challenges Facing SMEs

In spite of the significant contributions made by SMEs to GDP, SMEs continue to face a plethora of challenges that inhibit their growth and development beyond mere survivalist modes of activity.

Access to, and cost of, finance remain two leading constraints (IMF, 2006, World Bank, 2006). While there have been substantial and rapid recent improvements in financial sector development in the region, much still need to be done, especially in the SME sector which is strategically very important as a driver of high quality socio-economic development.

Additionally, SMEs, due to their size limitations, often have limited financial capital and a lack of required human and managerial resources (Buckley, 1989).

Most of the SMEs face problems in obtaining the financial capital necessary to become competitive and achieve economic growth (Gupta et al., 2005). SMEs face many problems in their growth performance (Kirby, 2003).

These problems can be due to the lack of entrepreneurial values, financing and markets (Barber et al., 1989; Allal, 1999; Kirby, 2003). SMEs face problems in obtaining the financial capital necessary to become competitive and achieve economic growth (Gupta et al., 2005).

Other external factors such as the macroeconomic environment, government policies and regulations, and the availability of physical infrastructures also affect the growth performance of SMEs. Previous studies have examined the forces limiting SME growth (Austin, 1988; Barber et al., 1989; Sidin, 1998; Kirby, 2003).

Most small firms will never be able to raise all the funding they would like from banks and other institutions. In this crude sense there will always be a deficiency in the funding of the sector equal to the difference between the total demand for funding and that part of this demand which qualifies for funding support (Hamilton and Mark, 1998).
As a result, a clear and present challenge for operating and intending small business is sourcing of funds. Small business may start up from personal savings, gifts from friends and relatives and sometimes loans.

Levy in 1993 reported that smaller enterprises have limited access to financial resources compare to larger organizations and he discussed the impact of his findings in economic growth. According to Cork and Nisxon, (2000) poor management and accounting practices have hampered the ability of smaller enterprises to raise finance.

This is coupled with the fact that small businesses are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses. As a consequence of the ownership structure, some of these businesses are unstable and may not guarantee returns in the long run.

However, there is reason to hope because according to Liedholm et al. (1994), a large number of small enterprises fail because of non-financial reasons.

Remmers et al. (1974) reported the debt/total assets ratio to be independent of firm size while Peterson and Schulman (1987) reported that debt/total assets ratio to first rise and then fall with size of firm.

Irrespective of which side of the divide one is, the behavior of loan granting institutions can be obviously predicted when they have a choice of granting loan facilities to either a big business with a good balance sheet or a small business with an equally good balance sheet.

Keeble and Walker (1994) looked at the environmental factors from the perspective of the developmental setting that stimulates local market.

Several environmental indicators have been identified as the major factors that can either hinder or inhibit SMEs and argue that these factors are the supportive services that enhance SMEs development.
ILO (2003) regards environment factors as the external factors that include: (i) government policy (fiscal and legislative framework), (ii) access to appropriate business development support, (iii) access to finance and financial services and (iv) community and family. Mansur (2005) enumerated these factors, namely: venture capital availability, presence of experience, technical skilled labor force, accessibility of suppliers, customers, new markets, government influences, land, transportation, new technological development, supporting services and living condition.

Moreover, the URT MSEs policy (2003) recognizes that MSEs are confronted with unique problems including heavy costs of compliance resulting from their size. Other constraints include insufficient working premises and limited access to finance, Business Development Services, namely services related to entrepreneurship, business training, marketing, technology development and information are undeveloped and not readily available. SMEs lack information as well as appreciation from such services and can hardly afford to pay the services.

As the result, operators of the sector have rather low skills. Institutions and associations supporting SMEs are weak, fragmented and uncoordinated partly due to lack of clear guidance and policy for the development of the sector (URT, 2003).

2.3 Empirical Literature Review

In relation to developing countries, specifically Latin American countries, the lack of Access to investment capital, technology know-how and commercial linkages are among the broader challenges facing established SMEs.

Also, local firms that remain privately held may still resist raising the functional importance of finance and R&D (Martin, 2008). In fact, some countries have turned to higher education to solve most of these barriers.
Swift and Lawrence (2003) showed that foreign language skills and lack of cultural understanding have become one of the main problems to solve, and how the SMEs have turned to higher education to overcome these difficulties. As Granell (2000) observes the secret of success for winning in the new economy is to manage cultural diversity with information, intelligence, a critical and demanding attitude, patience and, above all, with much respect for and understanding of the culture of others.

In the China government, the SME Promotion Law provides a framework for government support for SME development and ensures that government establishes systems to support small and medium-sized enterprises at local government level (Andrew Atheron, 2003 and 2006).

In Saudi Arabia, the regulatory framework for SMEs has not been yet determined. There is no specific entity responsible for organizing affairs, support and development, but the government of Saudi Arabia has adopted several measures and initiatives to support and develop the SMEs including founding the Saudi General Investment Authority (SAGIA), the Saudi Industrial Development Fund (SIDF) sponsors SMEs, and Saudi commercial Banks provide loans to SME’s (Eighth Development Plan, 2005-2009).

A study OECD (2004) on Promoting Entrepreneurship And Innovative SMEs In A Global Economy: Towards A More Responsible And Inclusive Globalization, reveal that recent assessments of growth point to an understanding that the rate at which countries grow is substantially determined by 1) their ability to integrate with the global economy through trade and investment; 2) their capacity to maintain sustainable government finances and sound money; and 3) their ability to put in place an institutional environment in which contracts can be enforced and property rights can be established.

As globalization proceeds, transition and developing countries and their enterprises face major challenges for strengthening their human and institutional capacities to take advantage of trade and investment opportunities.
While governments make policies in trade and investment areas, it is enterprises that trade and invest.

Therefore, supply-side bottlenecks in the trade and investment areas and how governments, development partners and the private sector itself address these constraints have direct implications on the economic growth potential of transition and developing countries.

SMEs play a key role in transition and developing countries. These firms typically account for more than 90% of all firms outside the agricultural sector, constitute a major source of employment and generate significant domestic and export earnings. As such, SME development emerges as a key instrument in poverty reduction efforts.

Globalization and trade liberalization have ushered in new opportunities as well as challenges for SMEs. Presently, only a small part of the SME sector is able to identify and exploit these opportunities and deal with the challenges.

The majority of SMEs in developing and transition countries, however, has been less able or unable to exploit the benefits of globalization and, to add to the situation, are frequently under pressure on the local or domestic markets from cheaper imports and foreign competition.

A major objective of work to promote the development of the SME sector is therefore to change the balance between these two groups of SMEs and to equip SMEs to better meet the challenges of globalization and to benefit from its opportunities.

SMEs, due to their size, are particularly constrained by non-competitive real exchange rates, limited access to finance, cumbersome bureaucratic procedures in setting up, operating and growing a business, poor state of infrastructure and lack of effective institutional structures. The removal of these constraints is a daunting task calling for holistic SME support, i.e. an enabling environment for SME development consisting of functioning macro, meso and micro level institutions.
Soini and Veseli (2011) in their study on factors influencing SMEs growth in Kosovo reveals, numerous external factors influencing the growth of SMEs in Kosovo, as in literature part suggests, the access to finance is the lacking point in Kosovo, especially for SMEs in the period of starting a business.

The empirical research also demonstrates that financing an issue, though, the firms studied in this thesis have all overcome this problem since they were able to start up a business with internal resources and have been able to receive loans and startup capital from close family. However, the firms agree that limitations of funding have restricted them in certain aspects for example having possibilities to increase their business actions. All three managers mentioned the external financing as an obstacle for further growth. More finance help is needed for marketing, R&D and technology.

Corruption has also been identified as a very important factor both in the literature reviewed and by the interviewees. Many Kosovar SMEs face problems with corruption especially in sustainable development. Companies do not have the same rights and opportunities to run business.

In a country that lives in poverty this is ongoing issue. Thus major changes can be seen in this area, and Kosovo is receiving external help from EU and other international organizations. Competition was also mentioned in literature and in empirical part, especially unfair competition. Companies are facing problems to increase their income because of this. Companies in some area do not pay state taxes and this way they have lower prices, so the price competition is present.

Political instability is an issue in Kosovo. Kosovo is an independent country, but is not recognized by all countries and most of larger companies do not yet take the risk to invest in Kosovo. The country is facing still problems with Serbia that enables Kosovo’s development process. Serbia is applying a membership in EU.
Most of the EU countries have recognized Kosovo as an independent country and authors see that Serbia will do the same in the future, especially if they want to have a membership in EU and wish a development in their economy.

Overall there are numerous external issues in Kosovo now and in the near future. It requires time and effort now and in the future in Kosovo in to see positive figures in economy. Parts of these developments process are companies in Kosovo. Most of them are micro-sized, but with the external help they have the opportunity to become SMEs. Good examples for economy development are Croatia and Slovenia that also have been part of Yugoslavia.

These two countries have been able to develop their economy rapidly, so this gives belief for growth in Kosovo’s economy. Location was considered in theoretical part as an obstacle for SME growth and so did the interviewees. This occurs because infrastructure is better in Northern part of Kosovo where the capital city is also located. Companies that are close to capital city are in favor to get access to information, support, distribution and transport.

During this research, in the literature review and the empirical part a number of internal factors affecting Kosovar SMEs growth where identified.

This study has revealed the most significant one to be the lack of skilled labor in Kosovo. The lack of skilled labor derives from a poor educational infrastructure and the ability of SMEs to attract skilled employees over LEs. Investing in training new employees was seen the best option, even though it requires extra resources. This consequently is one of the major constrains for Kosovar SMEs growth.

Even though SME managers have experience and the basic knowledge of business more resources should be invested in attracting skilled labor, since this issue correlates to the firms growth possibilities.
On the other hand resources should also be invested more into Marketing and Innovation. At the moment biggest investments had been done in new technology. The technology investments had improved productivity and quality, but marketing and knowledge of new markets was poor. Also the research highlighted that the companies where focusing their competitive advantage to pricing and improving quality, but not investing in marketing their product which would also give leverage. Concerning culture, Kosovar SMEs tend to be courageous but have very centralized management, which constrains the manager greatly and limits inputs of employees. The knowledge of other languages and the courageous attitude is a positive that will help Kosovar firms grow.

Grimsholm and Poblete (2010) made a qualitative case study of SMEs in Thailand by assessing Internal and External factors hampering SME growth; and revealed that Small and medium-sized enterprises (SMEs) in Thailand are very important to economic growth and considerably essential to generate employment as in many other developing countries. SMEs account for 99.5% of the overall enterprises in Thailand while their contribution to the overall employment account for around 76% of all jobs.

However, SMEs growth rate is still at a low level. Hence, this is qualitative study of the external and internal factors hampering the growth of SMEs in Thailand. Regarding external factors, there are a number of obstacles constraining their growth such as access to finance, competition, corruption, barriers to trade and macroeconomic factors as amongst some of the most significant issues.

In terms of internal factors, there are also important constrains hindering their growth, for instance, poor management competences, lack of skilled labour, deficiencies in marketing strategies, little efforts on R&D, lack of new technology and low awareness concerning CSR are identified as some of the most important obstacles.
Onuorah (2009) conduct a study on the Role of Small and Medium Sized Enterprises for Economic Growth a Case Study of Matori Lga in Lagos, Nigeria and found that small and Medium Scale Enterprises (SMEs) is accepted globally as a tool for empowering the citizenry and economic growth. It has been associated with the rapid economic growth of countries in Asia and North America.

In Nigeria efforts have been made by successive governments to reduce poverty and accelerate economic growth by increasing foreign direct investment, diversifying the economy, enacting policy frameworks which favor small business ownership and sometimes initiating employment and entrepreneurship programmes.

The study reveals that while SME businesses are profitable problems of policy inconsistency and poor infrastructural development continuously undermine the potentials of the market.

Though the presence of SMEs has attracted infrastructural development, such developments in most cases are community effort or privately driven which limits the amount of developments achieved. For example their efforts could be limited to patching and maintaining existing bad road networks but not expanding or creating new road networks. The study also revealed that financial institutions like banks are attracted to areas where SMEs are established but getting funds through these institutions via loans has not been easy due to high interest rates and harsh conditions like types of collateral to present.

It was also established that SMEs are good employers of labor but not without required support and facilities. SMEs will not engage more people to work for them when their businesses do not thrive.
For their businesses to thrive they need government to encourage them and develop more opportunities such opportunities could be in terms of providing infrastructures like stable power supply and good transport networks (rails and roads), easy access to finance (low interest rates), stable government policies, reducing multiple taxations, ensuring availability and access to modern technology and raw materials locally etc. The result of the study confirms existing theories in the field which support the belief that SMEs remains a tool for economic growth in Nigeria.

There are enormous potentials and opportunities for SMEs in Nigeria to mature and play the crucial role of economy growth, poverty reduction, employment and wealth creation. This will entail having the government provide required supports and addressing identified problems.

While the SMEs also need to change their attitudes relating to entrepreneurship development, government needs to involve the SMEs in policy formulation and execution for maximum effect.

There is also need to introduce entrepreneurial studies in our Universities in Nigeria in addition to emphasizing practical and technological studies at all levels of our educational system.

Small and medium scale enterprises remain an important contributor to the development of Nigeria as indicated by results in this study in Matori.

However the use of family labor and casual staff threatens to undermine the potential benefits of such businesses. This cannot be blamed solely on the entrepreneurs because they try to minimize cost which is mainly associated with the prohibitive cost of fuel. SMEs as observed in this study contribute to the establishment of other businesses which service them with raw materials and essential services particularly internet services.

The fact that SMEs contribute to industrial development has also been resounded by this research as respondents agreed that road construction as other developmental projects have come to the community as a result of SMEs.
The profitability and sustainability of small businesses could be the reason why respondents generally support the establishment of similar businesses elsewhere in the state.

Overall the findings of this research indicate that SMEs are important contributors to economic growth in Nigeria.

The results of this research work generally agree with existing theories in the field and once again link underperformance and cost of businesses to government actions and inactions.

The study by Onuorah (ibid) further reveals that, most SMEs die within their first five years of existence. Another smaller percentage goes into extinction between the sixth and tenth year thus only about five to ten percent of young companies survive, thrive and grow to maturity.

And so Many factors have been identified as to the possible causes or contributing factors to the premature death.

Key among this include insufficient capital, lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber staff, plan-lessens, cut-throat competition, and over-concentration of decision making on one (key) person, usually the owner.

Other challenges which SMEs face in Nigeria include irregular power supply and other infrastructural inadequacies (water, roads etc) unfavorable fiscal policies, multiple taxes, levies and rates, fuel crises or shortages, policy inconsistencies, reversals and shocks, uneasy access to funding, poor policy implementation, restricted market access, raw materials sourcing problems, competition with cheaper imported products.
Problems of inter-sectoral linkages given that most large scale firms source some of their raw material outside instead of subcontracting to SMEs, insecurity of people and property, fragile ownership base, lack of requisite skill and experience, thin management, unfavorable monetary policies, lack of preservation, processing and storage technology and facilities, lack of entrepreneurial spirit, poor capital structuring as well as poor management of financial, human and other resources.

Their characteristics and the attendant challenges notwithstanding, it is the consensus that SMEs, which globally are regarded as the strategic and essential fulcrum for any nation’s economic development and growth have performed rather poorly in Nigeria.

The reason for this all-important sector’s dismal performance have been varied and convoluted depending on who is commenting or whose view is being sought. For sure it has nothing to do with government’s appreciation of the vital central role of the sector as evidenced by how well SMEs have been acknowledged and orchestrated in various government’s budget, with the imperativeness of SMEs as the bulwark for employment generation, poverty reduction and technological development being highlighted.

While many attribute the relatively poor performance of SMEs in Nigeria when compared with the significant roles which SMEs have played in developed economies such as the United Kingdom, Germany and the United States and even developing countries of the world like India to the challenges outlined above, some others hinge the reasons on the fair share of neglect on the sector by the government. The latter group argues that government’s appreciation of the SMEs in capacity building has always been restricted to the pages of the budget presentations and submissions at various fora.

The work by Nkonoki (2010) on the factors limiting the success and/or growth of small businesses in Tanzania – An empirical study on small business growth identify the factors limiting the growth of small business growth in Tanzania.
The study has discussed these constraints in light of literature concerning factors influencing growth of small firms and barriers to growth in small firms.

Comparing the results as obtained from the interviews that were conducted by the author; a few factors emerged stronger in limiting small firms’ growth as they were mentioned more times than the others by the interviewees.

These constraints include corruption, in access to finances/capital constraint, government policy, unfavorable economic conditions, people factor/ lack of needed talent, lack of proper record keeping, lack of or improper professional advice and consultation, theft/cheating and lack of trust in doing business, lack of a proper business plan/vision for the business, inadequate education and training and lack of background and experience in the business. Those factors mentioned above are the key constraints which have emerged as the most influential in impacting the growth of small firms in Tanzania.

The study further reveals that, the issue of constraints to small firm growth is not only a problem to small firm owners, but this impacts the Tanzanian community and the economy of the country as a whole. This is so because if small businesses fail to grow it accelerates unemployment, lowers productivity; hence lowering savings and investment, last but not the least the government loses money that it would have made as tax revenue. This means national income deteriorates.

As it is already evident comparing the results with the factors influencing growth in the literature, there are differences. This study found only eighteen factors that could influence business growth, while the literature lists thirty five elements that could influence small business growth. This is so because of the nature of where the study has been conducted. Factors influencing growth in one country might be different from factors influencing growth in another country.

A study by Kamugisha (2007) on SMEs as pass for poverty reduction in Kigoma region reveals that Small and Medium Enterprises (SMEs) occupy a place of pride in virtually every country or state.
Because of their (SMEs) significant roles in the development and growth of various economies, they (SMEs) have aptly been referred to as “the engine of growth” and “catalysts for socio-economic transformation of any country.”

SMEs represent a veritable vehicle for the achievement of national economic objectives of employment generation and poverty reduction at low investment cost as well as the development of entrepreneurial capabilities including indigenous technology.

Other intrinsic benefits of vibrant SMEs include access to the infrastructural facilities occasioned by the existence of such SMEs in their surroundings, the stimulation of economic activities such as suppliers of various items and distributive trades for items produced and or needed by the SMEs, stemming from rural urban migration, enhancement of standard of living of the employees of the SMEs and their dependents as well as those who are directly or indirectly associated with them.
2.4 CONCEPTUAL FRAMEWORK

This part is designed in conformity with three research questions. It has discussed on the limitations of the success of SMEs sectors to contribute in economic growth and poverty reduction of Tanzania. Under this part of limitation chapter four discuss on the limitations such as finance, working environment, physical infrastructure, and quality of products and services of SMEs and counterfeit products which increase competition to the internal products.

Moreover, this research paper examines effective utilization of SMEs sector as a catalyst of economic growth and poverty reduction in Tanzania. This part tested the facet of creation of employment, services provision and products which then enable good health to Tanzanian, increase of government revenue and provision of education as part of contribution of SMEs sectors in Tanzania.

Then, this research paper analyses the impacts of limiting factors for SMEs success on economic growth and poverty eradication. Some of impacts analyzed are, underdeveloped physical infrastructures, growing deficit of skilled labor force in particular due to outbound migration of workers to other sectors which pays more, unemployment and lastly bankruptcy of SMEs sectors.

Finance sector may if enabled facilitate availability of and access to loan and equity finance, particularly medium to long-term opportunities to improve trade and investment capacity of SMEs. While maintaining sound government finances will help availability of finance for development purposes, access to finance may be enhanced by ensuring that, contracts are easily enforceable (i.e. through functioning secured transactions and bankruptcy regulations and institutions, issues of collateral and security are managed competitively (e.g. availability of loan guarantees for SMEs, computerized registration systems for pledges, mortgages, leases and where types of assets that may be used as collateral are expanded e.g.to future acquired property)
Factors for SMEs success in economic growth

Limitation of growth of SMEs

Finance

Working environment

Counterfeit

Quality of Products

SMEs as a catalyst in Economic growth

Government revenue

Employment

Education

Service provision and products

Unemployment

Physical infrastructure

Bankruptcy

Growing deficit of skilled labor

Developed by the researcher 2013
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction
This chapter presents research methodologies to be employed during research study. It described research approach of the study, research design, study area, study population, sample size, sampling technique, types and sources of data, data collection, and analysis methods.

3.1 Research Approach and Design
The researcher will adopt the qualitative research approach, Audet and Amboise (2001) suggested that qualitative research approaches have many methodologies and techniques which will help the researchers to get a better grasp of a variety of management situations. Thus the method will be useful, since it will enable the researcher to unfold information about different aspect of SMEs contribution to economic growth and poverty reduction at Temek Municipal Council through triangulation method, that is employment of multiple methods of data collection and comparisons of data to sort quality ones.

Aaker et al (2002) define research design as the detailed blue print used to guide a research study towards its objectives. To attain the objectives of this study the researcher will use a case study design. The design will enable the researcher to be flexible during data collection, as it allows the use of different research methods such as interviews, questionnaire and observation. As a result purposive and comprehensive information will be obtained and for that reasons it will help the researcher to reach a sound conclusion and workable recommendations.

3.2 Study Area and Population
According to Dawson (2002) geographical area help to narrow down research topic and resources in terms of budget and time, for the purpose of this study Temek Municipal Council will be an area of study.

The reason behind selection of this municipal is the fact that the researcher is residing in Dar es Salaam city where the study area is located.
In this case, it will be cost effective and time serving for the researcher taking into consideration that research cost full and time consuming undertaking.

Singh (2007) defines population as a group of individuals’ objects, or items from among which samples are taken for measurement. For the purposes of this study the targeted populations will be the employees of Temeke Municipal Council and SMEs who conducting business around the municipal. The total population is 70 respondents.

3.3 Sample and Sampling Techniques

3.3.1 The Sample

Yin (2009) argues that, a sample is a unit out of individuals that is small enough to present the population from which it was selected. The samples of this study will be drawn from Temeke Municipal Council employees profile and municipal economic profile. The use of sample will be useful rather than the whole population because of costs in terms of fund, time and material that will be used in surveying the whole population. The total sample selected for this study will be 70 respondents, 20 employees of Temeke Municipal Council and 50 entrepreneurs.

3.3.2 Sampling Techniques

Krishnaswami (2002) defines sampling as the process of drawing a sample from a large population. Therefore, it is a process of obtaining the number of elements to infer a large population. In order to draw valid inferences from a sample in relation to it is respective population then the researcher will use convenience sampling and purposive sampling techniques.

3.3.3 Convenience Sampling

According to Chepkilot (2005) convenience sampling involves selecting cases or units for observation as they become available to the researcher. The researcher will use this technique to collect data from the employee of Temeke Municipal Council and entrepreneurs who will happen to be most conveniently accessible,
since it will be not possible to get access to all employees of the municipal at the same time.

3.3.4 Purposive Sampling

According to Kothari (2004), purposive sampling helps to identify key persons who hold different leadership positions on the subject in question and can increase the utility of the findings.

The researcher will employ this technique to select director and head of departments at Temeke Municipal Council, who are knowledgeable on subject matter.

The rationale behind is to grasp specific and reach information related to study, so that to attain study objective.

Singh (2007) argues that purposive sampling can be useful for situations where a researcher needs to reach a targeted sample quickly and where a random process of selection or proportionality is not the primary concern. As a reason the researcher will adopt the technique so as to reach respondents quickly, and thus it will enable the researcher to finish the process of data collection within intended time.

3.4 Data Collection Methods

3.4.1 Primary Data collection methods

3.4.1.1 Questionnaire

To accomplish the study the researcher will administer questionnaire as source of primary data to entrepreneurs selected as respondents. The essence applying this method are as suggested by Kothari (2004) who explain that through questionnaires respondents have adequate time to give well thought answers and also respondents who are not easily approachable, can also be reached conveniently. The researcher will administer 70 questionnaires to entrepreneurs from Temeke Municipal Council. The question will be both closed and open-ended. Indeed, while some indicators required a brief and precise answer, it is also desirable to let information emerge from the field.
Respondents will be given the opportunity to express their thoughts on the subject matter as freely as possible. Appendix 1 provides the questionnaire for the study. The questionnaire will be useful in providing both qualitative and quantitative type of data.

### 3.4.1.2 Interview

Apart from using questionnaire as source of primary data, as well the researcher will use interview which will enable the research to have face to face interaction with respondents and grasp their perception toward subject matter. Masson (2002) describe the rationale for using interview includes that a researcher may be able to add an additional dimension through asking some questions from different angle or in greater depth.

The researcher will conduct interviews with selected entrepreneurs and Temeke Municipal Council staffs involved in this study. An interview guide will be developed to avoid losing focus and to ensure that all relevant questions are asked.

The interview will be useful in obtaining more information and to supplement respondent’s information given in questionnaire. Appendix 2 provides interview guide for the key informants. The interview will be useful in obtaining qualitative data.

### 3.4.2 Secondary Data Collection Method

The researcher will use secondary data to provide logical support to primary data, normally this data are obtained through documentary review. Bell (1993) defines a document as any written or recorded material, the preparation of which is not evaluation purposes or the request for the inquiry. The researcher will use various documents such as Temeke municipal economic profile, and SMEs policy (2002) and other relevant documents which will be available in the course of the study.
These documents will be used to supplement the primary data which obtained through questionnaire, observation, and interviews.

### 3.5 Data Analysis Method

Data analysis is an important step towards finding solution of a problem under study. Data will become meaningful after analysis stage, having a lot of data which cannot be analyzed is absurdity.

The method of data handling and analysis depends very much on the type of data collected, levels of technology required as well as kind of results required, types and level of information required UNDP (2009). To some extent, it also depends on the type of data and volume (Cresswell, 1994).

It is proposed that the procedure and techniques developed by well established qualitative research studies will be used. The actual process in capturing, coding and analysis of primary data from interviews and questionnaires will follow the established traditional techniques and procedure outlined by (Strauss and Corbin, 1998).

The specific data analysis methods to be employed will include but not limited to three methods content analysis for analysis of text and other written data; the methods will be useful in analysis of secondary data obtained by documentary review.

By using this method the researcher will be able to analyze what is relevant to the subject matter a certain document contains discourse analysis for analysis of responses from face to face interviews, this method of analysis permits analysis of discourse surrounding the response made by participants and cognitive (casual) mapping techniques that can provide the framework work within which experiences can be highlighted, understood and appreciated in depth (Weick 1990).
Descriptive analysis though will mainly be qualitative but some descriptive statistical methods will be employed at analysis stage in order to obtain frequencies and percentage of responses. The results of this analysis will be presented in tabular form and charts for easy and concise discussion and support on a logical basis.

The computer software program Statistical Package for Social Science Research (SPSS) and Microsoft office excel 2007 will be useful in data processing and writing final dissertation.
CHAPTER FOUR
PRESENTATION AND DISCUSSION OF FINDING

4.1 Introduction

This chapter presents the data and findings for the current study and discuss. It is organized into three main sections. The first section presents a detail about demographic data which were obtained by asking the participants to provide personal information in the first part of the questionnaire. The second part of this research answer the question as to whether SMEs sector is effectively utilized as a catalyst for economic growth and poverty reduction in Temeke municipal council. This will lead to the third section which presents the findings as per participants’ responses to answer on the factors limiting the success/growth of SMES in bringing about economic growth and poverty reduction in Temeke Municipal council. The fourth part is presenting on what are the impact of limiting factors for SMEs success on economic growth and poverty reduction in Temeke Municipal. The last part is the conclusion of this chapter. This chapter is organized according to three research questions stated in chapters one.

4.2 Social Demographic Characteristics of Respondents

In the first part of the role of small and medium enterprises in economic growth and poverty reduction in temeke municipal council Questionnaire, the participants were asked to provide information on the following aspects: gender, age, marital status, working experience, type of employment, location of enterprises, leadership position in the enterprises, educational qualification, year of graduation from school, university/college and year of first appointment.

A total of 50 different enterprises at Temekte municipal participated in this study. Of these, 35% were females and 65% were males. The majority of the workers (34%) had completed their introduction courses or secondary school, 30% had completed their Diploma and 31% were university graduates, and 5% had completed advanced secondary education.
Work tenures in these enterprises, amongst participants ranged from one to 30 years. Approximately 37% of the study respondents were supporting staff such as cleaners, messengers, clerks, Administrators, and drivers, and approximately 15% were engineers. About 25% of the respondents had leadership positions at various levels.

Almost 83% had applied for the job that they were doing. However, it was not clear what proportion of workers had been employed for other jobs and later changed to what they were doing during the study period.

Many workers (44%) indicated that they wanted to work with the enterprises they were because of the unemployment facing Tanzanian. 42% worked with the enterprises because they wanted to serve their families and 14% were simply seeking employment of any kind. And only four percent of the workers said they applied for the job because of their professional prestige.

4.3 Gender demographic information
Data from the demographic part of the research revealed 65% of the respondents were males, while 35% were female (Table 4.1). These results are not accidental but factual in that generally there are more males workers than females in different organizations in Tanzania. This reflects the historical gender inequality in employment in many countries south of the Sahara including Tanzania. A similar picture would be noted if the study was conducted among other organizations.

4.4 Age of Respondents
The statistical data indicates that the majority of the participants in the current study were aged from 18-30 years (Table 4.1). Additionally, 62% of the total participants were aged between 18 and 30 years, 24% of the participants were aged between 31 and 40 years, 6% were between 41 to 50 and 12% were aged above 51 years.
Table 4.1 Age and gender of respondent

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>31</td>
<td>62.0</td>
<td>62.0</td>
<td>62.0</td>
</tr>
<tr>
<td>18-30</td>
<td>31</td>
<td>62.0</td>
<td>62.0</td>
<td>62.0</td>
</tr>
<tr>
<td>31-40</td>
<td>12</td>
<td>24.0</td>
<td>24.0</td>
<td>86.0</td>
</tr>
<tr>
<td>41-50</td>
<td>6</td>
<td>12.0</td>
<td>12.0</td>
<td>98.0</td>
</tr>
<tr>
<td>Above 51</td>
<td>1</td>
<td>2.0</td>
<td>2.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>35</td>
<td>65.0</td>
<td>65.0</td>
<td>65.0</td>
</tr>
<tr>
<td>Female</td>
<td>15</td>
<td>35.0</td>
<td>35.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.1 June 2013

Table 4.1 for Gender and age demographic information indicates that more males were interviewed than females in this research.

There were 35 males and 15 females as representative several enterprises in Tanzania. Also, it indicates age of respondents that more respondents were aged between 18-30 (31 respondents out of 50), and very few respondents (2%) were aged above 51.

After descriptive statistical analysis, it was found that the mean age of respondent was 1.54 and standard deviation was 0.788. This means that a good number of respondents were between 18 to 30 and only few than any other group were above 51.

Table 4.2 indicates mean age and standard deviation of respondents

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>50</td>
<td>1</td>
<td>4</td>
<td>1.54</td>
<td>.788</td>
</tr>
<tr>
<td>Gender of respondent</td>
<td>50</td>
<td>1</td>
<td>2</td>
<td>1.34</td>
<td>.479</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source; Field Data June, 2013

4.5 Marital status of respondents

Moreover, the sample consisted of single, married, widows, widowers, divorced and separated workers. Descriptive statistics indicate that 22% of the participants were single, 59% were married, and 19% were widower (Table 4.3).
Interestingly, on the average educated male Tanzanians get married when they are 20 or more years old (see also Ndagamusu, Japhet 2011).

Furthermore, the sample consisted of workers whose working experience ranged from 1 year to 30 years. Forty five percent (43%) of the total respondents had a working experience of less than 20 years.

4.6 Categorization of participants according to their education

Furthermore, categorization of participants by their educational qualifications was as follows; 34% had attended Induction Courses in different aspects, 35% had Diploma qualification, and only 31% had Bachelor’s Degree. The workers with introduction courses constituted the majority in the study sample.

| Table 4:3 Categorizing Education qualifications and marital status of respondents |
|--------------------------------------|----------------|----------------|----------------|
|                                      | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid                                |           |         |               |                  |
| Introduction courses                 | 18        | 34.0    | 34.0           | 34.0              |
| Diploma                              | 15        | 35.0    | 35.0           | 69.0              |
| Bachelor's degree                    | 17        | 31.0    | 31.0           | 100.0             |
| Total                                | 50        | 100.0   | 100.0          |                   |
| Married                              | 31        | 59.0    | 59.0           | 59.0              |
| Single                               | 15        | 22.0    | 22.0           | 81.0              |
| Widower                              | 4         | 19.0    | 19.0           | 100.0             |
| Total                                | 50        | 100.0   | 100.0          |                   |

Source; Field data June, 2013

This information is compatible with the response from respondents about the effort done by enterprises in developing workers career at Temek. That most enterprises do not develop careers of their workers and if they want to sponsor themselves they are restricted by their managers otherwise they have to resign first. A good number of respondents negatively responded to the question of developing their knowledge and blamed their managers for disregarding this right. Others blamed on issues of corruption and favoritism as a problem toward the development of their career.
4.7 The role of SMEs in Economic Growth and Poverty Reduction Survey Data

In this part of the survey instrument, participants were asked to indicate their understanding of SMEs in Economic growth and poverty reduction with each of the 20 items using the Five Likert Scale ranging from strongly disagree to strongly agree as follows: 1=Strongly Disagree, 2=Agree, 3=Neutral, 4=Agree and 5=Strongly agree.

In the following sections therefore, participants’ responses to those items is presented in accordance to the research questions.

4.7.1 Whether SMEs is utilized Effectively to be a catalyst for Economic Growth and Poverty Reduction in Tembe Municipal

The research question under this item, sought to explore the fact as to whether Tanzania has made a satisfactory utilization of Small and medium enterprises sector to contribute in the development of Tanzania, to increase products to compete in external market. Three items were used to provide answers to this research question.

These items were; whether enough effort has been done by the Tanzanian government to protect internal market by fighting against counterfeit products, whether SMEs are made as priority in reducing unemployment in Tanzania and whether SMEs sector in their production of goods meet the basic needs of the poor in the country. To obtain the answers to the questions, descriptive statistical techniques analysis was performed and the results were as follows;

4.7.1.1 Whether enough efforts has been done by the Tanzanian government to protect internal market by fighting against counterfeit products

Respondents were asked to answer the question as to whether enough effort has been made by the Tanzanian government to protect internal market by fighting against counterfeit products. 24% of respondents strongly disagreed to the question, 32% of respondents disagreed to the questions. Whereas, 8% of respondents strongly agreed, 26% of respondents agreed and 10% of respondents
were neutral. This reveals that there in no satisfactory effort done by Tanzania to deal with counterfeit products.

The following figure presents the fact of statistical analysis about the answers to the question of whether enough effort has been done by the Tanzanian government to protect internal market by fighting against counterfeit products.

The descriptive statistical analysis revealed that the majority of the participants indicated negative response to the question (Mean = 2.62 and Standard Deviation = 1.323) (Table 4.4).

Table 4.4 Descriptive Statistics according to June 2013 showing whether enough effort has been made by the Tanzanian government to protect internal market by fighting against counterfeit products

<table>
<thead>
<tr>
<th>Counterfeit products reduction</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>50</td>
<td>1</td>
<td>5</td>
<td>2.62</td>
<td>1.323</td>
</tr>
</tbody>
</table>

Source: Field data, June 2013

The result of this finding is compatible with an article in the Guardian 16th of May 2013 by the Confederation of Tanzania Industries (CTI) that the “challenges hindering the fight against fake products in the country as corruption, lack of public awareness, human resources, lack of coordination and capacity building for stakeholders like the police and customs officers” (Confederation of Tanzania Industries (CTI):2013)

Illegal entry points disturb the government because they affect the economy and threaten the health of consumers. One of respondents said that, Tanzanian laws on counterfeit should be in a comprehensive document so as to be well understood and that “we have agencies, laws, policies and the Fair Competition Commission (FCC), but we are yet to succeed. We want to have a specific law to address the problem,” Respondent X
However, as presented by figure 1 above few participants indicated that they were satisfactory with this factor of fighting against counterfeit while very few others indicated that they were not sure (Neutral), and others indicated that they strongly disagreed on whether there are enough effort done to fight counterfeit.

The problem of counterfeits touches everybody and so concerted efforts are needed to combat it, there is no need to blame the Tanzania Revenue Authority (TRA) and other authorities, but rather chart ways to curb the menace

Meanwhile, a legal consultant (Intellectual Properties), Adam Mambi said in his presentations that the country’s related laws don’t even define counterfeit, hence causing difficulties for responsible authorities to address the problem. The current law, Merchandise Marks Act has not defined sub-standards and counterfeits, he said, adding: Tanzania lacks specific and comprehensive law to address counterfeits (Confederation of Tanzania Industries (CTI):2013)
4.7.1.2 Whether SMEs sector is made as priority in Reducing Unemployment in Tanzania

Unemployment is a now a big problem in Tanzania. If SMEs sector would be well utilized it would solve this problem in Tanzania. This research requested answers to the question of unemployment and respondents responded accordingly. In response to this item respondents responded as follows; when asked whether SMEs sector is made a priority so as to reduce a large backlog of jobless Tanzanian, 26% of respondents responded negatively (strongly disagreed to the question), 32% of respondents disagreed to the item, 2% of respondents were neutral, 6% of them strongly agreed, whereas 32% of respondents agreed that SMEs sector is made as a priority in reducing unemployment in Tanzania. This means a large number of respondents are not satisfactory with the government’s effort to enable this sector to be an employment industry.

The result of this research paper is in conformity with the finding of creation of employment (Daniels and Ngwira 1993) that require that SMEs sector if well utilized will enable employment of many citizen as these sectors are the source of employment and they have contributed greatly in countries which have tried to utilize them effectively. Moreover, Morris and others add that SMEs are considered an engine for economic growth and poverty reduction for the country through the creation of jobs and incomes for the people (Morris, May, Godden & Nicholson, 2001).

In this view SMEs sector in Tanzania should be utilized in order to contribute in employment of Tanzanian and reduction of poverty in the country as unemployment will lead to stagnant of economy of the country. SMEs should be a major issue for the government of the United Republic of Tanzania as our population projections indicates that many youth have no employment.

Thus if we want to achieve the sustainable human development that we are aiming for in our Development Vision 2025, SMEs sectors should be reformed to show positive results in employment.
Figure 2: Whether SMEs sector is made as priority in reducing unemployment in Tanzania

Figure 2, June, 2013

However, descriptive statistical analysis indicated that 43% of respondents agreed to the question, 57% of respondents responded negatively to the questions (see figure: 2). This is supported by Ayyagari and others that “while estimates vary greatly depending on definitions, recent work by the World Bank suggests that almost 30 per cent of employment in developing countries and Tanzania alike is generated by the informal economy, while an additional 18 per cent is provided by (formal) small and medium enterprises. Together these two groups contribute 63 per cent of the GDP” (Ayyagari et al. 2003).
4.7.1.3 Whether SMEs sector in their Production of Goods meet the basic Needs of the Poor in the Country

Under this facet respondents were asked to answer the question as to whether SMEs sector in their production of goods meet the basic needs of the poor in the country.

Descriptive Statistical analysis indicated that a big number of respondent disagreed to the question. As the descriptive statistical analysis indicates that (figure 3) more than 60% of workers are not satisfied with the internal goods as to their under quality produced, while only 32% of respondents were satisfied with this dimension and only 2% were neutral.

Cook and Nixson provide that goods produced by small and medium enterprises should meet international qualification in order to be competitive in the market and that the production of goods and services should be that which meet the basic needs of the poor (Cook and Nixson, 2000)

One of the respondents when asked about whether products of SMEs meet the needs of the poor and whether they are affordable responded that, “they do not meet the needs, however, deliberate effort should be done involving enterprises and the government to make sure that goods produced meet international quality and that they are affordable to enable competitive environment to our goods and services”. Respondent A

In this case the government of Tanzania through its official should ensure that the revenue and other government resources are effectively used for the betterment of the Tanzanians and not for the few who use their positions to embezzle government funds. This will help the government to provide socio economic development to reach the goals of 2025.
Figure 3: Whether SMEs sector in their production of goods meet the basic needs of the poor in the country

![Graph showing the response of SMEs sector]

Figure 3; Field data June, 2013

4.7.1.4 Conclusion

Contribution of SMEs in Tanzania is becoming a severely complicated issue of great importance to both enterprises and the government. Enterprises do not appear to be fully recognized and utilized because of a large number of enterprises increasing daily in Tanzania. This research suggests that enterprises and the government should consider themselves responsible for the development of Tanzania in order to increase their efficient and effectiveness of performance and to solve the present inefficient of these enterprises in Tanzania.

It is important that enterprises and the government dedicate time and interest to find out what to do in order to reduce. By doing so, enterprises will be utilized and contribute to the growth of economy and poverty.
4.7.2 Factors Limiting the Growth of SMEs in Bringing about Economic Growth and Poverty reduction in Temeke Municipal Council

This item was measured by the following facet; whether enterprises working environment is conducive to achieve their goals, whether there are adequate and favorable laws to protect internal enterprises and whether there is a manpower which is satisfactory to produce quality products and services. In this study, it was found that majority of the participants strongly agreed and few disagreed as to whether the three facets are some of limitations. The following are the facts obtained from the field;

4.7.2.1 Is Enterprises Working Environment conducive to achieve their Goals

As Figure 5 indicates, the ANOVA test was performed to determine whether the enterprises working environment is conducive to enable economic growth and poverty reduction. The test revealed that most of the respondent negatively to this question. However, there were statistically significant differences between highly educated respondents and those with low education. More Educated workers responded more positively than those with low education this may be because of salary, promotion and career development provided to those in higher position. Subjects were divided into four groups according to their age. There was statistically significant difference at p<.05.

Figure 4: Whether working environment is one of the Limitations

![Figure 4. Field data, June 2013](image-url)
It was discussed by Cook and Nixson that despite of SMEs 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, poor working environment, lack of training opportunities and high cost of inputs (Cook & Nixson, 2000).

4.7.2.2 Whether there are Adequate and Favorable Laws to Protect Internal Enterprises

Descriptive statistical analysis indicated that female workers responded more positively on the question of adequate and favorable laws to protect internal enterprises. This facet was measured by items as to whether the laws are adequate and whether deliberate effort have been made to amend them where they do not fit in the society. However, the same result was on the working environment women were more unsatisfied than their fellow men.

Table 4.5; whether there are adequate and favorable laws

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
<th>95% Confidence Interval for Mean</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Whether the Laws are adequate</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>33</td>
<td>2.15</td>
<td>1.202</td>
<td>.209</td>
<td>1.73</td>
<td>2.58</td>
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<tr>
<td>Female</td>
<td>17</td>
<td>2.71</td>
<td>1.213</td>
<td>.294</td>
<td>2.08</td>
<td>3.33</td>
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<tr>
<td>Total</td>
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<td>2.34</td>
<td>1.222</td>
<td>.173</td>
<td>1.99</td>
<td>2.69</td>
<td>1</td>
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<tr>
<td><strong>Whether effort is made</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>33</td>
<td>3.30</td>
<td>1.531</td>
<td>.266</td>
<td>2.76</td>
<td>3.85</td>
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<tr>
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<td>1.272</td>
<td>.308</td>
<td>2.70</td>
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<tr>
<td>Total</td>
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<td>3.32</td>
<td>1.435</td>
<td>.203</td>
<td>2.91</td>
<td>3.73</td>
<td>1</td>
</tr>
</tbody>
</table>

Source of Data; June 2013
The figure below also provides response of respondents in the issue of favorable laws

![Field Data as to June, 2013](image)

**Figure 7. Field Data as to June, 2013**

Moreover, it was revealed that, 65% of women respondents indicated negative feelings about laws as to its failure to regulate their working environment. Only 35% of male respondents indicated negative feelings of this facet.

However, they were satisfied in some aspects of laws in SMEs sectors. That the laws do not recognize women contribution and nature of working environment when compared with their fellow men

**4.7.2.3 Tanzanian Enterprises Human Resources**

A good number of workers reported to be more satisfied with the present of human resource in their enterprises. However, they complained on corruption as a source of employing unqualified manpower. 60% of respondents strongly agreed that there are enough human resources in their enterprises and that lack of finance is the most causes of having gaps of human resources in most enterprises. In testing this aspect cross tabulation was conducted to see which group would respond negatively and which responded positively than the other. Firms in all sectors and of all sizes can progress through greater use of graduate labor but there is generally a mutual distrust between graduates and SMEs (APO 2007). However, this information would be different if a study would be conducted in other areas of Tanzania according to the availability of manpower.
After an analysis of these items it was found that there are many factors which respondents produced at the back of questionnaire and some of them are those stated by this research under chapter one.

There are several limitations towards growth of SMEs in bringing about economic growth and poverty reduction in Temeke Municipal council. However, previous studies have examined the problems limiting SMEs growth as provided under chapter two of this research. These problems can be due to the lack of entrepreneurial values, financing and markets (Allal, 1999; Kirby, 2003). Other external factors such as the macroeconomic environment, government policies and regulations, and the availability of physical infrastructures also affect the growth performance of SMEs (Kirby, 2003).

Reacting on those problems scholars has suggested the creation of more business-friendly environments through government policies, which has been shown to be another influential factor on SMEs growth performance (World Bank Group, 2004).
4.7.3 Impact of Limiting Factors for SMEs Success on Economic Growth and Poverty Reduction

This research question sought to explore the two facets which are increase of unemployment in Tanzania and poor production and provision of services. Moreover, workers were asked to give their opinions as they are required. To obtain the answers to the question, descriptive statistical techniques were performed and the results were as follows.

A good number (26%) of workers had a positive response to the questions of unemployment being the cause of mismanagement and underutilization of SMEs sector in Tanzania and they added that the government should put enough effort to support enterprises to enable them create more jobs and improve the economy of Tanzania.

This was followed by their poor working environment by 21%. Some respondents (10%) condemned on bad leadership in enterprises and others 12% requested for freedom of decision making to both workers and managerial level.

However, 13% demanded for training of children to implement their rights where they are contravened. It should be noted however that, a good number of respondents (6%) did not respond well to this question.

Figure 6; Opinions of workers on impact of limiting factors for SMEs success on Economic Growth and Poverty Reduction.

Source; Field Data, June 2013
It is noted under chapter two that by entering into competition an organization is searching for competitive advantage which to a great extent depends to the success of the business (Walley, 1998). SMEs are generally facing low competitiveness in terms of knowledge, innovation, prudent investment, business operation, and good management, which are important factors required to elevate the quality level. Developing countries are facing competition from other countries due to globalization and trade is increasing but restrictions generally favor developed countries (Lind, 2009).

### 4.8 Reliability of the Research

The items tested in this analysis were; whether SMEs sector effective utilized as catalyst for economic growth and poverty reduction in Temeke municipal council, what factors are limiting the success/growth poverty of SMEs in Bringing about economic growth and poverty reduction in Temeke municipal council? And what are the impacts of limiting factors for SMEs success on economic growth and poverty reduction in Temeke municipal. After the test of items in Cronbach’s alpha the result indicated that an alpha test result was Alpha=0.8208.

It is noted that, there is an extent to which results are consistent over time and an accurate representation of the total population under this study.

Therefore, if the research may be conducted in a similar study and same methodology used it can be reproduced and the same result may be obtained.

This can be supported by Ho, Robert who stated that, if alpha is high (0.80 or higher), then this suggests that all of the items are reliable and the entire test is internally consistent. If alpha is low, then at least one of the items is unreliable, and must be identified via item analysis procedure (Ho, Robert 2006).

In this study reliability of data collected was also ensured by designing questionnaires and the interviews guide in such a way that ambiguities in the questions were avoided. However, instrument used in this research was adopted from other research papers to enable validity of the data obtained.
### Table 4.7 Reliability Analysis - Scale (Alpha)

<table>
<thead>
<tr>
<th>Statistics for SCALE</th>
<th>N of Variables</th>
<th>Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Item-total Statistics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scale</td>
<td>Scale</td>
<td>Corrected</td>
</tr>
<tr>
<td>Mean</td>
<td>Variance</td>
<td>Item-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>if Item</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Deleted</td>
</tr>
<tr>
<td>Procedures and laws</td>
<td>11.1800</td>
<td>13.4976</td>
</tr>
<tr>
<td>Working environment</td>
<td>13.5800</td>
<td>12.9833</td>
</tr>
<tr>
<td>Decision making</td>
<td>12.2800</td>
<td>14.6139</td>
</tr>
<tr>
<td>Leadership</td>
<td>10.4600</td>
<td>15.4576</td>
</tr>
<tr>
<td>Financial support</td>
<td>13.8000</td>
<td>15.6327</td>
</tr>
<tr>
<td>Rights protection</td>
<td>12.8000</td>
<td>14.0000</td>
</tr>
<tr>
<td>Reliability Coefficients</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N of Cases</td>
<td>50.0</td>
<td>N of Items = 6</td>
</tr>
<tr>
<td>Alpha</td>
<td>.8208</td>
<td></td>
</tr>
</tbody>
</table>

**Source: Field data June, 2013**

By this view it is a fair statement to state that, the results obtained from this study are reliable. This can be supported by literatures under chapter two where reliability is discussed that where Cronbach alpha test is 0.8 then that research is reliable.
CHAPTER FIVE
CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the research summary, conclusions and recommendations. Being the last chapter will detail about what has been done in this study and what should be done in future. Moreover, this research provides an opinion on what the government, enterprises and Tanzanians should do to improve their efforts to an effectiveness and efficient ways of dealing with Small and Medium enterprises.

This research paper sought to examine the role of SMEs sector in economic growth and poverty reduction in Tanzania. The results of this study show that many respondents were not satisfied with the dimensions used to get answers.

5.2 Summary of the Study

This study under this part attempted to identify the factors limiting the growth of small business growth in Tanzania. The reasons of doing this research as deemed by the author being determining the role of SMEs sector it has also discussed on the factors limiting the success and growth of small businesses in Tanzania and eventually suggest the solutions to these factors. Therefore then putting entrepreneurs, the Tanzanian community and the government as a whole in a position to overcome the threats posed while doing business in the country. A number of factors have been identified as the reasons as to why small firms in Tanzania fail to grow.

The study has discussed these constraints in light of the role done by SMEs by providing literature concerning factors influencing growth of small firms and barriers to growth in small firms so as they may contribute to the growth of Tanzanian economy.

Comparing the results as obtained from the interviews that were conducted by researcher; a few factors emerged stronger in limiting small firms’ growth as they were mentioned more times than the others by the interviewees.
These constraints include corruption, in access to finances/capital constraint, government policy, poor working conditions, people factor/ lack of needed talents, lack of proper record keeping, lack of or improper professional advice and lack of trust in doing business.

Also, inadequate education and training and lack of background and experience in the business were some of the mentioned factors.

Those factors mentioned above were discussed throughout this research paper because are the key constraints which have emerged as the most influential in impacting the growth of small firms in Tanzania. The issue of constraints to small firm growth is not only a problem to small firm owners, but this impacts the Tanzanian community and the economy of the country as a whole. This is so because if small businesses fail to grow it accelerates unemployment, lowers productivity; hence lowering savings and investment, last but not the least the government loses money that it would have made as tax revenue. This means national income deteriorates. As it is already evident comparing the results with the factors influencing growth in the literature, there are differences. This study found only few factors that could influence business growth. This is so because of the nature of where the study has been conducted. Factors influencing growth in one region might be different from factors influencing growth in another region such as in case of infrastructure.

Moreover, the reviewed literature and the analysis of the same indicate that SMEs in Tanzania play a substantial role in income growth, job creation, in economic growth and poverty alleviation. However, it has been discussed by this research that SMEs in Tanzania are not competitive enough in terms of the capacity of producing the high quality products demanded in the export market. Initiatives and activities that focus on addressing quality issues in the SME sector should therefore be supported.
In addition the research discussed that, SMEs are not competitive enough in terms of prices of their products due to high production costs, which are the result of many constraints facing the sub-sector.

The constraints, including weak, ineffective and inefficiency of the government harm SME competitiveness; poor infrastructure and inadequate capital, lead to high transaction costs that make the SMEs less competitive than those that do not face the constraints.

Another area of difficulty for Tanzanian SMEs discussed is their limited capacity to produce and deliver, in a sustainable and timely manner, the quantities of products that export markets require. The production and delivery capacities of most SMEs are relatively low and not competitive enough to have the desired access to export markets.

This is again, due to a number of constraints as indicated above. Initiatives and activities that focus on addressing the constraints therefore, should be supported. Despite the above limitations for SMEs to access the export market, there are a number of promising opportunities for SMEs’ access to export market. These include some sectors and commodities that carry high capacity to create jobs and incomes, economic growth and poverty reduction.

5.3 Conclusion

At this point it is a merit to comment on the lack of validity of such a small studied sample. The main disadvantage of the small sample used in this study is that the results have limited value. This is to say that the results obtained here are only practical to the small scale business people particularly in the city where the interviews were conducted (Dar es Salaam). The issue of hardship in generalizing the results (practicality) makes it hard for these results to be applied by the large scale business community and also business people in other regions of the country since constraints to business growth might be different in other areas.
In addition the types of companies studied here might have different constraints to growth factors from companies in other sectors of the economy. In a nutshell, this is what this study has been able to find out.

### 5.4 Recommendations

The main focus of the recommendations is to address (by reducing and eventually removing) the constraints to SMEs’ export market access, as well as exploiting the opportunities that exist for SMEs to access the markets. Initiatives and activities that focus on the identified promising sectors and commodities should be supported.

SMEs development requires a crosscutting strategy that touches upon many areas (e.g. ability of governments to implement sound macroeconomic policies, capability of stakeholders to develop conducive micro economic business environments, inter alia, through simplified legal and regulatory frameworks, good governance, abundant and accessible finance, suitable infrastructure, supportive education, sufficiently healthy and flexibility skilled labour as well as capable public and private institutions, and the ability of SMEs to implement competitive operating practices and business strategies). Thus, SME development strategy must be integrated in the broader national development strategy and/or poverty reduction and growth strategy of transition and developing countries.

Access and integration into local, national, and global markets require substantial investments in sustainable institutional and physical infrastructure development and service delivery to SMEs in all areas, including those that are rural and/or remote. Continued dialogue and partnerships between stakeholders into implementation and review of supportive measures, particularly, those related to capacity building in executing institutions, yields improved outcomes.

Enhancing women’s ability to participate in SME development should be taken into account every level, as women account for an important share of private sector activity and contribute most to poverty reduction. Gender dimensions need to be mainstreamed throughout SME development strategies and programs, with additional specific, targeted initiatives directed at critical roadblocks.
Ministry of Finance should set measurable levels for each government contract awarded to ensure that local SMEs participate.

For example it could set a minimum percentage of the contract value that should go to local SME sector. Also the government should establish a special Ministry dedicated to SMEs development. However, the government should develop parastatal organizations which oversee activities of small firms and address to their problems. These organizations will provide financial assistance, information/advice and also conduct training courses for small firms.

Moreover, financial institutions should develop better lending terms enabling small firms to benefit from them.

In this also the services of financial institutions should be improved to ensure their reliability and stability eliminating the problem of financial constraints to small firms while increasing the goodwill of these particular institutions. In addition, other stakeholders should develop institutions or organizations that would be reference centers for SME’s for information and advice, consultancy and acting as important meeting points for small firm owners to discuss matters that affect them and their particular industries.

The Public Procurement Act and relates regulations and guidelines should be translated in Swahili language to facilitate its understanding by majority of stakeholders in SME sector and The government should spearhead policy and regulatory reforms leading to establishment of an SME bank to address issues of access to finance among SMEs.

Government policy constraints would be curbed to a large extent if these reformed policies are implemented in the economic system and they are non discriminatory and non exempted to some big wigs in the country.
As an example, there have been cases where some firms owned by politicians and other well known figures, being exempted from business license fees, taxes and so on.

Also, the government should invest in research and development so as to explore what can be done to improve the small firm’s situations either by looking into what other developing countries have done or by coming up with new ideas. This in general will help in improving the challenges faced by small businesses in the country. Participants recommended efforts to be taken by the government to strengthen business environment and capacity of SMEs in the country through development of different programmes such as BEST programme, the SMEs competitiveness facility, etc. However, concern was expressed regarding limited coordination and overlaps in these programmes. Therefore participants recommend MIT to coordinate all SME development programs in the country.

Moreover, Government should involve the private sector in policy formulation from early stages unlike the current practice where by private sector is involved at a very later stage making their contribution to policy reforms insignificant and clearly provide guideline to differentiate SME sector and informal sector.

Micro-enterprises should be selected and assisted through awareness and capacity building to meet the TFDA and TBS standards. These few cases should then be showcased as role models, demonstrating that it is possible to complete the certification he need for promoting a strong culture for “Buy Tanzania, Build Tanzania” in both the private and public sector should be given weight by all agencies concerned with SME development.

In addition, SMEs sectors should reform unions or organizations that are active in looking after their rights and address to their needs to appropriate authorities.
These reformed unions or organizations should work under government ‘watchdogs’ like the PCCB to ensure transparency, efficiency and effectiveness of their activities.

This will ensure that the small business communities have a common voice concerning problems, challenges and issues that affect their respective business growth progress.

Lastly is that the small firms should try to seek professional advice and consultancy in matters that are not very familiar to them or in other words matters that they lack capabilities to accomplish themselves. These advices could be on marketing, human resource management etc. This will ensure that improper advice and consultations have no place in a small businessman’s world while dealing with different matters in their respective business.

Building up Trade and Investment Capacity of SMEs, SMEs must be able to respond quickly and efficiently to international market signals to take advantage of trade and investment opportunities and reap the benefits of the international trading system.

This means they need to be competitive and productive. Effective business support systems are needed to enhance competitiveness and productivity of SMEs.

Development of an effective business support system is also a key condition for the success of both trade and investment capacity building. It requires business support agencies (including financial institutions), which are customer-oriented and which have a demonstrated capability of penetrating the SME sector.
Take steps to increase the capacity of financial institutions to construct profitable SMEs lending programmes, while prioritizing the development of innovative solutions to collateral issues, such as the acceptance of more flexible forms of collateral, particularly for SMEs with few fixed assets; the use of group guarantees and loan guarantee schemes for SMEs; more emphasis on cash flow than balance sheets in assessment of borrowing capacity; easy and effective loan application assessment methodologies.

If all these are done by the respective groups mentioned, it can be fairly stated that small firm growth will be up for grabs in Tanzania. Furthermore, the author’s opinion on top of all that is that more research on the topic should be done including a large sample of respondents in order for credible solutions to be drawn. This will ensure that major problems are identified and solutions to them are worked out not only for the benefit of small firms, but also to the Tanzanian community and the government as a whole.

**5.5 Area for further research**

Ongoing research should provide more in-depth understanding of the effects of SMEs sector to the economy of Tanzania. Greater insights on finance as one of the problems of Tanzanian enterprises should be determined. Moreover, counterfeit as a problem should be studied to enable ways of enabling competition of internal product and protection of economic underdevelopment. Professionals as they strive to be employed in highly competitive environment, global arena, and establishment of SMEs sectors should be their essential focus.

Apart from that, further studied should be conducted to determine the physical infrastructure whether they are conducive to enable fast growth SMEs in the country. Also, a study in the growing deficit of skilled labor force in enterprises should be studied effectively. Moreover, gap of research exist in quality of products and services provided by most of enterprises in Tanzania.
REFERENCES


Ngowi, H.P., Milanzi, M. (2006) Sme Competitiveness Facility (Scf) Sme Export Market Prospects Desk Study Volume Ii: Detailed Study Output


Appendix A

My name is Frederick Baragwiha, currently a Master’s degree student at Mzumbe University (Dar es Salaam Business school). My Master’s thesis examines the role of small and medium enterprises in economic growth and poverty reduction in Temeke municipal council.

I kindly request you as one of the SMEs worker at Temeke to take some minutes to voluntarily respond to this questionnaire appropriately according to your own understanding and experience in SMEs.

Your participation in this study will provide me with the necessary data that I need to complete my study successfully.

I wish to assure you that all information you give will be treated very confidentially. Data will be reported in aggregate and all responses will remain anonymous. In case you have extra information that may contribute to the success of my study, please feel free to write at the end of the questionnaire.

I highly appreciate your participation.
Appendix B. Questionnaire on SMEs sectors roles in economic growth and poverty reduction

PART 1: Personal Information (Demographics)

1. Gender (Tick one √): Male [ ] Female [ ]

2. Age: .............Years

   Separated [ ]

4. Work experience: ...........Years

5. Location of organization (Tick One √): Rural [ ] Urban [ ]

6. Type of employment (Tick One √): permanent [ ] short term [ ]

7. Your leadership position............................

8. Number of workers at your workplace: Males........ Females...... Total ..........

9. Educational Qualification: (Tick One √): Introduction Course [ ]
   Diploma [ ] Bachelor’s Degree [ ] Master’s Degree [ ]

10. Year of graduation from College/University............

11. Year of First Appointment ... ..................
PART 2: Questions to measure critical factors which lead to job satisfaction

These questions were directed to workers, leaders and casual workers

Please, respond to all items given below by putting a tick (√) in the appropriate space using the following scales: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree

<table>
<thead>
<tr>
<th>S/No</th>
<th>Items</th>
<th>1 (Strongly disagree)</th>
<th>2 (Disagree)</th>
<th>3 (Neutral)</th>
<th>4 (Agree)</th>
<th>5 (Strongly agree)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>I feel happy with my present fringe benefits.</td>
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<tr>
<td>2</td>
<td>I am satisfied with the regulations and laws that protect me and my company</td>
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<td></td>
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<tr>
<td>3</td>
<td>My job is an interesting job to me.</td>
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<tr>
<td>4</td>
<td>I feel satisfied with my government effort to protect internal products</td>
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<tr>
<td>5</td>
<td>I am happy with cooperation the government</td>
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<tr>
<td>6</td>
<td>I am satisfied with autonomy I have in making decisions about how to improve my SMEs.</td>
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<tr>
<td>7</td>
<td>There is equal promotion and career development in my company</td>
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<td></td>
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<tr>
<td>8</td>
<td>I am satisfied with my business plan</td>
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<td></td>
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<tr>
<td>9</td>
<td>I have people whom I consult about different issues regarding my business</td>
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<td></td>
<td>Statement</td>
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<tr>
<td>10</td>
<td>Our enterprises has a good volume of sales</td>
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<tr>
<td>11</td>
<td>Technology used in our business is enough to keep our enterprises up to date and competitive in line</td>
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<td></td>
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<tr>
<td>12</td>
<td>I am satisfied with opportunities for workshops organized within and outside the enterprises</td>
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<tr>
<td>13</td>
<td>Our business is registered</td>
<td></td>
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<tr>
<td>14</td>
<td>Our business is doing very good from the point you started it up</td>
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<tr>
<td>15</td>
<td>I am satisfied with in-service training opportunities available for me as a worker, manager, casual worker</td>
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<tr>
<td>16</td>
<td>There are many challenges we face within our line of business</td>
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<tr>
<td>17</td>
<td>We have good short/long term plan for the future</td>
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</tbody>
</table>

Thank you for your co-operation

PART 3; Guidance questions

1. Why did you choose this type of business?
   ------------------------------------------------------------------------------------------
   ------------------------------------------------------------------------------------------
   ------------------------------------------------------------------------------------------
   ------------------------------------------------------------------------------------------
   ------------------------------------------------------------------------------------------

2. Can we disaggregate issues according to whether the firms are small or medium in size?
   ------------------------------------------------------------------------------------------
   ------------------------------------------------------------------------------------------
   ------------------------------------------------------------------------------------------
3. Are you passionate about this particular business or just about being in business?

4. Did you have any difficulties in finding finances either for start up or expansion?

5. Do you keep any records? And what is your volume of sales if I may ask?

6. Does the government protect internal products?

7. What are the limitations of your growing which hinder contribution in your national economic growth? (If this place is not enough please write at the back of this paper)

8. What are the challenges you come across within your line of business?
9. Are the Tanzanian laws of SMEs favorable to your environment of work?

10. Are your products competitive in the market?