

**IMPACT OF TRADE LIBERALIZATION TOWARDS SMEs  
DEVELOPMENT IN TANZANIA: A CASE STUDY OF  
MOROGORO MUNICIPALITY**

**IMPACT OF TRADE LIBERALIZATION TOWARDS SMEs  
DEVELOPMENT IN TANZANIA: A CASE STUDY OF  
MOROGORO MUNICIPALITY**

**By**

**Baraka Anthony Lugome**

**A Dissertation submitted in Partial fulfillment of the Requirement for the  
Award of the Degree of Master of Business Administration ( MBA-Corporate  
Management) of Mzumbe University**

**2013**

**i**

## CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **Impact of Trade Liberalization towards SMEs development: A Case Study of Morogoro Municipality**, in partial fulfillment of the requirements for award of the degree of Master of Business Administration (MBA-CM) of Mzumbe University.

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## **DEDICATION**

This dissertation is dedicated to my beloved wife Janeth Chilambo and brother George Lugome.

## **LIST OF ABBREVIATIONS AND ACRONYMS**

BMP	Black Market Premium
CM	Corporate Management
FGDs	Focus Group Discussions
GDP	Gross Domestic Product
ITC	International Trade Centre
LDCs	Less Developed Countries
MNCs	Multi-national Corporations
MNEs	Multi-national Enterprises
MON	Monopoly of Major Export
MU	Mzumbe University
NTB	National Tariff Barriers
R and D	Research and Development
SAPs	Structural Adjustment Programmes
SMEs	Small and Medium Enterprises
SOC	Socialist Economic System
SPSS	Statistical Package for Social Sciences
TAR	Tariff Average Rates
TCCIA	Tanzania Chamber of Commerce Industry and Agriculture

## ABSTRACT

SMEs have a crucial role to play because of their potential contributions not only to employment creation, but also to the improvement of income distribution, poverty alleviation, rural, social and economic development, and the development of entrepreneurship. Despite that there is a vast export potential for Tanzanian SMEs to developed countries; still the impact of trade liberalization towards SMEs development is not experienced adequately. The study assessed the impact of trade liberalization towards SMEs development in Morogoro Municipality. A case study research design was used in this study. The sample size of 84 respondents selected randomly (i.e. SMEs owners, business consultants and loan officers) was involved. Data collected were analysed descriptively by using SPSS computer software version 16. The results revealed that 75% of the respondents reported the availability of difficulties in procuring raw materials for their products from various institutions due to lower capital and viable marketing strategies, 80% reported the lack of information technology which would enable them access informations relevant for their business undertakings and lack of qualified human resources to innovatively utilize their knowledge and skills for the better running of business. Moreover, 82% of the respondents reported the absence of social network among local SMEs as with its presence, social network becomes an opportunity and a means for entrepreneurs to reduce risks and capital because a social network has a significant relationship with business adaptability. However, 78% were in opinion to convince and force inefficient domestic firms to try to improve their productivity in order to enable their products compete with others while maintaining the required international standards. Local SMEs still have weak marketing and distribution capacity as they lack qualified human resources and are vulnerable to external shocks due to global competition which is beyond their control. The researcher argues for calling holistic local SMEs support through the creation of enabling environment while building a foundation for the future productivity and growth for them.



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## CHAPTER ONE

### 1.0 Introduction

The chapter assessed the impact of trade liberalization towards SMEs Development in Tanzania with the evidence from Morogoro Municipality. It described the background to the problem; statement of problem; research objectives and questions; the significance of the study; scope and the organization of the study.

### 1.1 Background to the problem

SMEs have a crucial role to play because of their potential contributions not only to employment creation, particularly for youth and the less educated, but also to the improvement of income distribution, poverty alleviation, rural, social and economic development, and the development of entrepreneurship, especially among women in rural areas (Tambunan, 2011). Recent debates among policy makers and researchers on the subject of SMEs in developing countries have focused on the ability of such businesses to survive or sustain their existence amid growing pressure from globalization and trade liberalization (Beek *et al*, 2005). Some contributors to the debate are skeptical, given the fact that most SMEs in developing countries lack the necessary resources, particularly technological advances and skills, to remain competitive in the global marketplace (Kumar, 2005). There is little doubt that, in the era of trade liberalization, SMEs in developing countries, including those in Tanzania, can only survive if they possess the capacity for internationalization. Indeed, this is a critical factor to determine the competitiveness of SMEs in the global market (Ngowi, 2008).

Girma *et al*, (2004) contends that recent assessments of growth point to an understanding that the rate at which countries grow is substantially determined by 1) their ability to integrate with the global economy through trade and investment; 2) their capacity to maintain sustainable government finances and sound money; and 3) their ability to put in place an institutional environment in which contracts can be enforced and property rights can be established.



As globalization proceeds, transition and developing countries and their enterprises face major challenges for strengthening their human and institutional capacities to take advantage of trade and investment opportunities (Tambunan, 2006).

There is little doubt that international trade liberalization generates immense competitive challenges for most developing countries SMEs, including Tanzania (Kumar, 2005). Since the mid-1990s, many studies have estimated the impacts of trade liberalization on economic growth, employment, poverty, income distribution and the survival of local firms. Nonetheless, the real impact of trade liberalization on the global economy remains a much debated and controversial subject (Dhar, 2008). Theoretically, at an aggregate level, the broad benefits that are generated from international trade reform include the following: improved resource allocation; access to new and better technologies, inputs and intermediate goods; economies of scale and scope; greater domestic competition; and the availability of favourable growth externalities, such as the transfer of know-how (Falvey and Kim, 1992). Raihan (2008) contends that international trade policy reform works by inducing substitution effects in the production and consumption of goods and services through changes in price. These factors in turn influence the level and composition of exports and imports. The change of relative price induced by international trade liberalization causes a more efficient reallocation of resources. Moreover, international trade liberalization also enables the expansion of economic opportunities by enlarging markets and enhancing knowledge spillover (Tambunan, 2011).

Globalization and trade liberalization on the other hand have ushered in new opportunities as well as challenges for SMEs as stated by Manbuk (2002). Presently, only a small part of the SME sector is able to identify and exploit these opportunities and deal with the challenges. The majority of SMEs in developing and transition countries however, has been less able or unable to exploit the benefits of globalization and to add to the situation, are frequently under pressure on the local or domestic markets from cheaper imports and foreign competition (Aggarwal *et al*, 2001).

SMEs, due to their size, are particularly constrained by non-competitive real exchange rates, limited access to finance, cumbersome bureaucratic procedures in setting up, operating and growing a business, poor state of infrastructure and lack of effective institutional structures. The removal of these constraints is a daunting task calling for holistic SME support, i.e. an enabling environment for SME development consisting of functioning macro, meso and micro level institutions (Tambunan, 2011). At the theoretical level, freer trade generates dynamic or efficiency-enhancing gains that stimulate economic growth (the classical trade theory). Kumar (2005) argued that if markets are sufficiently flexible, opening up to international trade would induce short-term shifts of labour from previously protected sectors to those in which a country has a comparative advantage. This provides the basis for assessing the net effects of trade policy shocks on aggregate employment. Although many SMEs in Tanzania are not involved in export activities, the economic focus of the majority of the country's SMEs is the domestic market. There are several reasons for this, including (1) the lack of technology; (2) the lack of skilled workers; (3) minimal knowledge about market potential (including existing market demand) and global business strategies; and (4) minimum access to capital to finance their export activities, which for most SMEs, particularly small enterprises, is not only critical in dealing with export licenses, but also important for supporting their logistic and promotional activities (Ngowi, 2008).

Tewari and Goebel (2002) argued that on the competitiveness of local firms two interesting facts can emerge. Firstly, there is a considerable variance among SMEs with respect to their competitiveness. Secondly, SMEs that are tied to the low end of the market segments in large urban or metro areas appear to be the most vulnerable to cheap import competition from overseas, suggesting that these SMEs are likely to find trade liberalization to be burdensome. Notably, other SMEs that serve similar market niches in rural areas or in small towns do not face the same pressures as their counterparts in urban areas. Their access to intricate, socially embedded distribution networks that link them to rural markets appears to be a source of strength that non-local competitors find too costly to replicate.

Tewari and Goebel (2002) continue to argue that the experiences of Latin American countries, on the other hand, suggest that international trade liberalization has ambiguous effects on SMEs in the informal sector.

Edmiston (2007) pointed out that one important feature of Tanzanian export-oriented SMEs is that the majority do not pursue exports directly, but instead go through intermediaries, such as traders, exporting companies, trading houses or subcontracting arrangements where SMEs manufacture semi-final products that are then completed by larger enterprises (e.g. the processing of raw materials into ready-made foods in the food industry that would take place in SMEs, and would later be packaged by large enterprises). Intermediaries link SMEs to international markets and provide a range of bundled services to the latter that include the pre-financing of production, market access, technology and skills upgrading, advice on designs, advice on patent rights, and so on (Ngowi, 2008). However, trade improves global efficiency in resource allocation. A glass of water may be of little value to someone living near the river, but it is priceless to a person crossing the Sahara. Trade is a way of delivering goods and services to those who value them most. Secondly, trade allows traders to gain from specializing in the production of those goods and services they do best. Economists call that the law of comparative advantage. Yet, when producers create goods that they are comparatively skilled at; those goods increase in abundance and quality. Thirdly, trade allows consumers to benefit from more efficient methods of production. For example, without large markets for goods and services, large production runs would not be economical. Large production runs, in turn, are instrumental to reducing the cost of a product. The reduction of the cost of production leads to cheaper goods and services, which increases the real standard of living (Navaretti *et al*, 2002).

## **1.2 Statement of the problem**

SMEs are the engine of economic growth in developing countries (Tanzania being among them) as SMEs account for about 90% of employment, and 60 to 70% of domestic industrial production (Edmiston, 2007).

Also, the sector contribution in export earnings varies from 75 to 80% (in 2006) and only 5% to 10% of all developing countries engage in export related activities. However, there is a vast export potential to developed countries where SMEs from developing countries (Tanzania) could find opportunities for their business undertakings (Kelly, 2007).

Despite that there is a vast export potential for Tanzanian SMEs, still the impact of trade liberalization towards SMEs development is not experienced adequately as argued by Edmiston (2007). This is because few products have been exported from Tanzania by SMEs (10% to 12% in 2006/7) while import demand increasing from 13% to 18% in 2006/7 (Ngowi, 2008).

Therefore this study aimed at assessing the impact of trade liberalization on SMEs development in Morogoro municipality and developed possible solutions which gave the direction towards their growth and prosperity.

### **1.3 Research Objectives**

#### **1.3.1 General Objective**

The general objective of this study was to assess the impact of trade liberalization towards SMEs development in Morogoro Municipality.

#### **1.3.2 Specific Objective**

- i) To examine the current and future SMEs development status in Morogoro Municipality
- ii) To find out the challenges and opportunities available for the performance of SMEs development in Morogoro Municipality
- iii) To determine strategies that might promote the development of local SMEs in Morogoro municipality.

#### **1.4 Research questions**

- i) What is the current and future SMEs development status in Morogoro municipality?
- ii) What are the challenges and opportunities available for the performance of SMEs development in Morogoro municipality?
- iii) What are strategies that might promote the development of local SMEs in Morogoro municipality?

#### **1.5 Significance of the study**

(i) This study addressed the impact of trade liberalization to local SMEs development in Morogoro Municipality

(ii) The study provided the feedback to all stakeholders and enabled them to provide necessary support to local SMEs and enhance their business undertakings towards profitability

(iii) This study was important for the researcher to pursue his degree for the fulfillment of Masters Degree in Business Administration (CM) as the requirement of Mzumbe University.

#### **1.6 Scope of the study**

The study focused on SMEs owners who were selected from manufacturing, food and beverage industries in Morogoro municipality. Apart from SMEs owners and business consultants were included in order to get their opinions as to supplement and enrich the study. The study assessed the impact of trade liberalization towards SMEs development in the area.

#### **1.7 Organisation of the study**

The study consisted of five chapters. The first chapter was the Introduction. The second chapter presented the Literature Review, the third chapter highlighted the Research Methodology used, the fourth chapter focused the Presentation and

Discussed the Research findings and the fifth chapter presented the Summary, Conclusion and Recommendations. It ends with the list of references and appendices attached with this report.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter reviewed different literatures related to research objectives which the study wanted to cover at the end. In this regard, areas covered included; the theoretical literature review; empirical reviews and the conceptual framework.

#### **2.1 Theoretical literature review**

Literature reviews are secondary sources, and as such, do not report any new or original experimental work. Their main goals are to situate the current study within the body of literature and to provide the context for the particular reader.

##### **2.1.1 Trade Liberalization and its components**

Trade liberalization is the removal of or reduction in the trade practices that thwart free flow of goods and services from one nation to another (Aggarwal, 2001). It includes dismantling of tariff (such as duties, surcharges, and export subsidies) as well as non tariff barriers (such as licensing regulations, quotas, and arbitrary standards). On the other hand, trade liberalization (or liberalisation) refers to a relaxation of previous government restrictions, usually in areas of social or economic policy. In some contexts this process or concept is often, but not always, referred to as deregulation (Navaretti *et al.*, 2002). Consumers ultimately benefit because liberalised trade can help to lower prices and broaden the range of quality goods and services available. Companies can benefit because liberalised trade diversifies risks and channels resources to where returns are highest. When accompanied by appropriate domestic policies, trade openness also facilitates competition, investment and increases in productivity as its components (Dhar, 2008).

### **2.1.2 SMEs success and its indicators**

Success as a concept is used to refer to a firm's financial performance. SMEs success is attained by creating conditions for the development and introduction of new technology, creating jobs at low capital cost, quickly adapting to the requirements and market fluctuations (Navaretti *et al.*, 2002). Here the annual business plan should inform both the budget and cash flow projections for the year. Analysis of any discrepancies identified through close monitoring of progress against the annual business plan form the basis for making timely decisions re-corrective action. With the annual budget and cash flow projections in place, the owner/manager is then able to determine a set of internal performance indicators, targets and measures for the year. Some examples include; measurable targets in financial terms over specific periods; factors of growth and improvements in sales/income/profit; safety and security; customer satisfaction/repeat customers/customer loyalty; staff satisfaction/staff turnover/staff absences; product development/improvement and performance information that addresses both effectiveness (outcomes) and efficiency (resources) (Dhar, 2008). The role of performance indicators is to: (a) provide information which enhances decision making, and (b) to indicate, or focus attention on relevant areas which are doing very well or require further attention.

### **2.1.3 Impact of Trade Liberalization**

Trade liberalization accelerated with more open markets in goods and services can contribute to creating jobs and increase incomes (Ngowi, 2008). Reducing tariffs and non-tariff barriers can help in the short run where the economic crisis has led to significant involuntary unemployment by reducing costs of imported products for consumers and by providing new market opportunities for exporters. Taking a longer term view of a more healthy global economy, lasting gains can be found from reallocation of resources across sector and from productivity growth. However, reducing barriers to foreign direct investment in services is found to particularly increase demand for higher skilled labour, while the off shoring of services is not found to shift jobs abroad (Girma *et al.*, 2004).



Critics of trade liberalization have blamed it for a host of ills such as rising unemployment and wage inequality in the advanced countries, increased exploitation of workers in developing countries and a “race to the bottom” with respect to employment conditions and labour standards, the de-industrialization and marginalization of low-income countries, increasing poverty and global inequality, and degradation of the environment (Kelly, 2007).

#### **2.1.4 Theoretical review**

Greenaway (1998) contended that “trade liberalization is the removal of tariff, or any other intervention which restores the free trade set of relative prices...changes in government policy which reduce anti-export bias and move the relative prices of tradable towards neutrality; the substitution of more efficient for less efficient forms of intervention”. This is an important component of most Structural Adjustment Programs (SAPs) aimed at opening the economy to increased international trade, particularly by either reducing or removing protection for domestic industries (Schatz, 1994). The ultimate aim is to remove taxes on exports, restrictions on imports and the reduction of import tariffs. The liberalization of a country’s economy brings a lot of advantages in terms of larger market for goods and services (Rodrik, 1998). A number of scholars have put forward arguments in support of economic liberalization and its role in poverty reduction through private sector led economy (Kumar, 2005).

Sachs and Warner (1995) emphasized the advantages accruing from economic liberalization and the integration of a country into the global market. They demonstrated using cross-country growth equation that open trade leads to higher growth rates in poorer countries than in richer countries. They stated that the degree of openness of an economy to the global market determines how much benefit is derivable from trade liberalization. In their study, they classified a country as closed if any of the following conditions apply; (a) if it has tariff average rates higher than 40% (TAR); (b) if its non-tariff barriers covered on average more than 40% of imports (NTB); (c) if it has a Socialist Economic System (SOC); d) if it has a state monopoly of major exports (MON); and if its Black Market Premium exceeded 20%

during either the decade of the 1970s or the decade of the 1980s (BMP). An open country, on the other hand, is the one where none of the above conditions exist (Sachs and Warner, 1995). Dollar (1992) also linked open or outward-oriented economy with rapid economic growth which he said is reflected in the real exchange rate that encourages exports, whereas inward oriented economy with overvalued exchange rate encourages manufacture of non-tradables. The inward orientation he claimed was one of the reasons why Latin American and African countries experienced debt crisis that has inhibited their growth.

Greenaway (1998) attributes the success stories of the Asian countries to the conducive climate of market based ideologies of the late 1970s or early 1980s that favored reforms as well as to the existence of technocrats that helped push the reforms process and not just on trade liberalization policy alone. Shafaeddin (2005) advises that liberalization is essential when an industry reaches a certain level of maturity provided it is undertaken selectively and gradually. However, the way liberalization is being recommended by the Bretton Wood institution is more likely to lead to the destruction of the existing industries, particularly those that are at their early stages of infancy as well as hamper the emergency of new ones (Kumar, 2005). If at all any new industry emerges, it would be in line with static comparative advantage rather than dynamic comparative advantage. Low income countries are likely to be locked in production and exports of primary commodities, simple processing and at best assembly operation or other labour intensive industries with little prospects of upgrading (Shafaeddin, 2005).

Ngowi (2008) asserts that the development of SMEs is an essential element in the growth strategy of most economies and holds particular significance for developing countries like Tanzania. The best performing economies in Asia are heavily based on SMEs which are major sources of dynamism in economic development.

The requirements for SMEs to access the global market and upgrade their position within the international market as a result of trade liberalization are becoming increasingly difficult due to competition (Abonyi, 2003).

Berry (2002) suggests that the increasing prevalence of flexibility and specialization of SMEs has persuaded many business analysts to believe in the strategic role SMEs play in the industrial structure of any developing nation. But he noted that SMEs are quite vulnerable to external shocks due to the global competition from the liberalization of trade. There is reasonable assurance that given favorable policy environment, SMEs can successfully compete in the global market (Briggs, 2007). Most governments, especially in Less Developed Countries (LDCs) now recognize the need to formulate policies that create conducive atmosphere for the establishment and operation of SMEs.

The United Republic of Tanzania in 2003 like any other developing countries has taken a number of measures to promote the growth of private sector and Small and Medium Enterprises (SMEs). In Tanzania, SMEs were estimated to account for a significant share of Gross Domestic Product (GDP) of more than 30% (URT, 2012). The government of Tanzania formulates and implements various policies aimed at increasing job opportunities, development of infrastructure as well as income generation through the creation of new SMEs and improving the performance and competitiveness of existing ones (Ngowi, 2008). Mrema (2011) argued that SMEs in developing countries such as Tanzania are often characterized by low productivity, which is mainly caused by their lack of capital, access to technology, and human capital. On the other hand, SMEs encounter other challenges such as; (a) lack of technology i.e. SMEs lack the needed technology and the capability to achieve large scale production which should help reduce cost of production. This has indirectly constrained their ability to gain access to the global market because their products are not price competitive and mostly not standardized; (b) Insufficient demand for SMEs product i.e. there is the problem of low demand for SMEs products arising from consumers' dwindling real incomes and this imposes constraint on their growth prospects.

Although many SMEs produce some inputs for larger industrial enterprises, the non-standardization of their products, lack of quality assurance as well as weak purchasing power effectively restrict their market access; (c) Poor managerial skills

i.e. poor management practices and the inability of SMEs to keep proper accounts of transaction hinder effective control and planning. Improper planning and control make SMEs unable to attract loans from financial institution for expansion; and (d) Financial indiscipline i.e. there is also the problem of financial impropriety on the part of proprietors of SMEs as some deliberately divert loans to ostentatious expenditure. Others refuse to pay back both the interest and the principal, because of political involvement and the misconceived notion of sharing the so-called national cake (Mrema, 2011). However, it is stated that most large companies have their roots in small and medium enterprises suggesting that the future large corporations are the SMEs of today that must be nurtured to ensure their growth. Table 2.1 shows the categories of SMEs in Tanzania.

**Table 2.1: Categories of SMEs in Tanzania**

CATEGORY	EMPLOYEES	CAPITAL INVESTMENT (TShs.)
Micro Enterprise	1 – 4	Up to 5 million
Small Enterprise	5 – 49	Above 5million to 200million
Medium Enterprise	50 – 99	Above 200million to 800 million
Large Enterprise	100+	Above 800 million

*Source: SMEs Policy, 2002*

SMEs are generally perceived to be the seedbed for indigenous entrepreneurship and generate all the many small investments, which would otherwise not have taken place (Aryeetey and Ahene, 2004). Therefore, developing economies like Tanzania needs to further the development of its private sector by creating an environment

favorable to the growth of SMEs, strengthening the factors that lead to business success, and addressing the problems threatening the existence and advancement of small and medium enterprises (Chu, Kara and Benzing, 2008), so SMEs can adequately play the role expected of them in economic transformation.

Such role includes mobilization of domestic savings for investment, appreciable contribution to gross domestic product, increased harnessing of local raw materials, employment generation, and significant contribution of poverty reduction efforts through sustainable livelihoods and enhancement in personnel income, technological development and export diversification (Smatrakalev, 2006). Furthermore, they have the advantage of reaching the farthest corners of the country unlike the larger establishments. For this reason, an ideal tax policy needs to be adopted in order to ensure voluntary compliance, economic growth and proper utilization of resources rather than suffocating the entrepreneur initiative they are out to cater for.

Theoretically, trade liberalization affects individual local firms/SMEs positively or negatively, in four major ways (Tambunan, 2007). The first is through an increase of foreign competition that results from the lowering of import tariffs, quotas and other non-tariff barriers (NTBs). The increased flows of foreign competition and imported goods to the domestic market are expected to push inefficient, unproductive or uncompetitive local firms to improve their competitiveness by eliminating unnecessary cost components, exploiting external economies of scale and scope, and adopting more innovative technologies and better management practices. The openness of an economy to international trade is also correlated with increasing plant size (e.g. efficiency of scale) particularly as local firms adopt more efficient technologies, management, organizational and production methods. This argument is in line with general theory that suggests that size is capable of positively affecting firms' export performance. The new international trade theory posits that market size has a positive impact on economies of scale and that economies of scale provide cost advantages in production, research and development (R and D) activities and marketing efforts.

Export marketing literature, on the other hand, suggests that large enterprises have greater resources to gather information on markets in foreign countries and to deal with the uncertainties that prevail in foreign markets. As a general hypothesis, therefore, it is more likely for large enterprises, instead of SMEs to become export-oriented firms.

The second way in which trade liberalization could affect the development of SMEs is related to the lower production costs that result from cheaper imported inputs.

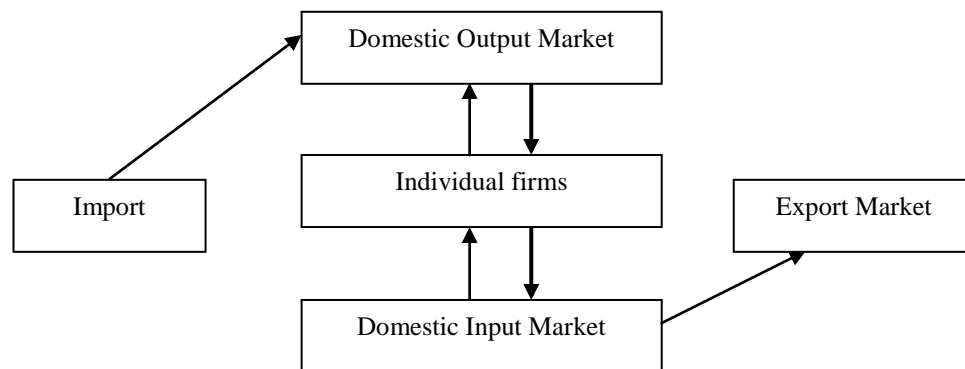
Local firms benefit from lower input costs, which improve their price competitiveness and enable them to compete more effectively in both import and export markets (Tambunan, 2007).

However, the validity of this hypothesis hinges on two assumptions: (1) that other factors determining competitiveness, such as wages (labour costs) and transportation costs are constant; and (2) that many local firms are dependent on imported inputs because of the absence of domestic production of these inputs, or that trade liberalization pushes prices for inputs lower than those produced in the domestic market. The third way in which trade liberalization could affect the development of SMEs is related to the relative increase of export opportunities. Opening an economy up to international competition not only induces increased efficiency in domestic firms, but also encourages these firms to increase their exports. This view is generally supported by econometric analyses. However, this theoretical view rests on the assumption that other factors determining the ability of a firm to export, such as production capacity, labour and energy costs and government regulations do not change so as to become un-favourable for SMEs (Tambunan, 2006). Finally, the fourth effect of trade liberalization on the development of SMEs is through the reduction of available local inputs. The elimination of export restrictions on unprocessed raw materials is likely to increase the export of goods made from them at the expense of local firms. Theoretically, therefore, if domestic inputs can be sold at better prices abroad than in the domestic market, this would encourage domestic suppliers to sell more abroad than to produce for domestic consumption.

Thus, as illustrated by Tambunan (2011) in Figure 2.1, the combination of lines with (i.e. imported goods) and (locally made substitution goods) is the competitive effect of international trade liberalization. If goods and services produced by domestic firms are less competitive in comparison to those imported from other countries, domestic firms are likely to be pushed out of the domestic market.

Meanwhile, the combination of (imported inputs) and (locally made substitution inputs) is the production cost reduction effect of international trade liberalization. As import tariffs and other NTBs are removed, resulting in cheaper imported inputs than those produced domestically, domestic production costs are likely to decline resulting into the export-opportunity effect of firms. In this context, domestic firms accrue greater export opportunities from the imposition of an open economic system. Finally, the combination of (locally made inputs sold abroad) is the domestic input scarcity effect of international trade liberalization. The production cost-reduction effect and the domestic-inputs scarcity effect can be put together as the overall supply-side effect, whereas the combination of the competition effect and the export-opportunity effect can be referred to as the overall demand-side effect of international trade liberalization. The overall supply-side effects can be negative if the second effect is greater than the first one; alternatively, it could be positive if the opposite happens or if one effect is fully compensated for by the other effect (Tambunan, 2011).

**Figure 2.1: Ways in which international trade liberalization affects SMEs**



*Source: Adapted from Tambunan (2011)*

One of the few studies on the chances for SMEs success in trade liberalization done in China is the study of Wang and Yao (2002), which shows that gradual changes in the country's trade regime towards liberalization in the late 1970s has led to much more dynamic SMEs. They have not only grown rapidly, but have also added value to the overall Chinese economy.

However, another study by Steel and Webster (1991) which used firm-level data in Ghana, suggests that trade liberalization squeezes the profits of SMEs as a result of rising input costs, weak domestic demand and increased competition from foreign firms. Similarly, by using firm-level data for the period 1993–96 in Chad and Gabon, Navaretti *et al.* (2002) found that the trade reform process, along with the devaluation of the currencies in each country, failed to generate growth for local SMEs.

On the contrary, many of these enterprises were found to have suffered from high input costs. Meanwhile, Valodia and Velia (2004) investigated the relationship between international trade liberalization at the macro level and its micro- or firm-level adjustment effects in the South African manufacturing industry. Their findings suggest that there is a strong relationship between the average firm size and the volume of cross-border trade. More specifically, they found that more than half of the firms that are not engaged in international trade are SMEs. At the opposite extreme, almost half of the firms involved in both importing and exporting are large enterprises employing more than 200 workers. Therefore, it appears that large enterprises have been more successful than their smaller counterparts at integrating their manufacturing activities into the global chain of production (Tambunan, 2007).

Abonyi (2003) argued that the chances of SMEs success are becoming increasingly difficult under the liberalized economy in most of developing countries (Tanzania being among them) due to the following; a) Lack of cheap access to finance i.e. despite financial market liberalization SMEs still lack access to cheap source of finance due to high interest rates and collateral requirements.

Banks are no longer under any credit directives from the government to grant long-term loans to SMEs. Banks regard many SMEs as high risk ventures because of the lack of a succession plan in the event of the death of the proprietor. As a result, working capital is still a major constraint on production, as most SMEs are restricted to funds from family members, friends and “loan sharks”. These “loan sharks” charge exorbitant interest rates (100 to 120% per annum) even the commercial bank interest rates from 1980 to 2004 have been on average 17.99%.



The lack of access to cheap finance makes SMEs unable to respond to increase demand; b) Stiff competition from multi-national corporations (MNCs) i.e. the liberalization of imports has created fierce competition for SMEs due to the importation of finished goods by MNCs that have access to cheap source of finance. Since SMEs production capacity is small, they cannot take advantages of large scale production which the big companies enjoy. Besides, consumer preference and market demands are against SMEs as far as trade liberalization is concerned; c) Poor value of the Tanzanian currency (Tsh shilling) i.e. the depreciation of the Tanzanian shilling has also made business environment unfavorable to SMEs operation. As a result, the cost of production of those manufacturing SMEs that import their raw materials has increased. The depreciating Tanzanian shilling has also induced inflation and eroded the profit worth of SMEs; d) Lack of steady power supply i.e. absence of steady power supplies has compelled most SMEs to use generators which are very expensive to run or generate their own energy to power their machineries. In addition, cost of transporting the final products to the market, on the other hand, is very high due to lack of good access roads. This has imposed heavy financial burden on SMEs which has hampered their profitability.

## **2.2 Empirical literature review**

This empirical literature review critically pointed out current knowledge and studies regarding the topic including substantive findings with the view of their strengths and weakness in order to fill the gap envisaged.

Sandee *et al.*, (2002) in their study argue that the macroeconomic environment, which was shaped by international trade policies, was an important determinant of the sustainability of SME activities. Furthermore, Dierman (2004), based on his analysis of the effects of macro- and micro-policy environments on rural industries, contends that a significant number of macro policies, such as trade (protectionist) policies, placed additional costs and other burdens on rural industries. He adds that macroeconomic policies that helped to create a favourable economic environment, including those introduced in trade-related areas, and were not biased against the SMEs, provided the best stimulus for SME growth.

Other interesting studies that examined the relationship between international trade liberalization and the development of SMEs in Indonesia were carried out Loebis and Schmitz (2005). Their main research question was whether SMEs and their workers were able to gain from producing for the global market, and whether such gains were sustainable. The study found that the cluster made significant gains by participating in export-oriented activities. Some of the recorded gains from these studies included growth in the number of enterprises and the number of available jobs, as well as a relative increase in workers' earnings. Again, this is additional evidence illustrating the positive side of the effects of international trade policy reforms on SMEs. However, these studies could not examine the current and future state of local SMEs development in a given area which causes the above mentioned gains.

Berry and Levy (1994) carried out extensive field interviews with numerous public and not-for-profit agencies dealing with SME-related issues in 1992. Their field interviews were targeted at three subsectors of the manufacturing industry, which involved garments in Jakarta and Bandung (West Java), rattan furniture in Jakarta and Surabaya (East Java), and carved wooden furniture in Jepara (Central Java). A set of interviews carried out with rattan products exporters revealed that all but one of the firms sampled exported 90% or more of their output, while the majority of these enterprises began their exporting activities in the same year that they started production.

Most of them started to export or increased their export share of their total production, since the Indonesian government imposed bans on the export of unprocessed and semi-processed rattan in 1986 and 1988– 89, respectively. It appeared, therefore, that these bans were the driving force for the increase in rattan furniture exports among Indonesian SMEs. This study (Berry and Levy, 1994) seems to suggest that the overall supply-side effect (e.g. the domestic input scarcity effect) is the most important determining factor rather than the overall demand-side effects for the export activities of their sampled exporters. On the other hand, Hine and Kelly (1997) state that many factors, including the level of trade protection (e.g. tariffs and NTBs); exchange rate policies, red-tape and other unnecessary administration procedures; and multilateral, regional and bilateral trade agreements

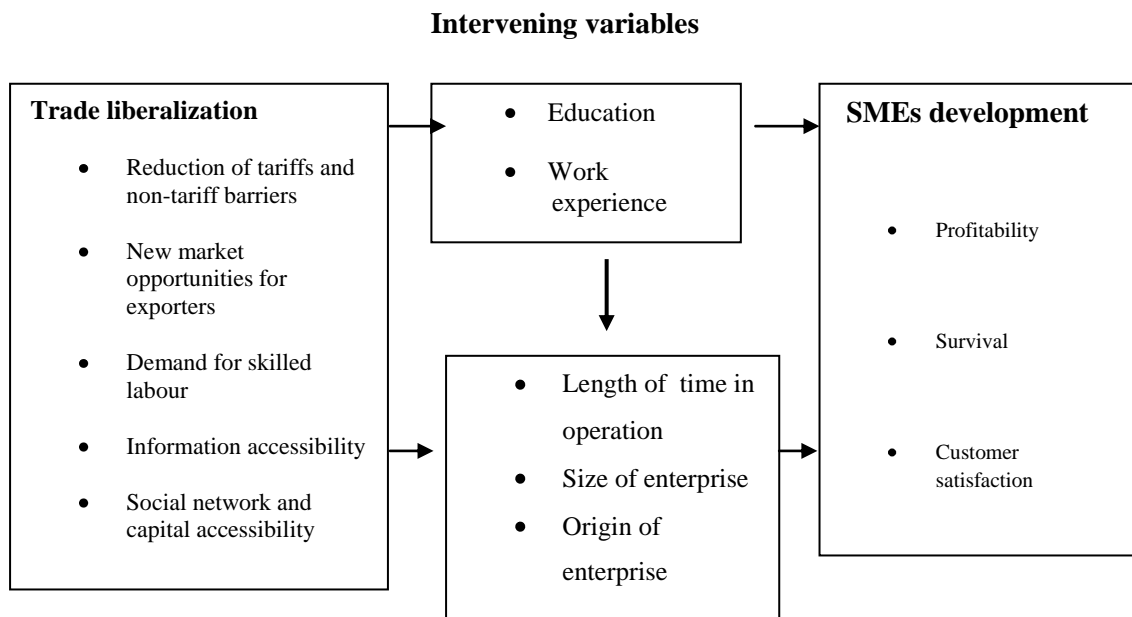
indirectly or directly affect the ability of SMEs to access global markets, or at least, to keep their domestic market share. However, their studies could not analyse the challenges that face local SMEs and the opportunities available for them to perform. A study carried out by Goldberg and Pavenik (2003), for example, argues that, while in Brazil there is not much evidence of a relationship between trade policies and the development of these enterprises, a case study done in Colombia provides indications that liberal trade policies help to expand the capacity of SMEs to compete with imported goods and services. Overall, the empirical evidence discussed above makes clear that international trade liberalization does matter to SMEs, although there are no definitive conclusions as to whether the removal of all protective measures and the elimination of NTBs generate positive or negative effects, indirectly or directly, on the development of SMEs. As with trade liberalization, investment liberalization also has positive and negative impacts on domestic firms and the SMEs. Sutton (2007) develops an industrial organization model to explain the impact of trade liberalization on the behavior of firms in the emerging market economies. The model assumes that a firm's competitiveness depends not only on its productivity but also on the quality of its product, with productivity and quality jointly determining a firm's "capability." Sutton's model (2007) predicts that after an initial shakeout, firms in emerging markets will strive to adjust by raising their capabilities, which may be improved by the vertical transfer of capabilities to the emerging market economies through the supply chain of multinational enterprises (MNEs). With the characteristic of public goods, knowledge and technologies that MNEs bring along when they invest abroad could have long-run impacts on the host country through the externality generated as suggested in endogenous growth models (Grossman and Helpman, 1991). However, the studies could not determine the strategies that might promote local SMEs in a liberalized trade environment.

### **2.3 Conceptual framework**

Figure 2.2 provides the conceptual framework. It provides the relationship between the dependent and independent variables. The dependent variable is the SMEs development while the independent variables emanate from the impact of trade

liberalization which are; reduction of tariffs and non-tariff barriers, new market opportunities for exporters, demand for higher skilled labour, rising unemployment, information access, social network and capital accessibility

**Figure 2.2: Conceptual framework**



*Source: Researcher (2013)*

The conceptual framework provides the variables regarding the impact of trade liberalization which are elaborated as; reduction of tariffs and non-tariff barriers means; reducing a tax which is imposed on foreign good as they enter a country or reducing non-tax measures imposed by governments to favour domestic over foreign suppliers in order to help incoming SMEs to compete and prosper in business undertakings. They are implemented for two clear economic purposes. First, they provide revenue for the government. Second, they improve economic returns to firms and suppliers of resources to domestic industry that face competition from foreign imports; moreover, new market opportunities for exporters means; a growing business which expands into new markets. The objective is to determine which markets offer the best opportunities for a given set of products or service. Demand for skilled labour means; a thirst for skilled workers who bring some degree of expertise to the performance of a given job.

Skilled workers vary in type (i.e. service versus labour), education requirements (i.e. apprenticeship versus graduate college) and availability (freelance versus on-call). Such differences are often reflected in titling, opportunity, responsibility and (most significantly) salary. However, information accessibility means; the presence of a robust system through which information is made available to citizens and others or the easiness for users to identify and use the information resources. Yet, social network and capital accessibility means; a social structure made up of a set of actors (such as individuals or organizations) and the dyadic ties between these actors from which capital from different financial or non-financial institutions can be acquired for the development of SMEs.

On the other hand, SMEs development variables include; profitability which means the state of running the business well without losses which result into prosperity; survival meaning the way a business can withstand the threats during depression and other business waves; customers' satisfaction which is a measure of how products and services supplied by a company meet or surpass customer expectation; increase in return on investment means that the business earns more an it is able to have excess to invest; business expansion means the state of having opportunities to investment which enable capital gains and diversification which means a strategy which helps to minimize risks in business undertakings.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

The chapter presented the research methodology which was used in the study. It comprised of the following sub-sections such as; study area; research design; targeted population and unit of study; sample size and sampling techniques; data collection methods; and data analysis techniques.

#### **3.1 Study Area**

The study was conducted in Morogoro Municipality. The area was selected because there has been little impact of trade liberalization on local SMEs development with few products being exported while import demand being high as argued by Ngowi (2008); hence rendering inquiry.

Morogoro Municipality is one of the 6 districts in Morogoro region. The municipal council lies between 07° 00' and 10° 00' south and between 37° 40' and 38° 22' east at the central part of the Eastern Arc of Mountain Uluguru. It covers an area of 531 square kilometers. It is bordered by Morogoro Rural district to the East, Mvomero district to the North West and South West. In the South it is bordered by Uluguru Mountains around Morogoro municipality. Morogoro municipality has 302, 622 (National census, 2012). Morogoro municipal council has one division called Morogoro Urban. This division is divided into 29 wards, which in turn are sub divided into sub wards commonly known as hamlets (*mitaa*). There are 274 hamlets.

#### **3.2 Research Design**

A case study research design was utilized in this study. The study utilized case study because it allows a researcher to retain the holistic and meaningful characteristics of real life events (Yin, 2003).

On the other side, it explains the causal links in real life intervention, describes the real life context in which an intervention has occurred and evaluates the intervention

itself (Yin, 2003). The research design was allocated with exploratory and inductive approaches to seek for new insights by asking questions and assessing the phenomena in a new light.

### 3.3 Population and unit of study

The study's population comprised of 330 participants. These were obtained from Tanzania Chamber of Commerce and Agriculture (TCCIA) which runs and coordinates SMEs in the Municipality and Morogoro region as a whole (TCCIA progress report, 2012).

### 3.4 Sample Size and sampling techniques

#### 3.4.1 Sample size

A sample size of 84 respondents (60 SMEs owners, 5 business consultants and 19 officers responsible for providing loans and other business undertakings to SMEs) was selected from whom information required for the study was obtained.

Cooper and Schindler (2008) argue that, for any valid and reliable study to be carried, its sample size shouldn't be less than 10% of its population. As it stands, the sample size is 25.5% of the population; hence fulfilling their argumentations. Table 3.1 shows the distribution of respondents.

**Table 3.1: Distribution of respondents**

S/N	Category of respondents	Population	Sample size	Method employed
1	SMEs owners	283	60	Stratification and simple random sampling
2	Business Consultants	10	5	Purposive and stratification sampling
3	Loan officers	37	19	Purposive and stratification sampling
	<b>Total</b>	<b>330</b>	<b>84</b>	

*Source: Analyzed data, 2013*

### **3.4.2 Sampling Techniques**

The sampling techniques utilized involved simple random, purposive and stratification sampling.

#### **3.4.2.1 Simple random sampling**

Simple random sampling technique was used for the selection of respondents. The reason for utilizing this method was that each respondent had the same and independent chance of being selected.

#### **3.4.2.2 Purposive sampling**

Purposive sampling which is a non-random sampling procedure was used focusing the personal experience of the respondent and from the position one held or the roles s/he played in relation to a particular activity. Thus, respondents were selected purposively in order to attain the above objectives.

#### **3.4.2.3 Stratification Sampling**

This method was used to focus gender (male and female) as to obtain views regarding the topic. The reason according to Carmines and Zeller (1979) is that, stratification serves the distribution among heterogeneous population which needs to be incorporated for the purpose of gaining insights from it.

### **3.5 Data collection methods**

#### **3.5.1 Primary data collection methods**

The methods/tools used by the study to collect data from the field included; interviews and questionnaires.

##### **3.5.1.1 Interview**

The researcher used interview to the consultants and loan officers in order to solicit informations regarding the impact of trade liberalization to SMEs in the municipality (Appendix 2). With this regard, focus group discussions (FGDs) were employed involving a group of discussants who discuss specific topics or issues under the



facilitation of a researcher and sometimes using a tape recorder. It helped the interviewee to be free to express oneself.

### **3.5.1.2 Questionnaires**

Copies of questionnaires were prepared and distributed to SMEs owners based on the essentials of a good questionnaire, i.e. short and simple, and organized in a logical sequence moving from relatively easy to more difficult issues. Technical terms, vague expressions and those affecting sentiments of the respondents were avoided. Questionnaires were used to obtain informations from SMEs owners (Appendix 1).

### **3.5.2 Secondary data collection methods**

The researcher used various documents to access information for the study such as personal profiles from SMEs owners, guidelines from financial institutions, regulations on trade liberalization, books as literatures and performance reports from SMEs owners.

## **3.6 Data Analysis techniques**

### **3.6.1 Descriptive statistical analysis**

Before statistical analysis, data collected were summarized, coded and analyzed descriptively by using Statistical Package for Social Science (SPSS). Frequency and percentages were used to describe variables.

### **3.6.2 Qualitative analysis**

Qualitative data from interviews were analyzed using content analysis (by analysing texts regarding authenticity or meaning from respondents' responses on "Who says what, to whom, why, to what extent and with what effect?."). According to Holsti (1969) cited by Kumar (2007) content analysis is used into three basic categories; i) make inferences about the antecedents of a communication; ii) describe and make inferences about characteristics of a communication; and iii) make inferences about the effects of a communication.

**CHAPTER FOUR**  
**PRESENTATION AND DISCUSSION OF RESEARCH FINDINGS**

**4.0 Introduction**

This chapter presented and assessed the impact of trade liberalization towards SMEs development in Morogoro municipality. It is presented and discussed under four main sub-sections; the first section presents the sample characteristics of the respondents; the second section examines the current and future of local SMEs development status; the third section analyses the challenges and opportunities available for the performance of SMEs development; and the last section determines the strategies that might promote the development of local SMEs in Morogoro municipality.

**4.1 Sample Characteristics of Respondents**

The respondents' characteristics included the entrepreneur's characteristics and the characteristics of SMEs. Table 4.1 provides the results as follows

**Table 4.1: Sample Characteristics of Respondents**

Characteristics	Frequency	Percentage
<b>a) Entrepreneurs' characteristics:</b>		
<b>i) Work experience in running business</b>		
1-5 years	23	38.3
Never ran a business rather starting	37	61.7
<b>ii) Level of education</b>		
Primary	21	25.0
Secondary	32	38.1
Diploma	18	21.4
Higher	13	15.5
<b>b) Characteristics of SMEs:</b>		
<b>i) Form of enterprise</b>		
Established	48	80.0
Inherited	12	20.0
<b>ii) Business Owner's Experiences</b>		
Older player (> 5 yrs)	43	71.7
New comer (< 5yrs)	17	28.3
<b>iii) Size of enterprise</b>		
Large	21	35.0
Small	39	65.0

*Source: Field Data, 2013*

## **4.1.1 Entrepreneurs' characteristics**

### **4.1.1.1 Work experience in running business**

Table 4.1 shows that, out of 60 respondents, 38.3% had experience from 1-5 years in running their business while 61.7% had no experience (were just at the starting point) in running business. This highlighted the need for training to those who enter into business as to let them access business knowledge in order to compete fairly. However, those who had more experience could provide the current and future state of entrepreneurs as challenged by the vulnerability to external shocks due to global competition.

### **4.1.1.2 Level of education**

Table 4.1 shows that 25% of the respondents had obtained primary education while, 38.1% of the respondents had secondary education, 21.4% of the respondents had diploma and 15.5% of the respondents had higher education. The level of education contributed much as for those who had primary and secondary education couldn't compete well in business with those with diploma and higher level of education in a liberalized trade environment. That necessitates institutional support for the provision of business knowledge along with entrepreneurial approaches in order to lift them.

## **4.1.2 Characteristics of the SMEs**

### **4.1.2.1 Form of enterprise**

Table 4.1 shows that, out of 60 SMEs owners, 80% of the respondents were established by the entrepreneurs and 20% of the respondents were inherited. However, in small firms, where ownership and management were typically combined in one or more individuals, future goals for the business were determined as much by personal lifestyle and family factor considerations. One characteristic which did distinguish the best SMEs development in a trade liberalized environment from the other in the study was their commitment to growth and their propensity to acquire other businesses.

This fostered entrepreneurs to have a thirst for development which was necessitated the provision of skills and knowledge for the purpose of enabling the smooth running of their business undertakings.

#### **4.1.2.1 Business Owner's Experiences**

Table 4.1 reveal that out of 60 SMEs owners, 71.7% of the respondents were older players (> 5 years) who carried their business for a period of more than five years; while 28.3% of the respondents were new comers who carried on business for a period of less than five years. However, length time in operation was associated with a learning curve. Old players most probably have learned much from their experiences than have done by new comers. It was found that length time in operation was significantly linked to business success as advocated by Kumar (2005).

#### **4.1.2.2 Size of enterprise of respondents**

Table 4.1 shows that, out of 60 SMEs owners, 35% of the respondents were large with capital ranging from 100 million to 1 billion while 65% of the respondents were small with capital of less than 100 million. Size of enterprise reflects how large an enterprise is in employment terms as those termed as large had employees up to 100 while those termed as small had employees up to 50. It was further found that enterprise size significantly was linked to better business performance as larger enterprises were found to have a higher level of success in a trade liberalized environment in the municipality.

### **4.2 Current and Future SMEs development status in Morogoro municipality**

To obtain the information regarding the current and future status, the researcher asked the respondents to tick and provide opinions regarding the situation they are in. Therefore, the respondents' opinions were sought on how they perceived them and the way they overcome the situation.

The summary of the findings on the current and future status are given in Table 4.2 and 4.3.

#### 4.2.1 Current status of local SMEs development

Table 4.2 shows that, the current status of local SMEs development is promising due to various efforts made by the government and other civil societies to boost local SMEs; but encountering drawbacks which could be overcome. This is justified by the majority of respondents who were in agreement with the current status envisaged for their development and better quality service deliveries to their expected customers.

**Table 4.2: Current status of local SMEs development**

Current Status	Percentage	
	Agree	Disagree
Lack of qualified human resources	80	20
Inadequate training on marketing issues	87	13
Lack of information technology	80	20
Difficulties in procuring raw materials	75	25
Weak marketing and distribution capacity	85	15
High transportation costs	85	15
Corruption	82	18

*Source: Field Data, 2013*

##### 4.2.1.1 Difficulties in procuring raw materials

Table 4.2 shows that, 75% of the respondents reported the availability of difficulties in procuring raw materials for their products from various institutions due to lower capital and viable marketing strategies as advocated by Tambunan (2006) something that hinders their progress. If capital is enhanced SMEs would compete fairly.

##### 4.2.1.2 Lack of information technology and qualified human resources

Table 4.2 shows that, 80% of the respondents reported the lack of information technology which would enable them access information relevant for their business undertakings and lack of qualified human resources to innovatively utilize their knowledge and skills for the better running of business in a trade liberalized environment resulting into profitability.

#### 4.2.1.3 Corruption

Table 4.2 shows that, 82% of the respondents pointed out corruption which has negatively affected local SMEs development in a trade liberalized situation from the fact of having unethical officials who without being bribed, the services to local SMEs is impossible as supported by Ngowi (2008). This was reported by respondents that local SMEs get harassments from municipal authorities who solicit bribe, are being shifted irregularly by officials now and then in order to get bribed and those who cannot pay are shifted or not provided with licenses.

#### 4.2.1.4 High transportation costs, weak marketing and distribution capacity

Table 4.2 shows that, 85% of the respondents were in opinion that local SMEs have weak marketing and distribution capacity due to little experience in business undertakings and encounter high transportation costs due to rising fuel prices something which result into rising of commodity prices causing consumers' inability to buy.

#### 4.3.2 Future Status of local SMEs development

Table 4.3 shows that, the future status of local SMEs development is promising but encountering drawbacks which could be overcome. This is justified by the majority of respondents who were interviewed. Table 4.3 shows future status of local SMEs development.

**Table 4.3: Future Status of local SMEs development**

Future Status	Percentage	
	Agree	Disagree
Vulnerability to external shocks due to global competition	90	10
Problems caused by cumbersome and costly bureaucratic procedures	90	10
Policies and regulations that generate market distortions	87	13

*Source: Field Data, 2013*

#### **4.3.2.1 Policies and regulations that generate market distortions**

Table 4.3 shows that, 87% of the respondents argued for the availability of inadequate training on marketing issues something that deprive local SMEs the opportunities to excel in a liberalized environment when their products are produced, policies and regulations that generate market distortions such as those which don't allow fair competition of the products as well as those which allow cheaper imported goods as supported by Kelly (2007). It is to be acknowledged that local SMEs need to benefit from lower input costs, which improve their price competitiveness and enable them to compete more effectively in a trade liberalized environment with both import and export markets.

#### **4.3.2.2 Vulnerability to external shocks due to global competition, problems caused by cumbersome and costly bureaucratic procedures**

Table 4.3 shows that, 90% reported the vulnerability to external shocks due to global competition which could be beyond their control and problems caused by cumbersome and costly bureaucratic procedures (e.g. in acquiring licenses) as future states of local SMEs that may render them unsuccessfully as attested by respondents.

Moreover, the results in this part reveal that, 75% of the respondents reported the availability of difficulties in procuring raw materials for their products from various institutions due to their lower capital and viable marketing strategies, 80% reported the lack of information technology which would enable them access informations relevant for their business undertakings and lack of qualified human resources to innovatively utilize their knowledge and skills for the better running of business. Moreover, 82% pointed out corruption which has negatively affected local SMEs from the fact of having unethical officials who without being bribed, the services to local SMEs is impossible. This is accompanied by harassments from municipal authorities who solicit bribe rendering local SMEs being shifted irregularly by officials now and then in order to get bribe and those who cannot pay are shifted or not provided with licenses.

However, 85% of the respondents were in opinion that local SMEs have weak marketing and distribution capacity due to little experience in business undertakings and encounter high transportation costs due to rising fuel prices something which result into rising of commodity prices causing consumers' inability to buy. Likewise, 87% of the respondents contended the inadequate training on marketing issues something that deprive local SMEs the opportunities to excel when their products are produced, policies and regulations that generate market distortions such as those which don't allow fair competition of the products as well as those which allow cheaper imported goods. Furthermore, 90% reported the vulnerability to external shocks due to global competition which could be beyond their control and problems caused by cumbersome and costly bureaucratic procedures (e.g. in acquiring licenses) as current and future states of local SMEs that may render them unsuccessfully.

#### **4.4 Challenges and the opportunities that face Tanzanian SMEs performance**

The challenges according to study survey include; increasing of foreign competition which lower import tariffs, quotas and other non-tariff barriers, lower production costs that result from cheaper imported inputs, reduction of available local inputs, inadequate market opportunities, inadequate technology, lack of information accessibility, multiple taxation, higher interest rates charged by financial institutions, poor business record management and price fluctuations. While the opportunities for SMEs include; relative increase of export opportunities, social network and capital accessibility. However, the summary of the findings for the challenges and opportunities are given in Table 4.4 and 4.5 in item 4.4.1 and 4.4.2 respectively.



#### 4.4.1 Challenges that face local SMEs

Table 4.4 shows the challenges as follows;

**Table 4.4: Challenges that face local SMEs**

Challenge	Percentage	
	Yes	No
Increasing foreign competition resulting from lowering of import tariffs, quotas and other non-tariff barriers	85	15
Lowering production costs that result from cheaper imported inputs	90	10
Reduction of available local inputs	80	20
Inadequate market opportunities	85	15
Inadequate technology	90	10
Lack of information accessibility	75	25
Multiple taxation	83	17
Higher interest rates charged by financial institutions	83	17
Poor business record management	92	08
Price fluctuations	80	20

*Source: Field Data, 2013*

##### 4.4.1.1 Lack of information accessibility

Table 4.4 shows that, 75% of the respondents reported the lack of information accessibility when searching for new ventures in business which needs to be available for local SMEs to develop as supported by Edmiston (2007) that this absence may result into failure to secure new business opportunities.

##### 4.4.1.2 Price fluctuations and Reduction of available local inputs

Table 4.4 shows that, 80% of the respondents were in opinion of the availability of commodities' price fluctuations which hinder customers to buy commodities resulting from inflation rates envisaged in the country as among the challenges.

##### 4.4.1.3 Higher interest rates charged by financial institutions and multiple taxation

Table 4.4 shows that, 83% of the respondents reported the availability of higher interest rates charged by financial institutions which need to be minimized and multiple taxation fostering tax resistance and disrespect for the law.

**4.4.1.4 Inadequate market opportunities, increasing foreign competition resulting from lowering of import tariffs, quotas and other non-tariff barriers**

Table 4.4 shows that, 85% of the respondents reported the availability of inadequate market opportunities as among the challenges and increasing foreign competition resulting from lowering of import tariffs, quotas and other non-tariff barriers as among the challenges local SMEs are exposed to which need to be solved effectively.

**4.4.1.5 Inadequate technology, lowering production costs that result from cheaper imported inputs and poor business record management**

Table 4.4 shows that, 90% of the respondents affirmed the availability of inadequate technology which hinders local SMEs to effectively compete with other entrepreneurs and help access and absorb new technology and adapt it to local conditions while facing with pressures of lowering production costs that result from cheaper imported inputs from abroad as supported by Tambunan (2006). However, 92% reported the availability of poor business record management among SMEs which led many local SMEs to unknowingly run the business unprofessionally; hence poor performance.

**4.4.2 Opportunities available for local SMEs**

The results in Table 4.5 show as follows.

**Table 4.5: Opportunities available**

Opportunity	Percentage	
	Yes	No
Relative increase of export opportunities	75	25
Social network	82	18
Capital accessibility	92	08

*Source: Field Data, 2013*

**4.4.2.1 Relative increase of export opportunities**

Table 4.5 shows that, 75% of the respondents reported the availability of relative increase of export opportunities which do not facilitate local SMEs to utilize their

capacities to produce more commodities in order to capture the market opportunities available as supported by Edmiston (2007).

#### **4.4.2.2 Social network**

Table 4.5 shows that, 82% of the respondents reported the presence of social network among local SMEs and other foreign partners as with its presence, social network becomes an opportunity and a means for entrepreneurs to reduce risks and improve access to business ideas, knowledge and capital because a social network has a significant relationship with business adaptability and development as supported by Tewari and Goebel (2002).

#### **4.4.2.3 Capital accessibility**

Table 4.5 shows that, 92% reported the availability of capital accessibility from some of financial institutions which enabled local SMEs to access the loans although encountering interest rates challenges.

In short, the results in this part reveal that, 75% of the respondents reported the information accessibility difficulties when searching for new ventures in business and availability of relative increase of export opportunities which enable local SMEs to utilize their capacities to produce more commodities in order to capture the market opportunities available. However, 80% of the respondents were in opinion of the availability of commodities' price fluctuations which hinder customers to buy commodities resulting from inflation rates envisaged in the country and the reduction of available local inputs as among the challenges. Moreover, 82% of the respondents reported the presence of social network among local SMEs as with its presence, social network becomes an opportunity and a means for entrepreneurs to reduce risks and improve access to business ideas, knowledge and capital because a social network has a significant relationship with business adaptability.

Likewise, 83% reported the availability of higher interest rates charged by financial institutions and multiple taxation fostering tax resistance and disrespect for the law.

Yet, 85% reported the availability of inadequate market opportunities as among the challenges and increasing foreign competition resulting from lowering of import

tariffs, quotas and other non-tariff barriers as among the opportunities local SMEs are exposed to. Furthermore, 90% of the respondents affirmed the availability of inadequate technology which hinders local SMEs to effectively compete with other entrepreneurs and help access and absorb new technology and adapt it to local conditions while facing with pressures of lowering production costs that result from cheaper imported inputs from abroad. However, 92% reported the availability of poor business record management which led many local SMEs to unknowingly run the business unprofessionally; hence poor performance but with capital accessibility from financial institutions while encountering interest rate challenges.

#### **4.5 Strategies that might promote local SMEs in a liberalized trade environment in Morogoro municipality**

**Table 4.6: Strategies for the promotion of local SMEs**

Strategy	Percentage	
	Agree	Disagree
Economic growth by enlarging markets	80	20
Enhancing training on business planning	87	13
Implementing policy and regulatory environment for entrepreneurs	90	10
Government assistance in strengthening institutions engaged in credit delivery	85	15
Improved resource allocation	80	20
Access to new and better technology	90	10
Access to inputs and intermediate goods	82	18
Enhancement of economies of scale and scope	83	17
Transfer of know how (knowledge spillover)	90	10
Ability to exploit benefits of globalization	72	28
Attracting foreign investments that can help access and absorb new technology and adapt it to local conditions	90	10
Lower import barriers	87	13
Force inefficient domestic firms to try to improve their productivity	78	22
Training entrepreneurs on marketing and sales promotion of their products	93	07
Local SMEs adopt more efficient technology management, organisation and production methods	92	08

*Source: Field Data, 2013*

##### **4.5.1 Ability to exploit the benefits of globalization and force domestic firms to improve productivity**

Table 4.6 shows that 72% of the respondents reported the ability to exploit the benefits of globalization through the enhancement of business undertakings which would enable local SMEs to prosper as supported by Dhar (2008) and 78% were in opinion to force inefficient domestic firms to try to improve their productivity in

order to enable their products compete with others while maintaining the required international standards. This would enable local SMEs to develop and survive in a trade liberalized environment.

#### **4.5.2 Improving resources allocation and economic growth by enlarging markets**

Table 4.6 shows that, 80% of the respondents reported the achievement of economic growth by enlarging market opportunities and improved resource allocation for the purpose of extending their business as among the strategies that might promote local SMEs in a liberalized trade environment. This economic growth and resource allocation would be in line with encouraging many SMEs to join hands for their development.

#### **4.5.3 Access to inputs and intermediate goods through the enhancement of economies of scale**

Table 4.6 shows that, 82% of the respondents reported the search for access to inputs and intermediate goods as among the strategies which would be utilized for the enhancement of production and distribution as supported by Manbuk (2002). Yet, 83% reported the enhancement of economies of scale and scope by allowing fair competition among local SMEs something that would boost local SMEs development.

#### **4.5.4 Government assistance, lowering import barriers and enhancing business planning**

Table 4.6 shows that, 85% of the respondents reported the need for the Government assistance in strengthening institutions engaged in credit delivery which have been unfriendly to local SMEs when it comes to credit accessibility as among the strategies. Moreover, 87% of the respondents affirmed the lowering of import barriers which stimulate local SMEs to aggressively learn from other as among the strategies and enhancing training on business planning regarding marketing research,

record management, brand establishment and management and value addition for their products as supported by Tambunan (2011) as fostering SMEs development.

#### **4.5.5 Access to technology, transfer of know-how, attracting foreign investments and implementing policy and regulatory environment**

Table 4.6 shows that, 90% of the respondents reported the access to new and better technology to enable local SMEs improve their business undertakings, attracting foreign investments that can help access and absorb new technology and adapt it to local conditions, implementing policy and regulatory environment for entrepreneurs who are eager to engage and run their business in a calm environment and transfer of know how (i.e. knowledge spillover) to others who are in need for better running of business. This was to enhance business undertakings which are in line with the requirements of international standards.

#### **4.5.6 Adoption of production methods and training entrepreneurs on marketing and sales promotions**

Table 4.6 shows that, 92% of the respondents stated that local SMEs should adopt more efficient technology management; organisation and production methods to enable them attain their goals; hence enhancing production as supported by Kumar (2005) and 93% reported the need for training entrepreneurs on marketing and sales promotion of their products for the attainment of sustainability.

These when put into practice would enable local SMEs to develop their business career while operating effectively in a trade liberalized environment.

In short, the results in this part reveal that, 72% of the respondents reported the ability to exploit the benefits of globalization through the enhancement of business undertakings which would enable local SMEs to prosper, 78% were in opinion to convince and force inefficient domestic firms to try to improve their productivity in order to enable their products compete with others while maintaining the required international standards, 80% reported the economic growth by enlarging markets opportunities and improved resource allocation for the purpose of extending their business as among the strategies that might promote local SMEs in a liberalized trade

environment. However, 82% of the respondents reported the search for access to inputs and intermediate goods as among the strategies which would be utilized for the enhancement of production and distribution. Yet, 83% reported the enhancement of economies of scale and scope by allowing fair competition among local SMEs and 85% reported the need for the Government assistance in strengthening institutions engaged in credit delivery which have been unfriendly to local SMEs when it comes to credit accessibility as among the strategies.

Moreover, 87% of the respondents affirmed the lowering of import barriers which stimulate local SMEs to aggressively learn from others as among the strategies and enhancing training on business planning regarding marketing research, record management, brand establishment and management and value addition for their products. Likewise, 90% reported the access to new and better technology to enable local SMEs improve their business undertakings, attracting foreign investments that can help access and absorb new technology and adapt it to local conditions, implementing policy and regulatory environment for entrepreneurs who are eager to engage and run their business in a calm environment and transfer of know how (i.e. knowledge spillover) to others who are in need for better running of business.

Furthermore, 92% stated that local SMEs should adopt more efficient technology management; organisation and production methods to enable them attain their goals; hence enhancement of production and 93% reported the need for training entrepreneurs on marketing and sales promotion of their products for the attainment of business sustainability.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The chapter gives the summary, conclusion and recommendations. Policy implications and areas for further research are also given thereof. It starts with the summary, conclusion, recommendations and policy implications and finally areas for further research are highlighted.

#### **5.2 Summary**

SMEs have a crucial role to play because of their potential contributions not only to employment creation, particularly for youth and the less educated, but also to the improvement of income distribution, poverty alleviation, rural, social and economic development, and the development of entrepreneurship. The findings from the study regarding the assessment of the impact of trade liberalization towards SMEs development in Morogoro municipality revealed that, 75% of the respondents reported the availability of difficulties in procuring raw materials for their products from various institutions due to their lower capital and viable marketing strategies, 80% reported the lack of information technology which would enable them access informations relevant for their business undertakings and lack of qualified human resources to innovatively utilize their knowledge and skills for the better running of business. Moreover, 82% pointed out corruption which has negatively affected local SMEs from the fact of having unethical officials who without being bribed, the services to local SMEs is impossible. This is accompanied by harassments from municipal authorities who solicit bribe rendering local SMEs being shifted irregularly by officials now and then in order to get bribe and those who can not pay are shifted or not provided with licenses.

However, 85% of the respondents were in opinion that local SMEs have weak marketing and distribution capacity due to little experience in business undertakings and encounter high transportation costs due to rising fuel prices something which result into rising of commodity prices causing consumers' inability to buy. Likewise,



87% of the respondents contended the inadequate training on marketing issues something that deprive local SMEs the opportunities to excel when their products are produced, policies and regulations that generate market distortions such as those which don't allow fair competition of the products as well as those which allow cheaper imported goods. Furthermore, 90% reported the vulnerability to external shocks due to global competition which could be beyond their control and problems caused by cumbersome and costly bureaucratic procedures (e.g. in acquiring licenses) as current and future states of local SMEs that may render them unsuccessfully.

On the other hand the findings revealed that, 75% of the respondents reported the information accessibility difficulties when searching for new ventures in business and availability of relative increase of export opportunities which enable local SMEs to utilize their capacities to produce more commodities in order to capture the market opportunities available. However, 80% of the respondents were in opinion of the availability of commodities' price fluctuations which hinder customers to buy commodities resulting from inflation rates envisaged in the country and the reduction of available local inputs as among the challenges. Moreover, 82% of the respondents reported the presence of social network among local SMEs as with its presence, social network becomes an opportunity and a means for entrepreneurs to reduce risks and improve access to business ideas, knowledge and capital because a social network has a significant relationship with business adaptability. Likewise, 83% reported the availability of higher interest rates charged by financial institutions and multiple taxation fostering tax resistance and disrespect for the law.

Yet, 85% reported the availability of inadequate market opportunities as among the challenges and increasing foreign competition resulting from lowering of import tariffs, quotas and other non-tariff barriers as among the opportunities local SMEs are exposed to.

Furthermore, 90% of the respondents affirmed the availability of inadequate technology which hinders local SMEs to effectively compete with other entrepreneurs and help access and absorb new technology and adapt it to local

conditions while facing with pressures of lowering production costs that result from cheaper imported inputs from abroad. However, 92% reported the availability of poor business record management which led many local SMEs to unknowingly run the business unprofessionally; hence poor performance but with capital accessibility from financial institutions while encountering interest rate challenges.

Lastly, the findings from the study revealed that, 72% of the respondents reported the ability to exploit the benefits of globalization through the enhancement of business undertakings which would enable local SMEs to prosper, 78% were in opinion to convince and force inefficient domestic firms to try to improve their productivity in order to enable their products compete with others while maintaining the required international standards, 80% reported the economic growth by enlarging markets opportunities and improved resource allocation for the purpose of extending their business as among the strategies that might promote local SMEs in a liberalized trade environment. However, 82% of the respondents reported the search for access to inputs and intermediate goods as among the strategies which would be utilized for the enhancement of production and distribution. Yet, 83% reported the enhancement of economies of scale and scope by allowing fair competition among local SMEs and 85% reported the need for the Government assistance in strengthening institutions engaged in credit delivery which have been unfriendly to local SMEs when it comes to credit accessibility as among the strategies.

Moreover, 87% of the respondents affirmed the lowering of import barriers which stimulate local SMEs to aggressively learn from others as among the strategies and enhancing training on business planning regarding marketing research, record management, brand establishment and management and value addition for their products. Likewise, 90% reported the access to new and better technology to enable local SMEs improve their business undertakings, attracting foreign investments that can help access and absorb new technology and adapt it to local conditions, implementing policy and regulatory environment for entrepreneurs who are eager to engage and run their business in a calm environment and transfer of know how (i.e. knowledge spillover) to others who are in need for better running of business.

Furthermore, 92% stated that local SMEs should adopt more efficient technology management; organization and production methods to enable them attain their goals; hence enhancement of production and 93% reported the need for training entrepreneurs on marketing and sales promotion of their products for the attainment of business sustainability.

### **5.3 Conclusion**

Based on the empirical findings from the study, some major conclusions are drawn with regards to the assessment of the impact of trade liberalization towards SMEs development in Morogoro municipality.

Local SMEs still have weak marketing and distribution capacity as attested by respondents as they lack qualified human resources and are vulnerable to external shocks due to global competition which is beyond their control. However, local SMEs encounter information accessibility difficulties when searching for new ventures although there is a relative increase of export opportunities and are exposed to economic growth if are able to enlarge their market opportunities and improve resource allocation by attracting foreign investments that can help access and absorb new technology and adapt it to local conditions.

#### **5.4.1 Recommendation and policy implication**

##### **5.4.1 Recommendations**

- i) The weakness envisaged such as marketing, distribution capacity and availability of unqualified human resources to small SMEs need to be solved by carrying out continuous training to all local SMEs for the purpose of up lifting them to the upper level
- ii) The information accessibility difficulties need to be solved through enhancing social networking among local SMEs and other players.

#### **5.4.2 Policy implication**

The researcher argues for calling holistic local SMEs support through the creation of enabling environment for SME development consisting of functioning macro, meso and micro level institutions while building a foundation for the future productivity and growth for them.

#### **5.5 Areas for Further Research**

The study assessed the impact of trade liberalization towards SMEs development in Morogoro municipality; it is advised that further studies be done on the following issues;

- a) What obstacles do new local SMEs encounter when entering new markets?
- b) To what extent do local SMEs engage themselves on R&D of their products?

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## APPENDICES

### APPENDIX 1:

#### QUESTIONNAIRES FOR SMES OWNERS

*Topic: Assessment of the impact of trade liberalization to SMEs development in Tanzania: A case study of Morogoro municipality; Morogoro region*

#### **PART A: Current and future state of local SMEs development in Morogoro municipality**

1. Are local SMEs in Morogoro municipality encountering the following state of affairs due to trade liberalization? *(Tick where appropriate)*

No	Type	Yes	No
1	Lack of qualified human resources		
2	Inadequate training on marketing issues		
3	Lack of information technology		
4	Vulnerability to external shocks due to global competition		
5	Difficulties in procuring raw materials		
6	Weak marketing and distribution capacity		
7	High transportation costs		
8	Problems caused by cumbersome and costly bureaucratic procedures (in acquiring licenses)		
9	Policies and regulations that generate market distortions		

2. Would you please identify other states of affairs they encounter?

i).....ii).....

iii).....iv).....



**PART B: Challenges facing local SMEs in the municipality**

3. Please indicate your agreement or disagreement regarding the challenges facing SMEs as follows; 1) SA=Strongly Agree 2) A=Agree 3) U=Uncertain 4) D=Disagree 5) SD=Strongly Disagree.

Factor	Choice				
	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
Increasing foreign competition resulting from lowering of import tariffs, quotas and other non-tariff barriers (NTBs), thus pushing inefficient, unproductive or un-competitive local firms to improve their competitiveness					
Lowering production costs that result from cheaper imported inputs					
Relative increase of export opportunities					
Reduction of available local inputs					
Market opportunities					
Technology					
Information accessibility					
Social network					
Information accessibility					
Capital accessibility					

4. Would you please highlight the other challenges facing local SMEs in the municipality?

- i).....ii).....  
 iii).....iv).....

**PART C: Strategies that might promote local SMEs in a liberalized trade environment in the municipality**

5. Do you think that among these are strategies that might promote local SMEs in a liberalized trade environment? *(Tick where appropriate).*

No	Strategy	Yes	No
1	Economic growth by enlarging markets		
2	Enhancing training on business planning		
3	Implementing policy and regulatory environment for entrepreneurs		
4	Government assistance in strengthening institutions engaged in credit delivery		
5	Improved resource allocation		
6	Access to new and better technology		
7	Access to inputs and intermediate goods		
8	Enhancement of economies of scale and scope		
9	Transfer of know how (knowledge spillover)		
10	Ability to exploit benefits of globalization		
11	Attracting foreign investments that can help access and absorb new technology and adapt it to local conditions		
12	Lower import barriers		
13	Force inefficient domestic firms to try to improve their productivity		
14	Training entrepreneurs on marketing and sales promotion of their products		
15	Local SMEs adopt more efficient technology management, organisation and production methods		

**PART D: Background informations**

6. a) Entrepreneurs' characteristics (tick where appropriate)

Variable	Put a tick
<b>a) Work experience in running business</b>	
I have experience in running business (1-5 years)	
I have never run a business (starting)	
<b>b) What is your highest level of education?</b>	
Primary education	
Secondary education	
Diploma	
Higher education	

b) Characteristics of SMEs (tick where appropriate)

Variable	Put a tick
<b>a) Form of enterprise</b>	
Established	
Inherited	
Other	
<b>b) Business owner's experiences</b>	
Older player (>5 yrs)	
New comer (< 5 yrs)	
<b>c) Size of enterprise</b>	
Large	
Small	

## **APPENDIX II**

### **INTERVIEW GUIDE FOR BUSINESS CONSULTANTS**

#### **AND LOAN OFFICERS**

- i) What is the current and future state of local SMEs development in Morogoro municipality?
  
- ii) What are the challenges facing local SMEs and opportunities available for them to perform in Morogoro municipality?
  
- iii) What are the strategies that might promote local SMEs in a liberalized trade environment in Morogoro municipality?