THE ROLE OF GOVERNMENT ON IMPROVEMENT OF SMALL AND MEDIUM ENTERPRISES

A CASE STUDY OF SMALL AND MEDIUM ENTERPRISES IN ILALA DISTRICT, DAR ES SALAAM

BY

HENRY MFUMU
REG.NO MBA/CM/DCC/265/T.12

A Dissertation to be submitted to Mzumbe University Dar Es Salaam Campus College as a Partial Fulfillment of the requirement for the Award of Master of Business Administration Degree of Mzumbe University

August 2014
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled “The Role of Government on Improvement of Small and Medium Enterprises: A Case Study of Small and Medium Enterprises in Ilala District, Dar Es Salaam” in partial fulfillment of the requirements for award of the degree of Master of Business Administration of Mzumbe University.

Signature

___________________________
Major Supervisor

Signature

___________________________
Internal Examiner

............... 
Signature

Accepted for the College Board

___________________________________
DEAN/DIRECTOR, PRINCIPAL  
FACULTY/DIRECTORATE/SCHOOL/BOARD
DECLARATION

AND

COPYRIGHT

I HENRY G. MFUMU, declare to the Senate of Mzumbe University, Dar Es Salaam Business School that this research paper has not been submitted for any other award at any institution of higher learning for any purpose and that it is my own original work.

Signature: _____________________________

Date: _________________________________

© 2014

This dissertation is a copyright material protected under the Berne Convention, the Copyright and neighboring Rights Act 1999 and other international and national enactments, in that behalf, on intellectual property. It may not be reproduced by any means in full or in part, except for short extracts in fair dealings, for research or private study, critical scholarly review or discourse with an acknowledgement, without the written permission of Mzumbe University, on behalf of the author.
ACKNOWLEDGEMENT

This work has been completed with the help from a number of people whose contributions I consider valuable and whom I am grateful.

I express my sincere gratitude and appreciation to my research supervisor, Mr Jones Mnzava and the entire Faculty of Business at Mzumbe University for their support and guidance during my period of research.

I extend my appreciation to my family especially my sister Gladness, Uncle Innocent, my young brother Arthur, and my friends at university for their contributions. In particular I would like to thank Mr Julius, Isaya, January, Patrick, Marushu, Benjamin and Mtaju for all the knowledge I gained during class discussions and for sharing their study materials and notes.
DEDICATION

This work is dedicated to my father Mr. Gabriel Ismail Mselle.
ABSTRACT

The aim of the study was to assess the role of the government in improving the performance of SMEs. In order to fulfill the aim of the study, the researcher focused on issues relating to the legal framework within which SMEs operate, government supported BDS and their impact on the growth of SMEs and lastly, the state of the physical infrastructure and how it facilitates the growth of SME’s.

The study carried out both theoretical and empirical literature review which revealed that there was a definite relationship in a nation’s legal framework and the growth of SMEs. The literature review also showed that BDS and infrastructure were important aspects that determined the growth of SMEs.

The study used both primary and secondary data. The study used a sample of 40 units of SMEs in Dar es Salaam region. Respondents were chosen from Ilala district. The sample included all categories of SMEs representing almost all types of businesses. Primary data were collected using structured questionnaires. Secondary data was also used in the research. This data was obtained from SME records, government profiles of SMEs and the various policies relating to SMEs.

The collected data was edited, coded and tabulated. The data analysis was done using simple statistics and in particular percentages. This data was then presented in tables.

The findings of the study showed that the legal framework in general was poor and complex and thus unsupportive to the development and growth of SMEs. However, individual components of the legal framework such as licensing and registration were seen to be effective in contributing to the growth and development of SMEs. The results of the study also showed that the BDS offered to SMEs by the government have done little to improve the growth of SMEs. Most the respondents indicated that the
entrepreneurship training was appropriate but it was offered in major cities which were out of reach for many SMEs that were not based in these cities. Finally, the respondents indicated that the costs relating to the training were also very high.

The study concludes that although it is the role of the government to create an enabling environment for the growth and development of SME’s, there is need for the private sector to also play its role in aiding the government in creating this environment.
TABLE OF CONTENTS

CERTIFICATION .................................................................................................................. II
DECLARATION ..................................................................................................................... III
COPYRIGHT ......................................................................................................................... III
ACKNOWLEDGEMENT ....................................................................................................... IV
DEDICATION ....................................................................................................................... V
ABSTRACT ......................................................................................................................... VI
TABLE OF CONTENTS .................................................................................................... VIII
ABBREVIATIONS ............................................................................................................... X
CHAPTER ONE ................................................................................................................... 1
INTRODUCTION ............................................................................................................... 1
  1.1 BACKGROUND OF RESEARCH PROBLEM ............................................................... 1
  1.2 STATEMENT OF RESEARCH PROBLEM ............................................................... 2
  1.3 OBJECTIVES OF THE STUDY ...................................................................................... 3
  1.4 RESEARCH QUESTIONS .............................................................................................. 3
  1.5 SIGNIFICANCE OF THE STUDY ................................................................................... 3
  1.6 LIMITATIONS OF THE RESEARCH ............................................................................ 4
  1.7 DELIMITATIONS OF THE STUDY ............................................................................. 5
  1.8 DEFINITION OF TERMS ............................................................................................. 5
  1.8 SCOPE OF THE STUDY; ............................................................................................... 6
LITERATURE REVIEW ..................................................................................................... 7
  2.1 INTRODUCTION ......................................................................................................... 7
  2.2 THEORETICAL LITERATURE REVIEW ...................................................................... 7
    2.2.1 Small and Medium Enterprises (SME’s) ............................................................... 7
    2.2.2 Characteristics of SMEs ....................................................................................... 8
    2.2.3 SME Needs for Growth and Development ......................................................... 9
    2.2.3.1 The Role of the Government and SME’s Growth and Development .......... 10
    2.2.3.2 Legal Framework and SME’s Growth and Development ......................... 11
    2.2.3.3 BDS and SME’s Growth and Development .............................................. 11
    2.2.3.4 Infrastructure Availability and SME’s Growth and Development .......... 12
  2.2.4 IMPORTANCE OF SMALL AND MEDIUM ENTERPRISES .................................. 13
  2.3 EMPIRICAL LITERATURE REVIEW ......................................................................... 31
  2.4 RESEARCH GAP ........................................................................................................ 38
  2.5 CONCEPTUAL FRAMEWORK ..................................................................................... 38
CHAPTER THREE ............................................................................................................. 40
RESEARCH METHODOLOGY ................................................................. 40
  3.1 INTRODUCTION ........................................................................... 40
  3.2 RESEARCH TYPE ........................................................................ 40
  3.4 POPULATION OF STUDY .............................................................. 40
  3.5 RESEARCH SAMPLE ...................................................................... 41
  3.6 SAMPLING DESIGN ....................................................................... 41
  3.8 DATA PROCESSING AND ANALYSIS ............................................ 42
RESEARCH FINDINGS AND DATA ANALYSIS ........................................ 43
  4.1 INTRODUCTION ........................................................................... 43
  4.2 GENERAL INFORMATION ............................................................ 43
  4.3 THE LEGAL FRAMEWORK AND THE DEVELOPMENT AND GROWTH OF SMEs .. 46
    4.3.1 Interpretation of the Results .................................................... 49
  4.4 Adequacy of BDS Provided to SMEs by the Government .................... 50
    4.4.1 Interpretation of the Results .................................................... 53
  4.5 The Physical Infrastructure and SME Growth and Development ............ 54
    4.5.1 Interpretation of the Results .................................................... 55
DISCUSSION OF THE RESEARCH FINDINGS ....................................... 56
  5.1 INTRODUCTION ........................................................................... 56
  5.2 LEGAL FRAMEWORK AND SME DEVELOPMENT ............................ 56
  5.3 EFFECTIVENESS OF BDS PROVIDED BY THE GOVERNMENT TO SMEs .......... 58
  5.4 IMPROVED PHYSICAL INFRASTRUCTURES AND THE GROWTH OF SMEs ....... 59
CHAPTER SIX ......................................................................................... 60
SUMMARY, CONCLUSION AND POLICY IMPLICATIONS ...................... 60
  6.1 INTRODUCTION ........................................................................... 60
  6.2 SUMMARY .................................................................................... 60
  6.3 POLICY RECOMMENDATIONS .................................................... 61
  6.4 AREAS OF FURTHER STUDY ....................................................... 63
  6.5 CONCLUSION ............................................................................... 63
BIBIOGRAPHY ....................................................................................... 64
WEBSITES ............................................................................................. 66
QUESTIONNAIRE .................................................................................... 67
## ABBREVIATIONS

<table>
<thead>
<tr>
<th>BDS</th>
<th>Business Development Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IFM</td>
<td>Institute of Financial management</td>
</tr>
<tr>
<td>MIT</td>
<td>Ministry of Industry and Trade</td>
</tr>
<tr>
<td>MSME’s</td>
<td>Micro, Small and Medium Enterprises</td>
</tr>
<tr>
<td>NGO’s</td>
<td>Non-Government Organizations</td>
</tr>
<tr>
<td>OICT</td>
<td>Opportunities Industrialization Center of Tanzania</td>
</tr>
<tr>
<td>SACCOS</td>
<td>Savings and Credit Co-operatives</td>
</tr>
<tr>
<td>SCF</td>
<td>SME Competitive Facility</td>
</tr>
<tr>
<td>SIDO</td>
<td>Small Industrial Development Organization</td>
</tr>
<tr>
<td>SME’s</td>
<td>Small and Medium Enterprise</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Science</td>
</tr>
<tr>
<td>WEDF</td>
<td>Women Entrepreneurship Fund</td>
</tr>
</tbody>
</table>
CHAPTER ONE
INTRODUCTION

1.1 Background of Research Problem

The Tanzania Development vision foresees that by the year 2025, “Tanzania should have created a strong, diversified, resilient and competitive economy, which can effectively cope with the challenges of development and which can also easily and confidently adapt to the changing market and technological conditions in the regional and global economy.” (SME’s Development Policy, 2002, p.1).

The challenge is therefore to mobilize human and other resources towards the goal. Economic Reform policies implemented by the Tanzania market economy one such that the private sector will take the lead in creating income, employment and growth. On the other hand, the state will be a producer of public goods, play a regulatory role to level the playing field and create a conducive environment for the private sector to take the lead in driving economic growth.

The private sector has started playing an ever increasing role in creating incomes and employment. Small and Medium Enterprises (SMEs) account for a large share of enterprises active in Tanzania. There are about 2.7 million SME’s in Tanzania (SME’s Development Policy, 2002). In fact SME’s form the base for private sector led-growth.

Although SME’s are important as to the economy, they are faced with a number of problems which has been detrimental to their rapid development expected. The likely problems range from lack of adequate entrepreneurship skills and business acumen, lack of financial and technical support, lack of supportive government policies and increased competition from both domestic and international firms.
1.2 Statement of Research Problem

It is now increasingly recognized that the SMEs play a crucial role in economic development through employment creation and income generation. SMEs all over the world and Tanzania in particular can easily be established since their requirements in terms of capital, technology, management and even utilities are not as demanding as large enterprises. SMEs can also be established in rural settings and thus add value to the agro-products and at the same time facilitate the dispersal of enterprises hence leading to a country’s development.

Given the importance of the sector and the need to transform it to vibrant and dynamic one, it is crucial to put in place strategies that will facilitate the removal of constraints that limit the growth and development of SMEs. The major strategic areas to address may include the creation of an enabling business environment, developing infrastructures, strengthening financial and non-financial services and establishing plus strengthening institutions supportive to SME development. This can only be done through concerted government efforts. Thus, it is the aim of this study to analyze how the government can improve its activities and performance in its roles to enable SMEs improve and work well in the country. As there is limited empirical evidence on the role of government in improvement of Small and Medium Enterprises particularly in Ilala district this study intends to bridge the gap.
1:3 Objectives of the Study

1.3.1 General Research Objective

The general objective of the study is to identify the role of the government in improvement of SMEs.

1.3.2 Specific Research Objectives

More specifically the study has been conducted with the view of achieving the following:

1. To determine the legal frame work and its contribution to SME development.
2. To assess the extent of business development services (BDS) to SMEs by the government.
3. To assess how physical infrastructure can be improved to help SMEs work better.

1:4 Research Questions

a.) How does the legal frame work contribute to SME development?
b.) What is the extent of business development services (BDS) to SMEs by the government?
c.) How can physical infrastructure be improved to help SMEs work better?

1.5 Significance of the Study

This study is significant for the following reasons:
a) It will help the researcher to attain his academic objectives because this study is conducted in partial fulfillment leading to the award of a Master’s degree in Business Administration-Corporate Management from Mzumbe University, Dar Es Salaam University College.

b) The findings of this study will act as a mirror which will enable the government to rectify its policies so as to achieve its objectives of economic growth.

c) The findings of study will also be very beneficial to SMEs. The identification of the role of the government in improving the performance of SME’s will lead to better formulation of policies that will create an enabling environment for the improved performance and growth of SME’s in a changing and highly competitive environment.

d) The study will also be useful to scholars. The finding obtained from this study will help future researchers to identify different areas of interest in which to conduct their research. Moreover the findings and recommendations of this study might provide a source of literature survey to future researchers and scholars who need to pursue a similar research.

e) The finding of this study will also help Non-Government Organizations (NGO’s) develop supportive strategies that will aid SME’s develop.

1.6 Limitations of the Research

The researcher was faced with the following constraints in the course of conducting the study.

a) Time was a major limiting factor. This is because the research was conducted in twelve weeks. During these weeks the researcher was also pre occupied with field work.

b) Limited funds were another limitation. The costs associated with doing this study were high and the funds available were little. This forced the researcher to downsize costs which may negatively have impacted on the study findings.
1.7 **Delimitations of the Study**

The study focused on SMEs in Ilala district which is the busiest district in Tanzania. The findings of the study may not be generalized to the whole country because the business and economic environment in Ilala or Dar es Salaam in general is slightly higher as compared to other regions in the country. The study did not control for such factors.

1.8 **Definition of Terms**

This section provides the definition of terms used in this study.

**Legal framework**: These are the procedures which are required by law to be done by SME’s so as to fulfill government conditions and to operate freely. Examples of these include tax policies and registration and licensing procedures.

**BDS**: These are business services which are non-financial provided to SME’s to enable them to improve their services. These include services such as access to technological transfers, access to markets, capacity building, linking of SME’s to financial institutions, workshops, seminars and training.

**Development of SME’s**: This refers to the ability of SME’s net higher levels of profits, total capital, increased production levels, improved internal processes, improved innovation and creativity, reduced costs of production and improved retention of customers.

**Infrastructure**: These are things which help in facilitating good business environment. They can be premises, roads, cold rooms, warehouses, power, water and communication.
1.8 **Scope of the study;**

The study was conducted at Ilala Municipal District. The study involved Small and Medium Enterprises (SME) dealing with different kind of business.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of different theories in relation to the study which tries to analyze the role of government in facilitating SME’s development in Tanzania. The empirical review gives a description and analysis of what other scholars have written on the topic previously. Thus, a well defined research problem requires enormous literature survey which involves both the theoretical and empirical perspectives. The chapter also presents a conclusion showing the relationship between the theory and empirical studies.

2:2 Theoretical Literature Review

2.2.1 Small and Medium Enterprises (SME’s)

The SME’s nomenclature is used to mean Small and Medium Enterprises. It is sometimes referred to as Micro, Small and Medium (MSME’s).

The SME’s cover the non-farm activities mainly manufacturing, mining, commerce and services. There is no universally accepted definition of SME. Different countries use various measures of sizes depending on their level of development. The commonly used yardsticks are the total number of employees, total investment and the sales turnover.

In Tanzania context micro enterprises are firms or businesses that engage up to four employees, in most cases being family members and employ capital of up to Tshs5 million (SME’s Development Policy, 2002). The majority of micro enterprises fall
under this sector. Small enterprises are mostly formalized undertakings engaging between 5-49 employees or with capital investment from Tshs5-200 million (SME’s Development Policy, 2002). Medium enterprises employ between 50-99 people or use the capital investment from Tshs200-800 million (SME’s Development Policy, 2002). This information is summarized in Table 2.1 below.

**TABLE 2.1: CLASSIFICATION OF SME’S IN TANZANIA**

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
<th>Capital investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro enterprise</td>
<td>1 – 4</td>
<td>Up to Tsh5 million</td>
</tr>
<tr>
<td>Small enterprise</td>
<td>5 – 49</td>
<td>From Tsh5 million up to Tshs200 million</td>
</tr>
<tr>
<td>Medium enterprise</td>
<td>50 – 99</td>
<td>Above Tshs200</td>
</tr>
</tbody>
</table>

In case of an enterprise falling under more than one category, then the level of investment will be a deciding factor (SME policy of Tanzania 2003).

**2.2.2 Characteristics of SMEs**

According to Burns and Dewhurt (1996), the major characteristic of SME’s is that its firm’s share of the market is not large enough to enable it influence the price of national quantities of goods sold to any extent. In addition, SME’s have personalized management where the owner actively participates in all aspects of management of the business and in all major decision-making process. Thus there is little devolution of delegation of authority.
In third world countries, SME’s are mostly trade – oriented with only a small proportion of them is involved in the production of commercial goods or services, thus requiring relatively higher skilled employees. However, the majority of SME’s involved in trade are not familiar either with foreign trade and customs procedures or with product liability, quality and consumer protection requirements. This can be attributed to two important factors: first, the fact that most developing countries are faced with an underdeveloped segment of small credit banks and credit guarantee institutions that can aid in the development and growth of SME’s.

Second, the development of information services and networking that would provide information on products, markets, export requirements, customs regulations, partners (both domestic and foreign) are very poorly developed and when available are very expensive for SME’s to afford.

In Tanzania, the characteristics of SME’s are no different from those defined by Burns and Dewhurt (1996) above. A national SME’s Workshop conducted in 1999 by SIDO revealed that most SME’s in Tanzania are very small business engaged in survivalist activities (craft, food vending, fishermen, shops, food processing, textile (batik tie and die), and often involve the owner, some family members and one-paid employee. The owner of the business is usually the only and final decision maker and the controller of the business. These SME’s are not engaged in many new innovative practices and rarely show signs of growth.

2.2.3 SME Needs for Growth and Development

SME’s are faced with numerous problems and require some form of assistance both financial and non-financial to attain competitive growth. According to Cole (1959), the list of requirement ranges from raising of finance, getting paid on time, financial control, staff recruitment, removal of the red tape and regulations. It must be understood
that when helping businesses to grow and develop, there is need to develop customized solutions to address the specific needs of individual businesses and not businesses in general.

Some literature suggests that there are five generic needs that need to be addressed when considering the growth and development of SME’s:

a) Information
b) Customer focused advice and support
c) Skills and management development (which could be delivered both through development of existing staff as well as through recruitment of additional staff)
d) Financial support
e) Infrastructure, including workspace

Governments should therefore set out to ensure that all these are available, as well as taking on roles to minimize the burden of red tape and regulation and to champion the importance of entrepreneurship.

2.2.3.1 The Role of the Government and SME’s Growth and Development

According to Callon (1979), the role of the government is to provide the right macroeconomic conditions for business success by providing an economic framework which is stable and helps foster enterprise growth and development. At the same time, the government also has a role to ensure that its policies and programs support SME’s to meet the challenges of the 21st century especially increased competition brought about by liberalization policies and globalization. Whilst recognizing that the private sector is at the forefront of wealth creation and employment generation in a nation, the government also has an important role to play in creating a culture that stimulates enterprises, encourages innovation and rewards success.
All this can be done through the establishment of a simple legal framework, good tax policies that do not hurt the SME’s, reasonable license fees, removal of red tapes, proper infrastructure and the establishment of financial institutions aimed at helping SME’s grow.

2.2.3.2 Legal Framework and SME’s Growth and Development

Regulations impose a disproportionate burden on the smallest firms and it is usually the proprietor who has to find the time to comply. This detracts from the real job of growing and managing the business. According to McClelland (1979), regulations are almost always introduced for sound reasons, but government departments should look at alternatives, only resorting to regulation as the last choice. This will help balance the need to regulate with the extra burden it inevitably imposes. Departments should think first about the implications for small businesses, rather than assuming that all businesses will cope. Effective policymaking should follow the principles of good regulation – proportionality, transparency, accountability, targeting and consistence.

The SME’s operators and owners have a role to ensure that government policy makers take full account of small business views when drawing up proposed regulation. They have the role in encouraging local and national enforcement agencies to enforce regulations fairly and proportionately (Carl, 1971).

2.2.3.3 BDS and SME’s Growth and Development

Operators of SME’s have rather low business skills and seem not to appreciate the importance of business education. On the other hand, the quality of training provided by existing business training institutions and costs involved has tended to be unattractive and unaffordable to the potential beneficiaries (SME policy 2002).
Training is a key component in all activities concerning SME promotion and is a prerequisite for their success. The development of human resources is a key task not only in economies in transition but is in developed countries (Callon, 1979). Training programs help SME’s in the following fields and subjects: training packages for staff and trainers in agencies and SME support institutions; SME managers; vocational training; information technology; training on the appraisal of feasibility studies, loan and credit and portfolio management; education and training for technology; foreign language competence; experimental training schemes; retired manager schemes; and other initiatives which can benefit enterprises.

2.2.3.4 Infrastructure Availability and SME’s Growth and Development

There are two categories of infrastructure, i.e. hard and soft infrastructures (Walter, 2005). Both hard and soft infrastructures are vital for economic growth. Hard infrastructure includes telecommunications, transportation, power, water and sanitation. Soft infrastructure refers to financial and information services. Efficient delivery of both categories is critical to the development of a competitive economy and for broader participation in economic activity by the SME’s.

Tanzanian infrastructure is generally underdeveloped and sparse relative to needs, making service delivery unreliable and expensive. There are major challenges in the transportation with pressing needs to widen and deepen funds on roads development. Lack of financial instruments in the formal sector to serve for infrastructure sector and the Small and Medium Enterprises (SME) niche remains a major constraint and impediment to private sector development and economic empowerment and especially the SME’s (Tanzania Nation Trade policy, 2005).
2.2.4 Importance of Small and Medium Enterprises

It is estimated that about a third of GDP originates from the SME sector. According to informal sector of 2003, micro enterprises operating in the informal sector alone consisted about more than 1.7 million persons. That is about 20% of the Tanzanian labor force (SIDO paper 1999).

Since SME’s tend to be labor intensive, they create more employment at high levels of investment. At the present unemployment is a significant problem that Tanzania has to deal with. Estimates show that there are about 7 million new entrants to the labor force each year (SIDO paper 1999). About 500,000 of this are school leavers with few marketable skills (SIDO paper 1999). The public sector employs only about 40,000 leaving about 660,000 to join the unemployed or under employed reserve (SIDO paper 1999). Most of these people end up in SME sector and especially in the informal sector. Given that situation and the fact that Tanzania is characterized by low level of investment/capital formation SME’s are the best option to address this problem.

SME’s tend to be more effective in the utilization of local resources using simple and affordable technology. SME sector play a fundamental role in utilizing and adding value to local resources. In addition development of SME’s facilitates the distribution of economic activities within the economy and thus fosters equitable income distribution. Furthermore, SME’s are better positioned to satisfy limited demands brought about small and localized markets due to their lower overhead and fixed costs. Through business linkages, partnerships and subcontracting relationships, SME’s have great potential to compliment large industry requirements. A strong and productive industrial structure can only be achieved where SME’s and large enterprises not only co-exist but also function in a symbiotic relationship. However the linkages between SME’s and large enterprises are very weak in Tanzania. SME’s development policy therefore
should be created to enhance the linkages from the economy. In addition, SME’s serve as a training ground for entrepreneurship and managerial development and enable motivated individuals to find new avenues for investment and expanding their operations.

**Entrepreneurship**

Entrepreneurship has been described as a force of “creative destruction” where by established ways of doing things at destroyed way by the creation of new and better ways to get things done (Schumpeter 1994). According to Zahara (1999) entrepreneurship has long been considered a significant factor for social economic growth and development because it provides of job and development because it provides millions of job opportunities offer a variety of consumer goods and services and generally increase national prosperity and competitiveness wealth. Generally entrepreneurship is about taking risk (Knight 1967 and Drucker 1970)

**Characteristics of entrepreneurship**

The entrepreneur has an enthusiastic vision; driving force of an enterprise, Entrepreneur’s vision is usually supported by an interlocked collection of specific ideas not available to the marketplace, the overall blueprint to realize the vision is clear, however details may be incomplete, flexible and evolving, the entrepreneur promotes the vision with enthusiastic passion.

With persistence and determination, entrepreneurs take prudent risks. They assess costs, market/customer needs and persuade others to join and help and usually they are positive thinker and a decision maker. (Busenitz, L and Barney, J 1997)

**Contribution of Entrepreneurs**

Develop new markets. Under the modern concept of marketing, marketers are people who are willing and able to satisfy their needs. In economics, this is called effective demand. Entrepreneurs are resourceful and creative. They can create customers or
buyers. This makes entrepreneurs different from ordinary businessman who only performs traditional factions of management like planning, organization and coordination.

Discover new sources of materials entrepreneurs are never satisfy with traditional or existing sources of materials. Due to their innovative nature, they persist on discovering new sources of materials to improve their enterprises. In business, those who can develop new sources of materials enjoy comparatives advantages in terms of supply, cost and quality.

Mobilize capital resources; Entrepreneurs are the coordinators of the major factors of production, such as land, labor and capital. They properly mix these factors of production to create goods and service. Capital resources, from layman’s view, refer to the money. However, in economics, capital resources represent machines, buildings, and other physical productive resources. Entrepreneurs have initiative and self-confidence in accumulating and mobilizing capital resources for new business expansion.

Introduce new technology; new industries, new products. Aside from being innovators and reasonable risk takers, entrepreneurs take advantage of business opportunities, and transform these into profits. So, they introduce something new or something different. Such as entrepreneurial spirit has great contributed to the modernization of our economy. Every year there are new technology and new products. All of these are intended to satisfy human needs in more convenient and pleasant way.

Create employment; the biggest employer is the private business sector. Millions of jobs are provided by factories, service industries, agricultural enterprises, and the numerous small-scale businesses. For instance, the super department stores like SUM, Uniwide, Robnson and others employ thousands of workers. Likewise giant cooperation like
SMC Ayala and Soriano groups of companies are great job creators. Such massive employment has multiplier and accelerator effects in the whole economy. More jobs means more incomes. This increase demand for goods and services. This stimulates production. Again, more production requires more employment (Busenitz, L. and Barney, J. 1997)

**Advantages of Entrepreneurship**

Every successful entrepreneur brings about benefit not only for himself/herself but for the municipality, region or country as whole. The benefits that can be derived from entrepreneurial activities are as follows:

Self employment which offer more job satisfaction and flexibility of the work forces, employment for others, often in better jobs, development of more industries, especial in rural areas or regions disadvantaged by economic changes for example due to globalization effects.

Encouragement of the process of local materials into finished goods for domestic consumption as well as for export, income generation and increase generation and increased economic growth, health competition thus encourages high quality products, more goods and services available, development of new market, promotion of the use of modern technology in small-scale manufacturing to enhance high productivity, encouragement of more researches/ studies and development of modern machines and equipment for domestic consumption.

Development of entrepreneurial qualities and attitudes among potential entrepreneurs to bring about significance changes in the rural areas, freedom from independency on the jobs offered by others, the ability to have great accomplishments and reduction of the informal economy and migration of talent may be stopped by a better domestic entrepreneurship climate (Busenitz, L. and Barney, J. 1997)
Entrepreneurs create organizations which are referred as Small and Medium Enterprises (SME’s) which are grouped into four categories like Micro, Small, Medium and Large Enterprises whose effectiveness is expected to attract resources (Support to NEPAD – CAADP Implementation 2005).

It is now increasingly recognized that Small and Medium Enterprises (SME’s) play a crucial role in employment creation and income generation in Tanzania. SME’s all over the world and Tanzania in particular can easily establish since their requirement in terms of capital, technology, management and even utility are not demanding as it is in the case of large enterprises. These enterprises can also established in rural setting and thus add value to agro products and at the same time facilitates dispersal of enterprises. In deed SME’s development is closely associated with more equitable distribution of income and thus important as regards poverty alleviation at the same time, SME’s serve as training ground for emerging enterprises (SME’s Development policy 2003).

Thus due to serious problem of poverty in Tanzania government laid down some strategies and action on poverty reduction. “Four qualification of growth are essentials for poverty reduction which are investment in human capital, investment in physical capital, private sector development and attraction of foreign investment (FDI)” But since Tanzania’s is still infant entrepreneurship, therefore there is a need to support them since they play a crucial role in the economy and they are major contributing factor to economic wellbeing of a country both in terms of economic growth and job creation.

According to the Henderson (2002) at local levels entrepreneurs create new jobs and create local incomes and wealth as Dr Marshal contends:

“…… One way of fight poverty is through creating micro entrepreneurs. Micro entrepreneurship allows individuals to learn to manage resources, adopt themselves with necessary techniques and to develop and explore business
opportunities but they need a start, the need ‘seed money’ they need accountability and transpierce….. (Marshal 2005).

Entrepreneurship has long been considered a significant factor for socioeconomic growth and development because it provides millions of job opportunities, offers a variety of consumer goods and services, and generally increases national prosperity and competitiveness (Zahra 1999).

Moreover, given recent trends toward corporate downsizing, the privation of economies, and global completion based on agility, and innovation, both popular enthusiasm and academic entrepreneurship assume a prominent role (Birley & Macmillan 1993) Although entrepreneurship as an area of intellectual and study has been around for over two hundred years, a well-develop paradigm to create coherence in entrepreneurship research is still lacking (Aldrich & Baker, 1997).

An Entrepreneurial Perspective- Entrepreneurship is one of the four mainstream economic factors: land, labor, capital and entrepreneurship. The word itself, derived from 17th century French entreprendre, refers to individuals who were “undertakers”, meaning those who “undertook” the risk of a new enterprise. They were “contractors” who bore the risks of profit or loss, and many early entrepreneurs were soldiers of fortune, adventurers, builders, merchants, and incidentally, funeral directors. Early reference to the entrepreneur in the 14th century spoke about tax contractor’s individuals who paid a fixed sum of money to a government for the license to collect taxes in the region.

In the 19th century, entrepreneurs were the “captains of industry”, the risk takers, and the decision makers, the individuals who aspired to wealth and who gathered and managed resources to create new enterprises. Notable early French, British, and Austrian economists wrote enthusiastically about entrepreneurs as the “change agents” of progressive economies.
Without entrepreneurship, there can be little development in economy. In spite of increasing frequency with which the term entrepreneurship and entrepreneur is used, entrepreneurship and entrepreneur remain rather vague concept.

The word entrepreneur originates from the French word “entreprendre” which means to undertake. David McClelland (1961) described the entrepreneur as primarily motivated by an overwhelming need for achievement and strong urge to build. Cole (1959) found there are four types of entrepreneur: the innovator, the calculating inventor, the over-optimistic promoter, and the organization builder. These types are not related to the personality but to the types of opportunity the entrepreneur faces.

It is estimated that about a third of the GDP originates from SME sector. According to the informal Sector Survey of 1991, micro enterprises operating in the informal sector alone consist of more than 1.7 million businesses engaging about 3 million persons that were 20% of Tanzanian labor force. Though data on the SME sector are rather sketchy and unreliable, it is reflected already in the above data that SME sector plays a cruel role in the economy.

Since SME’s tend to labor-intensive, they create employment at relatively low levels of investment per job created. At present, unemployment is significant problem that Tanzania has to deal with. Estimate show that there are about 700,000 new entrants into the labor force every year. About 500,000 of these are school leavers with few marketable skills. The public sector enjoys only about 40,000 of the new entrants into the labor market, leaving about 660,000 to join the unemployed or the underemployed resources. In addition, development of SME’s facilitates distribution of economic activities within economy thus foresters equitable income distribution.
Furthermore, SME’s technologies are easier to acquire, transfer and adopt. Also, SME’s are better position 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 reliance in the face of recession by holding on their businesses, as they are prepared to temporarily accept lower compensation.

Through business linkage, partnerships and relationships, SME’s have great potential to complement large industries requirements. A strong and productive industrial structure can only be achieved where SME’s and large enterprise not only coexist but also function in a symbolic relationship. However, the linkage between SME’s and large enterprises are very weak in Tanzania. SME’s development policy, therefore, creates the potential for enhancing linkages within the economy. In addition, SME’s serve as a training ground for entrepreneurship and managerial development and enable motivate individuals to find new avenues for investment and expanding their operations.

There are also opportunities indicating a bright future for SME sector development in Tanzania. This includes the various on-going reforms that are oriented towards private sector development and, thus, lay the ground for SME’s development. In addition, the recognition of SME sector that it has higher potential for employment generation per capital invested attracts key actors to support SME development programs. Since SME development does contribute significantly to poverty alleviation, resources earmarked for poverty alleviation will also be availed to the SME sector.

Various initiatives towards improving the infrastructures and especially roads do provide an added opportunity for SME development. Furthermore, there are several ongoing schemes aimed at strengthening SME service providers such as Small Industries Organization (SIDO), Vocation Education Training Authority (VETA), Micro Finance Bank (NMB) and various Industrial Support Organization for growth of
the SME sector. Given that the fact that Tanzania is endowed with abundant natural resources, the creation of enabling business environment will facilitate exploitation of these resources through SME’s. This is again an opportunity for SME’s development.

The SME’s nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). The SME’s cover non-farm economic activities mainly manufacturing, mining, commerce and provision of other services. There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development.

The commonly used yardsticks are total number of employees on the enterprises established by entrepreneurs, total investment and sales turnover. In the context of Tanzania, microenterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs 5.0 million. The majority of micro enterprises fall under the informal sector. (SME’s Development Policy 2002).

SME’s sector has some importance like: It is estimated that about third of the GDP originates from SME’s sector; Since SME’s tends to be labor intensive they creates employment at relatively low levels of investment per job created, SME’s tends to be more effective in utilization of local resources using simple and affordable technology. Through business leakage, Partnership and sub contracting relationships SME’s have great potential to complement large industries requirements.

There is no hesitation that people think about poverty in different ways. Ordinary people businessmen, civil servants, government ministries, parliament and foreign experts have different ideas about poverty is and works day to day in attempts to understand the cause and the way to cure it. Poverty has been pervasive and growing threat to humanity. More than one million in the world, most of whom go hungry, live in abject/miserable poverty.
In Africa, in particular, large proportional of people (the majority of whom are women) has very little to access to income, resources, education, health care and nutrition. In 1995 (March 6-12), the first world summit on social development (WSSD) was organized in Copenhagen, Denmark, “to recognize the significance of social development and human wellbeing for all and this goals the highest priority both now into 21st Century”. In the same year, the UNDP ‘Policy Paper’, Poverty eradication: A policy frame work for country Strategies was realized, while the United National Research Institute for Social and Development followed upon deliberation and recommendation of WSSD with document after the social Summit:

Implementing the program of action “ A regional (Africa) Conference has been held in January 1994 in Addis Ababa an Action Gender for Human and social Development (AGHSD) was developed for Africa. Viewing Poverty as global issue is reflected in these initiatives. Africa poverty is said to be mass poverty (of the absolute kind mainly, less so of relative kind) requiring more encompassing operational definition and monitoring instrument with the aim of intervention initiative.

In Sub Sahara Africa (SSA), 35 of 46 were classified in 1995 as least developed, with high prevalence of poverty. The UNDP Human Development report (1995) Listed 44% without access to sanitary facilities. The Haman development index was high for only 2 and medium for 9.35 countries had a low HDI, ranked from 129 to 174. A reasonable definition characterized a poor person as one who’s “standard of living falls below a minimum socially acceptable level” This definition accommodates basic needs, some acceptable social threshold, norms and traditions.

It also reflects the view about poverty that relate to the capacity to be able to participate in all activities of a community on average. However the concept is operationally difficult. One view uses the notion of deprivation where by poverty is define as enforced lack (deprivation) of material resources of certain duration such as extent that
participation in normal activities and possession amenities and living conditions which are customary or at least widely encouraged or approved in society, become impossible or very limited.

Another approach uses basic needs, becomes impossible or very limited especially along the nutritional front, where there is some agreement that nutritional requirement vary less across time and societies. This operational definition of poverty may appear too narrow. True “man does by the bread alone” by without bread man cannot live at all! On these there no significance controversies. Indeed income, the other attribute of poverty such as bad heath, ignorance and even lack of esteem are, by and large, essential related to one’s lack of access to basic commodities, notably food.

Operationally thus, it is common practice to specify minimum requirement for both food and non food items and to calculate the needed income for current acquisition (the income become the poverty line). If the food is generally known, then this will provide the benchmark expenditure. To obtain the poverty line, this is the minimum food grossed up by appropriate factor to accommodate non food requirement.

Hartwell (1972) define the economics “as the study of poverty, because the structure, efficiency and growth of production-heart of economic science-affect and are in turn are affected by the distribution of consumer goods between the poor and non poor” all branches of economics science-well fare economics, trade, development, agriculture, economics, public finance, etc are thus in final analysis related to poverty. Indeed since the classical economist Smith, Ricardo etc.

The centrality of poverty eradication in economic theory and economics analysis has formed the core of economic policy. This continues to be summarized by the current generation of economist (New classicist). With most developing countries bent on implementing structure adjustment programs, the debate about the relation between the
growth and poverty has once again intensified because the publication of Kuznet’s work in 1955, it was commonly believed that the benefit of could be expected to trickle down to the poor more or less automatically, and hence growth was believed to be always accomplished by reduce poverty.

The Kuznet philosophy started that during the essential stage of growth; in equality intend to increase before starting to decline the work of Ahluwalia and others on “redistribution of growth” sought to emphasize, from policy respective, the importance of interventionist measures need to bring about equality during the initial stage of growth. In more resent echo’s in analytical literature, it has been argued that the present growth modes are not adequate in analyzing the implication of growth and equity unless there joint growth and distribution models.

There is considerable relationship the role of entrepreneurship and poverty reduction since the output of entrepreneurs whose form enterprises is the generation of income for the owners, creation of employment to the followers payment of tax to the government in which consequently leads to the economic development and hence poverty reduction.

2.2.5 Factors affecting SMEs Performance

In Tanzania factors affecting SMEs performance are those seven pillars which narrated in the development policy of SMEs and that is the commitment to be the role of the government to support SMEs development. These problems have not been solved but for the matter of this study we will insist on the following:
2.2.5.1 Access to Finance

Generally lack of short, medium and long term capital, inadequate access to financial resources and credit facilities affect the growth of micro and small scale enterprises (MSEs). In fact the cost of capital is higher for the small scale manufacturer; the effect is even compounded by raising inflation rate (Osotimehin, K.O, 2012)

SMEs identify financing, especially medium to long-term finance, as their topmost obstacle to growth and investment. These obstacles come at two levels. In least developed economies, and in some transition and developing economies deficiencies in both the macroeconomic and microeconomic environments pose challenges: high budget deficits and unstable exchange rates and legal, regulatory and administrative environment poses major obstacles to access of SMEs to financing.

In some economies, capital may just not be available, property rights regimes may not allow ownership of land, markets for transfer of immovable assets may be very underdeveloped, credit and collateral legislation may not allow certain assets that SMEs commonly have access to, to be used as collateral (for example future acquired property), absence of registries for mortgages and pledges may increase risks to lenders, contract enforcement and asset liquidation may be hampered due to weaknesses in legislation and in the judiciary (Dossani and Kennedy, 2002).

The second level of obstacles may be due to organizational capacity weaknesses: For example, in least developed economies, business services markets in accounting, auditing, financial management and legal counsel may be so underdeveloped that SMEs may not be able to access or afford such services: essential services they would need when they approach banks and other types of lenders.
In more advanced developing countries, where there is reasonable progress in the fundamental institutions, SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital, leasing and so on. For instance, although SMEs are by far the largest group of customers of commercial banks in any economy, loans extended to SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high-perceived risks in SME loans, access to competitive interest rates may also be very limited. Finally, in many developing economies, banks prefer to lend to governments, which offer less risk and higher returns, crowding out most of the private sector from the financial system.

In industrialized countries there has been a long tradition of providing subsidized loans and grants to all types of SMEs to enhance their competitiveness. A more recent trend in OECD economies is a focus on exporting and technology-based SMEs, generally removing subsidies from asset and operating capital financing and shifting to subsidies for promoting exports and technology upgrading, providing loan and exchange rate guarantees, and providing grants for quality improvement. Some governments in the developing world have also introduced specialized banks for SMEs (e.g. in India, Small Industries Development Bank of India, in Turkey, the Halkbank) to the same effect. However, sizes of programs in the developing to avoid the compounding the very problems which led to the financial crisis, policies must be world are usually much smaller (UNCTAD 2001, Dossani and Kennedy (2002, OECD 2004).

To avoid the compounding the very problems which led to the financial crisis, policies must be carefully designed and managed to allow transparent risk pricing and risk management. This applies specifically to government loan guarantee programs, direct credit provision, and credit mediation and specifically to government loan guarantee programs, direct credit provision, and credit monitoring – all aimed at facilitating SMEs access to finance in many OECD economies (OECD, 2012).
2.2.5.2 Lack of Appropriate Knowledge and Skills

Small Medium Enterprises (SMEs) in Tanzania have limited formal education and limited training. About half of the population of entrepreneurs has completed primary school; one-third secondary school; less than 10% obtained technical training after secondary school or pursued higher education. Some 70% did not receive training before the start of the business (UNIDO, 2012).

SMEs in Tanzania lack entrepreneurship skills that are important for the operation and performance of their businesses. Little knowledge makes these businesses fail to reach the growth stage of their product life cycle as their owners are shortly exposed to various opportunities prevailing in the market.

Appropriate knowledge and skills such as planning knowledge, market strategies formulation and implementation and technology in the business arena result in collapse of small businesses in Tanzania. The current is a world of information technology where operations such as accounting, procurement and manufacturing systems are dominated by the use of computers. Furthermore, communications access to markets, finances and technology is now largely conducted through e-commerce and the extensive use of the internet.

There is limited application of modern information and related technologies among several Tanzanian enterprises to-date. In the case of marketing skills, the modern marketing techniques embody aggressive behavior backed by quality goods and services that are presented in the market. SMEs are constrained by the lack of modern marketing techniques as witnessed for example in the tourism sector while the newly privatized manufacturing sector is just starting to modernize and striving to make improvements in productivity. [http://www.invest-africa.com/TnzCONSTRAINTS.htm](http://www.invest-africa.com/TnzCONSTRAINTS.htm) (20 Jan 2012)
2.2.5.3 Taxation

Private enterprises in developing countries often face difficulties when dealing with the government in general and the tax administration in particular. Many of the difficulties with the tax authorities are the consequence of poorly conceived tax policies and a lack of certainty regarding future policy changes. It would be rare indeed to not hear complaints about the complexity and/or ambiguity of the tax laws, high tax rates, and the lack of an integrated fiscal strategy that takes social taxes, and local taxes and fees into account when determining the overall tax burden placed on the business community. (Baurer, 2005)

2.2.5.4 Innovation and Creativity

Tanzanian SMEs capacity to innovate and create is limited to knowledge and available facilities. They lack market knowledge of product life cycle, for that reason when the product reach the stage of maturity, it decline indefinitely with no effort of changing strategies so as to make the product continue to exist in the market. In some cases however these SMEs lack capital to support their creativity and innovation in relation to their product and make them active again the market. Theories of various innovation models show that innovation development and application in Small and Medium Enterprises (SMEs) are costly and risky, making firms particularly in developing countries, to either stagnate, reverse or fail to grow. (Mafunda D. 2001)

2.2.6 Theories on SMEs

The following are some examples of modern financial management theories formulated on principles considered as ‘a set of fundamental tenets that form the basis for financial theory and decision-making in finance by Emery et al. (1991):
2.2.6.1 Agency Theory

Agency theory deals with the people who own a business enterprise and all others who have interests in it, for example managers, banks, creditors, family members, and employees. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders. The theory is on the notion of the principle of ‘two-sided transactions’ which holds that any financial transactions involve two parties, both acting in their own best interests, but with different expectations. (Emery et al., 1991).

2.2.6.2 Signaling Theory

Signaling theory rests on the transfer and interpretation of information at hand about a business enterprise to the capital market, and the impounding of the resulting perceptions into the terms on which finance is made available to the enterprise.

In other words, flows of funds between an enterprise and the capital market are dependent on the flow of information between them (Emery et al., 1991). For example management's decision to make an acquisition or divest; repurchase outstanding shares; as well as decisions by outsiders like for example an institutional investor deciding to withhold a certain amount of equity or debt finance.

Keasey et al. (1992) writes that of the ability of small enterprises to signal their value to potential investors, only the signal of the disclosure of an earnings forecast were found to be positively and significantly related to enterprise value amongst the following: percentage of equity retained by owners, the net proceeds raised by an equity issue, the choice of financial advisor to an issue (presuming that a more reputable accountant,
banker or auditor may cause greater faith to be placed in the prospectus for the float), and the level of under-pricing of an issue. Signaling theory is now considered to be more insightful for some aspects of small enterprise financial management than others (Emery et al 1991).

2.2.6.3 The Pecking-Order Theory or Framework (POF)

This is another financial theory, which is to be considered in relation to SMEs financial management.

It is a finance theory which suggests that management prefers to finance first from retained earnings, then with debt, followed by hybrid forms of finance such as convertible loans, and last of all by using externally issued equity; with bankruptcy costs, agency costs, and information asymmetries playing little role in affecting the capital structure policy. A research study carried out by Norton (1991b) found out that 75% of the small enterprises used seemed to make financial structure decisions within a hierarchical or pecking order framework. Holmes et al. (1991) admitted that POF is consistent with small business sectors because they are owner-managed and do not want to dilute their ownership. Owner-managed businesses usually prefer retained profits because they want to maintain the control of assets and business operations.

Modern financial management is not the ultimate answer to every whim and caprice. However, it could be argued that there is some food for thought for SMEs concerning every concept. For example Access to Capital and POF are really eye-openers for SMEs in Ghana to carve their way into sustaining their growth.
2.3 Empirical Literature Review

This section of the chapter presents the empirical literature review. It visits studies that have been conducted in the area under research.

2.3.1 The Small Medium Enterprises in Global Perspective

It has long been recognized that small and micro businesses have a vital role to play in the economy with small business accounting for 99% of all businesses in the UK, and an estimated 3.7 million active businesses in 1998. Collectively, small and medium enterprises (SMEs) are responsible for 65% of employment and 57% of Gross Domestic Product within the UK (Madsing, 1997). They play a particularly important role in areas such as the North West of England that have seen a decline in traditional heavy industry and a growth in the service industry.

During the past several decades, the majority of organizational research has been undertaken in large companies. One reason for this is that, until the 1970s, economic development was primarily achieved through mass production in large firms. Since that time, there has been a continuous trend towards ‘downsizing’ and this has significantly increased the commercial importance of the smaller firm (Lèbre La Rovere, 1998). For a long time, there had been a tacit assumption that organizational theories and models developed in large firms were directly applicable to SMEs. However, there is now a greater understanding that smaller organizations differ significantly from their larger counterparts (de Berranger and Tucker, 1999).

There is no doubt that small businesses remain economically important in every free enterprise industrial society (Curran et al., 1986). In the UK, SMEs are strongly represented in almost every major sector of the economy, and continue to provide substantial employment not only in traditional established industries such as
construction but also in the newer sectors such as professional and scientific services (Binks and Coyne, 1983).

Small businesses have long been a vital part of the U.S. economy. Firms with fewer than 100 employees accounted for one-third of all private-sector jobs and more than 95 percent of all firms. During this period, many new small businesses were started, many failed, many continued to prosper, and many prospered enough to no longer be categorized as “small.”

Knowing the importance of SMEs and the crisis gaining intensity in late 2008 and early 2009, OECD governments introduced policies to ensure that SMEs and entrepreneurs would have access to finance despite the crisis. During this period, the WPSMEE accelerated efforts to monitor the impact of the crisis on SMEs and entrepreneurs and to build a data bank on policies to mitigate the impact of the crisis. WPSMEE work through mid-2009 was summarized in a report published in June 2009.3 In ensuing months the Working Party decided that, in addition to describing the impact of the crisis and cataloging policies, efforts to evaluate those policies should be intensified and that work on three kinds of programme should be stressed: First credit guarantees and official loans; second export facilitation; and finally credit mediation.(OECD,2010).

SMEs in developing countries in East Asia receive support from local governments in the form of micro finance, interventions to increase private sector training, technology development, and market information. China, Malaysia, Indonesia and Thailand benefited from these policy reforms, network relationships, cluster linkage to markets, and the new support infrastructure. In Vietnam, policies that provide support are a critical factor for SME growth (Nguyen, T. H. et ale,2009).
2.3.2 Empirical Studies on SMEs in Africa

Despite their significant importance and SME contribution to economic growth, SMEs in Africa are still faced with numerous challenges that inhibit entrepreneurial growth. Apart from SME funding and access to finance (which is the focus of this study), the Global Entrepreneurship Monitor (GEM) Reports (2001-2010) noted that SA SMEs also suffer from poor management skills which is a result of lack of adequate training and education. This results in high rates of business failure (SA has one of the lowest SMEs survival rates in the world). (NCR, 2011)

In Nigeria one of the strategies is the introduction and pursuit of policies such as concessionary financing to encourage and strengthen the growth of SMEs. Also, the disbursement of SMIEIS fund have significantly improved the portfolio of funds to SMEs causing absolute increase in total credit by commercial banks from 9.7% (2000) to 32.9% in 2002. In the course of the investigation, we discovered that the problem of establishing small and medium ventures include the lack of capital, operating equipment, poor business environment, the scarcity of accommodation on the other hand, the inherent problem in managing small and medium business ideas, lack of efficient preservation system and poor environment (Osotimehin, K. O. et ale, 2012).

Despite the fact that Kenya made various efforts to support SMEs but according to Ongolo, D and Awino, S (2013) the study found that,” there are various institutional and regulatory challenges facing the SMEs in Kenya. These include Poor Coordination of the SMEs Activities; Inadequate Private and Public Dialogue at the County Level; Poor enforcement of Regulatory legislations; and Knowledge Gap on National and County Policies Interface.”
Elhiraika and Ahmed (1998), conducted a research that tried to determine the effects of nation policy on the development of the SMEs in Côte d’Ivoire. The study focused on the existing efforts of the government in Côte d’Ivoire that were aimed at creating a technical-support infrastructure for the development of SME’s. Thus, the objectives of the study included the need to share know-how on developing and carrying out policies and programs for financing SMEs, the need to stress the role of the public and private sectors in creating an environment to foster the emergence and blossoming of small businesses and the need to help coordinate the implementation of action programs for small-enterprise development in several countries.

The justification for their study was that liberalization had created a free-market environment that was more unfavorable to the private sector and thus there were fears that without support and access to ample resources during the adjustment period, SMEs would be unable to succeed. Further, the researchers argued that SMEs were an important component of any growing economy and could not be ignored.

The findings of the study showed that the lack of an appropriate institutional framework and of adequate infrastructures, inadequate financing schemes and inefficient information systems were some of the obstacles which hampered the organized development of small enterprises in the region. The study findings implied that in order to create a sound business climate, the government of Côte d’Ivoire had to set up industrial and handicraft zones for SME’s and had to give them tax and customs privileges under the investment code. The government had also to take special steps to help the marketing efforts of small enterprises.

Gabriel (1999), conducted a study on factors affecting SME growth in Rwanda. This study assessed the role of formal and informal government institutions and their effects to small-scale enterprises in Rwanda. The results of the study showed that the presence of many government institutions and boards dealing with the SME’s was a barrier to
SME development. Apart from that the study found out that business owners had poor experience and insufficient business knowledge. In addition, there were no markets for their products due to the prevailing low income levels of the consumers.

In the study, Rwandan small-enterprise sector was defined as being all of those businesses that employed 1–50 people. It was estimated that 2.1 million of Rwanda’s workforce were employed in the sectors 352,000 enterprises. The sector was seen to be growing at an impressive rate. In 1998, for example, it grew by 20%. The large-enterprise sector, on the other hand, recorded a 2.3% growth rate in the same year. The implication of these growth rates, was that in the foreseeable future small enterprises would employ three out of every four people looking for a job in the non-agricultural sector of the economy. In addition to its importance in job creation, the small-enterprise sector contributed 33% of the value added in manufacturing and the retail trade in Rwanda.

The study concluded that there were many factors affecting the growth of SMEs. The factors were put in three groups. Factors which were government oriented factors from SME’s themselves and environmental factors. The study provided different recommendations but the major one was that all key stakeholders need to perform their duties accordingly.
2.3.4 Empirical Studies on SMEs in Tanzania

In Tanzania there are various researches conducted but the brilliant report is that of UNIDO,(2012) which revealed that SMEs policy of 2003 remained to be a valid document for the government support SMEs. But there are also challenges that impeded its effective implementation, in particular inadequate coordination and weak synergy among stakeholders in this crosscutting sector, insufficient resources to implement envisaged programmes, compounded by lack of prioritization and at times inconsistencies in legislation.

2.3.4.1 Empirical Evidences of Lending Problems in Tanzania

In Tanzania, lending business failure has been caused by internal problems, such as management incompetence, declining profitability, heavy debt burden and fraud. In general both macro and micro economic issues contribute to failure. A country faced with declining economic growth, ineffective monetary policies, volatile policies variation and inflation is most likely to experience business failures. Besides, bank lending without much scrutiny hoping for fat profits lead them to lend to risk borrowers who default (Mamiro, 2002; Chijoriga, 1997).

Ndazi (2001) suggests that, supplying liquidity to constrained firm is risk as it reduces the probability of payment and increase moral hazard problems. This implies that the supplying firm will also experience liquidity problems and high costs resulting from late payments that will further affect profitability of the firm.(Shango, 2000).
However, Mussatta (1985) found a low repayment rate of below 50% among beneficiaries of the credit program to small holder of tobacco farmers in Tabora. Musatta’s study revealed that loan delinquency was due to agrarian problem, farm income variability, poor credit organizational culture, recalcitrant habits of the farmers and loan misallocation. He recommends the bank to formulate policies aimed at removing the identified default causes and the government should not interfere with the bank’s activities.

Nyoni (1997) asserts that the problem of financing rural sector in Tanzania stems from the supply-leading approach which failed due to poor credit analysis, divergence of funds, poor management skills of borrowers and bank reluctance to give credits to poor people because of lack of suitable collaterals.

Mwaisekwa (2004) points out that, poor loan supervision, inadequate management quality; high loan concentration and poor loan analysis are root causes for loan default. She recommends that credit risk reduction by diversifying loan portfolio, training credit officers on evaluation and appraisal methods, ensuring adequacy of collateral – 125% collateral requirement. Besides, the bank should issue, loans to credit worthy customers and use protection instruments against risk insurance and financial derivatives.

2.3.4.2 Problems in Financing and Repayment of Loans in Tanzania

SME’s in Tanzania faces various problems , including; Poor appraisal before disbursement, poor business performance, high interest rate, cheating by customers on purpose of loans, seasonal business, poor monitoring, lack of education on the importance of paying loans and lack of commitment to pay loan. The government approved the country’s SME’s policy that articulates a vision and determination for
stakeholders to strengthen SME’s for sustainable development, central government’s poverty reduction strategy. In addition, the government has established a credit guarantee scheme for SME’s operated by central bank under the agreement with the government, to provide guarantees to banks and participating financial institutions that provide loans and credits to SME’s.

2.4 Research Gap

From the theoretical and the empirical literature review, it is evident that a conducive legal framework, BDS and supportive infrastructure are important factors in determining the growth and development of SME’s.

However, increased studies need to be conducted to further verify this relationship. Many studies conducted have been in West Africa and very few in Tanzania. Thus, the study fills this information gap of few studies conducted in Tanzania and with a particular focus on SME’s in Dar es Salaam.

2.5 Conceptual Framework

In this study the independent variables are friendly legal framework, business development services and supportive infrastructure. The dependent variable is SME growth. These are shown in figure 2.1 below.
The Figure above presents the conceptual framework of the study. The figure reflects a relationship between the legal framework, BDS and infrastructures as elements that would bring about improved growth of SME’s in Tanzania if effectively structured and implemented. The figure also implies that as SME’s grow, the government will be able to earn revenues in the form of taxes and other fees that would enable it use these resources to further develop the country resulting into improved Gross Domestic Product (GDP). An increase in GDP invariably entails improved standards of living which can also result into reduced poverty levels. This process is a continuous process that has multiple effects on the economy.

Source: Chipeta, 2008
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Methodology describes in as much detail as necessary how you conduct the research, who or what your subject is and what methods are used to achieve the objectives. This chapter presents the research approach, research method, sampling design and how the statistical analysis of the study was conducted.

3.2 Research Type

The research type is quantitative. The study analyses the data using simple statistics. This data is then presented in tables and figures because of the nature of the business of small and medium enterprises.

3.3 Research Design

This research has adopted a survey research design in which 40 SMEs in Ilala districts were contacted from various businesses.

3.4 Population of Study

The population of study population encompasses the total collection of all items, units, cases or elements about which the research conclusions are made (Kothari, 2005). In this study the target population was SMEs located in Ilala district.
3.5  Research Sample

Because of inadequate time and resources, the researcher was not able to study the whole population. Such an exercise would have been expensive and time consuming. As a result, the researcher used a sample size of 40 SMEs non-randomly selected. As stocker (1998) points out, a sample is used to obtain information in respect of a population.

3.6  Sampling Design

Sampling design refers to the technique or procedure the researcher adopted in selecting some sampling units from which inferences about the population was drawn (Kothari 2005). The researcher purposively selected 40 SME’s from Ilala district. The 40 SMEs were taken from a list of SME’s as registered by the Ministry of Industry and Trade.

Non-probability sampling includes convenience sampling, judgment and quota samples. In this procedure of sampling the elements of population do not have a known probability of being selected for the sample. The researcher subjectively selected the items that made a sample representative of the population. In this case, the researcher used information on the classification of SMEs as a criterion in selecting the sample included in the study.

3.7  Types and Sources of Data

There are two types of data namely primary and secondary data (Kothari 2000). The researcher used both primary and secondary data in the study. The researcher used primary data in order to get new information relating to the research problem. This data was collected through the use of structured questionnaires which were administered by the researcher. The questionnaire included both open and closed ended questions.
Secondary data was used by referring to what others have written. Kothari (2000) describes secondary data as facts and figures that have been already recorded before the project at hand. Secondary data were obtained through available records related to the area of study, published materials and other sources that the researcher found relevant for the study the study.

3.8 Data Processing and Analysis

The data collected was processed by first editing, coding, manipulation, classifying and tabulation so as to make it amendable to analysis. The researcher did the data processing with the aid of Statistical Package for Social Sciences (SPSS).

The analysis of the data was done using simple statistics such as percentages. This data was presented in graphs, figures and tables.
CHAPTER FOUR

RESEARCH FINDINGS AND DATA ANALYSIS

4.1 Introduction

This chapter contains the findings which were obtained from the field. The chapter begins by presenting the general information of the respondents that participated in the study. Thereafter, a presentation of the data related to the objectives of the study is presented.

4.2 General Information

Out of a sample size of 40 respondents, 39 respondents responded to the questionnaires indicating a 97.5% response rate. The study showed that 72% of the respondents were male whilst 28% were females. This information is presented in Table 4.1 below.

<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>Valid</td>
<td>Male</td>
<td>28</td>
<td>70.0</td>
<td>72</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>11</td>
<td>27.5</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>39</td>
<td>97.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>System</td>
<td>1</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>40</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.1: General Information of the Respondents – Gender
The respondents in the study indicated that they had some form of education. Sixty-nine percent indicated as having attained some form of secondary education and approximately 20% had attained tertiary education. This data is presented in the Table below.

**Table 4.2: General Information of the Respondents – Education Attainment**

<table>
<thead>
<tr>
<th>Education level</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary school</td>
<td>4</td>
<td>10.0</td>
<td>10.3</td>
<td>10.3</td>
</tr>
<tr>
<td>Secondary school</td>
<td>27</td>
<td>67.5</td>
<td>69.2</td>
<td>79.5</td>
</tr>
<tr>
<td>First degree</td>
<td>2</td>
<td>5.0</td>
<td>5.1</td>
<td>84.6</td>
</tr>
<tr>
<td>Others</td>
<td>6</td>
<td>15.0</td>
<td>15.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>97.5</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>1</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The respondents were also asked to indicate the nature of businesses they owned and operated. From the data collected, it was observed, that the nature of the businesses ranged from the food industries, telecommunication, vending (buying and selling commodities) and the selling of beverages.

The researcher wanted to know how many respondents were operating as sole traders, partnerships and or joint ventures. The data collected is presented in Table 4.3 below.
On average 53.8% respondents indicated that the type of business they operated was sole proprietorship, 30.8% were partners and the remaining 15.4% were owned as joint ventures or mergers. The data collected also showed that most of the SME’s started their operations after 1995.

The researcher also wanted to know where the respondents obtained their initial start-up capital for the business. The collected data showed that 59% of the respondents indicated as obtaining capital from family member, 28.2% obtained their capital from friends, while approximately 8% obtained their capital from financial institutions such as banks and Savings and Credit Co-operatives (SACCOS). The remaining 5.1% indicated other sources which included capital from saved income, selling of shares, insurance policies and household assets. This information is presented in Table 4.4 below.
4.4 General Information of the Respondents – Source of Capital

<table>
<thead>
<tr>
<th>How did you get capital to start your business?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family</td>
<td>23</td>
<td>57.5</td>
<td>59.0</td>
<td>59.0</td>
</tr>
<tr>
<td>Friend</td>
<td>11</td>
<td>27.5</td>
<td>28.2</td>
<td>87.2</td>
</tr>
<tr>
<td>Bank</td>
<td>1</td>
<td>2.5</td>
<td>2.6</td>
<td>89.7</td>
</tr>
<tr>
<td>Saccos</td>
<td>2</td>
<td>5.0</td>
<td>5.1</td>
<td>94.9</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
<td>5.0</td>
<td>5.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>97.5</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>1</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.3 The Legal Framework and the Development and Growth of SMEs

To determine whether the legal framework in the country, supported the growth and development of SMEs the researcher asked the respondents to indicate their views concerning the legal business framework as it exists in Tanzania.

According to the findings, most of the respondents interviewed showed that the legal framework was a barrier to the development of their businesses. About 76% of the respondents said that the legal framework was poor, 17.5% said that it was fair, and 5% indicated that the framework was good. This information is presented in the table below.
### Table 4.5: Views Concerning the Legal Framework

<table>
<thead>
<tr>
<th>Valid</th>
<th>Good</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2</td>
<td>5.0</td>
<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>7</td>
<td>17.5</td>
<td>17.9</td>
<td>23.1</td>
</tr>
<tr>
<td>Poor</td>
<td></td>
<td>30</td>
<td>75.0</td>
<td>76.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>39</td>
<td>97.5</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>System</td>
<td>1</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>40</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The researcher also wanted to know how the respondents viewed the efforts of the government in simplifying the business licensing and registration procedures. In general 59% said the government was doing a good job in simplifying the business licensing and registration procedures, while 28.2% said the government was doing an excellent job and only 12.8% said the government fairing very well in this area.
**Table 4.6: Views Concerning Business Licensing and Procedures**

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>11</td>
<td>27.5</td>
<td>28.2</td>
<td>28.2</td>
</tr>
<tr>
<td>Good</td>
<td>23</td>
<td>57.5</td>
<td>59.0</td>
<td>87.2</td>
</tr>
<tr>
<td>Poor</td>
<td>5</td>
<td>12.5</td>
<td>12.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>97.5</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>1</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Another question was asked to the respondents to indicate how they viewed the government was performing in terms of simplifying the tax structure and introducing incentives to SME’s. The response to this question is presented in Table 4.5 below.
TABLE 4.7: VIEWS CONCERNING BUSINESS LICENSING AND PROCEDURES

<table>
<thead>
<tr>
<th>Valid</th>
<th>Excellent</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Excellent</td>
<td>3</td>
<td>7.5</td>
<td>7.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Good</td>
<td>18</td>
<td>45.0</td>
<td>46.2</td>
<td>53.8</td>
<td></td>
</tr>
<tr>
<td>Poor</td>
<td>12</td>
<td>30.0</td>
<td>30.8</td>
<td>84.6</td>
<td></td>
</tr>
<tr>
<td>Very poor</td>
<td>6</td>
<td>15.0</td>
<td>15.4</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>97.5</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>1</td>
<td>2.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the Table above, the study shows that only 7.7% indicated that the tax structure and tax incentives were supportive to SME’s development. Forty-six percent indicate that they were good, 30% said that they were poor and 15.4% said that they were very poor.

4.3.1 Interpretation of the Results

From the findings, it is clear that the legal framework as a whole is not conducive for the growth and development of SME’s. However, separate entities that make up the legal framework when analyzed on their own indicate otherwise such as the licensing and registration procedure which was shown to be conducive for SME’s registration and licensing.
4.4 Adequacy of BDS Provided to SMEs by the Government

The researcher wanted to determine the impact of BDS provided by the government to SME’s growth and development. From the findings, 71.8% of the respondents said that BDS were not adequate, while 28.2% said the services were adequate. This information is presented in the table below.

**Table 4.8: Views Concerning Business Services Offered by the Government**

<table>
<thead>
<tr>
<th>How would you rate BDS offered by the government?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Adequate</td>
<td>11</td>
<td>27.5</td>
<td>28.2</td>
<td>28.2</td>
</tr>
<tr>
<td>Valid Inadequate</td>
<td>28</td>
<td>70.0</td>
<td>71.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>97.5</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>1</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The respondents also said that most of the NGOs providing for BDS on behalf of the government were located in large cities such as Dar-Es-Salaam, Mwanza and Mbeya. In addition, the services were often very expensive and could not be afforded by many SME’s.

Further, the study attempted to analyze whether BDS through entrepreneurship training enabled SME’s meet the current dynamic and ever changing market demands. From the study, about 66.9% of the respondents said that the government performed well in providing entrepreneurship training that reflected current market demand and 23.1% said that the government performed poorly. This information is contained in the table below.


**TABLE 4.9: VIEWS CONCERNING GOVERNMENT EFFORTS ON TRAINING THROUGH BDS**

<table>
<thead>
<tr>
<th>Valid</th>
<th>Excellent</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>5</td>
<td>12.5</td>
<td>12.8</td>
<td>12.8</td>
</tr>
<tr>
<td>Good</td>
<td></td>
<td>25</td>
<td>62.5</td>
<td>64.1</td>
<td>76.9</td>
</tr>
<tr>
<td>Poor</td>
<td></td>
<td>4</td>
<td>10.0</td>
<td>10.3</td>
<td>87.2</td>
</tr>
<tr>
<td>Very poor</td>
<td></td>
<td>5</td>
<td>12.5</td>
<td>12.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>39</td>
<td>97.5</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>System</td>
<td>1</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>40</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The researcher thought that it was important to determine whether the role that the government was playing in promoting entrepreneurship thinking right from secondary level contributed to the growth of SME’s. In a very general sense, this is part of BDS. Thus respondents were asked to ascertain whether they were satisfied with the business knowledge that secondary school leavers accumulated whilst at school. From the findings, only 30.8% of the respondent said that they were satisfied with the business knowledge that school leaves attained from school while 69.2% indicated that they were not satisfied. This information is presented in the table below.
The researcher also wanted to determine whether SME owners and operators were sufficiently trained in intellectual property through BDS. From the findings of the study, it was shown that 81.6% of the respondents said that they were poorly sensitized, while 18.4% said the government was doing well in sensitizing them. The findings are presented in the table below.

<table>
<thead>
<tr>
<th>Valid</th>
<th>Yes</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>27</td>
<td>67.5</td>
<td>69.2</td>
<td></td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>97.5</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Missing</th>
<th>System</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>2.5</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>40</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The table above shows the views concerning knowledge of current school leavers

Do you think the current school leavers have enough business knowledge to fit with the actual business environment

The researcher also wanted to determine whether SME owners and operators were sufficiently trained in intellectual property through BDS. From the findings of the study, it was shown that 81.6% of the respondents said that they were poorly sensitized, while 18.4% said the government was doing well in sensitizing them. The findings are presented in the table below.
Table 4.11: VIEWS CONCERNING KNOWLEDGE ON INTELLECTUAL PROPERTIES

<table>
<thead>
<tr>
<th>Valid</th>
<th>Excellent</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Excellent</td>
<td>1</td>
<td>2.5</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td>Good</td>
<td>6</td>
<td>15.0</td>
<td>15.8</td>
<td>18.4</td>
</tr>
<tr>
<td></td>
<td>Poor</td>
<td>23</td>
<td>57.5</td>
<td>60.5</td>
<td>78.9</td>
</tr>
<tr>
<td></td>
<td>Very poor</td>
<td>8</td>
<td>20.0</td>
<td>21.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>95.0</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>System</td>
<td>2</td>
<td>5.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.4.1 Interpretation of the Results

From the findings, the overall picture is that the government is still lacking in its BDS provision. In only one case, has it been shown that BDS has been a success in providing training to SME’s through NGOs. However, respondents indicated that the training offered was often based in large cities and was very expensive making it inaccessible to SME’s.

From the study findings, the research confirm that the government needs to still do more in terms of contributing to the growth of SME’s through BDS.
4.5 The Physical Infrastructure and SME Growth and Development

The questions provided to the respondents intended to determine how the current infrastructure facilitates the development and growth of SME’s. Thus, the researcher asked the respondents to rate how the current infrastructure aided in the development and growth of their SME’s. From the findings, 82.1% said that the current infrastructures did not facilitate the development of their businesses. The table below presents the findings of the study.

**Table 4.12: Views Concerning infrastructures in supporting SME Development**

<table>
<thead>
<tr>
<th>How would you rate the infrastructure in facilitating the development of your business?</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valid</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good</td>
<td>4</td>
<td>10.0</td>
<td>10.3</td>
<td>10.3</td>
</tr>
<tr>
<td>Average</td>
<td>32</td>
<td>80.0</td>
<td>82.1</td>
<td>92.3</td>
</tr>
<tr>
<td>Poor</td>
<td>3</td>
<td>7.5</td>
<td>7.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>97.5</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td><strong>Missing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System</td>
<td>1</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Among many other factors, the most mentioned problem was that of the current blackout that was said to be severely hampering production levels in most SME’s.
TABLE 4.13: VIEWS CONCERNING DEVELOPING BUSINESS AND TRADE CENTRES BY THE GOVERNMENT

<table>
<thead>
<tr>
<th>Rate how is the government performing in the provision of trade centers.</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>1</td>
<td>2.5</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Good</td>
<td>2</td>
<td>5.0</td>
<td>5.1</td>
<td>7.7</td>
</tr>
<tr>
<td>Average</td>
<td>9</td>
<td>22.5</td>
<td>23.1</td>
<td>30.8</td>
</tr>
<tr>
<td>Poor</td>
<td>27</td>
<td>67.5</td>
<td>69.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>97.5</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System</td>
<td>1</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the table above only 7.7% indicated that the government was doing a good job in providing business and trade centers whilst 92.3% indicated that the government was not doing a good job in providing business and trade centers for SME’s.

4.5.1 Interpretation of the Results

From the above findings, the researcher concludes that SME owners and operators were not satisfied with the level at which the government provided supportive infrastructure and business centres. From these findings, the researcher if it is confirmed that the government has not performed sufficiently in providing infrastructure and business centres to support the growth and development of SMEs.
CHAPTER FIVE

DISCUSSION OF THE RESEARCH FINDINGS

5.1 Introduction

In this chapter the study discusses the research findings and the prior assumptions made before the study was conducted.

5.2 Legal Framework and SME Development

The study aimed at assessing how the current legal framework is a barrier to SME’s development. From the study, 76% of the respondents said that the government performed insufficiently in simplifying the legal framework within which SME’s operated.

This clearly shows that the government still has a major role to perform in improving the legal framework. Most of the respondents indicated that the legal system was bureaucratic, costly and centralized. These characteristics of the legal and regulatory environment affect all sizes of business adversely. However the concern was that SME’s are further constrained in this environment in comparison to larger businesses due to the disproportionately heavy costs of compliance arising from their size.

As a result most of the informal enterprises have failed to formalize and micro enterprises have been unable to grow and graduate due to complexities in legal structures.
Respondents also commented that the tax regime in Tanzania is unfavorable for SME development. Taxes are many, high and collected by various authorities including Tanzania Revenue Authorities (TRA) and Local Government Authorities.

Further more they said that most of SME’s personnel are ignorant of tax matters and the costs of complying with tax regulations are considered rather high. Were as taxation of business is a necessity for nation economic development, the present tax regime imposes a major burden on SME’s.

The respondents were asked another question to rank performance of the government in terms of simplifying the businesses licensing and registration procedures. Most of the respondents indicated that the government was slightly effective, but there was still room for improvement.

Another area of legal frame work the study worked upon is the use of intellectual property. The study observed that little has been done to sensitize SME’s on intellectual property and its use. More over the study also observed that there were poor laws to enable people to capitalize on their property rights.

So the study agrees with the literature survey that according to McClelland (1979), regulations are almost always introduced for sound reasons, but government departments should look at alternatives, only resorting to regulation as the last choice. This will help balance the need to regulate with the extra burden it inevitably imposes. Departments should think first about the implications for small businesses, rather than assuming that all businesses will cope.
5.3 Effectiveness of BDS Provided by the Government to SMEs

The study also wanted to investigate the effectiveness of BDS provided to SME’s by the government. The research findings showed that 71.8% of the respondents were not satisfied with BDS from the government.

The study also revealed that school leavers do not have adequate business knowledge that can be used to help SME’s grow and develop. The findings of this study show that there is need for the government and the private sector to draw syllabi that will teach business skill at secondary level.

Most of the respondents however, said that the government efforts on capacity building of business training institutions aimed at improving quality of service offered was adequate (about 87% of the respondents). However the study found that SME personals have low business education and most of them ended in secondary schools where no much importance was given to business education. They cited the example of abolishing the commerce and bookkeeping subjects as a major weakness which has affected more the present generation.

On the other hand, the study found out that the quality of education provided by existing business training institutions and cost involved were unattractive and unaffordable to the potential beneficiaries. They cited the example of Institute of Financial Management (IFM) and Tumaini University that their costs of studies were too high for a common family to afford.

Due to the above findings the study agrees with the literature study that the quality of training provided by existing business training institutions and costs involved has tended to be unattractive and unaffordable to the potential beneficiaries (SME policy 2002).
In addition, the respondents indicated that SME’s in Tanzania had little access to information caused by many red tapes that inhibit the easy flow of information.

5.4 Improved Physical Infrastructures and the Growth of SMEs

The study found that the government has a long way to go in providing the right infrastructure that would allow and facilitate the growth and development of SME’s. About 81.2 % of the respondent indicated that the current state of infrastructures were a big impediment to SME’s development. Infrastructure that needed immediate attention included the electricity power supply and the maintenance of both trunk roads and major highways.

Other infrastructures that included attention were the development of proper working premises, cold rooms, warehouses, water and communication services. The current corruption allegations were cited as one of the vivid example of why most of the infrastructure is not well developed.

The researcher observed that even where the services were available, the supply of such facilities was either unreliable or too costly. The study also found out that serviced land or business premises are in short supply in most of the cities and towns especially for industrial use. The respondents also said that the poor state of infrastructures make it difficult to attract even local investors to rural areas where almost 80% of Tanzanians live. This has been a big obstacle for SME’s development especially in rural areas.
CHAPTER SIX
SUMMARY, CONCLUSION AND POLICY IMPLICATIONS

6.1 Introduction

This chapter gives a brief summary of the research, followed by the policy implications and lastly presents the conclusions drawn from the study.

6.2 Summary

The aim of the study was to assess the role of the government in improving the performance of SME’s. In order to fulfill the aim of the study, the researcher focused on issues relating to the legal framework within which SME’s operate, government supported BDS and their impact on the growth of SME’s and lastly, the state of the physical infrastructure and how it facilitates the growth of SME’s.

The study carried out both theoretical and empirical literature review which revealed that there was a definite relationship in a nation’s legal framework and the growth of SME’s. The literature review also showed that BDS and infrastructure were important aspects that determined the growth of SME’s.

The study used both primary and secondary data. The study used a sample of 40 units of SME’s in Ilala district. The sample included all categories of SME’s representing almost all types of businesses. Primary data were collected using structured questionnaires. Secondary data was also used in the research. This data was obtained from SME records, government profiles of SME’s and the various policies relating to SME’s.
The collected data was edited, coded and tabulated. The data analysis was done using simple statistics and in particular percentages. This data was then presented in tables.

The findings of the study showed that the legal framework in general was poor and complex and thus unsupportive to the development and growth of SMEs. However, individual components of the legal framework such as licensing and registration were seen to be effective in contributing to the growth and development of SMEs.

The results of the study also showed that the BDS offered to SME’s by the government have done little to improve the growth of SME’s. Most the respondents indicated that the entrepreneurship training was appropriate but it was offered in major cities which was out of reach for many SME’s that were not based in these cities. Further, the respondents indicated that the costs relating to the training were also very high.

Finally, the study showed that the current physical infrastructure was not supportive to SME’s development. For instance, the respondents indicated that business and trading centers were not appropriately developed to enhance trade. Other infrastructure such as the supply of electricity was unreliable hampering production processes of SME’s.

6.3 Policy Recommendations

From the discussion in previous sections it can be realized that, the promotion of SME’s for the future development is very important. The study has drawn the following policy measures that need to be addressed by both the public and private sectors in the country.
These would entail conducting the following:

a. Simplifying further the registration and licensing procedures.

b. Simplifying the tax structure in the country to suit the needs of SME’s. This entails removal of all non valuing adding activities such as middle men collecting revenue on behalf of Tanzania Revenue Authority (TRA).

c. NGOs and the government should work hand in providing entrepreneurship education to SME’s operators and owners at a subsidized cost. Further the secondary education system should include syllabi that are relevant to the business environment.

d. More effort should also be made to educate SME’s on intellectual property rights, legal procedures on business registration and licensing and any other related issues.

e. The government should also reduce bureaucracy at entry points such as ports so as to allow for the easy movement of goods.

f. The government with the help of the private sector and NGOs should come up with mechanisms on how to establish business and trade centers that will allow for the easy trade of goods and services.

g. The government and the private sector should establish a national website for SME’s that will contain all the relevant information needed for the development and growth of SME’s.

h. The government and the private sector should establish and strengthen marketing agencies and institutions that support SME’s.

i. The government with donor agencies and the private sector should develop infrastructure that will help SME’s develop. This infrastructure can be in terms of roads, constant supply of electricity and trade centers.
6.4 Areas of Further Study

The study suggests that more research should be carried out on BDS and its implication for the growth and development of SME’s. In addition, further research needs to be conducted in determining how the current tax structure affects the performance of SME’s in Tanzania.

6.5 Conclusion

Generally the study was interesting and it has given the researcher great insights in the aspects that affect the SME growth. There are many factors which have hindered the full development of SME’s but prime is the enabling environment that the government has failed to establish. The study found that the government has a long way to go in providing the right infrastructure that would allow and facilitate the growth and development of SME’s. About 81.2 % of the respondent indicated that the current state of infrastructures were a big impediment to SME’s development. The research findings showed that 71.8% of the respondents were not satisfied with BDS from the government. The study concludes that although it is the role of the government to create an enabling environment for the growth and development of SME’s, there is need for the private sector to also play its role in aiding the government in creating this environment. For instance, the study has shown that NGOs are doing an effective job in providing BDS to SME’s though expensive and located only in certain parts of the country. If the private sector can subsidies part of the BDS offered to SME’s and the government plays the role of encouraging NGOs to aid SME’s outside big cities, then, it is definite that there would be development and growth of SME’s. This requires that all key stakeholders in the nation play their roles effectively.
BIBIOGRAPHY


Alemu, K T (2008), Microfinance as a Strategy for Poverty Reduction; the Hague Netherlands


Amina A, Impact of Microfinance Institutions on Growth of Micro and small Enterprises and Owners in Tanzania, unpublished PhD proposal, University Dar es salaam, School of Business


Arbuckle (1994) The Road to Success. Another Cross Roads. Experiences from the Honduras Cooperatives Strengthening Project

Assey, PB *The thrust of national initiatives for Poverty eradication*. Paper presented in a Workshop in income Generation Organized by the Swiss Development Cooperation


Guy Vincent (wwwgdrcorg)
Liza D (1999) *The Role of Small Enterprises in the Households and National Economy in Kenya.* A Significant Contribution or Last Resort?


WEBSITES

www.tanzania.go.tz
www.altavista.com
www.google.com
QUESTIONNAIRE

QUESTIONNAIRE FOR THE RESEARCH TO THE SME’S PERSONNELS:

A. Business Identification

1. Type of your Business

2. Gender

   Male ( )
   Female ( )

3. Type of Ownership

   i) Sole proprietor ( )
   ii) Partnership ( )
   iii) Others (Specify) ………

4. Education Level of leader

   i) Primary school ( )
   ii) Secondary School ( )
   iii) 1st degree ( )
   iv) Others (Specify) ……………

5. When did you establish your business? Year …………..

6. How did you get Money/capital to start your Business?

   i) Family ( )
   ii) Friends ( )
iii. Bank
iv. SACCOS
v. Other Specify

7. Investment capital now
   i) Below 5 millions
   ii) 5-200 millions
   iii) Above 200 millions

B) Checking role of Government on improvement of SME’s

1) How is the government putting effort to develop the industrial centers and trade centres?
   a. The government is performing very good
   b. The government is performing just good
   c. The government is performing averagely
   d. The government is performing poorly

2) How are the infrastructures facilitating your business?
   a. Very good
   b. Just good
   c. Averagely
   d. Poorly
3) What is your view with the government performance towards assisting the SME’s in improving their businesses by giving them good business services?
   a. Very good
   b. Just good
   c. Poor
   d. Very poor

4) What is your view concerning the legal framework in assisting the SME’s?
   a. The government is performing very good
   b. The government is performing just good
   c. The government is performing averagely
   d. The government is performing poorly

5) Are the business services offered government good in assisting the SME’s to handle the changing market conditions?
   A) Yes
   B) No

6) Do you think there is a chance for the SME’s to be made better by the government?
   A) Yes
   B) No

7) Are the government efforts on capacity building of business training institutions aimed at improving quality of service offered enough?
   A) Yes
   B) No

8) How has the government put emphasis through inculcating education training and other programmes values and attitudes that are conclusive to development of Entrepreneurship?
   A) Excellent  B) Good  C) Poor  D) very poor
9) Do you think the current school leavers have enough business knowledge to fit with the actual business environment?
   A) Yes  B) no

10) How do you think the government is doing in terms of simplifying the business licensing and registration procedures?
    A) Excellent  B) Good  C) Poor  D) very poor

11) How better do you think the government has done to simplify tax system and introduce tax incentives to nurse SMEs?
    A) Excellent  B) Good  C) Poor  D) very poor

12) How have the SMEs been trained and sensitized on intellectual properties and their use?
    A) Excellent  B) Good  C) Poor  D) very poor

13) Give your views on what you think the government can do to still help the SMEs by improving the infrastructures…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

14) What are your views which you think government can adopt to do well in assisting the SME’s in improving the legal framework for example registration procedures of businesses and simplifying tax pay systems?…………………………………………………………………………………………
…………………………………………………………………………………………

15) Give your suggestions on what you think the government should do to enhance the SME’s in getting good business services
16) Give suggestions of how government can do to help SME’s perform better/give your recommendations