ASSESSMENT OF FACTORS LIMITING SMALL AND MEDIUM ENTERPRISES GROWTH IN ZANZIBAR

A CASE OF ZANZIBAR WEST DISTRICT

By

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A Dissertation Submitted on Partial Fulfilment of the Requirements Award of the Degree of Masters of Science in Accounting and Finance (MSc) of Mzumbe University

2013

Certification

We, undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation/thesis entitled **Assessment of Factors Limiting SMEs Growth in Zanzibar: The Case of Zanzibar West District** in partial/fulfilment of the requirements for award of the degree of Master of Accounting and Finance of Mzumbe University.

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Declaration

I, **Judama Suleiman Khamis,** declare that this thesis is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

Signature ____________________

Date ________________________

Acknowledgement

I would like to thank Almighty God for seeing me and granting me a great care through taking this dissertation.

I would like to express my warmest thanks to my teacher and project supervisor, Mr Juma Buhimila for his steady support, guidance and constructive comments. I am confident to say without your help the goals of this project will not be accomplished

Moreover, I would also like to convey my deep sense of appreciation to Mr Sadik from ministry of trade and business of Zanzibar for being a constant source of encouragement and help me archive what I wanted from the ministry side

Last but not least, I would like to thank my family for being very supportive, understanding and for giving me the courage that I needed to complete this thesis.

However, it is difficult to acknowledge everybody individually, but I do acknowledge to anybody who feels to contribute to the accomplishment of this thesis

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List of Acronomy

BDS – Business Development Service

BEST- Business Environment Strengthening for Tanzania

BOT - Bank of Tanzania

CRDB -Cooperative and rural development bank

DTB – Diamond Trust Bank

EU - European Union

FBME – Federal Bank

GDP – Growth Domestic Product

ILO- International Labour Organisation

PPPP- Public private partnership policy

RDS- Rural Development Strategy

SIDP- Sustainable Industrial Development Policy

SMEs – Small and Medium Enterprises

UNIDO- United Nations

UWAZI –Umoja wa Wanawake Zanzibar

ZEB- Zanzibar Economic Bulletin

ZSGRP- Zanzibar Strategy for Growth and Reduction of Poverty

GOZ –Government of Zanzibar

List of tables and figures

Abstract

The small and medium sized firms play very vital role in the development of any nation and no one country can complete its growth stages without small and medium sized enterprises. Hence, the focus of this thesis was the assessment of factors limiting SMEs growth in Zanzibar west district. The research model was focus on SMEs internal factors, government initiatives and financial support factors. There are numbers of factors hindering their growth; external factors such as, access to finance, tax and tariff, SMEs policy of Zanzibar and internal factors such as, Lack of experience in the business, Lack of a proper business plan, Poor managerial capability, Lack of proper record keeping i.e. accounting records, Inadequate education and training (capacity development), and Lack of professional advice.

The research methodology used in data collection was survey study design in which questionnaires and interview guide as the main tools for the data collection were distributed across west district of Zanzibar. Simple random sampling was most used to obtain the required sample across the district. Both primary and secondary data type was used to obtain the required information. Primary data collected from the questionnaires were summarized, coded and a descriptive analysis of the data was conducted. Qualitative methods of data analysis were being used in analyzing the data collected. The methods used included descriptive analysis, frequencies and percentages to facilitate description of the characteristics of the sample.

Findings of this study provide useful information for SMEs, financial institutions, and government of Zanzibar. The findings of the research have important implications for the SMEs, Government and Banking sector in Zanzibar. As the government targets alleviation of poverty in the countryside in four-year. Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP) known as Mkakati wa Kukuza Uchumi na Kupunguza Umasikini Zanzibar (MKUZA) in its Kiswahili acronym is the second generation of national development framework to implement Vision 2020.

CHAPTER ONE
INTRODUCTION

1.0 Introduction of the Study

Small and medium enterprises (SME's) are widely defined in terms of their characteristics, which include the size of capital investment, the number of employees, the turnover, the management style, the location, and the market share. Country context plays a major role in determining the nature of these characteristics, especially, the size of investment in capital accumulation and the number of employees. For developing countries, small-scale enterprises would generally mean enterprises with less than 50 workers and medium size enterprises would usually mean those that have 50-99 workers (Kasekende L & Opondo H, 2003)

Small and medium enterprises are frequently hailed as the backbone of the economy. There is widespread consensus on the significance of their contribution to economic growth, creation of employment, social cohesion, alleviation of poverty, and local and regional development. A lack of formal credit, however, often hinders SME from developing their potentials (Ohnuki S, 2011)

Since the 1960s to date, small and medium sized enterprises (SMEs) have been given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies. They make-up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the gross domestic products (GDPs) of many countries (OECD, 2000)

1.1 Background of the Problem

Despite their significant importance and SME contribution to economic growth, SMEs across the whole world are still faced with numerous challenges that inhibit entrepreneurial growth (NCR, 2011). Though SMEs play an important role in economic growth and employment creation, they are commonly constrained by finance. How to solve their financial constraint is a worldwide problem. (Chen X, et all, 2006).

SMEs are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes. Many firms stay small and informal and use simple technology that does not require great use of national infrastructure. Their smallness also protects them from legal proceedings (since they have few assets to seize on bankruptcy) so they can be more flexible in uncertain business conditions (Kauffmann C, 2005)

Access to and cost of finance is often ranked as one of most constraining feature of the business environment by SMEs .Specifically, the cost of finance is rated by over 35% of small and medium enterprises as major growth constraint in a sample of 71, mostly developing countries, more than any other characteristic of the business environment, including tax rates and macroeconomic instability, also rated by many SMEs as major growth constraints (Beck T, 2007).

Despite the role played by SMEs in poverty reduction in Tanzania, there are serious constraints limiting their growth and thus their contribution to poverty reduction. Apart from macroeconomic problems such as non-conducive working and business environment, non-transparent and complicated legal and regulatory frameworks, SMEs face inadequate markets, low productivity and lack access to capital (Wangwe, 1999)

A number of factors have been identified as the reasons as to why small firms in Tanzania fail to grow .These include corruption, lack of access to credit facilities, capital constraint, government policy, unfavourable economic conditions, people factor/ lack of needed talent, lack of proper record keeping, lack of or improper professional advice and consultation, theft/cheating and lack of trust in doing business, lack of a proper business plan/vision for the business, inadequate education and training and lack of background and experience in the business (Nkonoki E, 2010)

1.2 Statement of the Problem

Access to finance is necessary to create an economic environment that enables firms to grow and prosper. SMEs in developing countries, however, face significant barriers to finance. Financial constraints are higher in developing countries in general, but SMEs are particularly constrained by gaps in the financial system such as high administrative costs, high collateral requirements and lack of experience within financial intermediaries. Increased access to finance for SMEs can improve economic conditions in developing countries by fostering innovation, macro-economic resilience, and GDP growth (World Bank, IFC, 2011)

The financing of small and medium sized enterprises (SMEs) has attracted great interest from academics and policy-makers around the world. SMEs play an essential role in building a competitive private sector and contributing significantly to employment and economic activity. Despite their importance, SMEs seem significantly more financially constrained than large firms, especially in developing countries. Indeed, enterprise-level surveys conducted by the World Bank show that a much smaller share of SMEs has a loan or a line of credit by comparison with large firms, and also that access to finance is relatively more constrained in lower and middle income countries. Other studies using enterprise-level data show that the lack of access to external finance constitutes a major constraint to SME growth (Pearce et al, 2011)

Generally it recognized that SMEs (Small and Medium Enterprises) face unique challenges, which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable development. Lack of Managerial Training and Experience, Inadequate Education and Skills, Lack of Credit, National Policy and Regulatory Environment, Technological Change, Poor Infrastructure and Scanty Markets information, lack of Managerial Training and Experience (http://smenetwork.co.ke: accessed 19/11/2012)

In most previous research done reveal that there is a common identical constraints for SMEs growth in developing countries like Tanzania .Therefore, this study aims at assessing the factors that limit the growth of SMEs in Zanzibar.

1.3 Objectives of the Study

The overall objective of the study is to assess factors limiting the growth of SMEs in Zanzibar West District

Specifically, the study intends to:

i. To determine the internal factors hampering SMEs growth in Zanzibar West District
ii. To determine to what extent financial factors hindering the SMEs growth in Zanzibar West District
iii. To analyze the government initiatives toward SMEs growth in Zanzibar West District

1.4 Research Questions

iv. What are the internal factors hampering SMEs growth in Zanzibar West District?
v. To what extent does the financial factors' hindering the SMEs growth in Zanzibar West District?
vi. What are the government initiatives toward SMEs growth in Zanzibar West District

1.5 Significance of the Study

The significance of this study was basically focused on four areas:

Academician, This research generates and expands existing knowledge about limiting factors for SMEs to grow in Zanzibar and Tanzania through its findings and methodology. This is crucial for supporting all that has been done and is expected to be done concerning factors limiting SMEs growth across most developing countries. Academicians and researchers may also benefit from using the research findings for further investigations concerning Limiting factors for SMEs growth.

Government, The findings of this research was also useful to the Government of Tanzania and Zanzibar to improve and reduce the limiting factors for SMEs as one among the main driver for economic growth of the countries.

SMEs, The findings of this study were useful to SMEs by understanding the strategies to carter out the problem and enhance them to grow well.

Society, The findings of the study benefits the community surrounding the SMEs by understanding the common constraints that limit the SMEs growth in general and employment rate offered by SMEs

1.5 Limitations

Firstly, time-limits on project, the thesis time frames cover approximate seven months only which are not sufficient. The time limits for submission research hinders the researcher to wide up the study and dig deeply and that influence the researcher to focus only on single district of Zanzibar as a case study.

Secondly, in developing countries like Tanzania if you are conducting academic research is difficult to avoid the financial constraints. The researcher can't escape from that, finance hinder even to expand my research across one region of Zanzibar and force the research to be conducted on single district.

1.6 Scope of the Study

This research was focus on identification of the factors limiting SMEs growth in Zanzibar as a part of Tanzania. The research is expected to be much exploratory as the researcher going to find out whether there are any Limiting factors for SMEs growth

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter introduce the literature concerning to the Limiting factors to SMEs growth that some other researcher have done, it include the theoretical review, empirical review and research model that the researcher expect to use in the research

2.1 Theoretical Review

2.1.1 Definition of terms

Enterprises: An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity **(European Union commission, 2003)**

SMEs by International Authors

- SMEs are formal enterprises which have a cut-off range of 0-250 employees (Ayyagari, Beck & Demirguc-Kunt, 2003)
- An SME in South Africa is any business with fewer than 200 employees, an annual turnover of less than R5 million, capital assets of less than R2 million, and the owners are directly involved in the management of the business (Cronje et al., 2001)
- In developing countries a small firms employs between 5 and 9 employees, whilst a medium firms employs between 20 and 90 employees (Quartey , 2001)
- An SME is an entity that is independently owned and operated, and is not dominant in its field of operation (United States of America Small Business Administration ,2004)
- "SME" stands for small and medium-sized enterprises are defined based on number of employees and either turnover or balance sheet the

enterprise owned medium sized – < 250 employees with ≤ € 50 m and for small sized- blow < 50 employees and ≤ € 10 m (EU commissions , 2003)

Tanzanian Context Definition of SME’s

According to Tanzanian Ministry of industry and trade SME’s development policy (2002) pg 3. There is no universally accepted definition of SME. For the context of Tanzania, Small enterprises are mostly formalised undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million.

Category	Employees	Capital Investment in Machinery
Small enterprise	5 – 49	Above 5 mil. to 200 mil
Medium enterprise	50 – 99	Above 200mil.to 800 mil.

Different countries use various measures of size depending on their level of development, for the purpose of my research the above context will be used

2.1.2 Theory of SME’s Growth

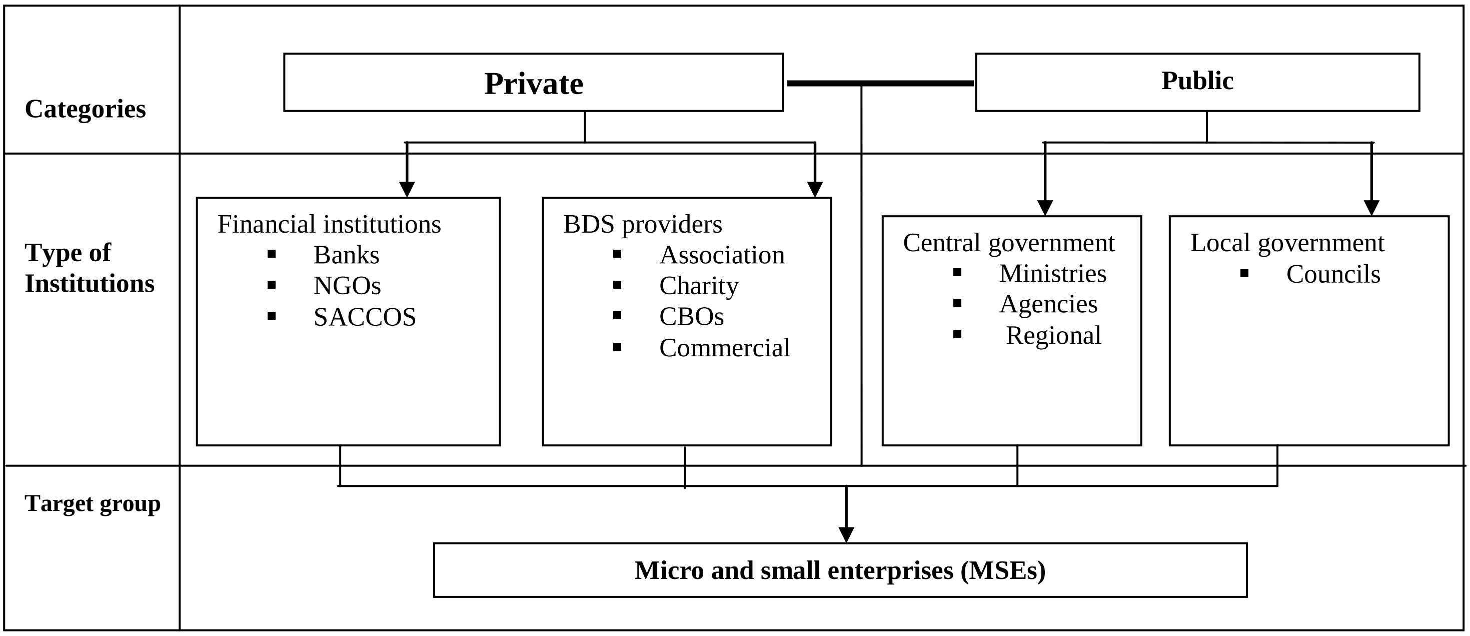
Business growth is typically defined and measured using absolute or relative changes in sales, asset, employment, productivity, profits and profit margin. Sales are a good indicator of size and growth (Olawale F & Garwe D, 2010). One of the problems that occur when looking at different studies of firm growth is the measurement of company growth. When researching the hampering factors for SMEs to grow, it is first necessary to define firm growth. There is no general measurement for firm growth and scholars use various growth indicators when researching the field (Barkham et al., 1996).

2.1.4 Institutional Framework of SMEs in Tanzania

Ministries that are mandated to directly support small businesses include the Ministry of Industry, Trade and Marketing; the Ministry of Community Development, Women and Children, the Ministry of Labour, Employment and Youth Development and the Ministry of Planning, Economy and Empowerment. Other Ministries such as the

Ministry of Agriculture and Food Security, the Ministry of Livestock, and the Ministry of Energy and Minerals are also responsible for MSEs development in their respective sectors. Local authorities were also found to be an important component of the MSE support institutions in the public sector. These authorities were found to be vital in facilitating small businesses through licensing, allocation of space for business premises, health and quality control, setting rules and regulations and policy management (REPOA, 2009)

Table 2.2: Institutional framework of SMEs in Tanzania



Sources: REPOA, 2009

2.1.5 Challenges facing SMEs in Zanzibar

Both in the developing and developed world small firms found to have less access to external finance and to be more constrained in their operation and growth (Galindo and Schiantarelli, 2003). But focusing on different authors who have conduct research on SMEs for Zanzibar side have come up with the following as the dominant challenges hampering SMEs growth in Zanzibar.

Lack of Credit, Lack of access to credit is almost universally indicated as a key problem for SMEs. This affects technology choice by limiting the number of alternatives that can be considered. Access to finance is always mentioned by potential and existing SME's operators as the most serious constraints to business start up or growth. Financial services are not well developed in Zanzibar (Financial Institution are few and less diversified) and with the exception of People's Bank of Zanzibar Limited all other commercial banks are branches of main banks located either in Mainland Tanzania or outside (Zanzibar Economic Bulletin, 2003)

Lack of business skills, This was evidenced by the fact that majority of eighty three percent (83%) respondents had been in business for only three years or less. Lack of experience hampers efforts of CRDB Microfinance to promote enterprise culture because it makes SMEs to be not creditworthy. Another challenge faced by CRDB Microfinance is low level of education among operators of SMEs which because affects provision of training. Another challenge faced by CRDB Microfinance is low rates of loan repayment among SMEs. The study found out that low loan repayment rates are caused by poor credit management skills among SME owners, shorter loan repayment period and poor business management skills (Temba et al, 2010)

National Policy and Regulatory Environment, The national policy and regulatory environment has an important impact on technology decisions at the enterprise level. The structural adjustment programs (SAPs) implemented in many African countries is aimed at removing heavy policy distortions, which have been viewed as detrimental to the growth of the private sector. SAPs tend to severely affect vulnerable groups in the short run and have been associated with the worsening living conditions in many African countries (http://smenetwork.co.ke:accessed 26 Nov, 2012)

Awareness and Capacity, The biggest constraint is limited awareness and capacity of existing and potential business operators, in terms of exposure, values, attitudes, knowledge and skills. The result is that most simply duplicate what their neighbours are doing and do not appreciate the importance of innovation, quality, credibility and customer care, and therefore limit the chance for new employment. To address this problem, there is a need to extend Business Development Services (BDS) through training, advice and other support (Zanzibar Economic Bulletin, 2003)

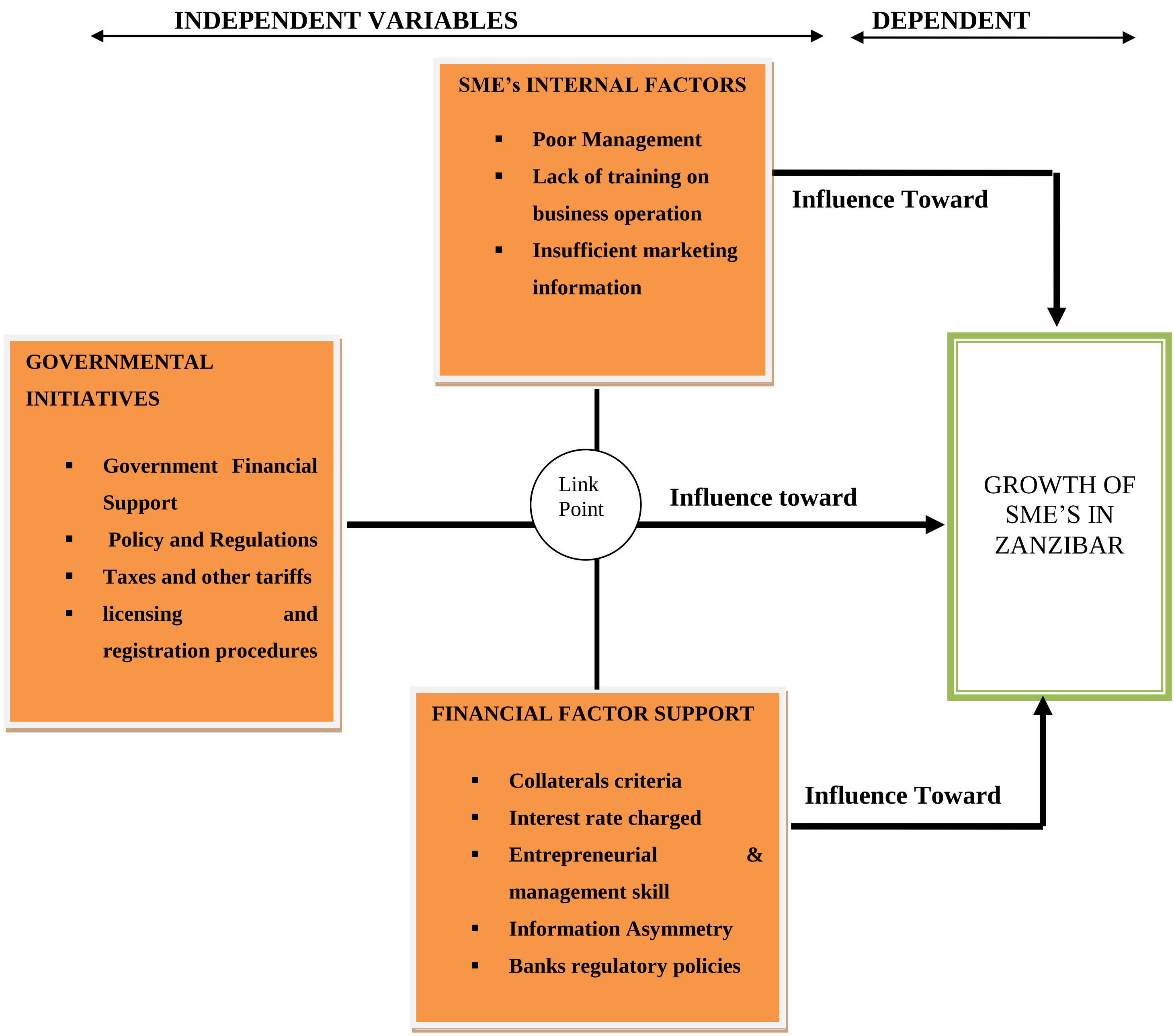
Scanty Markets Information, Lack of sufficient market information poses a great challenge to small enterprises. Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many small enterprises continue to rely heavily on private or even physical contacts for market related information. This is due to inability to interpret the statistical data (http://smenetwork.co.ke:accessed 26 Nov, 2012)

Technological Change, Change of technology has posed a great challenge to small businesses. Since the mid-1990s there has been a growing concern about the impact of technological change on the work of micro and small enterprises. Even with change in technology, many small business entrepreneurs appear to be unfamiliar with new technologies. Those who seem to be well positioned, they are most often unaware of this technology and if they know, it is not either locally available or not affordable or not situated to local conditions. Foreign firms still remain in the forefront in accessing the new technologies

2.1.6 Research model

The research model was focus on four variables, independent variables which base on private sector, government sectors and banking sectors supports toward the growth of the SMEs in Zanzibar. The dependent variable of the research would be growth of SMEs in Zanzibar as describe in conceptual model below:

Figure 2.1 Conceptual Framework of the research



Sources: Researcher model, 2013

2.1.6 Research Model Variables.

2.1.6.1 Internal factors

These are factors in a firm's environment that are largely controllable by the firm. The internal environment includes factors such as finance (especially internal finance such as owner's equity contribution and collateral), managerial competency of the owner, location, investment in information technology, cost of production and networking (Cassar, 2004).The internal factors that affect most SMEs internally include:

- **Poor Management:** Managerial competencies are sets of facts, skills, behaviours and approaches that contribute to individual usefulness. Managerial competencies are very significant to the continued existence and enlargement of new SMEs. Lack of education and training has concentrated management aptitude in new firms in Africa. This is one of the reasons for the low level of entrepreneurial formation and the high collapse rate of new business enterprises (Olawale, 2010)
- **Lack of training on business operations:** The lack of general official training stipulation has been recognized as a trouble competent of destructive the growth probable and competitiveness of SME sector (Oswald Jones, 2003). It is clear that a training and enduring learning ethnicity is critical to knowledge-based industries and to district economic growth. Having well accomplished and malleable personnel is important to economic progress, thus ensuing in money-making funds for organizations in their human wealth. SMEs carry on to have concerns regarding attracting extremely skilled quality workforce and in rotate SMEs have recognized verdict skilled team as a blockage to grow the size of their staff (Hunt, 2008)
- **Insufficient marketing information:** Marketing Information is very important factor to the SMEs. A research has been conducted by Cacciolatti, Fearne, and McNeil (2011) indicated that SMEs that make good use of structured marketing information presented a higher probability of growth. The result also indicates that there is a significant positive relationship

between use of marketing information and performance of SMEs. This result is supported by studies carried out by Keh et al.,(2007) and Cacciolatti et al., (2011), where they found that the good use of marketing information by the organization can lead to a higher probability of growth and enhance the competitiveness as well as a better decision making process

2.1.6.2 Financial Factors

Access to finance for SMEs is an important factor for company growth (Beck and Demirguc-Kunt, 2006). All businesses require financial resources in order to start trading and to fund growth. Lack of access or availability can be a constraint on business growth (Cassar, 2004). The role of finance has been viewed as a critical element for the development of small and medium-sized enterprises. SMEs have difficulties in securing adequate finance which is mainly due to a lack of collateral and the banks' reluctance to finance their operations. The cost of financing SME operations is very high in terms of the interest rates that they pay at credit institutions (Zindiye S, 2008)

Access to equity and finance is a major constraint to SME growth in many developing countries. The existing structure of financial sector only serves large enterprises and commercial banks usually apply conservative policies while lending to SMEs. Majority of the banks consider lending to SMEs an unattractive venture due to a range of factors including information asymmetries and consequently high transaction costs, collateral requirement, financial products not meeting SME sector requirements in medium to long-term (Mahmood S,)

In the finance industry, it is argued that there are a few things that arise making it hard for entrepreneur(s) to be able to have access to proper financing. These things are such as collateral constraint, inadequate business plan, state of the economy and bureaucratic procedures in applying for loans/finances. Collateral constraint and bureaucratic procedures being cited mostly as major factors; these constrain the attainment of funding from financial institutions (Kuzilwa J.A 2005)

- **Collateral Criteria:** While the provision of collateral enables many businesses to secure debt finance, this approach to SME lending creates difficulties for entrepreneurs who lack suitable assets to offer. In this regard, the primary reason given for rejecting SME loan applications is lack of collateral and own capital contribution (OECD, 2006). The findings of similar studies conducted by Beck (2007); Tagoe *et* a/. (2005) and Abereijo and Fayomi (2005) indicate that lack of collateral is a universal phenomenon restricting SME access to finance.

- **Lack of Entrepreneurial and Management Skills:** There is evidence indicating that SMEs are constrained by a lack of access to finance, the supply of finance is actually constrained by management weaknesses and poorly presented business plans that do not meet the requirements and standards of financiers. This increases the risk perception of lenders and financiers and thus hinders SME access to finance (Malhotra et all, 2006 ,Orford & Wood, 2005).
- **Information Asymmetry:** Information asymmetry, arising from poor accounting records, lack of audited financial statements and inadequate access to SME information from credit bureaus is a major constraint for bank institution to offer finance to SMEs (Bakhas I,2009) Nigrini and Schoombee (2002) define Information asymmetry as a situation whereby prospective financiers and business partners are only partially informed or aware of the prospects of a business venture or opportunity. This situation leads to imperfections in the debt and equity markets, making it difficult for lenders and financiers to assess the quality of business and investment propositions. As a result, providers of finance are unable to quantify the level of risk involved in a particular business or investment opportunity and therefore experience difficulties in offering a discount or interest rate that accurately reflects the level of risk involved (HM Treasury, 2003)

2.6.1.3 Government Initiatives

The development of small and medium enterprises (SMEs) and changes over time in their structure (e.g. employment and output shares, output composition, market orientation, and location) are usually thought to be related to many factors, including the level of economic development and government promotion programs (Tambunan T, 2008). Baumol 1990, argue that the main limiting factors under government include unsuitable tax system and various discriminatory legal regulations can represent a severe burden for SMEs in many countries Complicated laws, rules and regulations concerning companies can be especially tough on small and growing companies. Over-regulation of the company sector in market economies provides an incentive for entrepreneurs to seek ways to evade regulations leading to the growth of the grey economy.

- **Taxation Issues:** High tax rates are one of the major reasons for firms to drift into the informal economy. This holds for countries all over the world, including developed countries. These effects are compounded by high compliance costs for small firms to deal with tax laws and other forms of government regulation. This is a specific size-related disadvantage compared to large scale firms which have not only the necessary accountants, but frequently also in-house tax and legal advisors. Compliance costs have monetary implications (such as paying tax advisor fees or salary payments to personnel dealing with tax issues), time cost implications (in the form of time spent by a taxpayer to handle tax issues), and physiological cost (in terms of anxiety, stress, and apprehensions related to possible mistakes or a possible audit by the tax authorities (SMEDA,2007). The fact that small businesses are characterized by financing constraints and have less access to bank loans is often emphasized as an argument in favour of a special tax treatment for small enterprises. On the one hand, however, the evidence that SMEs suffer severe financing constraints is not overwhelming; on the other hand, tax relief for SMEs is not necessarily the best response to financial market imperfections (Manzo, M. 2011)

- **Government Financial Support**. Direct government support of SMEs will help countries exploit the social benefits from greater competition and entrepreneurship. SME support frequently claim that SMEs are generally more productive due to their ability to specialize in special-niche areas compared to large firms, but financial market and other institutional failures impede SME development. Direct government financial support to SMEs can boost economic growth and development (Zindiye S, 2008). SME lending environment favours borrowers with collateral rather than those with viable business projects. This obviously poses a serious problem, particularly for start ups and other relatively young enterprises. In response to this constraint, governments around the world have resorted to providing credit guarantees in order to facilitate and enhance SME access to finance. While differences of opinions exist as far as the operational effectiveness of credit guarantee schemes are concerned, a number of studies reveal that government credit guarantee schemes is an important policy measure as it improves access to finance for SMEs (OECD, 2006)
- **Licensing and Registration Procedures**: The responsible authorities for business formation have a duty to simplify and minimise procedures and registration bureaucracy for establishing new entrepreneurial ventures (Zindiye S, 2008).Unnecessarily long procedures and regulations, red tape in business licensing and registration affect most of the SMEs in developing countries , Although licensing has been simplified and streamlined by the central government in Tanzania, local government officials want to maintain the old system especially when it concerns shops and other businesses located in rural areas (ESRF, 2006). It is recommended to simplify and standardise procedures, including business registration and licensing. Also there is a need for regulations to strengthen SME access to raw materials and other inputs controlled by monopolistic suppliers. Facilitation of feasible avenues of legal assistance that could help levelling the playing fields for SMEs, with particular attention to women and young entrepreneurs must be also supported (Calcopietro C, 1999)

- **Policy and Regulations:** In most developing countries the policies concerning SME's are there but they aren't really benefiting the majority in developing countries. In Tanzania the government has discovered the importance of small firms in boosting the economy and therefore it has an SME reform policy. In this policy the main aim is to provide government support promoting growth to SME's in the form of loans at subsidized interest rates, free or subsidized information and advice, ensuring smaller firms get shares of government contracts and so on and so forth

2.2 Empirical Review outside Tanzania

Empirically different authors has come with different view concerning factors limiting the success of the Small and medium enterprise across the world. Chittithaworn C et all (2010) on Factors Affecting Business Success of Small & Medium Enterprises (SMEs) in Thailand come up with only 6 factors namely Characteristics of SMEs, Management and know-how, Products and Services, The Way of Doing Business and Cooperation, Resources and Finance and External. Olawale and Garwe (2010) argue that the failure rate in South Africa for SMEs to growth is 75% compare to other countries in the world, they dive the failure cause into internal and external; Internal-Access to finance, Management skills, Location and networking, Investment in information technology and cost of Production, External - Economic variables and markets, Crime and corruption, Labour and infrastructure and regulations. While certainly there are growing number of SMEs on the African continent, the environment that these are born into and nurtured in, varies greatly include Lack of credit access, lack Government support, difficult regulatory environments, institutional barriers, excessive regulation and red-tape, regulatory environments, poor infrastructure (Consultancy Africa Intelligence, 2012). Dalberg (2011), come with specific challenges on survey conducted from Ghana, Kenya, Tanzania, and South Africa that Management capacity (especially financial), Access to finance: High interest rates, Access to markets, People and training, and business environment as the main challenges that hinder growth. Grimsholm, E. and Poblete, L (2010) in their thesis of Internal and External factors hampering SME growth highlight the main hampering factors as Laws and regulations , Financial support, Business location, Competition Effects of globalization , Competence of management and employees, Technical barriers to trade , Technology , and Research and development (R&D). In Zimbabwe, the SME sector has faced a variety of constraints that hinder its growth and development. The principal areas of concern affecting the development of the SME sector identified by various studies include (Zindiye,2008): Limited access and cost of finance; Lack of marketing skills and market knowledge; Inadequate management and entrepreneurial skills; Lack of access to infrastructure; Lack of access to land; Lack of information; and A hostile regulatory environment

2.3 Empirical Review inside Tanzania

In Tanzania there is several research that has been conducted concerning the factors limiting the SMEs growth, one of them is Nkonoki E (2010) on his study conducted in Dar es salaam observed two main factors as the barriers to growth of the SMEs.

Internal factors -These factors can be impacted by the decisions made in the firm either by the entrepreneur(s) or the staff in the firm : Lack of motivation and drive, Lack of background and experience in the business , Capital constraint, Lack of a proper business plan/vision , Theft/cheating and lack of trust in doing business , Poor management , Running informal/unregistered businesses , Lack of proper record keeping , Inadequate education and training , People factor/lack of needed talent, Improper professional advice and consultation .

External factors; Limiting small firm growth, These factors have to do with decisions, rules and policies that affect a small firm directly, and in response the firm has not really control over the decisions made but an influence to a change of their existence is possible. These factors originate from outside the firm. Corruption, Competition, Government policy, Technological barrier, In access to finances/funding, Bureaucratic processes, Unfavourable economic factors. Tanzania Chamber of Commerce Industry and Agriculture (2012) come with the dominant challenges face SMEs in Tanzania including resources, Finance, Regulations, Training, and Infrastructure. Zanzibar economic bulletin(2003) argue that Despite the immense opportunities for developing Micro, Small and Medium Enterprises, almost all have remained informal or semi-formal, serving the low income segment of the population for which there is very stiff business competition. Their access to formal market and incidence of upward mobility is quite limited. There are many reasons for this state of affairs. This include limited awareness and capacity of operators, limited access to financial and other support services and absence of enabling business environment in terms of legal and regulatory frameworks .

According to Unite Nation Industrial Development Organisation report (1999), the constraints that hamper the development of a vibrant SME sector in Tanzania can be summarised in five main categories: the macro-economic and policy environment ; physical and technological infrastructure (lack of appropriate business premises ,support from technology development institutions, and lack of quality standards control); the banking and finance structure (SME financing window, lack of a guarantee scheme, low capability of borrowers to prepare and present applications, widespread perception of a high risk of business failure of small enterprises,): the legal and regulatory framework (procedures for
Registration and licensing, High tariffs and tax), and the marketing capabilities and associated linkages (Lack of access to market information, little linkage between SMES and large enterprise) (UNIDO, 1999).

On the study of failure or Success of the African SMEs, case study of UWAZI cooperation in Zanzibar, the author Oscarsson M, (2007) when analysing Lussiers business model and Robertson’s criteria for success/failure in comparison of UWAZI cooperation conclude that Lack of enough Capital, Poor Record keeping and financial control, Lack Industry experience, lack Management experience, Poor planning, Lack of Professional advisors, lack of Education, Poor Product/Service Timing, wrong Economic Timing, lack of Partners and Lack of marketing skills as a main challenges that lead most African SMEs failure to grow

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

In this chapter, the researcher provides a brief explanation on how the study has been conducted. The chapter therefore includes the research design, source of data, area of the study, target population, sample size, sampling techniques, and data collection methods and data analysis.

3.1 Area of the Study

The study was carried out in West District of Zanzibar. This district was purposely selected as a representative sample of Small and Medium Enterprises (SMEs) based on the following reasons. The researcher was able to reach with minimum problem. Also is among the district in Zanzibar having high imaging rate of SMEs compare to other district and such kind of research have not be done compare to other district in Zanzibar.

3.2 Research design

In conducting this study the researcher used a survey research design. This type of design is selected by the researcher basing on the truth that, the field study was conducted in a natural setting of community, the study cover very large population of Zanzibar west district and also the study involve an extensive (wider sample) study.

3.3 Sampling Techniques

The researcher use simple random sampling to obtain the representatives respondent for the questionnaires and interview guide.

3.3.1 Simple Random Sampling

This type of sampling was used to select the respondents to answer questions in the questionnaire and those personally to be interviewed by the researcher. In order to perform a simple random sampling a sample frame was constructed basing in the study area. The list of registered SMEs' in the study areas was generated from the selected SMEs obtained from Ministry of Trade Industry and Marketing for Zanzibar west district areas. The list of 41 SMEs was selected randomly from the list obtained. The SMEs included in the control group was those SMEs concerned for profit and non profit. The reasons behind to use this sampling method include; obtaining the more precise estimators and easiness of calculating sampling errors.

3.4 Sample Size

Data collection was done on the SMEs, Banking Institutions and some specific Government Ministries. 41 SMEs Leaders across the West district of Zanzibar was interviewed base on simple random sampling frame work that was obtained and 41 questionnaires were distributed to come up with representative data.

3.5 Types of Data Collected

3.5.1 Primary Data

For the purpose of this study, primary data was gathered mainly through a questionnaires and interview was administered to a different response but purposively with the required information. These data was more emphasized as it increases the validity and reliability of data collected.

The researcher use mainly an open-ended interview and questionnaires that were distributed to different respondents

3.5.2 Secondary Data

The researcher use mostly the secondary data from SMEs academic journal obtained from different website like www.sme.org/journals-and-research-publications and other website. Articles from Ministry of Trade, Industry &Marketing of Zanzibar like SMEs challenges and policy reform for Zanzibar, One of the benefits that researcher was obtain using secondary data is that it saves time and cost for the researcher since the researcher uses existing information. Another major advantage of this process is that it serves as guide and aid on how to conduct the research.

3.5.3 Interview Technique

The Interview was conducted with government officials, officials from microfinance institutions and some of the heads of SMEs. Interviewer meets the participant in a place convenient for them. The interviews last for about one hour and answer from interviewee were recorded using short notes. Interview was conducted to facilitate data collection and minimize biasness that could be encountered in other methods. (See appendix)

3.5.4 Structured Questionnaires

A questionnaire was used to collect information from SME's. A researcher developed several structured questionnaires to obtain survey data from the SMEs members and other private sectors that foster the growth of SMEs in Zanzibar. This method assists the researcher to obtain primary data from the respondents. The nominees were those with some knowledge on factors that limit SMEs growth in Zanzibar. (See appendix)

3.5 Research quality issues

Before data entry, examination of validate of the research was done to ensure content validity and reliability**.**

Validity: To ensure validity study apply the triangulation technique by using interviews, questionnaires and secondary data analysis concurrently and this was done through piloting of the data collection instruments used to collect data. The data collection instrument was designed in such a way that they measure attitudes and opinions of respondents towards factors limiting growth of SMEs. Issues developed from conceptual framework were compared with issues obtained during interview and answers obtained from questionnaires so as to ensure construct validity

Reliability: Data reliability is a cornerstone of making a successful and meaningful study. In order to collect reliable data, the researcher designed the interviews and questionnaires through an elaborate procedure which involved a series of revisions under the guidance of the study supervisors to ensure that fieldwork was conducted by use of high quality data collection. Also quotes from interview and statement from questionnaires were used as references to ensure reliability.

CHAPTER FOUR
PRESENTATION OF FINDINGS

4.0 Introduction

In this chapter, data were presented in professional ways using SPSS based on the research objectives and research questions. This chapter illustrates the accumulation of results obtained from the questionnaires. The questionnaires were personally administered to the Small and Medium Enterprises (SMEs) in the sample chosen from the population of firms in the study area. Variable numbers were allocated to each question and its components in the questionnaire, so that responses can be grouped into a limited number of categories.

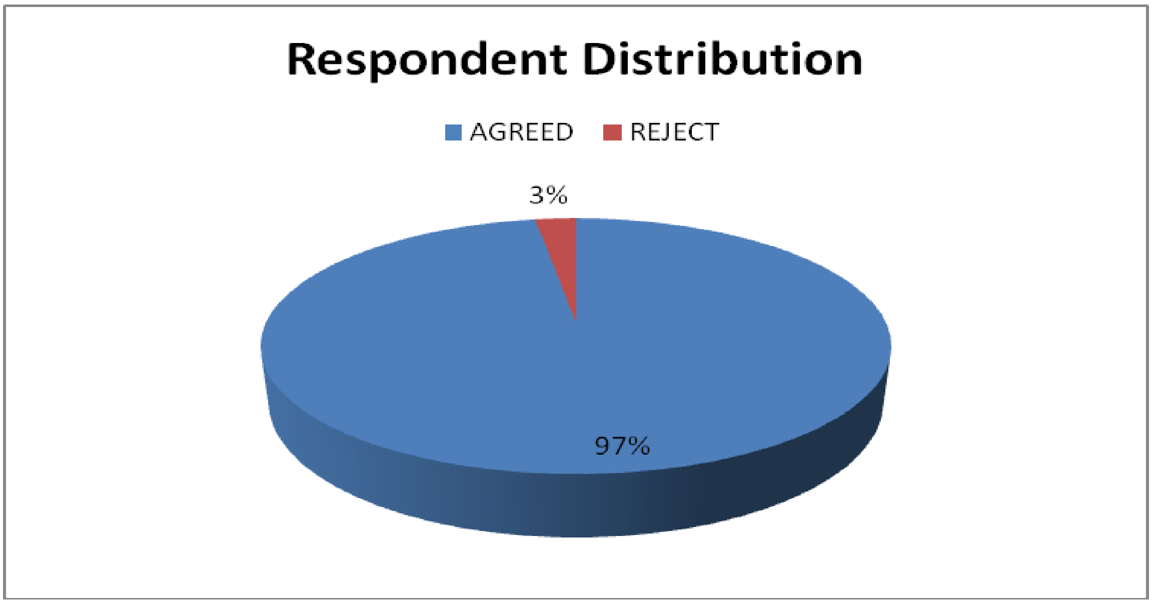
4.1 Demographic Section

This section identified and discussed demographic factors related to SMEs in West district of Zanzibar, The respondents answered on behalf of the enterprises aspects related to the enterprises such as respondent, nature of their enterprises,
Number of employees; Estimate Annual Revenue and source of capital of the respondent will be discussed in this section.

4.1.1 Status of respondents

The study categorizes respondents based on enterprises (Small and medium) across the West district of Zanzibar. 41 SMEs were drawn randomly in sampling frame of 369 SMEs found in West district. The study got 40 respondents out of the 41 who agree to fill in the questionnaire.

Figure 4.1: Responses on the status of the respondents



Source: ***Survey Data (2013)***

4.1.2 Number of employees

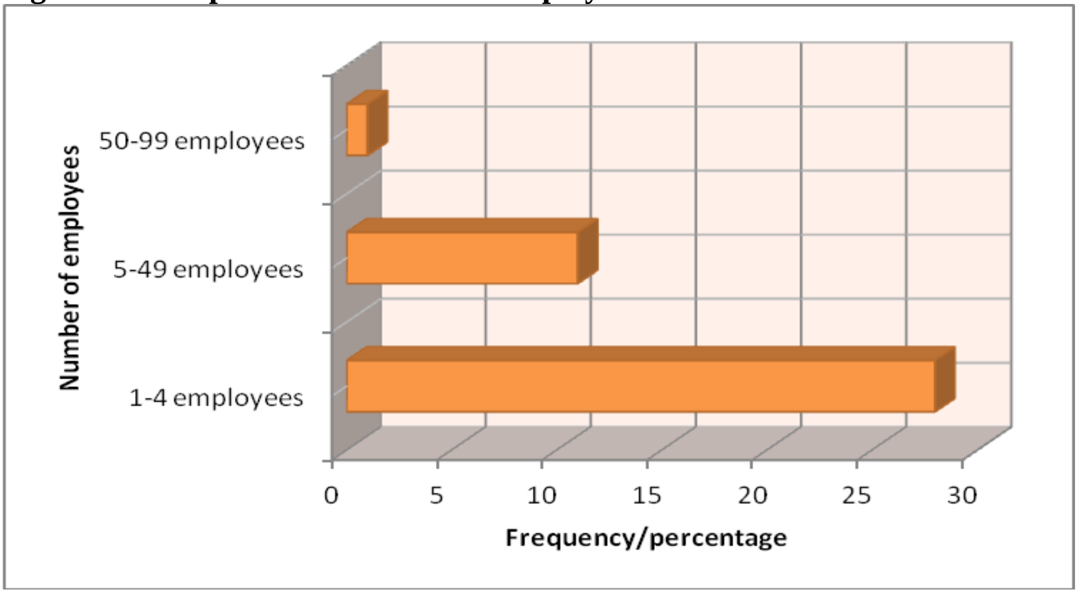
Analysis of data gathered shows that seventy percent (70%) of respondents equivalent to 28 SMEs are operated by 1 to 4 employees, 27.5 % of respondents indicate that their enterprises are operated by 5 to 49 employees and only on enterprise (2.5 %) is operated by more than 50 employees. This indicates that most of the SMEs available in Zanzibar West district are in small enterprises base according to international definition of SMEs.

Table 4.1: Responses on number of employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-4 employees	28	70.0	70.0	70.0
	5-49 employees	11	27.5	27.5	97.5
	50-99 employees	1	2.5	2.5	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.2: Responses on number of employees



Source: ***Survey Data (2013)***

4.1.3 Source of Capital

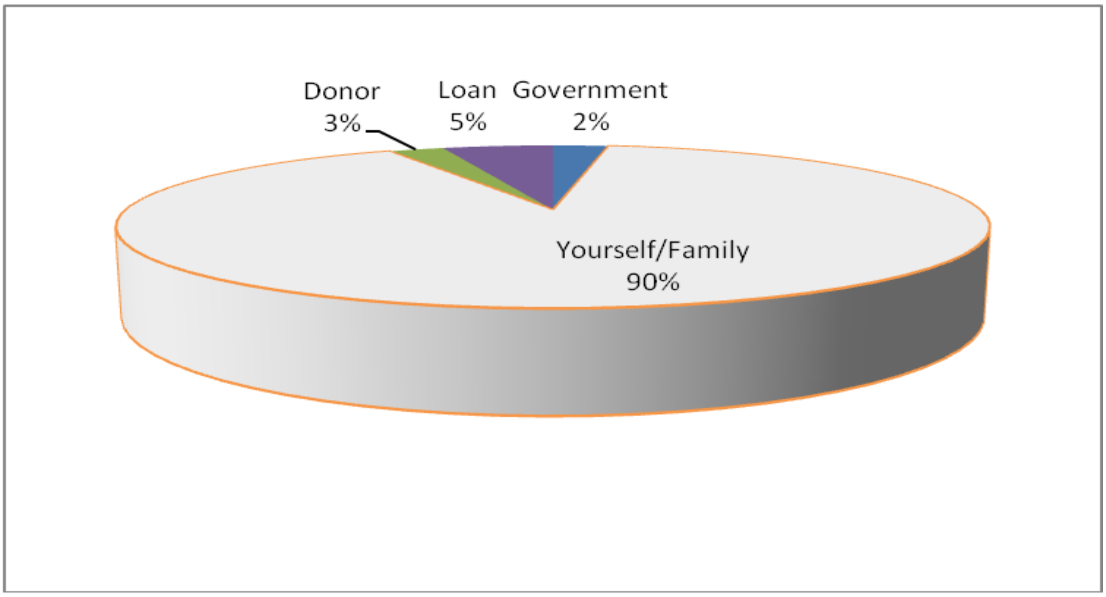
Ninety percent 90% (36) of the respondents indicated that the SMEs in the Zanzibar West district are financed by their own capital. This result concurred with the study that was conducted in Cyprus by Bruce *et al*. (1998) which showed that more than eighty percent (80%) of small manufacturing enterprises are family operated or managed. It also found that ten percent (10%) 4 of SMEs in Zanzibar West district are financed by Government or Financial Institutions which is enough evidence that among the internal factors which hinder the growth of SMEs is source of capital in which most of SMEs are financed themselves.

Table 4.2: Responses on source of capital for SMEs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Government	1	2.5	2.5	2.5
	Yourself/Family	36	90.0	90.0	92.5
	Donor	1	2.5	2.5	95.0
	Loan	2	5.0	5.0	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.3: Respondent status of Sources of Capital



Source: ***Survey Data (2013)***

4.1.4 Nature of their enterprises

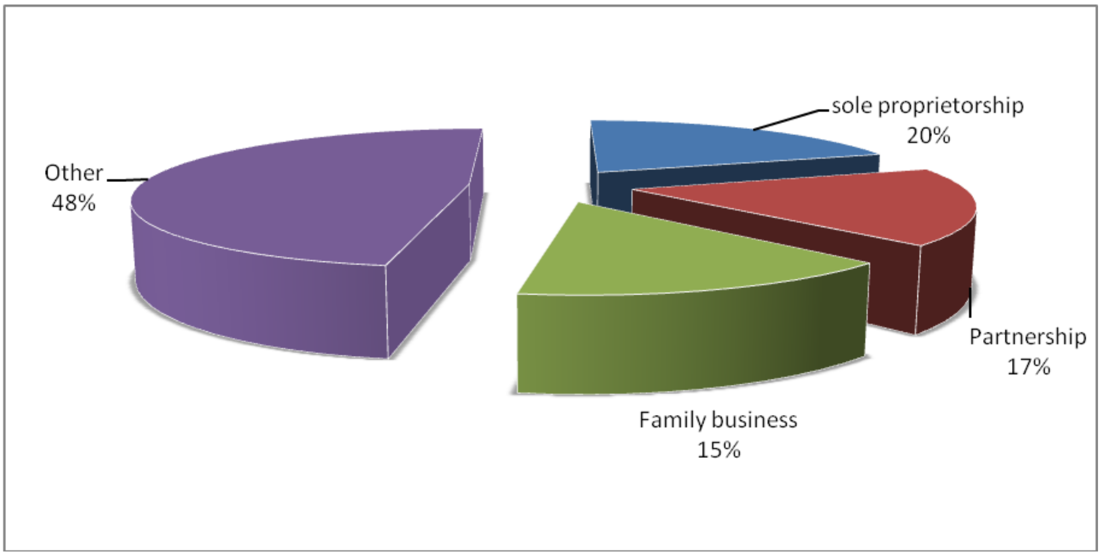
Forty seven point five percent (47.5 %), 19 are in other form of legal status, twenty percent (20%), 8 of SMEs are sole proprietorship in nature, seventeen point five percent (17.5 %), 7 are in partnership nature, fifteen percent (15 %) 6, are family business over 40 surveyed . This result indicates that most of SMEs in Zanzibar West district follow other legal like private company and close cooperation in forming their enterprises.

Table 4.3: Responses on Nature of their enterprises

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	sole proprietorship	8	20.0	20.0	20.0
	partnership	7	17.5	17.5	37.5
	Family business	6	15.0	15.0	52.5
	Other	19	47.5	47.5	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.4: Nature of their enterprises



Source: ***Survey Data (2013)***

4.2 Internal Factors Affecting SME's Growth in Zanzibar

The questions in this section answer the first objective of the research which examine the internal factors hampering SMEs growth in Zanzibar west district

4.2.1 Poor Management

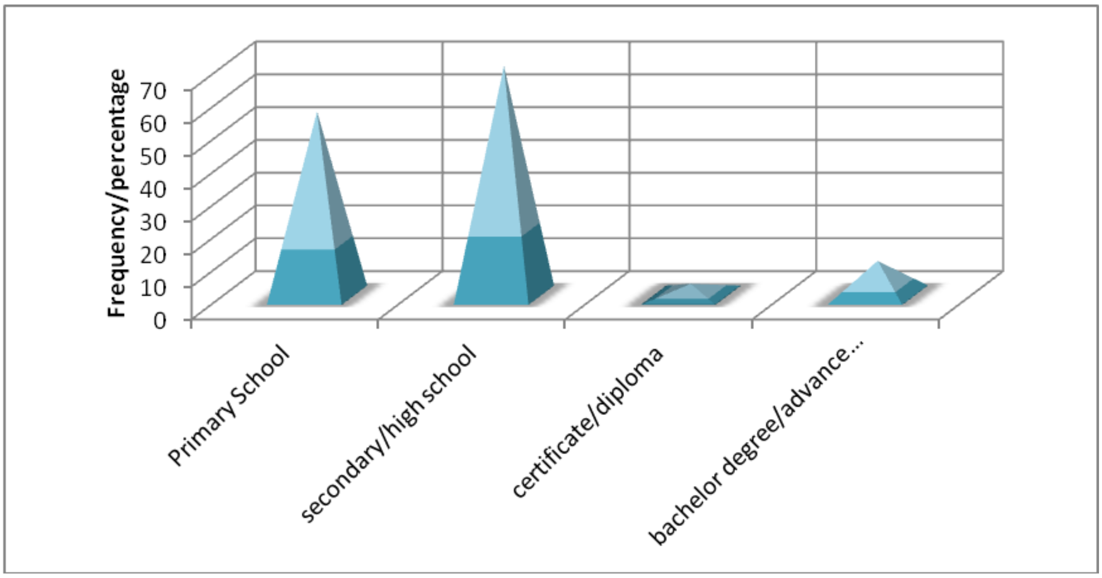
The analysis shows that the majority of the respondents have primary and secondary education level; fifty percent (50%) have secondary education and forty percent (40%) of the respondents have primary education. This indicates that majority of SMEs owners have inadequate education to manage effectively their enterprises. The study shows that only seven point five percent (7.5%) have degree and two point five (2.5%) of the respondents has Certificate/Diploma.

Table 4.4 : Responses on Education level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary School	16	40.0	40.0	40.0
	secondary/high school	20	50.0	50.0	90.0
	certificate/diploma	1	2.5	2.5	92.5
	bachelor degree/advance diploma	3	7.5	7.5	100.0
	Total	40	100.0	100.0	

Source: ***Survey Data (2013)***

Figure 4.5: Education level



Source: ***Survey Data (2013)***

4.2.2 Lack of Training on Business Operations.

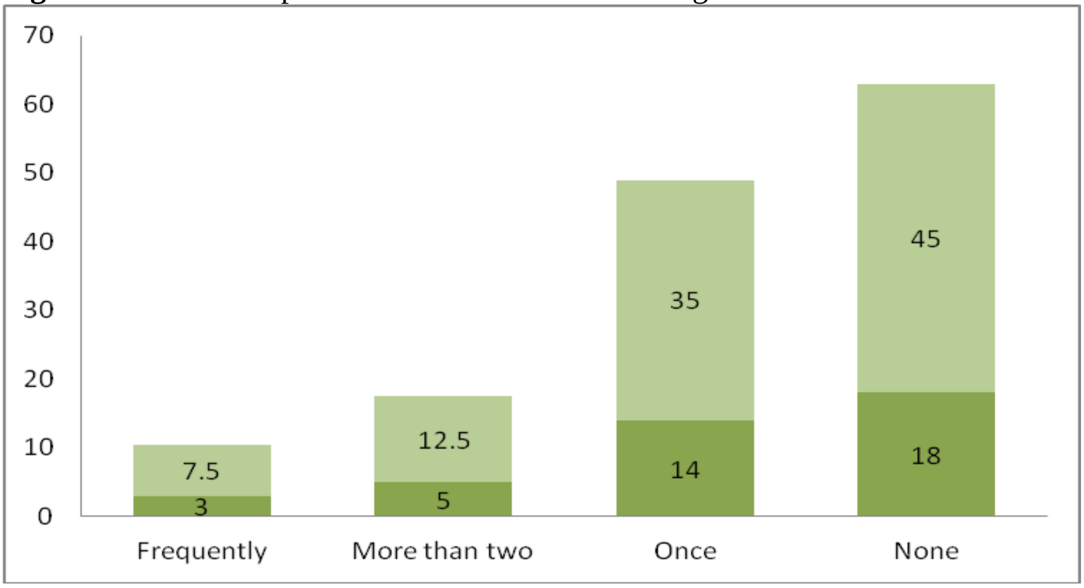
Forty five percent (45%) of the respondents show that they did not attain any training per year, 35% of the respondents show that they attend only one training per year,12.5% of the respondents attend more than two seminars per year and only 7.5 % of the respondents attend frequently seminar of training. Generally the analysis show that most of the SMEs in west district of Zanzibar lack frequently training. This result was supported by the interview done with the official from ministry of Trade, Industry and Marketing that “*The government provide mostly training on marketing skills, production skills, packaging skills, agribusiness skills, training on preparation of action planning but mostly for registered SMEs only*”.

Table 4.5: Responses on Seminars and Training

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Frequently	3	7.5	7.5	7.5
	More than two	5	12.5	12.5	20.0
	Once	14	35.0	35.0	55.0
	None	18	45.0	45.0	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.6: Status responses on Seminars and Training



Source: *Survey Data (2013)*

4.2.3 Insufficient marketing information

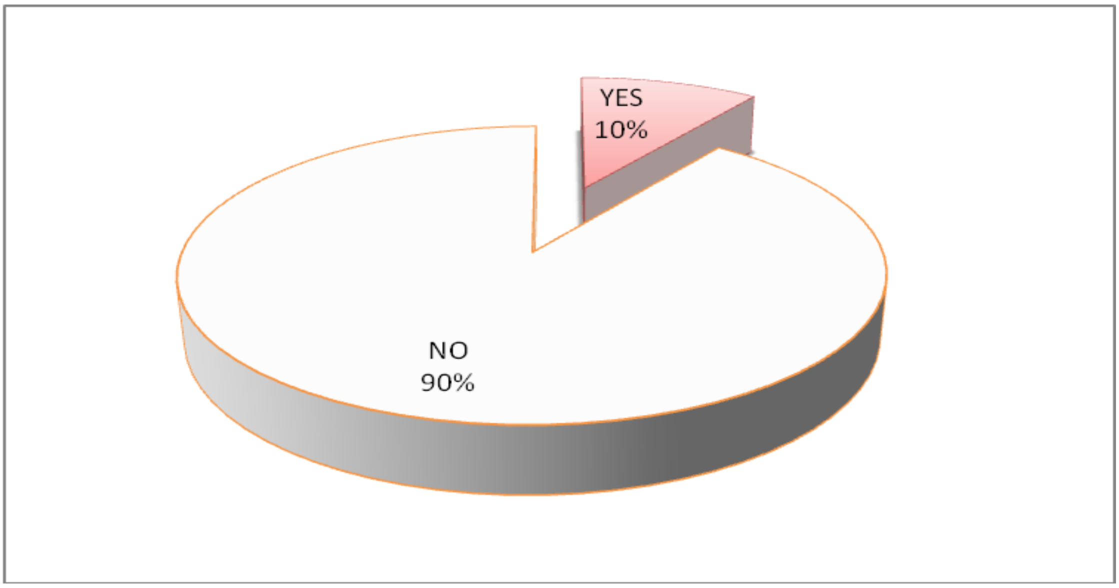
The analysis show that ninety percent (90%) of the respondents did not get enough marketing information concerning their business which is one among the critical problems for most SMEs in developing countries. Also the findings shows that only ten percent (10%) of the respondents obtain enough marketing information concerning their business as shown in table 4.6 below. This indication is sufficient evidence to show that lack of marketing information is still a critical problem to SMEs available in Zanzibar West district.

Table 4.6: Responses on Marketing Information

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	YES	4	10.0	10.0	10.0
	NO	36	90.0	90.0	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.7: SME's responses on Market Information



Source: ***Survey Data (2013)***

Furthermore the researcher went deeply to know the means that SMEs in West district of Zanzibar use to obtain the marketing information, it was observed that most of the SMEs are far away from using modern technology like internet to obtain the marketing information concerning their business. Only 2.5% use the internet technology, 12.5 % of the respondents use trade exhibition to obtain the marketing information, 20% of the respondents use media i.e. Local radio and TV to obtain the marketing information and the majority of the respondent they didn't use any technique to obtain the marketing information.

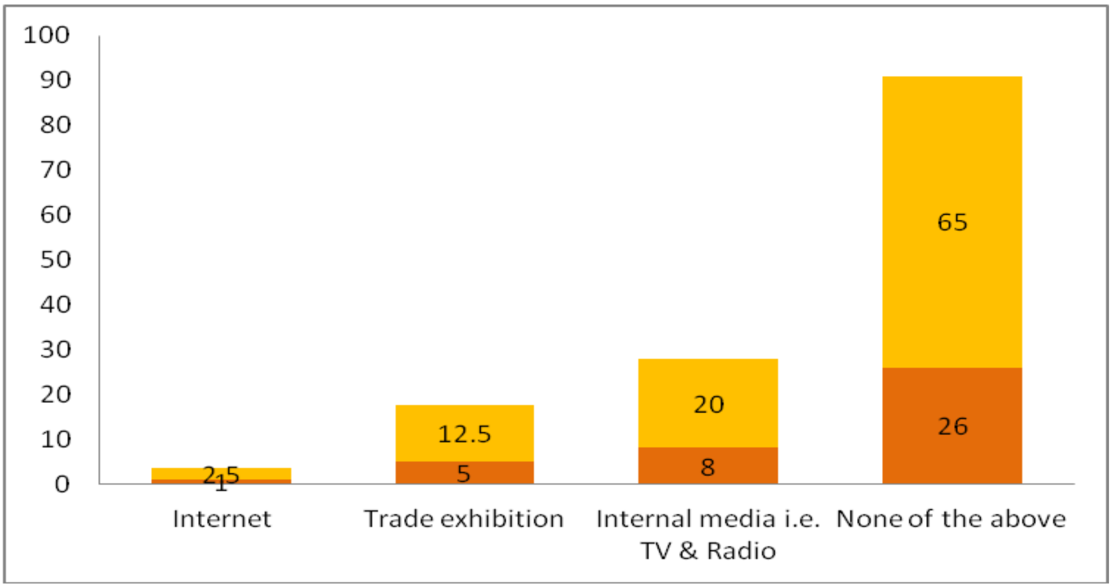
In this case, SMEs lack important market information potential for their growth.

Table 4.7: Techniques used to obtain marketing information.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Internet	1	2.5	2.5	2.5
	Trade exhibition	5	12.5	12.5	15.0
	Internal media i.e. TV & Radio	8	20.0	20.0	35.0
	None of the above	26	65.0	65.0	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.8: Responses on Market Information



Source: ***Survey Data (2013)***

Generally, the respondents interviewed concerning the internal environment affecting SMEs growth, most of them mention the factors as summarised on table 4.8 below.

Internal factors which were raised by the SMEs in West district of Zanzibar are supported by various Studies of ; Nkoki (2010) "What are the factors limiting the success and/or growth of small businesses in Tanzania – An empirical study on small business growth" and research of Oscarsson M, (2007) "On the study of failure or Success of the African SMEs, case study of UWAZI cooperation in Zanzibar, Oscarsson M analyse criteria for success/failure of UWAZI cooperation include Lack of enough Capital, Poor Record keeping and financial control, Lack Industry experience, lack Management experience, Poor planning, Lack of Professional advisors, lack of Education, Poor Product/Service Timing, wrong Economic Timing, lack of Partners and Lack of marketing skills as a main challenges that lead most African SMEs failure to grow".

Table 4.8: Response on internal factors which affect SMEs performance

Response of internal factors from the most to the least factors listed by 40's SMEs interviewed
➢ Lack of experience in the business ➢ Capital constraint ➢ Lack of a proper business plan ➢ Poor managerial capability ➢ Lack of proper record keeping i.e. accounting records ➢ Inadequate education and training (capacity development) ➢ Lack of business professional advice and consultation ➢ Inadequate marketing information

Source: *Survey Data (2013)*

4.3 Financial Factors Limiting SMEs growth in Zanzibar

Among the principal constraints currently affecting the SMEs sector in most developing countries including Zanzibar are limited access to finance and the high cost of finance. This section answer the second objective of this research to determine to what extent financial factors hindering the SMEs growth in Zanzibar.

4.3.1 Collateral Criteria

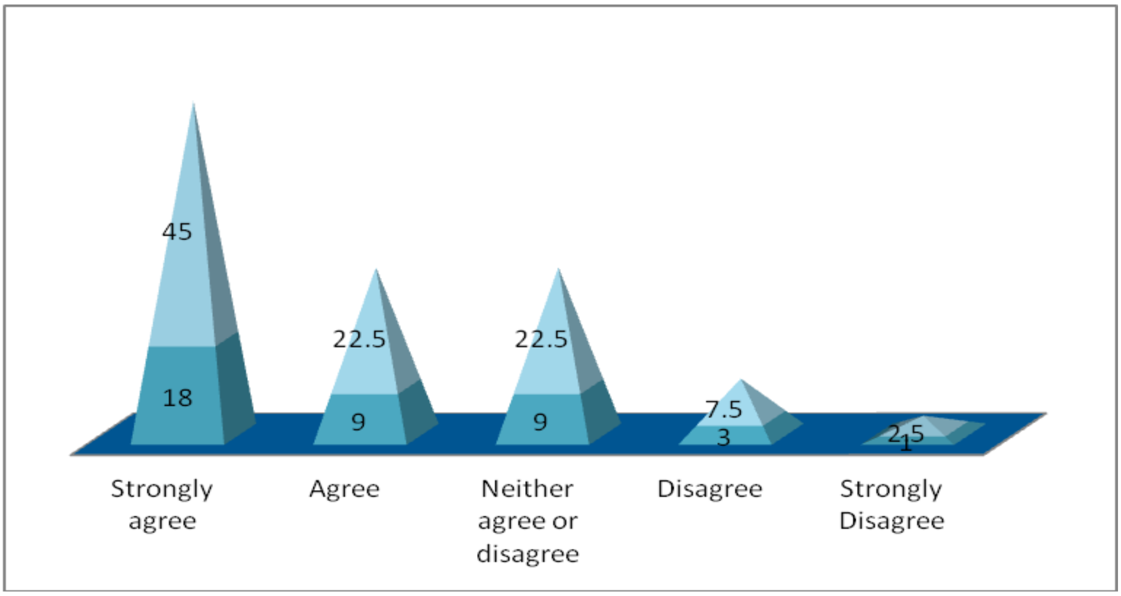
Forty five percent (45%) of the respondents strongly agreed that the existing strict collateral criteria hinder most of SMEs to credit loans from the financial institution/banks i.e. most of the SMEs when asked to elaborate the collateral asked by banks they said concerning permanent asset like land that SMEs to own which is one among the hardest thing for arising SMEs to owned such kind of asset. Twenty two point five percent (22.5 %) of the respondent also agreed concerning the above question, twenty nine percent (29 %) neither agree or disagree and only twenty two point five percent (22.5%) of the respondents disagree that collateral criteria affect the SMEs to credit loans from banks as shown in Figure 4.9 below.

Table 4.9: Responses from respondents on collateral criteria

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	18	45.0	45.0	45.0
	Agree	9	22.5	22.5	67.5
	Neither agree or disagree	9	22.5	22.5	90.0
	Disagree	3	7.5	7.5	97.5
	Strongly Disagree	1	2.5	2.5	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.9: Responses from respondents on collateral criteria



Source: *Survey Data (2013)*

4.3.2 Interest Rate Charged.

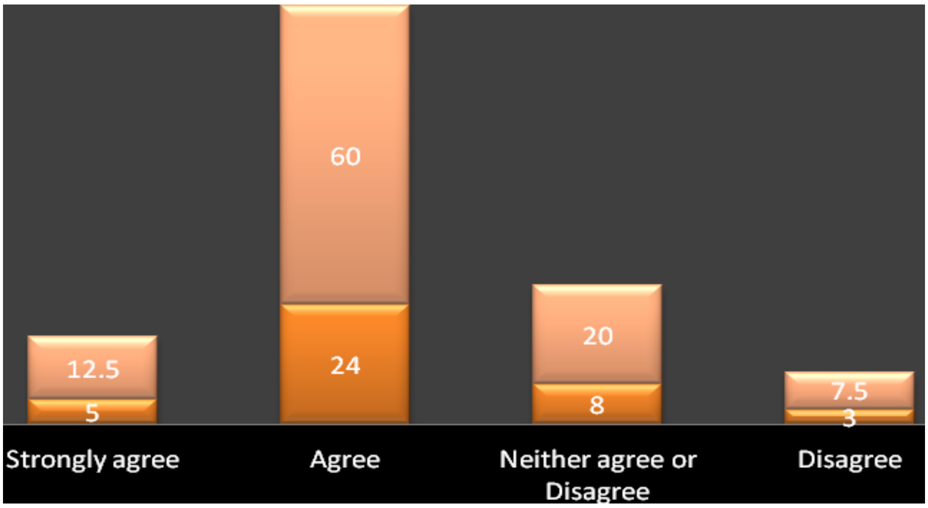
Sixty percent (60 %) of the respondent has agreed that banks and financial institutions charge high interest rate on the loan credited to the SMEs which make most of them t fearing to borrow loan from the Banks. Twenty percent (20%) indicated neither agree or disagree that Banks charged high interest rate for loan borrowed by the SMEs in Zanzibar West district and only seven point five percent (7.5%) of the respondents disagreed that banks charge high interest rate. The above findings concludes that most SMEs fail to borrow loans from the banks due to high interest rate charged by banks to those loans. There fore, SMEs remain with limit capital that fail to expand their business and compete effectively.

Table 4.10: Responses from respondents concerning the bank/financial interest rate charged to SMEs.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	5	12.5	12.5	12.5
	Agree	24	60.0	60.0	72.5
	Neither agree or Disagree	8	20.0	20.0	92.5
	Disagree	3	7.5	7.5	100.0
	Total	40	100.0	100.0	

Source: Survey Data (2013)

Figure 4.10: Responses from respondents concerning the bank/financial interest rate charged to SMEs



Source: Survey Data (2013)

4.3.3 Entrepreneurial & Management Skills of SMEs.

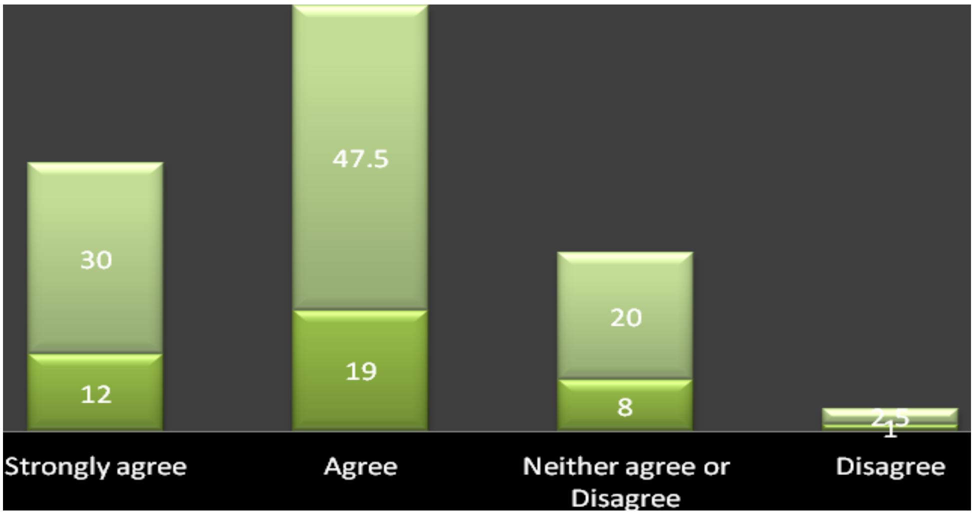
Forty seven point five percent (47.5%) of the respondents agreed that lack entrepreneurial and management skills of majority SMEs located in Zanzibar West district is the one among the main reasons of not being given Loan by banks because banks fear that the SMEs can fail to return the loan on one way or another especially due to lack of competence in managing their business operations. Thirty percent (30%) strongly agreed and twenty percent (20%) of the respondents remain neutral. Therefore, SMEs become less innovative and aggressive to their business by doing business only with experience.

Table 4.11 : Response on respondents on Poor Entrepreneurial & Management Skills

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	12	30.0	30.0	30.0
	Agree	19	47.5	47.5	77.5
	Neither agree or Disagree	8	20.0	20.0	97.5
	Disagree	1	2.5	2.5	100.0
	Total	40	100.0	100.0	

Source: Survey Data (2013)

Figure 4.11: Response on respondent on Poor Entrepreneurial & Management Skills



Source: *Survey Data (2013)*

4.3.4 Information Asymmetry

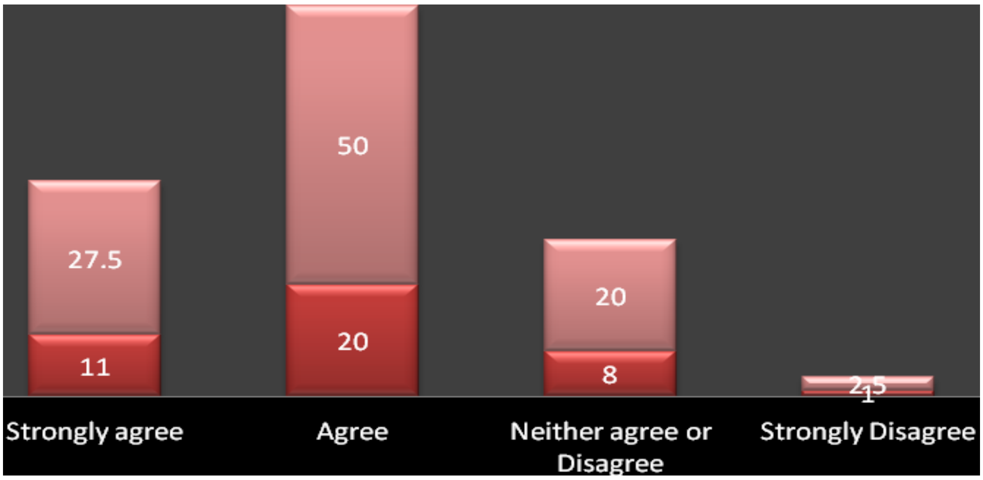
Twenty seven point five percent (27.5%) of the respondents strongly agree that information asymmetry is one among the critical factor which make SMEs to lack loan from banks and financial institutions, fifty percent (50 %) of the respondents totally agreed that information asymmetry is a dominant factor which make SMEs to lack qualification of borrowing loan from Banks and twenty percent (20 %) has neither agree or disagree that information asymmetry can be one of the reason or not. Two point five (2.5 %) of the respondents were strongly disagreed. The above results is an enough evidence to conclude that among the critical factors which make SMEs to lack loan from banks is information asymmetry.

Table 4.12:Response from respondents on Information Asymmetry

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	11	27.5	27.5	27.5
	Agree	20	50.0	50.0	77.5
	Neither agree or Disagree	8	20.0	20.0	97.5
	Strongly Disagree	1	2.5	2.5	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.12 Response from respondents on Information Asymmetry



Source: ***Survey Data (2013)***

4.3.5 Banks regulation policy

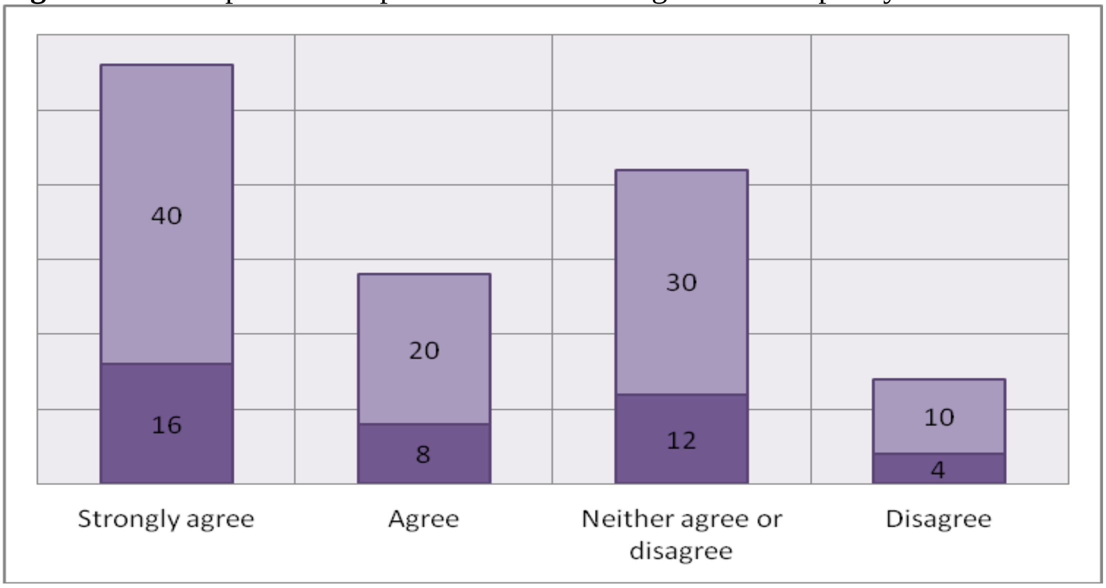
Forty percent (40%) of the respondents strongly agreed that regulations and policy of banks are so strict which hinder the SMEs to borrow loan, twenty percent (20%) agreed that it can be one of the main hampering factors to the SMEs in borrowing loan from banks, thirty percent (30 %) of the respondents remain neutral pertaining to the above factor and ten percent (10 %) of the respondents disagreed with the said reasons. The above results are evidence that one among the hindering factors for SMEs to get loan from the banks and financial institutions are banks regulations and policies.

Table 4.13 : Response on respondents on Banks regulation policy

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	16	40.0	40.0	40.0
	Agree	8	20.0	20.0	60.0
	Neither agree or disagree	12	30.0	30.0	90.0
	Disagree	4	10.0	10.0	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.13: Response of respondents on banks regulation and policy



Source: ***Survey Data (2013)***

4.4 Government Initiatives toward SMEs growth

The questions in this section were focused on analyzing Government Initiatives toward SMEs growth in Zanzibar which is one among the objectives of the research. Government is the external component of the SMEs which affect positively or negatively the growth of SMEs.

4.4.1 The Government Financial Support

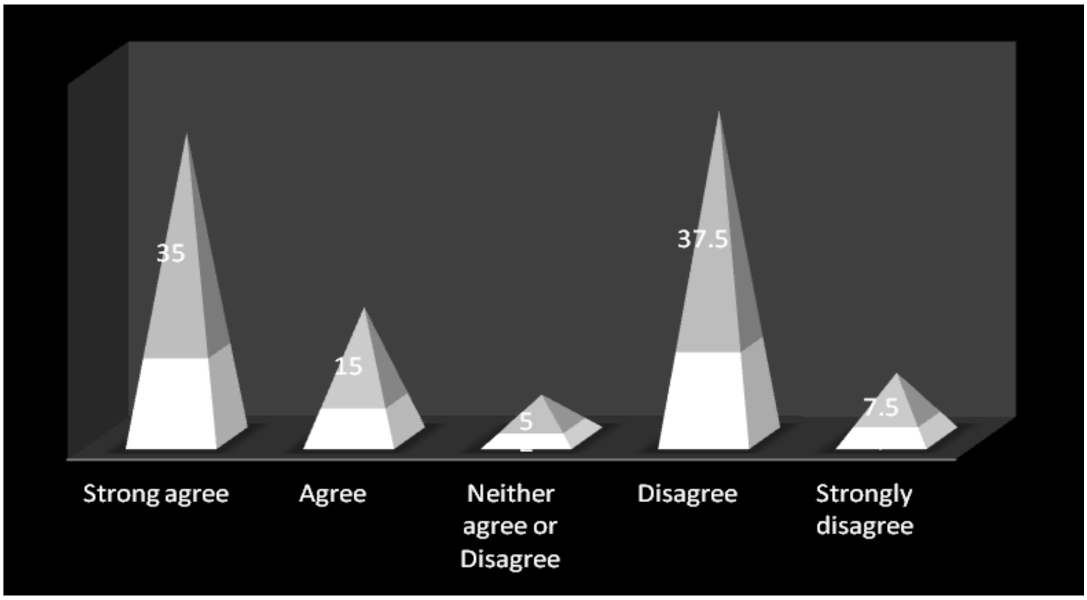
Thirty five percent (35%) of the respondents strongly agreed that the Government of Zanzibar (GOZ) provide financial support for existing SMEs in Zanzibar West district. However thirty seven point five percent (37.5 %) of respondents disagreed that they have not receive the financial support from the government. This is concurred with previous researches that majority of SMEs do not get enough financial support from Government. Typically, smaller enterprises face higher transaction costs than larger enterprises in obtaining credit, insufficient funding has been made available to finance working capital and poor management and accounting practices have hampered the ability of smaller enterprises to raise finances (Abedian, 2001; Peel & Wilson, 1996).These results were supported by the interview that have been conducted between researcher and government official from Ministry of Trade, Industry and Marketing *"The government provide capital/finance to some of SMEs especially those registered ie in Zanzibar (Unguja and Pemba) only 15 SMEs are beneficiaries to those finance from the government"*.

Table 4.14: Responses status from respondents on financial support for SMEs from GOZ

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strong agree	14	35.0	35.0	35.0
	Agree	6	15.0	15.0	50.0
	Neither agree or Disagree	2	5.0	5.0	55.0
	Disagree	15	37.5	37.5	92.5
	Strongly disagree	3	7.5	7.5	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.14: Responses status from respondents on financial support for SMEs from GOZ



Source: ***Survey Data (2013)***

4.4.2 Policy and Regulations.

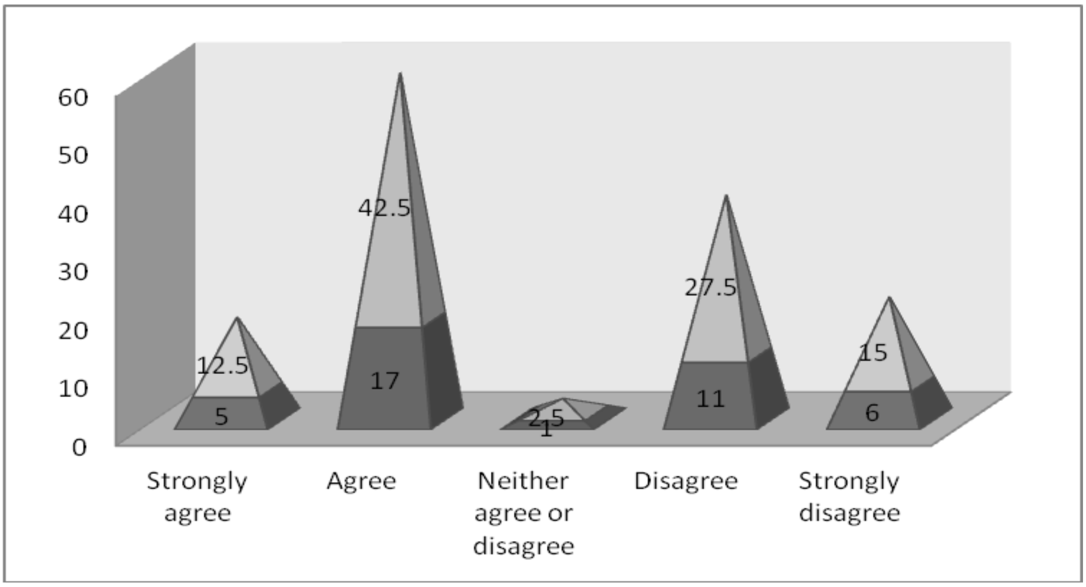
More than forty two point seven percent (42.7%) of the respondents agreed that SMEs policy of Zanzibar hinder in one way or another the growth of SMEs, twelve point five percent (12.5 %) strongly agreed. However twenty seven point five (27.5 %) of the respondents disagreed, and fifteen percent (15%) of the respondents strongly disagreed that SMEs policy of Zanzibar did not support the growth of SMEs in Zanzibar as presented in Figure 4.15 below. The above results are enough evidence that SMEs policy in Zanzibar does not support the growth of SMEs for a greater percentage. This result was supported by the interview done with the official from ministry of Trade, Industry and Marketing that "*The SMEs policy supports the growth of SMEs by creating awareness to the emerging and existing SMEs"*

Table 4.15: Responses status from respondents on SMEs policy

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	5	12.5	12.5	12.5
	Agree	17	42.5	42.5	55.0
	Neither agree or disagree	1	2.5	2.5	57.5
	Disagree	11	27.5	27.5	85.0
	Strongly disagree	6	15.0	15.0	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.15: Responses status from respondents on SMEs policy in Zanzibar and SMEs growth



Source: ***Survey Data (2013)***

4.4.3 Taxes & Tariffs

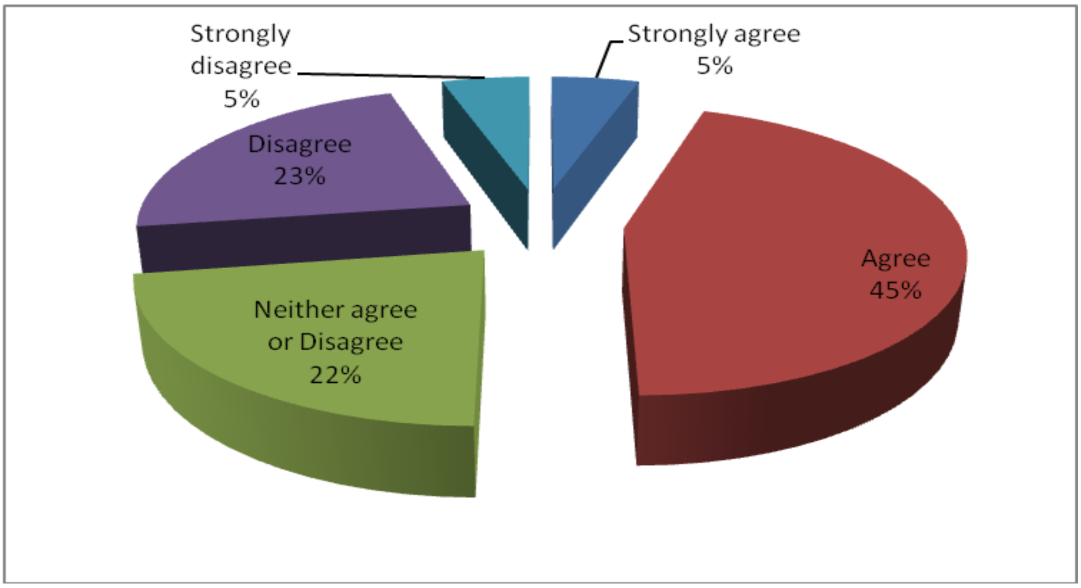
Forty five percent (45%) of the respondents agreed that they are charged by high taxes to their business, twenty two point five percent (22.5%) of the respondents stay neutral and twenty two point five percent (22.5%) disagree that the government charge high tax and tariffs. This result clearly indicates the negative impact of taxes on the viability of SMEs. This can also be supported by empirical evidence which concluded that taxation in industrial countries discourages SMEs from expanding their operations more than larger companies unless special financial relief is provided

Table 4.16: Responses from respondent on taxes & tariffs

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Valid	Strongly agree	2	5.0	5.0	5.0
	Agree	18	45.0	45.0	50.0
	Neither agree or Disagree	9	22.5	22.5	72.5
	Disagree	9	22.5	22.5	95.0
	Strongly disagree	2	5.0	5.0	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.16: Responses from respondents on taxes & tariffs



Source: *Survey Data (2013)*

4.4.4 Licensing and Registration.

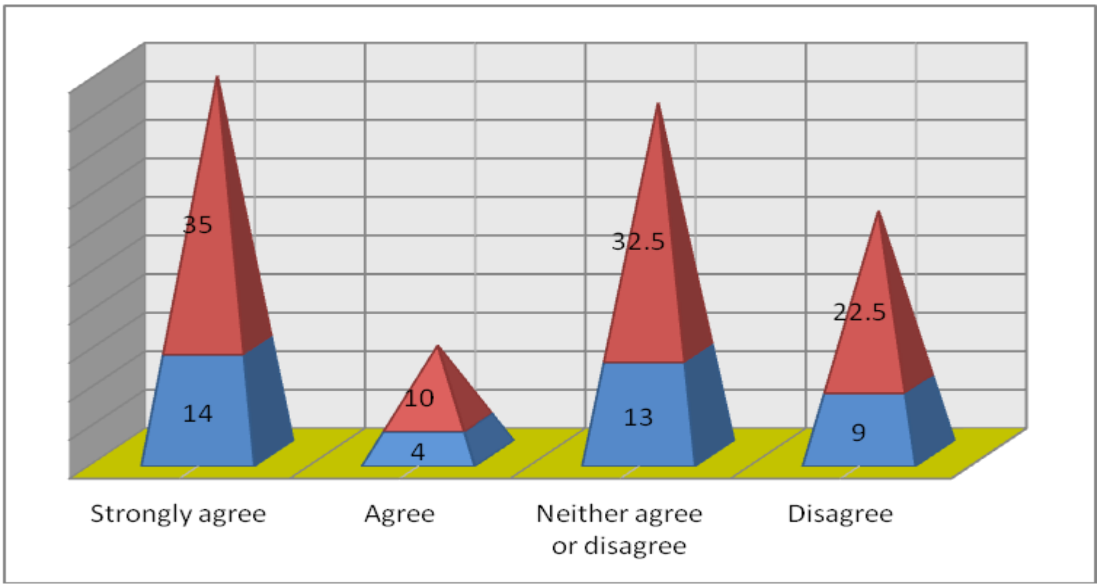
Thirty five percent (35%) of the respondents strongly agreed that they suffer bureaucratic and strict procedure during the registration of their enterprises, Thirty two point five percent (32.5 %) of the respondents stay neutral that the GOZ use bureaucratic and strict procedures in providing licensing for new SMEs. Only twenty two point five percent (22.5 %) of the respondents have disagreed they didn't suffer any bureaucratic behaviour during the registration of their SMEs as described in Figure 4.12. This result was supported by the interview done with the official from Ministry of Trade Industry and Marketing that "*The bureaucracy in licensing occurs due to lack of single licensing authority in government of Zanzibar, there are more than three authorities concerned with licensing and registration like ZRB (Zanzibar Revenue Board), Zanzibar Municipal Council, and Ministry of Livestock and Fishing"*

Table 4.17 : Response from respondents concerning Bureaucracy and strict procedures for SMEs during registration for Licensing

		Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
	Strongly agree	14	35.0	35.0	35.0
	Agree	4	10.0	10.0	45.0
Valid	Neither agree or disagree	13	32.5	32.5	77.5
	Disagree	9	22.5	22.5	100.0
	Total	40	100.0	100.0	

Source: *Survey Data (2013)*

Figure 4.17: Response from respondents concerning Bureaucracy during registration.



Source: ***Survey Data (2013)***

CHAPTER FIVE

DISCUSION OF THE FINDINGS

5.0 Introduction

In this chapter the researcher attempts to analyze the data/results presented in the previous chapter, basically critically examining, summarizing and providing interpretations in relation to the research question posed earlier. Possible explanations are discussed and some suggestions are made. The influence of each determinant factor affecting the adoption decision is exhaustively discussed. This part is based on the information and experiences which author gathered during the survey in Zanzibar West district. Findings linked with the theory chapter in order to answer research objectives and make conclusions about factors affecting the Growth of SMEs in Zanzibar.

1.1 Internal factors Affecting SMEs growth in Zanzibar West District

The most internal environment which affect SMEs growth includes factors such as finance (especially internal finance such as owner's equity contribution and collateral), managerial competency of the owner, improper record keeping, lack of capacity development, Lack of experience in the business, Lack of a proper business plan, Lack of professional advice and consultation

5.1.1 Poor management:

One among the mostly cited factors by many respondents who interviewed is poor management which limit the growth of SMEs in Zanzibar West district. Poor management of those SMEs might be caused by lack of experience and lack of management training. This is supported by the percentage of the respondent who asked concerning their level of education, 40% of the respondents are of primary school and half of the respondents 50% and minority hold diploma and degree level. With adequate education mixed with management experience and training puts a manager in a better position to make tough decisions and fore castings under conditions of uncertainty which in turn with those competencies making these particular managers perform better than untrained individuals (Nkonoki E, 2010)

5.1.2 Capital constraint

Despite the constraint of raising funds from financial institutions being raised by the business owners, capital constraints in most developing countries are overlooked; these being for example selling shares or part ownership to other parties or venture capitalizing. A study by Kuzilwa A.J 2005 suggests that small entrepreneurs are reluctant to sharing ownership which leaves them opting to short term debt financing which may constitute a constraint upon the growth of the business. The above findings majority of the respondents mentioned capital constraints as the limiting factors for SMEs growth in Zanzibar West district.

5.1.3 Lack of adequate education and training (Capacity development)

Education is a key constituent of the human capital needed for business success. It is argued that education and training provides the basis for intellectual development needed by entrepreneurs in business to be successful. It is always argued also that business ownership is not an intellectual activity rather entrepreneurship is an opportunity for the less academically successful to earn high incomes. It may even be that individuals with the highest academic attainment are likely to be insufficiently challenged by many of the mundane tasks associated with business ownership (Mike Simpson et al 2004).The finding show that for a greater percentage the SMEs located in west district of Zanzibar lack adequate training as well as education to facilitate their daily operations in economic, efficient and effective way.

5.1.4 Improper record keeping

The improper record keeping comes as a result basically of inadequate education and training in business; because of this a firm loses track of its cash flows and in turn leading to cost control and liquidity problems just to name a few. If the records of the transactions a business undertakes are not kept properly, growth cannot be achieved since the firm loses track of where it is heading .This is seen in most case of the SMEs that have been interviewed. Majority of the respondents have rank improper record keeping as a firth limiting factors in chronological order which affect SMEs in West district of Zanzibar.

Other impediments factors

Other limiting factors that have been addressed by most respondents as the internal factors limiting SMEs growth in Zanzibar West district include Lack of experience in the business, Lack of a proper business plan, Lack of professional advice and consultation. Professional advices include those from lawyers, banks, consultants and so on. The advices commonly needed for SMEs are those in the areas of financial management advice, market research, business strategy, public relations and advertising and personnel and recruitment matters and record keeping.

Financial factors Affecting SMEs growth

5.2.1 Collateral Limiting factor

The provision of collateral enables many businesses to secure debt finance; this approach to SMEs lending creates difficulties for entrepreneurs who lack suitable assets to offer. Collateral required is often as high. SMEs in Africa face unique challenges that include the type of collateral required may be restricted to "landed property" (i.e. real estate) rather than accounts receivable or inventories – reflecting either bank conservatism or unfavourable legal environments (or both) SME access to collateral is more limited reflecting lower rates of property ownership and lack of appropriate titling. This limiting factor was supported by many respondents who have been asked concerning to that, 45% of the respondent has strongly agreed that the existing strict collateral criteria hinder most of SMEs to credit loans from the financial institution/banks i.e. most of the SMEs when asked to elaborate the collateral asked by banks they said concerning permanent asset like land that SME owned which is one among the hardest thing for arising SME to owned such kind of assets

5.2.2 Interest Rate factor

Access to finance is deeply linked with interest rates in the minds of many firms. Interest rates were the second most-cited reason for limited SME borrowing in Kenya, Ghana and Tanzania. Having to pay higher loan costs to cover the default of other firms is certainly a serious obstacle for SMEs, but the reason why high rates can be prohibitive often has much to do with the capacity and attitudes of the SME itself. SMEs fear making long term investments at high interest rates because the longer the time period the more likely it is that some catastrophe will bring lost revenues and they will not be able to repay (Dalberg, 2011). Sixty percent (60 %) of the respondent has agreed that banks and financial institutions charge high interest rate on the loan credited by SMEs which make most of the SMEs to fear even to borrow loan from the Banks

5.2.3 Poor Entrepreneurial & Management skills

Forty seven percent (47.5 %) of the respondent has agreed that lack of entrepreneurial and management skills of majority SMEs located in Zanzibar West district is one among the main reasons of not being given Loan by banks because banks fear that the SMEs can fail to return the loan on one way or another .Entrepreneurial skills include creativity, innovation, risk taking, and the ability to interpret successful entrepreneurial role model and identification of market opportunities. Entrepreneurial skills cover the ability to turn their business ideas into feasible business opportunities, to start and to grow business enterprises. There is evidence indicating that SMEs are constrained by a lack of access to finance, the supply of finance is actually constrained by management weaknesses and poorly presented business plans that do not meet the requirements and standards of financiers. This increases the risk perception of lenders and financiers and thus hinders SME access to finance (Malhotra et all, 2006, Orford & Wood, 2005).

Information Asymmetry

Information asymmetry is a situation whereby prospective financiers and business partners are only partially informed or aware of the prospects of a business venture or opportunity. This situation leads to imperfections in the debt and equity markets, making it difficult for lenders and financiers to assess the quality of business and investment propositions. As a result, providers of finance are unable to quantify the level of risk involved in a particular business or investment opportunity and therefore experience difficulties in offering a discount or interest rate that accurately reflects the level of risk involved (HM Treasury, 2003). The findings of this study show that the majority of the respondents fifty percent (50%) has totally agreed that information asymmetry is a dominant factor which make SMEs to lack qualification of borrowing a loan from Banks and other financial institutions

Banks regulation and policy

Also Forty percent (40%) of the respondent has strongly agreed that regulations and policy of laundering money to emerging SMEs can be one of the main hampering factors to the SMEs in borrowing loan from banks in Zanzibar west district. Even though thirty percent (30%) of the respondents stayed neutral when asked concerning to this question there is steal evidence that most of Banks policy and regulations focus to ensure there is profit gain through interest in the loans they issued to the SMEs without looking either it is an emerging SME or giant SME who request such loan.

Government initiatives toward SMEs growth

5.3.1 Government financial support

Thirty five percent (35%) of the respondent has strongly agreed that the Government that the Government of Zanzibar (GOZ) provides any financial support for existing SMEs in Zanzibar west district. This is concurred with most of the research that have been done that majority of the government does not provide any financial support to the arising SMEs and if they provide those who benefits are those who support the political motion of some politicians. It is well known that smaller enterprises face higher transaction costs than larger enterprises in obtaining credit, insufficient funding has been made available to finance working capital and poor management and accounting practices have hampered the ability of smaller enterprises to raise finances (Abedian, 2001; Peel & Wilson, 1996). The findings of the analysis show that government of Zanzibar (GOZ) finance only 15 SMEs which is not more than one percent(1%) for all SMEs found in Zanzibar region.

5.3.2 Policy and regulations factor

The SMEs Development Policy 2006 of Zanzibar has addressed business barriers/ challenges facing the SMEs sector in Zanzibar, such as the Existing Legislative environment, the legislative process, registration procedures, licensing procedures, access to finance, taxation, business regulations, lack of investment incentives, labour regulations, access to public procurement opportunities, limited private business organization and education and training institutions. The key objectives and priorities are: Improvement in enabling the legal, regulatory and administrative environment; creation of the partnership environment, enhancing the capability of the private sector enhancing the capability of public sector supports for SME Development, and promotion of enterprise culture (GOZ development policy, 2006). The results of this study address a lot weakness for this policy needs to be reviewed to address in detail how the policy will be benefited. More than forty one percent (42.7%) of the respondent has agree that the SMEs policy of Zanzibar instead of enhancing growth of SMEs it hinder in one way or another the growth of SMEs in Zanzibar.

5.3.3 Taxes and other tariffs

Taxes may have fun a more significant task in the cost arrangement of SMEs because they do not have the economic and human capability to urbanized complicated tax escaping strategies. Under normal circumstance taxation system is very complex for illiterate entrepreneurs to operate with the existence of several taxes. The government of Zanzibar has made several efforts to reduce the Taxes for SMEs but steal need to do the needful to ‘Zero tax’ for emerging SMEs. Forty one percent (45%) of the respondents have said that they were charged high tax by the government which hinder their growth and become dormant on the same level for several years and asking the government to priorities emerging SMEs like international investors who gain the advantage of ‘Tax holiday’

Licensing and Registration

The bureaucracy in licensing and registration process in Zanzibar is one among the rooted limiting factors which hinder SMEs growth and this is cause by lacking single licensing authority in government of Zanzibar, there are more than three authorities concerned with licensing and registration like ZRB (Zanzibar revenue board), Zanzibar municipal council, and ministry of livestock and fishing. This long chain of the licensing and registration process create a loop hole for bureaucracy and corruption to take place, the final results is a burden to SMEs.

CHAPTER SIX

SUMMARY, CONCLUSIONS, AND POLICY IMPLICATIONS

6.0 Introduction

This chapter explains the summary of finding, conclusion of the research problem, research objectives and research questions. Furthermore, the chapter will show how the study contributes to the policy makers and practitioners. The chapter also gives recommendations for small and medium enterprises

6.1 Summary of Findings

6.1.1 Summary of Findings on internal factors hampering Growth of Small and Medium Enterprises in Zanzibar

It was found in this study that the most commonly factors which affect small and medium enterprises found in West district of Zanzibar including Lack of experience in the business, Capital constraint, Lack of a proper business plan, Poor managerial capability, Lack of proper record keeping i.e. accounting records, Inadequate education and training (capacity development), Lack of professional advice and consultation, insufficient marketing information and poor managerial capabilities

6.1.2 Summary of Findings on financial factors hindering small and medium enterprises growth in Zanzibar

In this research, it was established that a large number of businessmen that run these small and medium enterprise are un able to access some of the credit institutions that are found in these areas due to lack of sufficient assets to access credit, it was also observed that businessmen cannot access credit due to lack of collateral security and poor record keeping, also businessmen are not advised on what exactly they can do with the little profits that they generate from their transactions, more still credit information cannot easily be accessed by small and medium enterprises and as a result businessmen are not aware of where to exactly get credit from. Further more information asymmetry and banks regulation policies create a difficult ground for banks to grant loans to SMEs

6.1.3 Summary of Findings on the government initiatives toward small and medium enterprises growth in Zanzibar

The findings of the research show that the government initiatives toward the growth of small and medium enterprise are still an infant stage in Zanzibar. The government initiatives of financial support, taxes and tariffs rules, licensing and regulations, SMEs policy and regulations did not support the growth of small and medium enterprises.

6.3 Conclusion

Generelly, Growth of Small and Medium Enterprise is highly dependent on the factors such as access to finance, strong government support and management capability of SMEs internally. These findings have important implications for the Planning and banking sector in Zanzibar. As the government targets alleviation of poverty in the countryside in The four-year Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP) known as Mkakati wa Kukuza Uchumi na Kupunguza Umasikini Zanzibar (MKUZA) in its Kiswahili acronym is the second generation of national development framework to implement Vision 2020, the key driving forces include advising financing institutions to reduce or coming up with favourable interest rates on borrowed financial funds to people, increasing on the size of loan able funds, adjusting loan/credit security needed by borrowing institutions. Not only the financial sector the Government itself should play a great role to ensure they support the growth of small and medium enterprises in every aspect because the fact show that this sector provide employment opportunity for many citizens. The government of Zanzibar (GOZ) say that about 2,567 jobs were created in this sector for the period 2002-2004.

On another side of the coin, the Government of Zanzibar (GOZ) should increase its effort and create Conducive environment for private sector development as one of the goal of GOZ in ZSGRP. The regulations and policies of government concerning Small and medium enterprises sector should be reviewed and reformed for the growth of small and medium enterprises in Zanzibar. The government budget for this sector is still very little in which the concerned ministry for this sector fail to provide sufficient support to arising enterprise in Zanzibar in terms of finance, training and education and capacity development.

6.4 Policy implications

The findings generated from this study hold important practical implication various stakeholders involved in promoting the growth of SMEs in Zanzibar

6.4.1 Policy makers (Government

The government as one among the stakeholders of SMEs should use the research in order to promote the growth of SMEs especially in policy reform as discussed in this research.

6.4.2 SMEs in Zanzibar West district

Small and medium enterprises (SMEs) in Zanzibar that strive to grow shall use the weakness they have to make an improvement. The SMEs is one among the targeted group of this research, so they can use the research to understand in details the strength and weakness they have inside-outside and make hard to improve the weakness and maintain the strength.

6.4.3 Banks and financial institution

Banks that are currently offering financial service to small and medium enterprises can use the research to resettle their collateral criteria's, interest rates; regulations and policy to attract more SMEs borrow loans and facilitate in one way or another the growth of SMEs in Zanzibar.

6.5 Recommendations

This section aims at aiding the concerned authorities like Ministry of Trade, Industry and Marketing in policy making. The recommendations were made, formulated basing on research findings in the previous sections and on literature read. The researcher recommends the following;

6.5.1 Bank and Financial Institutions

From the results and findings, it was found out that SME owners are greatly hindered from accessing commercial bank credit due to factors like lack of collateral security. SME owners lack sufficient assets to enable them accessing credit, there are few financial institutions from which businessmen can get credit therefore government should intervene the banks in Zanzibar by regulating the lending policies of these financial institutions, also the collateral requirements should be revised to enable SMEs have access to credit.

6.5.2 Government of Zanzibar

The following represent key recommendations for government to make SMEs in Zanzibar stable and increase capability of growth:

- Reform in Taxes and tariffs charged, the government should reform the taxes rate in order to provide special and appropriate grants and tax incentives to emerging SMEs. This will help to reduce the respective SMEs' cost of production and make them more competitive. Furthermore the researcher recommend to government of Zanzibar (GOZ) to reduce the tax rate for SMEs to zero percent (0%) within their first three years of life.
- Reform in SMEs policies, the government should come up with a new programmatic and realistic small and medium enterprises (SME's) policy that will address the current globalisation challenges as well as the emergent domestic challenges and problems in order to make the Zanzibar SMEs regionally and globally competitive. Policy makers should endeavour to understand the nature, problems and needs of SMEs before enunciating policies for the sub-sector. In this regard, policy makers should consult with relevant stakeholders before enacting such policies that affect them.
- Coordination between the Ministries responsible for managing SMEs in Zanzibar should work together to ensure they facilitate the growth of SMEs and especially ministry of Trade, Industry and Marketing, Ministry of

Labour, Peoples Economic Empowerment and Cooperatives and ministry of Social Welfare, Women and Children Development

- Furthermore there is a need to be established SME consulting and training centres in certain areas or provinces to assist SMEs with their challenges. The number of centres will be determined by the number of SMEs in a specific area. SMEs can also be encouraged to make use of the entrepreneurial development programme (EDP) which is a programme aimed at improving the skills levels in the SME sector. The EDP involves training of potential entrepreneurs in entrepreneurial skills.
- Also, the government should invest in research and development so as to explore what can be done to improve the small firm's situations either by looking into what other developing countries have done or by coming up with new ideas. This in general will help in address challenges faced by small businesses in the country.
- Lastly, the government should concentrate on creating macroeconomic framework that promotes products that are produced locally and also which is suitable for encouraging the small firms to grow. This can be done by creating government schemes which support special types of firms. Also by imposing high tariffs on goods imported from abroad which compete with products that are produced locally.

From the results and findings, the following represent key recommendations for SMEs in Zanzibar to become competitive, performance oriented and increase capability of growth domestic, regionally and globally.

- Improving the levels of managerial competence and skills, regarding the poor level of managerial competence and skills of the small business owners, interventions should focus on providing training and courses that will improve the human resource capacities in this regard. The Government is therefore encouraged to continue building on current programmes and establishing new ones if warranted, to improve the levels of managerial competence and skills of the small business owner. To improve the effectiveness of the programmes, GOZ needs to be capacitated by improving staffing levels with individuals with the appropriate skills and experience, and making better/more use of consultants.

- In order increase market information, SMEs must form cooperatives for advertising whereby they run joint advertising initiatives to minimise costs. SMEs must also make use of special promotions in order to lure customers. On selling their products SMEs must use persuasive selling whereby they encourage people to buy their products. Furthermore SMEs must start to use modern technology to obtain information like internet.

6.6 Suggestion for future Studies

This study was conducted to the factors limiting SMEs growth in Zanzibar. The researcher suggest that for further research, one would focus only on small enterprise instead of conducting in both small and medium side. This is a very interesting and current area of research and in much need of further investigation. The researcher also suggest that an interesting research would be to start a similar topic but for different district of Zanzibar.

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QUESTIONNAIRE **Annex 1**

QUESTIONNAIRE

Assessment of Factors Limiting SMEs growth in Zanzibar

The Case of Zanzibar West District

March 2013 – June 2013

My Name is Judama Suleiman Khamis, a master student from Mzumbe University. I am conducting an academic research, so I humbly asked you to help me in some few questions below and provide me a reliable and appropriate answer. The data provided in this survey is confidential and will be used only for scientific purposes by the researcher.

Start Time _______________

End Time ________________

Date ___________________

Researcher Name: Judama Suleiman, Phone:0777458570, Email:jusukha@yahoo.com

PART I: GENERAL INFORMATION & INTERNAL CHARACTERISTICS OF SMEs

The questions asked in this section will be used for classification purposes only. The information gathered will not be used in any other way and will be kept strictly confidential. Please tick [√] the most appropriate alternatives

<table>
<tr>
<td>1.(a)Name of Respondent (optional) ______________

(b) What is your current position in the firm?

☐ Managing director
☐ Sales/marketing manager
☐ Finance/accounts manager
☐ Normal Employee
☐ (specify)____________________________</td>
<td>2 (a)Name of Enterprise ______________

(b) Location Found ______________</td>
</tr>
<tr>
<td>3. What is your highest level of education?

Primary school
Secondary /High school
Certificate/Diploma
Bachelor degree/Advanced Diploma
Master degree
Other (specify)______________________</td>
<td>4. Nature of enterprise you work for?

Sole proprietorship
Partnership
Incorporated company
Family business
Other (specify)___________________</td>
</tr>
<tr>
<td>5. a Which of the following categories best describes the total number of your firm employees?

1-4 employees
5-49 employees
50- 99 employees
More than 100 employees
Other (specify)______________________</td>
<td>6 a) Did you get enough marketing information concerning your business?

Yes

No

5 b) Which techniques did your firm use to obtain marketing information?</td>
</tr>
</table>

5 b. How many training and seminars did your organization attend in a year? ☐ frequently ☐ More than two ☐ Once ☐ None	☐ Internet ☐Trade exhibition ☐ Internal media i.e. Radio & TV ☐ None of the above
7. What are the sources of capital for your enterprise? Government Yourself/Family Donor Loan Other level (specify)	8. Which of following describe the best support you receive from the Government? Training and education programmes Loan/financial service Nothing Family business Other (specify)___________________
9. Base on your experience on SMEs (small and medium enterprises) what are the internal factors which affect the SMEs performance?	

PART II: EXTERNAL FACTORS LIMITING SMEs

Please indicate your level of agreement or disagreement with each of the following statements that describes various Limiting factors for SMEs growth in Zanzibar. For each statement below, please circle the number that best describes your view on your firm

10. Government support	Strongly Agree	Agree	Neither agree or disagree	Disagree	Strongly Disagree
10 (a) The government of Zanzibar provide enough financial support for our firm growth	**1**	**2**	**3**	**4**	**5**
10 (b) The SMEs policy in Zanzibar did not support the growth of SMEs	**1**	**2**	**3**	**4**	**5**
10(c) The government charge higher taxes & tariffs which hinder growth of our firm	**1**	**2**	**3**	**4**	**5**
10 (d) Bureaucracy and strict procedures hinder most SMEs during registration for Licensing	**1**	**2**	**3**	**4**	**5**
10(e) The regulations of Government of Zanzibar hinder growth of SMEs	**1**	**2**	**3**	**4**	**5**
10 (f)The government has create less effort to protect the property rights of SMEs in Zanzibar compare to other government in other country	**1**	**2**	**3**	**4**	**5**
11. Base on your experience on SMEs (small and medium enterprises) what are the other obstacles the SMEs faces from the government which limit growth in one way or another?					

12. Financial factors	Strongly Agree	Agree	Neither agree or disagree	Disagree	Strongly Disagree
12 (a) Strict collateral criteria affect most of SMEs to get credit from banks in Zanzibar	**1**	**2**	**3**	**4**	**5**
12 (b) The bank/financial institution charge high interest rate which make most of SMEs fear to borrow Loan	**1**	**2**	**3**	**4**	**5**
12 (c) Poor entrepreneurial & management skills of SMEs make most of banks to fear give them loan	**1**	**2**	**3**	**4**	**5**
12 (d) Information asymmetry of most SMEs ie poor accounting records make bank fear to offer loan	**1**	**2**	**3**	**4**	**5**
12 (e) Banks regulation and policy hinder SMEs to borrow loan	**1**	**2**	**3**	**4**	**5**
13. Base on your experience on SMEs (small and medium enterprises) what are the other obstacles SMEs faces from financial institution which limit to get finance an affect growth in one way or another?					
THANK YOU FOR YOUR TIME & ASSISTANCE					

====== *THE END* ========

INTERVIEW GUIDE

Assessment of Factors Limiting SMEs growth in Zanzibar

The Case of Zanzibar Urban Region

March 2013 – June 2013

My Name is Judama Suleiman Khamis, a master student from Mzumbe University. I am conducting an academic research, so I humbly asked you to help me in some few questions below and provide me a reliable and appropriate answer. The data provided in this survey is confidential and will be used only for scientific purposes by the researcher.

Start Time ________________

End Time _________________

Date ____________________

Researcher Name: Judama Suleiman, Phone:0777458570, Email:jusukha@yahoo.com

PART I: INTERVIEW GUIDE FOR FINANCIAL INSTITUTIONS

Name of Financial Institution..

Name of Officer interviewed (optional)....................................

Location Found..

9. (a) What are the factors you considered before financing SMEs?

   (b) What factors make most of them to fail get finance?

10. How many SMEs received loan in Zanzibar since 2000's?

11 (a) for how long it will take for SMEs to pay the loan?

   (b) Did you offer any other service to SMEs apart from loan? Specify.

12. What are the current interest rates charged SMEs for the loan?

13. Is there any financial regulations and policy specifically for SMEs?

PART II: INTERVIEW GUIDE FOR GOVERNMENT

Name of Government ministry..

Name of Officer interviewed...

Location Found..

14. How many SMEs were registered since 2000 in Zanzibar urban region?

15 (a) Does your government provide any financial support to SMEs? Specify

(b) Did your ministry provide any training/building capacity to SMEs in Zanzibar?

16. (a)How does the SMEs policy improve growth of SMEs in Zanzibar?

(a) Are there any strategies used by the government to enhance the growth of SMEs? Specify

17 How does the government enhance the SMEs to get registration and License? Specify

18. Does the government provide any tax holiday for new established SMEs?

If No, Why?

If yes, specify

RESEARCH SCHEDULE **Annex 3**

MILESTONE SONE		MILESTONE TWO			MILESTONE THREE		MILESTONE FOUR	
Dec 2012	January	February	March	April	May	June	July	August
Topic Generation								
Clarification of	Topic							
	Proposal	Write up						
			Research Data collection	Design &				
					Answering R.Question			
					Data Analysis	& Interpretation		
							1st draft	
								Final Draft Submission

CRITICAL MILE STONE

CRITICAL MILESTONE sSTONE