

**ASSESSMENT OF THE ACCESS TO FINANCE FOR THE
GROWTH OF SMALL AND MEDIUM ENTERPRISES (SMEs)
ZANZIBAR TOWN REGION.**

By

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**A Dissertation Submitted in Partial Fulfilment of the Requirements for the Award
of the Degree of Master of Business Administration (MBA)-Corporate
Management of Mzumbe University**

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a thesis entitled assessment of the Access to Finance for the growth of Small and Medium Enterprises (SMEs) Zanzibar Town Region, in partial/fulfilment of the requirements for the degree of Master of Business Administration (MBA)-Corporate Management of Mzumbe University.

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DEDICATION

This work is dedicated to my lovely wife Safia Ally Maulid and my Employer, the Controller and Auditor General (CAG) for allowing me prepare and submit this reports. and the whole of my family for their encouragement, love and emotional support to my endeavours.

LIST OF ACRONYMS

EU:	European Union
SBAP:	Small Business Administration Programs
SME:	Small and Medium Enterprises
UD:	Urban District
ZPRP:	Zanzibar Poverty Reduction Plan
VETA:	Vocational Education Training Authority
SIDO:	Small Industries Development Organisation
ANGOZA:	Association of Non Governmental Organisations Zanzibar
I C T:	Information Communication Technology
I L O:	International Labour Organisation
JUVINZA:	Jumuiya ya Watengezaji Vikoi Zanzibar
NGOs:	Non – Governmental Organisations
NMB:	National Micro finance Bank
PBZ:	Peoples Banks of Zanzibar
TRA:	Tanzania Revenue Authority
UWAZI:	Umoja wa Wazalishaji Wadogo Wadogo.
ZAC:	Zanzibar AIDS Commission
ZAFOPA:	Zanzibar Food Processors Association.
ZATI:	Zanzibar Association of Tourism investors
ZATOGA:	Zanzibar Tour Guides Association
ZBC:	Zanzibar Business Council.
ZIPA:	Zanzibar Investments Promotion Authority.
ZPRP:	Zanzibar Poverty Reduction Plan
ZNCCIA:	Zanzibar National Chamber of Commerce, Industries and Agriculture.
DP	Development Policy
NSSBF	National Survey of Small Business Finance

ABSTRACT

This dissertation aimed to assess the accessibility to finance to Small and Medium Entrepreneurs SMEs in Zanzibar Town Region. Study intended to assess and find out the constraints factors of SMEs in accessing funds that affect the performance of entrepreneurs in the Region, and find out whether the access to finance help all small size of enterprises in the Region, also the study intend to identify the alternative sources of finance as well as assess the government support for the accessibility of fund to the growth of SMEs and to find out ways of improving performance of entrepreneurs.

The research was conducted in Entrepreneurs level, financial institutions and the Government Organizations which support entrepreneurs in Zanzibar Town Region. The study covered Urban and Western Districts in Zanzibar. Two types of data were collected primary and secondary by using questionnaire, interview, observation and documentation.

The findings prove that there has been a positive outcome of people engaging in entrepreneurial activities which alleviate poverty at family level through getting daily income and house rent, paying school fees and paying medical bills and hence alleviate poverty in household level.

The study revealed the obstacles which entrepreneur faced in accessing to finance include high collateral requirement to secure loans, high interest rates, long application procedures.

On other hand there are some factors which facilitate the entrepreneurs which including institutions which support them financially by providing loan and training. Such training offered to entrepreneurs are like identifying business opportunity that surround them, how to keep business records, how to develop some skills in planning and market of their products and loan or credit management. These trainings are offered by local government experts and officers from vikoba/Saccos, non government organization

such as PRIDE, FINCA and financial institutions like CRDB Bank and Zanzibar National Chamber of Commerce, Industries and Agriculture (ZNCCIA).

The study come up with recommendation that, provision of training on how to run the business successful has to be enhanced as most of them lack entrepreneurial skills and other skills such as record keeping which can prevent their business from loss and business stagnation.

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CHAPTER ONE

INTRODUCTION

1.1 Background Information

Small and Medium Enterprises (SMEs) play a crucial role in the overall economy in providing a broad range of goods and services both for domestic and foreign consumption, in so doing, small and medium enterprises provide important sources of income and jobs creation in Tanzania. (Tanzania Small and Medium Enterprise Development Policy 2002) SMEs all over the world and in Tanzania in particular, can be easily established since their requirements in terms of capital; technology, management and even utilities are not as demanding as it is the case for large enterprises. These enterprises can also be established in rural settings and thus adding value to the agro products and at the same time facilitating the dispersal of enterprises. Indeed SMEs development is closely associated with more equitable distribution of income and thus important as regards to poverty alleviation. At the same time, SMEs serve as a training ground for emerging entrepreneurs. (Tanzania Small and Medium Enterprise Development Policy 2002)

The Small Scale Enterprises in Zanzibar are supervised by the Ministry of Trade, Industries and Marketing, Ministry of Community Development, Women and Children, Ministry for Labour, Economic Empowerment and Cooperatives and Chamber of Commerce Zanzibar. Small scale enterprises are established in several sectors, some of them are involved in manufacturing of the different products e.g. manufacturing vegetable and animal oils and fats, manufacture bakery products, manufacture soft drinks, production of mineral water and bottled water, manufacture of wearing, printing and service related, reproduction of recorded media, manufacture article concrete, cement and plaster, manufacture of other fabricated metal products, manufacture furniture, manufacture of jewellery and related articles etc, others involved in hand craft and make various product e.g. mates, baskets etc and others involved in trade which include purchase and sales of goods.

The small enterprises dealing in trade are very famous in Zanzibar municipality, Urban and West district where the focusing areas in this research. Long chains of this type of business are located at Darajani, Mchangani and other places in Urban District. Most of them are owned by individual other by family or groups. These enterprises create many job opportunities approximately 60% of the people of Zanzibar especially the youth of different gender (Industrial Census Report 2008). The main objective of small enterprises is profit making. People may improve their income these kind of business.

1.2 Statement of the problem

Access to finance is necessary to create an economic environment that enables SMEs to grow and prosper (Dalbberg 2011). SMEs in developing countries, however, face significant barriers to finance. Financial constraints are higher in developing countries in general, and in particular SMEs were constrained by gaps in the financial system such as high administrative costs, high collateral requirements and lack of experience within financial intermediaries (Dalbberg 2011). Increased access to finance for SMEs can improve economic conditions in developing countries by fostering innovation, macro-economic resilience, and GDP growth. Inadequate access to credit is one of the more common complaints. When it comes to limitations faced by Small and Medium Enterprises (SMEs) in property markets,

1.3 Main research Objective

The overall objective of the study was to:-

examine the access to SMEs finance to the growth of small scale enterprises (SMEs) sector in Tanzania especially Zanzibar.

1.4 Specific objectives

The specific objectives was to:-

- i. determine the constraints factors of SMEs in accessing funds
- ii. identify the alternative sources of financing for the growth SMEs
- iii. determine whether the fund do help all small scale enterprises in Zanzibar.
- iv. assess the government support for the accessibility of fund to the growth of SMEs

1.5 Research questions

1.5.1 General research question

What are the effects of access of fund to the growth of small scale enterprises?

1.5.2 Specific research questions

- i. What are the difficulties facing SMEs in accessing funds?
- ii. How members raise funds to improve their businesses?
- iii. How the accesses of fund help to the growth of SMEs?
- iv. In what ways does the government support the accessibility of fund to SMEs?

1.6 Significance of the study

This study would be a useful tool in the hands of the Ministry of Trade Industries and Marketing Zanzibar for reforming SMEs policy, It will enable the nation to adopt strategies that will help to achieve the objectives of small scale enterprises. Also, the findings of the study would provide data base for further research work, this research paper will be the reference and the data collected will help to the students of deferent universities, researchers, Government Administrators and even Non Government Organizations as they might encounter a similar problem. Since research always is a continuous process. The study will lead the government and its organs to be able to be aware of its people investing suit and thus devising better way of supporting them. The

study adds the knowledge to broaden understanding the main factors that influence the growth of small scale enterprises.

1.7 Scope of The study

The study intended to cover part of Zanzibar Urban District (UD) in Unguja, and data will be collected to examine the effects of the access to finance to the growth of SMEs. The reason to select this scope UWR is located at the area where by many small business are operated.

1.8 Limitations of the Study

The biggest challenges of this study were:-

1.8.1 Data availability.

This is the main problem of using questionnaires as a method of data collection. Due to the fact that this is not a face to face interview kind of questions, sometimes the respondents might not be willing to give exact answers for some questions and they may refuse to respond to a question on the grounds that they are not spokespersons of the organization.

1.8.2 Bureaucracy

Bureaucracy is another problem that the researcher was faced during the fieldwork. Some respondents were not able to provide data until they got permission from their superior.

1.8.3 Confidentiality of Data.

Thirdly, some of the respondents were not providing their true opinions during the interviews because they regard some of the questions as sensitive. However, this group was small and the researcher assumed it did not affect the overall results and conclusions.

1.9 Delimitations of the Study

The researcher decided to be providing short and simple questionnaires which can give him satisfactory answers, also try to avoid the temptation in preparation of the questions.

Bureaucracy was solved by formulating the questions that are related to the concern level in organization.

Confidentiality of data. The researcher built friendly relationship with respondents in order to get full Corporation from them for acquire the information that needed.

CHAPTER TWO

LITERATURE REVIEW

This section of the study seeks to find out what others have written about the subject matter. The section primarily deals with what other authors have done in regard to this subject matter. And it involves reading of books and journals.

2.1 Theoretical frame work

Definition of SME

The term SME covers a wide range of definitions and measures varying from country to country and between the sources of reporting SME statistics. Although there is no universally agreed definition of SME, some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital. Among them the most common basis used is employees because of comparatively ease of collecting this information and here again there is a variation in defining the upper and lower size of SME. Despite this variation a large number of sources define SME to have a cut-off range 1- 250 employees. (Ganbold, 2008).

In the United State and Canada SMEs generally include SMEs with less than 500 employees. The EU define as a medium size enterprises as one with 250 employees and small enterprises as one with less than 50 employees and microenterprises as a one with maximum 10 employees. (Ganbold, 2008).

At the same time to qualify as one SME in the EU a SMEs must have annual turnover of Euro 40mill or less and balance sheet valuation not exceeding Euro 27mill. In case of Japan SME is defined as a SMEs with employees of 300 or less and capital size of 300mill yen Or less. In manufacturing SMEs with employees of 100 or less and capital size of 100mill yen or less. In whole sale a SMEs with employee 50-100 or less and capital size of 50mill yen in retail or service sectors. (Ganbold, 2008).

In developing countries number of employees and size of assets or turnover for SMEs tend to be much smaller compared with counterparts in developed countries due to the relative size of business entities and economies. (Ganbold 2008).

As comparative study purpose, currently the SMEs Department of the world Bank with following definitions:

Microenterprises up to 10 employees, total assets up to \$10,000 and total annual sales of up to \$100,000, small enterprises up to 300 employees, total assets and total sales up to \$15mill. (Bata Ganbold 2008).

Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized 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. TSMEDP (2002).

Table 2.1: Showing Class Level of SMEs in Tanzania

Category	Employees	Capital Investment in Machinery (Tshs.)
Micro enterprise	1 – 4	Up to 5 mil.
Small enterprise	5 – 49	Above 5 mil. to 200 mil.
Medium enterprise	50 – 99	Above 200mil.to 800 mil.
Large enterprise	100 +	Above 800 mil.

Source: URT SMEs (2006)

2.2 SME Development in Zanzibar:

Similarly the CRE of 2001 shows that 90 percent of all public and private establishment employ 1-4 persons. Establishments employing 5-9 and 10+ persons are 6.5 and 3.5 percent, respectively. Within the 1-4 size class, SMEs in the trade sector have a 75 percent share of all SMEs, followed by manufacturing at 10 percent and transport by 4.5

percent. In the size class 5-9 persons employed, the trade and manufacturing enterprises are distributed relatively evenly, where SMEs in the trade sector have a 42 percent share and those in manufacturing a 40 percent share. In the size class 10+ persons, trade and manufacturing enterprises each have a 38 percent share of establishments.

Table 2.2: SME Size Classified by Employment

Description	Number of Employees	% of total establishments
Micro enterprise	1-4	90.0%
Small enterprise	5-19	06.5%
Medium-sized enterprise	20-99	03.55

Category	Number of Employees	Annual Turnover in TSH Million	Total Assets in TSH Million	Tax Registration	Business Registration	Independent Business
Micro	1-4	Less than 10	Less than 4	Yes	Yes	Yes
Small	5-19	Less than 50	Less than 20	Yes	Yes	Yes
Medium	20-99	Less than 750	Less than 225	Yes	Yes	Yes

Source: (SMEs Development Policy 2006)

2.3 Zanzibar Poverty Reduction Plan (ZPRP):

Zanzibar Poverty Reduction Plan (ZPRP) was launched in May 2002 as one of the steps towards addressing the concerns and measures indicated in Vision 2020. ZPRP provides for measures to decrease income poverty, to increase access to social services, to enhance the survival and well being of the population and to contain extreme vulnerability. (SMEs Development Policy 2006)

Support for micro, small and medium-sized enterprises (SMEs) takes on a central role towards the achievement of goals set out in ZPRP. The plan distinctly lists agro-processing, including fish, fruit and vegetable, forestry and livestock processing, tourism and manufacturing as priority sectors for SME/private sector and indicates that development of domestic and international trade is required to bring the products and services produced in the other sectors to markets, and thus, they should be supported. (SMEs Development Policy 2006)

Furthermore, under the ZPRP, the Government pledges to improve the investment climate, to strengthen the financial sector and to implement good governance principles and practices to create favourable conditions for investments by SMEs. (SMEs Development Policy 2006)

Private sector is described as a partner in combating poverty and to improve the well being of the people. Therefore, the ZPRP places strong emphasis on strengthening public-private partnerships in the design, implementation and monitoring of strategic interventions cited. (SMEs DP, 2006)

Small business SMEs are common in many countries, depending on the economic system in operation. Typical examples include: convenience stores, other small shops (such as a bakery or delicatessen), hairdressers, tradesmen, lawyers, accountants, restaurants, guest houses, photographers, small-scale manufacturing, and online business, such as web design and programming, etc.

2.4 Importance of SMEs in socio-Economy Development

SMEs considered to have a crucial role in any economy and a key source of economic growth, dynamisms and flexibility and can adapt quickly to changing market demand and supply situation. They are also deemed to generate employment, help diversifying economic activities and make significant contribution to export and trade.

In the literature there are many supporting and also sceptical arguments in the importance of SMEs for the economic development. Conceptual supporters are mostly based on the following three core arguments (World Bank 2004).

First SMEs advocates argue that SMEs enhance competition and entrepreneurship and therefore have external benefit on economy wide efficiency, innovation and aggregate productivity growth. From this perspective supporting of SMEs will help countries to exploit the social benefits from greater competition and entrepreneurship (Ganbold 2008).

Second proponent of SME support frequently claim that SMEs are generally more productive than larger SMEs but financial markets and other institutions failure impede SMEs developments. Thus pending financial and institutional improvements broadening access to financial services to SMEs can boost economic growth and development (Ganbold 2008).

Finally, some argue that SMEs expansion boost employments more than large SMEs because SMEs are more labour intensive. From this perspective subsidizing SMEs may represent poverty alleviation and tools in developing countries (Ganbold 2008).

2.5 Access to Finance

Access to finance refers to the possibility that individuals or enterprises can access financial services, including credit, deposit, payment, insurance, and other risk management services. Those who involuntarily have no or only limited access to financial services are referred to as the *unbanked* or *under banked*, respectively (wikipedia.org 2013).

Accumulated evidences have shown that financial access provides credit for the most promising SMEs promotes growth for enterprises through the provision of credit in the most promising SMEs, encourages more start ups, and enables incumbent SMEs to grow by exploiting growth and investment opportunities. It brings benefit to the

economy benefits the economy in general by accelerating economic growth, intensifying competition, as well as boosting the demand for labor. In turn, Tthis helps those at the raises income for those in the lower end of the income distribution in reducing income inequality and poverty (wikipedia.org 2013).

2.6 Sources of Finance for SMEs

While not all of the sources that will be discussed here are appropriate for, or accessible to, all of the different types of SMEs, there is a general consensus that two specific theories can help explain the funding choices of entrepreneur or owner-managers: Pecking Order theory and Trade-off theory.

Pecking Order theory suggests that it is the owner-managers“ or entrepreneurs“ individual decision as to which finance sources to approach at any given point in time. The theory posits that there is a pecking order, i.e. ranking, of preferred sources of finance, whereby entrepreneurs tend to prefer own, internal sources of finance over external debt, which in turn is preferred over external mezzanine finance, and external equity is the least preferred source of all (Fama and French, 2002; Hackbarth *et al.*, 2007; Shyam-Sunder and Myers, 1999).

Trade-off theory, on the other hand, takes into account the benefits and disadvantages of funding a business through debt rather than equity. This theory acknowledges that taking on more debt into the business increases the tax shield effect of the interest payable, which reduces a venture“ s tax burden – in contrast, however, taking on more debt increases the risk of over-gearing, financial distress and bankruptcy, which involves a variety of costs to the business. The theory therefore, proposes that entrepreneurs choose finance sources based on a trade-off between increased tax shield and increased bankruptcy costs (Fama and French, 2002; Hackbarth *et al.*, 2007; Shyam-Sunder and Myers, 1999).

However, independent from the owner-managers' /entrepreneurs' desires for specific types of finance, not all types of finance are suitable for all SMEs (as indicated above). Relying on the ranking of financiers explained by Pecking Order theory, this section now briefly discusses the suitability of the different funding sources available to SMEs.

2.7 Internal Sources of Finance

This refers mainly to retained earnings (i.e. capital generated by the venture itself), as well as to the so-called 3F investors – founder, family and friends⁶ (Mitter and Kraus, 2011). Investment of own capital and an ability to obtain capital from a very close circle of friends and family tends to send a strong signal to outside investors, suggesting commitment from the entrepreneur (Prasad *et al*, 2000). Generally, any business can benefit from internal finance, independent from the stage of development, nature of foundation or growth intentions/potential. However, the larger the business becomes, the more likely it is that the entrepreneur has already invested all available capital and/or the entrepreneur's capital resources do not suffice to continue to fund the business, especially if it is a high-growth business and/or in the expansion stage.

Using trade credit can also be considered part of internal sources because businesses use their interactions with suppliers and customers to fund their operations, e.g. through asking for pre-payment from customers but at the same time making use of the maximum trade credit period until suppliers are paid (Mitter and Kraus, 2011). Another internal source of finance, which is often discussed in academic literature, and which may include some of the above-mentioned sources, is „bootstrap finance“ – this refers to any activity which enables entrepreneurs to obtain resources (mostly, but not exclusively, financial resources) at a lower cost or even for free (Van Auken and Neeley, 1996).

2.8 External Sources of Finance

Debt, mostly provided through banks, is seen as the entrepreneur's second-favorite funding type. The reasons lie in the tax shield effect, as well as the fact that no ownership needs to be relinquished.

Generally, it is the later-stage businesses (which already have a proven track record) and the lifestyle and imitation-based businesses, which can more easily attract debt finance because they might possess assets that can be used as security. Additionally, they are less risky than, for instance, a seed-stage venture, which is generally based on a novel, „disruptive“ technology that has very high growth potential but at the same time has very high risks attached.

2.9 Financial Intuitions for SMEs In Zanzibar

Financial institutions in Zanzibar are still largely dominated by the banking industry, although the development of other institutions such as micro finance and cooperatives has also been quite significant recently. The existence of non-bank financial institutions creates a larger market, and offers a wider variety of products, and terms and conditions, all of which will make the financial industry more flexible for Zanzibar customers.

2.9.1 Bank Finance for SMEs

Bank lending (debt) is one of the key aspects of business finance. The banking and finance industry provides a range of products and services to all types of businesses from the smallest micro to the largest corporate. The common finance option across all business is bank overdrafts (for working capital needs) and term loans (for capital expenditure needs). In addition, there are a number of specialist finance products such as asset backed lending, invoice discounting, factoring, trade finance, vendor finance and consortium finance.

Banks have influenced economies and politics for centuries. Historically, the primary purpose of a bank was to provide loans to trading companies. Banks provided funds to allow businesses to purchase inventory, and collected those funds back with interest when the goods were sold. For centuries, the banking industry dealt only with businesses, not consumers. Commercial lending today is a very intense activity, with banks carefully analyzing the financial condition of their business clients to determine the level of risk in each loan transaction. Banking services have expanded to include services directed at individuals, and risk in these much smaller transactions is pooled.

Commercial Banks

Commercial banks can be defined as the financial institutions authorized to provide a variety of financial services, including consumer and business loans (generally short-term), checking services, credit cards and savings accounts. In several countries where the financial intermediaries were in the early stages of establishment (before the independence and liberalization the discussions of 1960s and 1980s respectively) and still not functioning properly, the central banks were in these cases responsible for the total or by for the greatest proportion of the short and medium term credits advanced to the private sector. Only in Morocco and Tunisia were the contributions of commercial banks are smaller due to the large number of state and public institutions that were established to direct credit into new fields, which needed stimulating (Newlyn & Roman, 1985).

The central banks were the most important source of short and medium term credits to the African economies. Most of the banks in African countries were expatriate in as much as they were themselves branch offices of important international commercial banks. At the time of independence foreign owned or expatriate banks dominated African banking systems. In most cases they were the only commercial banks, and other types of banks had relatively very small shares of total lending. Three very different types of commercial banks operated in post independence Africa. The surviving

expatriate banks and private sector locally owned (most-small) commercial banks (Brownbridge and Sam, 1996). In some countries the foreign banks sold equity stakes to the government. They disappeared completely only in a relatively small number of countries including Ethiopia, Mozambique and Tanzania, where they were nationalized and government owned commercial banks held a complete monopoly as required by the socialist ideology (Brownbridge and Sam, 1996).

The first categories of commercial banks to be established in Africa were government owned (Public sector). The second new category known as local or indigenous banks established by local private sector investors and most were established since the mid 1980s. The banking system of East African began to assume a unitary aspect after the First World War, under the leadership of Big Three British banks called National and Grindlays; Standard, and Barclays (Casel, 1975). The three banks initially concerned themselves with financing the marketing and export of Agricultural commodities as well as the import of consumer goods, predominantly with British funds. With the development of the local economy, the functions of the three banks functions gradually changed. They became typical deposit banks, soliciting deposits locally and investing in London any surplus funds left over in excess of local loans. For a longtime, they were in effect, the exporters of capital from East Africa to Britain (Newlyn and Roman, 1985).

Actually, up to 1950s the banks were unable to find satisfactory investment opportunities locally for their deposits (Caseli, 1975). Mainly for two reasons, both connected with conditions of credit supply and demand at the time. On the supply side, the banks used to apply the same standards of credit worthiness to their local lending as were customary in England, but these were inappropriate in countries at a so much lower level of development. It was a basic rule of the develop banks to grant credit only against such security as would have been considered first class on the British market. The banks also lacked the network they would have needed for local credit expansion. On the side of demand for credit, there simply were not enough investment opportunities in an economy at so low stage of development. A second important

characteristic of East Africa's banking system was that it consisted largely of branches of banks operating in a large number of different countries, and were all linked with their home base by many financial and operational ties. Structurally, the expansion of deposits and credit was marched by network diversification.

The first entirely indigenous banks in E.A was the Uganda National Bank, a commercial bank set up by conversion of the Uganda credit and saving Bank which dated back to 1950. Because of the number of circumstances both on demand and supply side of bank credit, commercial banks in East Africa for years place a bank of its investment abroad, especially in the UK, to the detriment of local lending. However, following adoption of liberalization of the financial sector, currently, each country member to East Africa has a number of commercial banks registered and regulated accordingly following the rules and policies in each respectively country. Financial reforms have occurred in a wide range of countries. Almost all developing countries have now at least partially liberalized their financial sector. The process has varied greatly both in terms of speed and sequencing. Although the application and process may differ but the intension of financial reforms in Zanzibar was not different from other countries. Hence, the Zanzibar's current financial structure is a result of the continuation of the financial sector reforms with the intention of creating a competitive and efficient financial system.

The Zanzibar financial sector is characterized by the interaction of both the Bank of Tanzania and commercial banks. Following the implementation of financial sector liberalization in Zanzibar, there are still few financial institutions especially commercial banks which include People's Bank of Zanzibar (PBZ), National Bank of Commerce (NBC), CRDB Bank Plc National Microfinance Bank (NMB), Barclays, Tanzania Postal Bank, and Federal Bank of the Middle East (FBME). One of the objectives of attracting commercial banks in Zanzibar is to promote the private sector by providing stakeholders with affordable credit lines for the purpose of improving private sector

productivity as well as the Zanzibar economy. There are also micro-credit organizations such as Pride Africa, CARE (T), Zanzibar Association of Disabled, and Women Entrepreneurship Development trust fund, (Shirima and Maalim, 2000).

2.9.2 Micro-Finance Institutions MFIs

Microfinance refers to the practice of providing financial services, such as micro-credit, micro-savings or micro-insurance to poor people, to help them to accumulate larger sums of money, thus expanding their choices and reducing their risks. Institutions providing these services are referred to as micro-finance institutions (MFIs). Linkages with MFIs are the main avenue through which the SMEs access financial services. Services to the SMEs include the provision of savings and loans through groups, cheque clearance services, client training on business management, insurance services, as well as provision of assets (for instance, heifers). SMEs interact with the MFIs mainly through loans operations that are provided mostly through groups. The groups, the main channel through which loans are extended, are formed according to the specifications of each respective MFI. In most cases, groups need to accumulate certain level of savings before they are eligible for MFI loans. The savings mobilized by the group is the security for loans taken by members. (Rosemary Aliono 2009).

Tanzania has a tiered structure of licensed and prudentially regulated and supervised financial institutions through different entry requirements in terms of required minimum capitalization, which are differentially applied to regular commercial banks, regional banks, rural unit banks and non-bank financial institutions. The tiered structure makes it possible for non-regulated institutional providers of microfinance services, e.g., MEDA, PTF or PRIDE, to become formally-licensed and prudentially regulated financial institutions if their organizers were to determine that taking the transformation approach is necessary for growth and expansion on a sustainable basis. Transformation into a licensed and prudentially regulated institution is one approach to commercializing microfinance, and the other approach is for licensed commercial and other specialized

banks to focus all or part of their operations on financing micro and small enterprises. (Working Paper Series No. 51 June 2003)

The microfinance commercialization experience in Tanzania thus far has consisted of the establishment of a microfinance-oriented commercial bank (National Microfinance Bank) from the restructuring and re-capitalization of a government-owned commercial bank (National Commercial Bank). Another restructured and re-capitalized privately-owned commercial bank (CRDB) entered the microfinance market using an approach that differs from that of NMB – becoming a sub wholesaler to down-market based microfinance institutions such as SACCOS which have the direct and primary relationship with individual owners of micro enterprises, small businesses and agriculture-based production units. A third commercial bank, Akiba, has decided to re-focus its business thrust towards microfinance, and is gearing up to provide microfinance banking services to individuals and group-based microfinance clients, to microfinance institutions such as SACCOS and NGOs, and to small businesses as key features of its redefined corporate thrust. A state-owned nonbank financial institution, Tanzania Postal Bank emphasizes the mobilization of savings and servicing deposit requirements of low-income and poor rural and urban households in Tanzania, providing payment transfer and remittance services, as well as providing a loan guarantee facility to top off security shortfalls of borrowers. (Working Paper Series No. 51 June 2003).

There are a handful of financial NGOs with noticeable outreach, which have reached operational self-sufficiency levels (on a self-reported basis). These include MEDA, FINCA and PRIDE. MEDA was established in 1987 as a registered company limited by guarantee (non-stock) with a start-up capital of US\$ 300,000. With an operational self-sufficiency level of 110% and financial self-sufficiency at just over 100%, the 8,000-strong client base and the urban-based market segments serviced by MEDA may be too

limited to warrant conversion into a licensed and prudentially regulated microfinance institution under existing laws (i.e., as a regional community bank or a rural unit bank but not as commercial bank or non-bank financial institution). Moreover, if the limited license specialized bank format is not suited to MEDA's operations and objectives, no other alternative can be considered, at least until the contemplated microfinance law provides clear directions and options. MEDA shares with other NGOs and microfinance institutions in Tanzania a major obstacle – the shortage of skilled professional management and financial skills. This is just one of the significant obstacles that need to be overcome for microfinance to get onto a commercialization mode. (Working Paper Series No. 51 June 2003).

2.9.3 SACCOS

A Savings and Credit Co-operative (SACCOS) is a democratic, unique member driven, self-help co-operative. It is owned, governed and managed by its members who have the same common bond: working for the same employer, belonging to the same church, labour union, social fraternity or living/working in the same community. A Savings and Credit Co-operative's membership is open to all who belong to the group, regardless of race, religion, colour, creed, and gender or job status. These members agree to save their money together in the SACCOS and to make loans to each other at reasonable rates of interest. Interest is charged on loans, to cover the interest cost on savings and the cost of administration. There is no payment or profit to outside interest or internal owners. The members are the owners and the members decide how their money will be used for the benefit of each other. (<http://www.SACCOSl.org.za/>)

Savings and Credit Co-operatives are democratic organizations and decisions are made in a structured democratic way. Members elect a board that in turn employ staff to carry out the day-to-day activities of the SACCOS. The number of board members are between nine and fifteen. Members also elect a supervisory committee to perform the function of an internal audit. (<http://www.SACCOSl.org.za/>) 10/07/2013

Co-operatives create the opportunity for people to take responsibility for their own financial organisation. The democratic process is an integral part of the co-operative and encourages people to take control of their own financial affairs. Among the many advantages of SACCOS are:

2.9.4 NGOs

A number of NGOs also do micro lending; some of them predominantly oriented towards women-owned MSE clients. During the Tanzania field visit, interviews were held with the Tanzania Gatsby Trust (TGT) and the Zanzibar Fund for Self Reliance, two examples of such NGOs. The TGT is a registered charitable trust, focused on the alleviation of poverty in Tanzania through credit provision, marketing development, training and technology transfer to MSEs. It directly provides micro credit services in 10 regions of the country, and in an additional 11 regions through collaborators. Their wholesale group lending services are provided through NGOs and other third party lenders at annual rates of between 18 and 24 per cent, depending on the size of the loan.³⁶ Their retail credit is delivered to groups of 5 to 9 members on a mutual guarantee, no collateral basis, at rates as high as 30 per cent. The minimum loan for a group is Tshs 100,000; the maximum is [Tshs](#) 5 million. When an individual member scales up to a Tshs 1 million loan, she may decide to leave the group and take an individual loan if she has been able to accumulate some assets for collateral. TGT also does individual lending up to a maximum of Tshs 5 million to clients who do not want to participate in a group. If the client is not able to secure bank financing at that point, the TGT can lend up to Tshs 10 million – but at interest rates of up to 30 per cent, this is expensive money. Initially, TGT targeted certain sectors, like artisans, but has started to broaden its eligibility criteria. TGT credit is supported by business development services, including marketing support and training in financial management and business development skills. Eighty per cent of their micro-finance clients are women.

The key informant from TGT shared her views on the barriers women face in accessing “growth” credit: Lack of business management skills, especially in rural areas; Low level of skills that can translate to markets; Lack of premises, raw materials and other resources required for growth. She concluded by saying, “Being a woman in Tanzania is in itself a problem. They are poor, have low educations, and don’t have a voice.” To address these problems, she recommended improving policies, improving the infrastructure for entrepreneurs, and forcing banks to contribute a certain percentage of their loan funds for small business financing in the local community.

2.9.5 Zanzibar Credit Department

Department of Credit is working under the economic empowerment agenda, it is headed by a director with four sections and a Credit Approval Committee. These sections are Credit Section with zonal credit subsections, Credit Development Section with development and cooperation subsections, Finance and Administration Section with finance and administration subsections and Pemba Office with credit subsections and finance and administration subsections as the head office.

Main Objective

Main Objective of the Department of Credit is to empower society through providence of concessional credits and follow up their repayments to the poor disadvantaged unemployed society for viable productive income generating activities enabling them to reduce their poverty, self employment and improve quality of life in general.

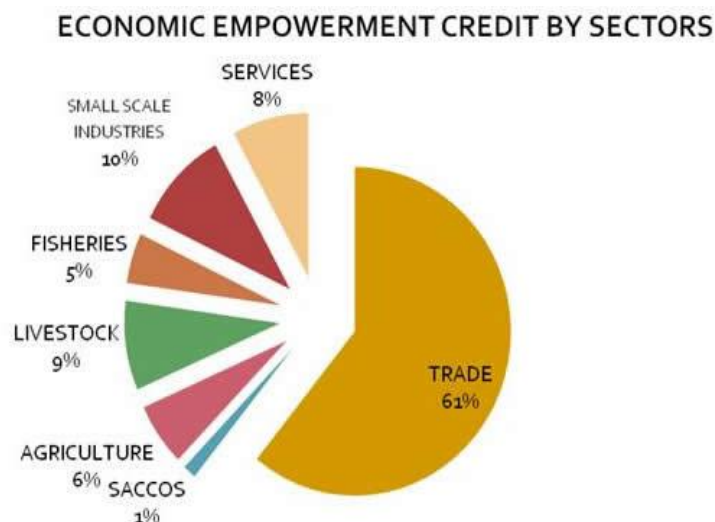
Special objectives for the Year 2012-2013

- To ensure timely fund disbursements for 1000 concessional credits are available after screening, appraising then approving credits with pre loan trainings;
- To improve loan repayment rate from 85% to 95% by conducting follow up visits, local government and micro creditors’ forums ;

- To proper recording credit database by updating through introduction of credit data management software and train staff on the usage.
- To ensure new micro credits opportunities are available and credit policies are improved by increasing collaboration with national and international micro credit institutions.
- To strengthen human capacity by training 4 staff in related long courses and short courses.
- To improve working facilities and environment by acquiring needed working facilities and safe working environment
- To ensure staff entitlements, incentives and other benefits are acquired accordingly.

Department of credit facilitates micro credits to clients where there is no alternative for credit (that is bank cannot lend clients due to unfulfilled conditions of the bank loan) and without collateral. This kind of credits include simple procedures for approving loans, quick disbursement, low interest rates, encouraging and accepting savings, access to business information, no collateral to secure loan, expertise, and advice to entrepreneurs. Credit for Economic empowerment can be a most powerful tool in helping people out of poverty and is also a means for self-empowerment. Sectors that are encouraged for economic empowerment credits are trade, fisheries, livestock, agriculture, processing and small scale industries, and services. So far, the chart here under will portray the distribution of economic empowerment credits through sectors of economy.

Figure 2.1: Economic Empowerment Credit by Sectors



Source: Zanzibar Credit Department

Department of Credit administers two funds for economic empowerment credits, these are:-

- a. Zanzibar Fund for Self Reliance This fund was established in 1991 to cater for unemployed Zanzibari society that employs itself for income generating activities to improve their lives. So far it facilitated 5,788 loans with amount disbursed of Tsh. 871,889,850/- that benefited 8,334(4,606 females and 3,728 males). The department is fully operating this fund
- b. JK-AK Economic Empowerment Fund This fund was established in 2008 to economically empower poor society that has a privilege to self employ for income generating activities. The department is coordinating this fund, client follow normal banking procedures. So far, the fund provided 750 economic empowerment loan worth Tsh. 1,529,884,831/55 that benefited 676 individuals, 64 economic groups and 10 SACCOS. The department is involved jointly with

bank and local government in screening, appraising and follow up repayments of these credits.

The focal point of these funds is to increase employment opportunities, improve productivity. For applicant please follow the requirements for both funds as explained hereunder.

Table 2.3. Application Requirements Self Reliance and JK-AK Funds

Requisites	Zanzibar Self Reliance Fund	JK-AK Economic Empowerment Fund
Eligibility of the Applicant:	An applicant must be a Zanzibari individual of 18 years old onward/ a registered economic group /live SACCOS	An applicant must be a Zanzibari individual of 18 years old onward/ a registered economic group /live SACCOS
Suitable Activity	An applicant must have an existing business/activity that require the credit for working capital/expansion/improvement	An applicant must have an existing/new business/activity that require the credit for working capital/expansion/improvement
Minimum lending amount and Repayment period:	An applicant can borrow from Tshs 200,000/- to 2,000,000/- for a period from 6 months to 18 months	An applicant can borrow from Tsh. 50,000/- to 5,000,000/- for a period of six months to three years.
Application form	Applicant will be required to fill and return an application form which is available at Department of Credits for a non refundable fee of Tsh. 2,000/-	Applicant will be required to fill and return an application form which is available at Department of Credit free of charge.
Operating expense (interest)	15% interest per credit for the whole period of repayment is applied to cover for operating expenses.	10% interest annually per credit is applied to cover for operating expenses.

Other conditions	An applicant must have a guarantor who is a permanent Public/private sector employee. Other charge of 1% of credit amount is applied for follow ups and a refundable 5% of the applied credit amount for savings after timely repayments. One month grace period	No other conditions is applicable, savings are encouraged of any amount. One month grace period
Other requirements	An applicant must have a bank account that operates in Zanzibar, (preference in People's Bank of Zanzibar) All applicants will be screened by allowing Credit Officers visits and inquiries on their business/activity premises, which they will assess viability of the business to the amount of credit required and expected repayments then appraise and verify the business for the approval. Then fill in an agreement.	An applicant must have a bank account that operates in Zanzibar, (preference in People's Bank of Zanzibar) All applicants will be screened by allowing Credit Officers' visits and inquiries on their business/activity premises, which will assess viability of the business to the amount of credit required and expected repayments then appraise and verify the business for the approval. Then fill in an agreement.

Source: Zanzibar Credit Department

In general, Credits for Economic Empowerment fits best to those with entrepreneurial capability and possibility. This translates to those poor who work in growing economies, and who can undertake activities that generate stable incomes. The impact of credits for economic empowerment has not shown significant results to the livelihoods of poor societies in Zanzibar, but it is the step forward in the empowerment process.

The Department of Credit has focus in positive future where environment for economic empowerment credits will be strengthen, credits to be provided to the targeted villages' entrepreneurial economic groups and SACCOS. It will closely with Department of Coordination and Development of Economic Empowerment Programs, Department of Cooperatives and the Department of Employment within the Ministry. It will strengthen

ties with Economic Empowerment Institutions within Zanzibar and outside Zanzibar to learn more and networking to serve the poor societies for their improvement.

2.9.6 Department of Cooperatives.

The Department of Cooperatives Zanzibar was established in 1980 following the enactment of the Cooperative Societies Decree no 3 (1979) which then was amended by the Cooperative Society's Act No 4 (1986) with its amendments of 1998, that provides for establishment, management and supervision of cooperative societies and other matters related therewith in Zanzibar.

It is one of the departments in the Ministry of Labor, Economic Empowerment and Cooperatives (MLEC). Previously, the department of cooperatives was under the Chief Minister's Office, and then was shifted to the Ministry of Agriculture, Livestock, Environment and Cooperatives and presently it is in the MLEC.

The department implements the pillar of MKUZA II which focuses on reduction of both income and non-income poverty and promoting sustainable growth. This is in line with MDG indicators of reducing hunger and to bring about improvement of people's income poverty. <http://www.mlec.go.tz/Departments.php?cq=8>

2.2 Growth of Small and Medium Enterprises (SMES)

2.2.1 Meaning and nature of SMEs growth

The term “growth” is usually used in ordinary language to mean two different connotations. Sometimes, it merely means increase in amount for example in output, exports or sales. At other times, it is used in its primary meaning implying increase in size or an improvement in quality as a result of a process of development, akin to the natural biological process in which an interacting series of internal changes leads to increases in size accompanied by changes in the characteristics of the growing object (Penrose, 1959: 1).

Qualitative growth can occur through changes or sophistication in the SMEs and its owners or managers. For example a SMEs that changes from being owner-operated to owner-directed can be considered to have substantially grown organizationally. Similarly, a SMEs whose owner evolves from doing the business passively to taking a more proactive posture can be considered to have qualitatively grown. The change in owner-manager's growth motivation, which is one of the concerns of this study, is therefore a qualitative as opposed to quantitative change.

Quantitative growth has to do with changes that are readily measurable, such as workforce size, sales revenue, profitability, total investments, product mix, etc. It can occur horizontally or vertically. Horizontal growth occurs when the number of establishments, or SMEs that fall under the same managerial control increases. These establishments can be related or unrelated to existing activities. Where a SMEs grows horizontally to an industry unrelated to its current one, it is by so doing diversifying. Horizontal growth is however not always diversification. A SMEs that sets up additional establishments offering the same products to the same category of customers as it is currently offering will have grown horizontally without diversifying. Similarly, diversification does not have to be horizontal growth. It can occur within a single establishment by simply increasing the variation in product types offered and customers groups served.

2.2.2 Indicators of SMEs Growth

Various indicators can be and have been used to denote the degree to which SMEs growth has occurred. These can be grouped under four categories namely SMEs outcomes, outputs, capacity and qualitative indicators. They are briefly discussed below.

Outcome indicators

Profit, the difference between revenues and costs is a common target of all private SMEs, in part because it has to be achieved in order for any other objective to be sustainably realised. The amount of profit that a SMEs makes is a function of revenues generated as well as the level of efficiency in the SMEs. Increased profits thus signify an increase in

sales (a quantitative change) and/or an increase in efficiency (a qualitative change). Profit Tables are however not readily available in many studies of small SMEs. This can be explained by at least three reasons. First, there is no requirement or incentive for small SMEs to make profit Tables public. Second, small SMEs owners are known to have a systematic tendency to understate performance Tables (House, 1984). Third, a majority of small SMEs operators do not keep reliable books of accounts (Acar 1993). In addition to these problems, the use of profit to measure growth poses another methodological problem. Due to international differences in accounting conventions, the use of profits makes cross-national comparison of research findings impracticable (Adams and Hall 1993).

Output-based indicators

The main outputs of a business are the products that it produces and/or sells. Production level can be a reasonable indicator of size because it is likely to reflect both capacity of the organisation and potential for profit. The value of goods produced is not readily available to outsiders and therefore sales value, is the most widely used indicator of size. It has been noted, for example that employment level, another common measure of size tends to reflect seasonality of sales (Watts, Cope and Hulme 1997). Sales Tables for formalised SMEs can also be readily obtained from output-based tax authorities. Sales Tables face the same limitations that profits face, except that there is no serious problem with international comparisons, since differences in accounting conventions do not significantly affect reported revenue.

Capacity-based indicators

Capacity indicators reflect the potential of the SMEs for producing outputs and outcomes. They include value of assets, capital invested, production capacity and workforce size. Capacity Tables have two major problems which render them unsuitable in many small SMEs studies. First, few SMEs keep up-to-date records of the different capacity indicators. Second, capacity Tables are rarely made public as there are no statutory requirements for

doing so. Third, the appropriateness of a specific capacity measure may vary widely from industry to industry. In a livestock SMEs for example, the most commonly used measures of growth are farm size and number of livestock (Weiss 1999).

Qualitative indicators

Qualitative indicators of SMEs size may include structure, management practices, degree of formalisation, etc. The structure of a SMEs can take many forms. Tuck and Hamilton (1993) describes three different types of structures, corresponding to micro, small and medium sized SMEs. In a one-man business, there is no structure as such.

The owner performs all roles and the business can be described as *owner-operated*. At another level, the business has a few employees and the owner has delegated some or most of the operational duties to employees. He closely oversees the business activities and makes all day-to-day decisions. Such a business is considered to be *owner-managed*. At yet another level, the business is *owner-directed*, meaning that the owner is responsible for the strategic direction of the business but has delegated day-to-day decision making to employed managers. At a particular time in the SMEs's history, size, as measured by the other indicators, such as workforce size or revenues, will normally correspond to structure and any inconsistency is likely to be painful and temporary (Tuck and Hamilton 1993; Weinzimmer 1997).

However, Tuck and Hamilton's classification of structure is not exhaustive of the different forms in which SMEs may be organised at different levels of development. As noted elsewhere in the study it was found during the survey that some SMEs were organised in ways that do not correspond to the two author's classification. For example, some owners of micro and small enterprises had delegated all operational and day-to-day decision-making. This appeared to be necessitated by the fact that the owners were fully engaged elsewhere and facilitated by the routine nature of the business. Also, beyond the owner-directed SMEs, we expect to find committee-managed ones. Some owners of growing SMEs, who lack the time, expertise or interest to run businesses themselves have boards of directors and advisory boards to help manage the business (Weinzimmer 1997).

The list of management practices that are likely to change with growth may be long but perhaps the most important ones are the extent to which management uses formal planning and the complexity of the accounting and control systems. One would expect the degree and complexity of the techniques used for these purposes to increase with other indicators of size, including output and capacity.

2.2.3 Models of Small SMEs Growth

Existing growth theories reflect three different views of the process.

Biological view of growth

This view sees growth as a “natural” or “normal” process, one that will occur whenever conditions are favourable. Those who subscribe to this view share an underlying assumption that the ultimate goal of the owner-manager is to develop the business into a large, multi-functional corporation and that progression, if not inevitable is usually linear (Gray 1993). This view has been the key inspiration behind stage and ecological theories of SMEs growth discussed below.

Stage models

Stage models are based on the premise that businesses experience common problems arising at similar stages in their development and attempt to organise the points of similarity into frameworks that are intended to enhance understanding of the process of growth. Each of the models categorise stages of growth in terms of size and maturity, the later being reflected in management style; owner’s involvement; organisational structure; extent of formal systems; and major strategic goals. As the SMEs progresses from a small (‘inception’) towards a large (‘maturity’) size, personal supervision becomes inadequate. Survival and further growth requires additional managerial resources, delegation of powers and responsibilities, formal plans, structures and control mechanisms (Greiner 1972; Scott and Bruce 1987; Gray 1993). Greiner (1972) and Scott and Bruce (1987) among others, posited that the movement from one stage to the

next is triggered by a point of crisis and that what happens to the business will depend on how the crisis is handled.

Ecological perspectives

With a base in organisational theory, *ecological perspectives* view survival and growth of organisations as dependent on the "carrying capacity" of the environment and individual SMEs's relative capacity to create a fit with the environment (Pennings 1979). Resource-dependency and resource exchange theories are two slightly different ecological perspectives. The resource-dependency theory emphasise the role of the external environment in achieving growth (Pennings 1979; Bruno and Tyebjee 1982) while the resource-exchange perspective views the SMEs as an (pro-active) exploiter of the environment attempting to build a fit with them (Child 1974; Pfeffer and Salancik 1978).

Stage and ecological models of growth have been widely criticised as been inconsistent with the reality of heterogeneity in growth rates among SMEs exposed to more or less similar external circumstances and increasing empirical evidence which consistently shows that most small SMEs do not grow beyond four employees (Storey, 1994).

Economic view

The second view of growth is that of economists, who see growth as the outcome of a SMEs's adjustment to the optimum or most profitable size (Penrose, 1959). In line with the profit maximisation assumption of traditional economists, growth will be sought until the marginal revenue from an increase equals long-term marginal cost (Mansfield 1979; Casson 1982). Whether the SMEs continues to grow will depend on the SMEs's capacity to seek and adjust to a bigger size. Classical economics, resource-based and production-oriented theories are examples of theories that ascribe to this view.

Classical industrial economic theories

Classical industrial economic theories assume that all SMEs are profit maximisers.

Under perfect competition, the SMEs grows until it reaches the size where long-run marginal costs equals price, which is its objectively assessed size (Mansfield 1979). Growth will be sought as long it yields positive net financial returns (Casson 1982). Some economic theories emphasise the role of factors other than the production cost function, but retain the assumption of profit maximisation (Marris 1963). In a notable departure from the profit maximisation assumption, Marris (1963) considered perceived threat of take-over and manager's preference for short-term profit over long-term growth as possible growth deterrents.

The economic theories are considered inappropriate for explaining small business growth because they are concerned with large businesses and their development from the perspective of differentiated management structures not typical of owner-managed SMEs (O'Farrell and Hitchens 1988). For example, while we are in this study concerned with owner-managers' choices, the profit or growth motive assumptions in classical economics are assumptions about (hired) managers' motivations.

Resource-based perspectives

These emphasize the role of the resources that the SMEs owns, acquires or develops (see Penrose 1959; Wernerfelt 1984; 1995). Resource-based perspectives differ according to whether the resources being referred to belong to the entrepreneur or the SMEs. The entrepreneur human capital perspective emphasises the role of the owner-manager's abilities. Personal resources that have been related to growth include type, quantity and quality of education, prior entrepreneurial experience, personal networks, work experience, entrepreneurial family background as well as personality, gender and age (Bird 1989; Campbell 1992; Robinson and Sexton 1994; Storey 1994).

On the other hand, the strategic management perspective emphasises the role of resources that the SMEs acquires or creates (Wernerfelt 1984). According to this view, competitive advantage (and hence growth) emerges through processes of resources

accumulation and deployment, leading to idiosyncratic endowments of proprietary assets (Wernerfelt 1984, 1995; Mosakowski 1993). Success is seen to stem from unique, valuable, not easily purchased, stolen, imitated or substituted resources (Peteraf 1993). Such assets can include unique technology, products, brands, markets or business networks.

Production-oriented theory

According to the Production-Oriented Theory (O'Farrel and Hisrich 1988), the key challenge facing small SMEs is competition and therefore SMEs that grow are the ones that are able to identify the key criteria upon which to compete in certain segments (for example design, after-sales service, price, quality and delivery reliability) and can build a competitive advantage based upon this criteria (O'Farrell and Hitchens 1988). In an attempt to build competitive advantage, small SMEs are likely to face a number of constraints, such as need for capital, shortage of skills, cash flow problems and outdated machinery. SMEs that grow are the ones that in addition to overcoming these constraints, they are able to design an appropriate price/quality relationship.

Human motivation view of growth

The third view of growth departs from the first two in one significant way. It holds that growth is a result of conscious human action, which is in turn driven by personal motives (Stanworth and Curran 1976; Tuck and Hamilton 1993; Gray 1993). Contrary to the analogy of biological growth of organisms, owners and managers of SMEs, rather than inherent internal and environmental conditions, will determine whether or not the SMEs grows. While the traditional economists see profit maximisation as the sole motive for seeking growth, this view holds that social and psychological motives can significantly influence growth seeking behaviour and therefore growth itself. Psychological theories view growth as primarily resulting from the needs and motivations of the owner-managers. Social-psychological theories, on the other hand, see growth as resulting

from personal needs of the owner-managers, but also posit that these needs are socially generated, socially sustained and socially changed.

This perspective promises to be useful especially in explaining growth of small SMEs, since the later are intricately linked to the owner's needs, emotions and preferences. Penrose (1959) has argued that theories of small SMEs growth that have no place for human motivation and conscious human decisions are futile. This is because the growth of a SMEs is connected with attempts of a particular human being to do something. According to Penrose, "Nothing is gained and much is lost if this fact is not explicitly recognised".

Three psychological theories can be related to the growth motive. These are the classical motivation theory, the expectancy theory and the career anchor theory. Also, three perspectives which combine elements of psychology and sociology are relevant to this study. These are the social action theory (SAT), the theory of planned behaviour and Shapero's model of entrepreneurial event formation.

The six theories can be categorised into two types. The first type is in the form of explanatory models, relating growth to motivation and antecedents of the later. The second type of theories attempt to categorise owner-managers into unique typologies on the basis of the meaning that they attach to business activity, which in turn imply different levels of growth motivation. These theories are described below.

Psychological and sociological explanations of growth

The theories that present the relationship between motivation and growth in an explanatory model are the classical motivation theory, the expectancy theory, and the theory of planned behaviour and Schapero's model of entrepreneurial event formation.

The classical motivation theory

According to the classical motivation theory (Maslow 1954), individual's level of motivation towards achievement of goals will slacken as the goals are achieved. Maslow's (1954) ***hierarchy of needs theory*** posits physiological and safety needs as lower-order needs which are mainly satisfied extrinsically (money being one way of satisfying them), while esteem and self-actualisation needs are considered higher-order needs satisfied intrinsically. This theory would suggest that an owner-manager's survival and security needs will have to be substantially met before status or self actualisation need are activated. When applied to SMEs growth, the theory would suggest that many apparently growth motivated owner-managers will begin to slacken as their original goals for setting up businesses are achieved. Therefore, once a certain level of growth is achieved, different owner-managers will take different courses of action depending on the nature of motivations they have. Some may sell the business to enjoy fruits of their earlier labour while others will raise expectations as a result of the level achieved (O'Farrell and Hitchens 1988).

Success and the uplift that comes from running a business successfully may provide the impetus for further growth. Others will choose to avoid further growth. For example, individuals whose main enjoyment is in organising others or starting other projects will grow up but not beyond the point at which the business demands more professional as opposed to personal management systems (Gray 1993).

The expectancy theory

The expectancy theory (Vroom 1964) posits that the propensity to act in a certain way is contingent on an expectation that the act will be followed by a certain outcome and the relation between that outcome and the goals of the individual. This theory suggests that an owner-manager would engage in growth seeking behaviour if (1) growth is consistent with his/her personal goals, (2) he/she believes growth seeking behaviour will lead to growth and (3) he/she believes in her ability to yield growth.

Mathematically, the propensity to engage in growth-oriented behaviour is the weighted sum of expected outcomes of growth.

The theory of planned behaviour

According to the theory of planned behaviour (Azjen 1987, 1991), intentions towards target behaviour are a result of perceived attractiveness of the target behaviour, perceived social norms and perceived behavioural control. The perceived attractiveness of behaviour is in turn a function of its perceived outcomes and the likelihood that such behaviour will yield the outcomes in question. Perceived social norms are influenced by one's compliance motive and normative beliefs. Perceived outcomes, outcome likelihood, normative beliefs and motive to comply are all influenced by 'exogenous' factors, which may include personality and demographic characteristics as well as environment or situational factors.

Krueger and Carsrud (1993) argue that entrepreneurship research which tests the impact of exogenous factors (skills, background, traits, etc.) on entrepreneurial behaviour typically finds relatively small effects because the relationship is not as direct as presumed. Intentions are specific to the person and the context, whereas exogenous factors are both person or situation variables and therefore less capable of directly predicting a person's behaviour in a specified context. A key limitation of the theory is that it assumes business activity as volitional behaviour (Azjen, 1991). This assumption may be of limited use in studying Tanzanian business operators, since most of them are pushed into business by economic necessity.

Shapero's model of the entrepreneurial event formation

This model is closely related to the theory of planned behaviour. Intentions are considered a necessary pre-condition for the target behaviour, new venture initiation.

They require potential founders to perceive entrepreneurship as a ‘credible’ career alternative. For the career to be perceived as credible, it has to be perceived desirable and feasible. Perceptions of feasibility and desirability are influenced by exogenous factors as is the case in the theory of planned behaviour. Shapero includes in his model a ‘displacement factor’ that can account for the conditions or events that push some owner-managers into business, sometimes against their wishes, positing that the relationship between intentions and behaviour is moderated by these precipitating events (displacement factors). These events can include being fired from a job, becoming unemployed, happening to be ‘in between things’, etc The intentions-based approach offers a testable, theory driven model of how exogenous factors affect attitudes, intentions and behaviours (Krueger and Carsrud 1993). However, the approach has been used to explain intentions rather than motivation. In terms of discourse on entrepreneurship the intention-based approach has been limited to explaining the start-up process. It appears reasonable to expect the model to predict growth motivation as well. Indeed when applied to growth, the theory of planned behaviour and Shapero’s model of entrepreneurial event relates the aspects described by the career anchor and social action theories (and more) in an explanatory model. It suggest that growth motivation is influenced by: perception by the owner-manager of attractiveness of size and organisational complexity ; social norms about growth; and ability to seek growth and manage a large organisationally complex SMEs. Growth motivation in turn influences actual growth. These perceptions will in turn be influenced by exogenous factors (social context in the social action theory). The relationship between growth motivation and actual growth is moderated by precipitating, facilitating or inhibiting influences.

2.3 Small Enterprise Sector In Tanzania: With A Gender Perspective

2.3.1 Women as Entrepreneur

Women’s entry in business in Tanzania is a recent phenomenon, mainly a result of the economic crises and restructuring programmes which has led to drastic decline in real

wages as well as formal employment opportunities (Rutashobya, 1995; Tripp, 1994; Kombe, 1994). Probably as a result of the recent nature of women's involvement in business, much of the research that has been carried out was aimed at making general description of women in the sector along with a cross-section of the barriers that they face. Indeed, one of the limitations of the existing entrepreneurship literature in Africa and Tanzania in particular, is its treatment of women entrepreneurs as a homogeneous group (Rutashobya and Nchimbi, 1999). In reality, women entrepreneurs differ in many ways in terms of age, religion, ethnicity, wealth, education, literacy, marital status, social status, experience and socio-economic position. They also differ in terms of their motivation to start and develop businesses. These differences, according to Koda (1995), are responsible for a considerable variation in the nature, scope and magnitude of women's entrepreneurial activities.

The poor and uneducated women, for example, will be found in the informal sector operating small eating places (mama lishe), the richer women have more capital and hence run relatively large enterprises, employing more labour and using appropriate technology.

Most women enterprises are either group based or sole proprietorships. Where they are partnerships, these are informal. Where women are involved in limited liability companies, they are typically minority shareholders in their spouses' businesses. There are very few cases of women owned limited liability companies. These various forms of business also mean that women's enterprises are quite diverse in form and, to understand them, one has to take these differences into account.

2.3.2 Personal Entrepreneurial Characteristics of Women Entrepreneurs

Entrepreneurial behaviour is a function of environmental factors including cultural and traditional values and prejudices (El-Namaki et al, 1986; Nafziger, 1988; El-Namaki, 1990; Rutashobya, 1995). In Tanzania, women have been socialised to be subordinates to men. In many traditions, women are raised to see their ultimate role in life as that of

wives and mothers. They are socialised to be non-argumentative, passive and easy to accept defeat (Rutashobya, 1995). This may have significantly affected their self-confidence, achievement-motivation and even their willingness to take risk, qualities that are closely linked to success in business.

There is some empirical evidence in support of the notion that women have less of these qualities. In recent studies, Nchimbi (1999, 2002) found women entrepreneurs to be more internally oriented suggesting lack of confidence. In addition, women were found to have lower need for achievement compared to men. However, Nchimbi (2002) found no gender differences in terms of entrepreneurs attitude towards risk, a finding that contradicts the widely held view that women entrepreneurs are risk averse.

2.3.3 Why do Tanzanian women start businesses?

There is a wide range of reasons as to why people choose to engage in MSMEs. These include push and pull factors. The main reasons for starting MSMEs have been documented by Rutashobya (1995), Temu, (1998), Lwihula (1999), Nchimbi (1999,2002) and Olomi (2001). They are summarised below:

Table 2.4.Push and Pull Factors for Women Starting MSMEs

PUSH FACTORS	PULL FACTORS
• To meet basic economic needs, either because the woman is single and has no formal employment or the spouse's income is inadequate to meet basic family need. • To supplement income from the woman's salary in order to meet her and her family's basic needs • Creating breathing space for the woman. Staying around the house all day long invites quarrells with neighbours and family members	• To have something she can have control of • To raise her social status and earn respect of the husband and community • To have greater flexibility (compared to employment) to combine work and her household responsibilities • To be able to access credit offered by some donor supported projects. In some cases, the money borrowed is not used in the business, but rather to meet other pressing needs

Sources: Nchimbi 2002

The pressure for women to start business activities to meet basic needs or supplement income has become a very prominent motive especially following the economic crises of the 1970s and early 1980s and the subsequent structural adjustment programmes. These programmes led to erosion of purchasing power of salaried workers and limited job openings. The impact has been felt most by women, who have a greater burden of enabling the family to cope. Rutashobya (1995) notes that in some cases, women have become the main breadwinners. Another explanation for the increased prominence of this motive is that the number of single mothers has been increasing, and many of these do not have any means of earning their livelihood other than self-employment.

Women have reported that they get respected and trusted by husbands and others because they are self employed. Some women have noted that when they are generating income from business activity their husband cannot harass them, because they can take care of the family without the husbands' financial support (Lwihula, 1999). This however does not apply to all women. It has been found that in some cases, economic independence and success of women are seen as a threat to the control of women by men (Lutege and Wagner, 2002) . Mbilinyi (1997) has reported that women's increased economic power as a result of their involvement in business has also led to serious misunderstanding and even breakage of some marriages.

A lot of literature is available on the success and failures of these enterprises. Many countries and indeed multilateral institutions have set up agendas and strategies for the development of these units.

Thibault et al. (2002) suggest that factors influencing business growth could be attributed to personal factors such as demographic variable and business factors such as amount of financing, use of technology, age of business, operating location, business structure and number of full-time employees as important factors in examining the performance as small scale business operators. The growth of the small enterprise sector

will be reflected in the increasing number of registered business SMEs and with successful enterprises that recruit more people, produce more output and are better competitors. Possible these small units would emerge to become big units. The big multinationals today must have definitely started small (Stoner et al, 1996). Success of these enterprises therefore should be reflected in profitable enterprises, growing enterprises, and conversion into medium or large enterprises.

2.4 The constraints factors for SMEs to access finance

When it comes to limitations faced by small and medium enterprises (SMEs) in property markets, inadequate access to credit is one of the more common complaints. One of the key components of a well functioning property market is an efficient, transparent financial sector that provides a broad range of citizens with access to multiple forms of competitive credit so that they can start businesses, build wealth, and purchase property. In countries where SME access to finance has been difficult, finding a way to frame a productive discussion on the topic is an important first step. (Anna 2011).

Given the lack of angel financing, Armenian SMEs rely on banks and microfinance organizations. However, microfinance institutions provide mainly micro-loan services that are often insufficient to expand a business while banks have strict policies mandating collateralization (primarily requiring real estate as collateral) that excludes many small businesses from commercial debt markets. High interest rates – ranging from 12 to 22 percent per year – make credit unaffordable for many. (Anna 2011)

It is important that the government take more active role in helping SMEs obtain affordable financing, notably through developing a system of policies and guarantees that would reduce the collateral burden involved in traditional loans. On the other hand, SMEs also must make an effort to show greater loan worthiness to banks through better prepared business plans, professional accounting, and good governance. If lending risks

are reduced, the availability of credit and interest rates should reflect that, helping SMEs gain access to financing they need to prosper and grow. (Anna 2011)

The following section will first look at debt financing, and the reasons why regular banks provide insufficient debt to SMEs. It will demonstrate that the access to finance gap is a complex problem driven by several factors including lower returns, higher risk perceptions, an uninspiring regulatory environment, and a lack of intermediary skills, experience and capacity.

2.5 Debt Financing

Banks are not adequately providing SMEs with capital in developing countries.

As described in previous sections, there is large financing gap for SMEs in developing countries. The top five banks serving SMEs in non- OECD countries reach only ~20% of formal micro enterprises and SMEs.⁵³ As shown in Table 10, in Sub-Saharan Africa, this number is even lower, at 5%. Nearly 25% of SMEs in emerging markets have a loan but are financially constrained, and almost 60% do not have a loan overdraft, but need one, as shown in Table 11. This deteriorated further during the 2008-2010 financial crisis. (Dalbberg 2011).

Banks can often earn high returns in their core markets, giving them little reason to take on additional risk in the SME market.

Banks in countries with immature financial systems often face little competition and a low threat of entry and can therefore earn handsome returns by lending to large public and private players.^{54,55} Banks in Africa are among the most profitable, earning often returns in equity in the 15-25% range. They might realize the potential of the SME market, but they have little incentive to move outside of their comfort zone and develop SME products. As Paul Collier observed: “African banks were operating profitably via the easier and safer role of lending to large SMEs, and holding high-yielding government debt.” As a result, in the words of a manager of one leading African bank “we have only scratched the surface of the SME market.” (Dalbberg 2011).

Banks incur higher administrative costs by lending to SMEs.

The costs of lending to SMEs are relatively high, as loan sizes are small, and the transaction costs per loan are relatively constant. This reduces incentives for regular banks to lend to them. The difference in fees, interest rates and relative share of loans to SMEs for African and non-African banks.

Banks have difficulty providing long-term capital.

Banks in developing countries are often reliant on short-term liabilities (such as deposits). There are few traditional long-term borrowers, such as pension

funds, that can provide long-term liabilities to banks. Banks are thus challenged, to avoid a mismatch in the maturities of assets and liabilities, in providing long-term capital to their borrowers (including SMEs). In some countries and regions, such as West Africa, local regulation might further curtail the banks' ability to attract long-term funding⁶⁴, leading the AFDB to conclude that "Maturity mismatch, stringent bank regulations, and an underdeveloped capital market characterize the West Africa Economic and Monetary Union (UEMOA) region".⁶⁵ As shown in the next chapter, IFIs can play an important role in addressing the duration gap by providing long-term capital at favourable rates. (Dalbberg 2011).

Banks have difficulty providing tailored foreign exchange products.

SMEs seek financing in currencies that match their income streams, to prevent foreign exchange mishaps. SMEs that have income in foreign currencies (e.g. USD for a cocoa trader) want debt in the same currency. Alternatively, an SME with only local currency income wants to avoid dollar-denominated debt. Banks in developing countries sometimes face restrictive local regulation and limited forex availability that make tailored foreign exchange solutions more difficult. (Dalbberg 2011).

Banks have limited information, skills and regulatory support to engage in SME lending.

There are a variety of different forms of SME lending. Many forms, however, are difficult to implement in developing countries. The countries often have weak accounting standards, and the SMEs have little to no accurate financial statements on their revenues, profits and ability to pay. Furthermore, there is often little to no general market data available on the SME market and specific sub-sectors (e.g. default rates). This limits the potential for lending based on financial statements or small business credit scores. Therefore, banks primarily engage in relationship-based or other forms of collateral-based lending, rather than cash-flow based lending. Banks tend not to provide financing for working capital to SMEs, which is cited by SMEs as one of the areas of greatest need. The lack of collateral for some borrowers and/or clear recourse legislation (e.g. ability to claim collateral) however, can complicate the possibilities to do collateral based lending (e.g. asset-based, real-estate or equipment lending). Finally, banks need specific skills to engage in the different forms of SME lending.

A recent Dalberg survey showed that the difficulty in establishing credit-worthiness was a key barrier, with 80% of banks stating challenges in this area.⁶⁸ Lack of these skills can lead banks to shun the SME market in its entirety, and invest only in high-yielding sovereign government debt, or it can translate into inadequate risk management, leading to lower repayment rates and returns. Some recent initiatives, such as the IFC SME banking guide, are aimed at decreasing this skill gap. (Dalbborg 2011).

These Characteristics of the banking system that generate unfavourable lending conditions for SMEs.

The higher costs, lack of skills and higher (perceived) risks of investment in SMEs translate into high interest rates and collateral requirements. Banks sometimes charge more than 150% of the loan amount in collateral, and interest rates might be 5 to 6% higher than in the rest of the world. Furthermore, posting collateral is complicated by

the fact that most SMEs operate in environments with weak property rights and poor contract enforcement, in which borrowers do not have legal titles to house or land, and therefore cannot use these as collateral. (Dalbberg 2011).

SME lending is further held back by a self-reinforcing market failure.

The lack of SME lending leads to higher costs and lack of familiarity and knowledge, which in itself can lead to adverse selection (only the riskiest SMEs seek external financing), which in turn can lead to higher costs and interest rates, and less lending. Stiglitz and Weiss showed that this vicious cycle/market failure can lead to an end-state in which no SME lending takes place at all.

Interest rate:

An interest rate is the price a borrower pays for the use of money they do not own, for instance a small company might borrow from a bank to kick start their business, and the return a lender receives for deferring the use of funds, by lending it to the borrower. Interest rates are normally expressed as a percentage rate over the period of one year.

In economic theory, interest is the price paid for inducing those with money to save it rather than spend it. Rates reflect the interaction between the supply of savings and the demand for capital, or between the demand for and the supply of money.

Oyedutun (2004) describes rate of interest as the reward for parting with liquidity for a specified period. It is the return for parting with control over the money in exchange for a debt for a stated period of time. Emmons and Mueller (1997) argue that, interest rate is the price of money; it is the rate paid to lenders by borrowers in return for the use of money, normally expressed as a percentage of the amount borrowed per year. Further they argue that interest rate can be classified into two categories: deposit and lending rates. Deposit rates are paid on savings and time deposits of different maturities - these are costs to a bank. While lending rates are interest rates charged on loans to customers - this represents interest income to a bank.

The classical view of interest holds the views that, interest rate affect an individual choice between consumption and saving for future consumption. Keynes (1936), viewed money as a store of value one of many possible ways of providing for future consumption. He found out that, interest rates have a decisive influence on the decision to hold money. Depositors take opportunity cost by depositing their money in bank since they sacrifice liquidity. Classical economists further postulate that, savings is a function of the rate of interest. The higher the rate of interest paid on deposits, the higher will be the savings interest rate. The implication is that, at higher interest rate people will be willing of forgo present consumption.

Rose (1996), argues that interest rate plays important roles which include guaranteeing current savings that will flow into investment to promote economic growth, rationing the availability of credit, bringing into balance the nation's supply of money and the demand for money, and as a tool of government policy to the volume of savings and investment.

From a theoretical stand point, the rate of interest may affect investment in two opposite directions. On the one hand, interest rates may affect investment positively through the effect on financial saving and the supply of credit to the private sector. On the other hand, interest rates may be expected to affect investment negatively, holding the supply of credit constant, if the rate of interest is considered as a proxy for the price of credit, and the rate of interest is above its equilibrium value. The classical investment function suggests that if the interest rate is below equilibrium, investment is constrained by saving, and a rise in interest rates should raise investment. If the interest rate is above equilibrium, however, a rise in interest rates will discourage investment. In order to determine the overall net effect of interest rates on investment, it is necessary to calculate the magnitude of the two separate effects, distinguishing at the same time between interest rate regimes below and above equilibrium. This suggests the use of a switching empirical investment function in which the sign of the interest rate variable

may change according to the relationship between the interest rate and its equilibrium value (Warman and Thirlwall 1994).

Despite the variations, in the case of interest rates, most of the above explanations have a lot in common including price or reward to acquire or lend money. For the purpose of this study, the two terms of interest rates, lending rates and weighted average lending rate will be used synonymously to mean the same, that is the rate paid to lenders by borrowers in the return for the use of money and lender means commercial banks in Zanzibar, money means credits, and borrowers' means domestic enterprises, and resident individuals.

Religious belief:

Islamic belief on banking operation is that the bank should operate based on the Islamic faith and stay within the limits of Islamic law/sharia in all of its actions and deeds such that, there should be an absence of interest based transaction, the avoidance of economic activities involving speculation and the discouragement of the production of goods and services which contradict the value pattern of Islam.

Credit awareness:

The credit awareness creates a success or failure for the business. Credit is tied into a person's integrity and credibility, or how trustworthy a person is in their ability to do what they say they will do. The development of personal credit means that a person is equipping themselves with the ability to properly care their credit as well as the knowledge necessary to know what companies want from them, while raising their credit scores and creating a credit profile of excellence

Bureaucracy:

Is the structure and set of regulations in place to control activity, usually in large organizations and government. As opposed to adhocracy, it is represented by standardized procedure (rule-following) that dictates the execution of most or all

processes within the body, formal division of powers, hierarchy, and relationships. In practice the interpretation and execution of policy can lead to informal influence.

Collateral requirement:

Collateral is an assets that have been pledged by the recipient as security on the value of the loan. In the event that circumstances make it impossible for the recipient to repay the loan, ownership of the collateral is transferred to the entity that issued the loan in order to settle the debt.

Essentially, the financial institution that grants the loan retains interest in the property until the mortgage is paid in full by the homeowner. The mortgage holder must approve any changes in ownership of the property as long as there is an outstanding balance on the loan. Once the debt obligation is discharged, the mortgage holder considers the business arrangement to be concluded and releases all claims to the property.

Information Asymmetry

One of the challenging areas in SME lending is „Information Asymmetry“ which arises as a result of the different levels of information held by the bank as well as the SME about the future of the business (Binks and Ennew, 1996, 1997). Berger and Udell (1998) argue that new businesses are the most informational opaque, on account of their lack of any track record of their business. The information required to assess the competence and commitment of the SME and the prospects for the business is either unavailable, uneconomic to obtain or difficult to interpret. With information asymmetry, two problems arise for the banker: adverse selection and moral hazard. Adverse selection is lending to an uncreditworthy business and not lending to a creditworthy business which may be due to lack of useful information on the future of the business. The banker would experience moral hazard after the credit has been made and due to information asymmetry, the business may hide certain actions which might be unfavorable to the bank's interest. It is important that the bank collects adequate

information about the future prospects of the SME whilst evaluating its creditworthiness to address the problem of information asymmetry

2.6 The alternative sources of financing for the growth SMEs

Trade credit is the largest use of capital for a majority of business to business (B2B) sellers in the United States and is a critical source of capital for a majority of all businesses. For example, Wal-Mart, the largest retailer in the world, has used trade credit as a larger source of capital than bank borrowings; trade credit for Wal-Mart is 8 times the amount of capital invested by shareholders.

For many borrowers in the developing world, trade credit serves as a valuable source of alternative data for personal and small business loans. The 1993 National Survey of Small Business Finance (NSSBF) indicated that ethnic differences in the use of trade credit are present, especially for Black-owned businesses, which research shows use less trade credit, are less likely to take advantage of discounts for early payment, and are more likely to have payments past due.

There are many forms of trade credit in common use. Various industries use various specialized forms. They all have, in common, the collaboration of businesses to make efficient use of capital to accomplish various business objectives.

Own finance - You may choose to start your own business using your own financial resources. This may be from savings accounts or other investments that you have. Typically, it is not advised that you should fund your start-up from personal overdrafts, loans or credit cards as these are not necessarily tailored to your business needs or requirements.

Family and friends - You may have family and friends who wish to invest in your business. This is often convenient and may allow you to get finance on favourable terms. However, make sure you have a formal agreement of loan terms in place so you

or your family and friends are not left unprotected in the event that you are unable to repay the loan.

Banks: The most common forms of finance used by start-ups are:

Business overdrafts - Banks offer overdrafts as a form of short-term finance. These are available to companies that have business current accounts. They are a good way of covering any fluctuations of money coming in and going out of your business.

Term loans - Loans are designed to help you buy equipment and supplies for your business. They are best if you need to buy fixed assets, such as machinery or office equipment, where the amount you need is not going to change.

Grants - These are a good option for businesses looking for financial assistance for specific projects. Typically, funding comes from EC and UK government sources, including local authorities, charitable trusts and corporate sponsors.

Loans - It is not just banks that can provide a loan. Business support organisations such as enterprise and development agencies can help businesses looking for loans. The National Enterprise Network is a good example:
<http://www.nationalenterprisenetwork.org/>

Business Angels - Often high net worth individuals, Business Angels invest in high growth businesses on their own or as part of a syndicate. In addition to providing finance, Business Angels often make available to companies their own skills, experience and contacts.

The Prince's Charities - This is a group of not-for-profit organisations, headed up by The Prince of Wales who acts as Patron or President. A good example of support available to start-ups is from the Prince's Trust Enterprise Programme, which helps

unemployed young people aged 18-30 work out if their business ideas are viable and whether self-employment is right for them.

Community Development Finance Association (CDFA). The Association represents a network of regional Community Development Finance Institutions (CDFIs). CDFIs provide loans and support to businesses, social enterprises, community organisations or charities. They are mostly based within the UK's most disadvantaged communities.

Business Finance For You - Brings into one place a wide range of finance providers across Britain - including business angels, regional funds, government schemes and banks - enabling businesses to more easily seek the finance they require. Its free and easy-to-use search engine allows businesses to refine searches according to their geographic location, the industry in which they operate, the amount of finance they require, and the life stage of their business.

The OECD Scoreboard on SME and entrepreneurship finance includes an indicator on equity financing, more precisely, venture capital and, for some countries, growth capital. Venture capital includes seed, start-up and early development capital. Growth capital includes later stage expansion capital, but generally excludes buy-outs, turnarounds, replacement capital. The capital provided by business angels is not included in the equity section of the Scoreboard, since only a few countries can currently report on business angel investments. (AN OECD SCOREBOARD2012)

A nascent industry of equity providers has emerged in developing countries.

Whereas the previous sections discussed the barriers in the provision of debt, this section focuses on equity. As discussed in the previous chapter, SMEs can grow into large SMEs on a combination of equity investment by the founder, debt and retained earnings. However, the provision of external equity ("private equity") becomes relevant to facilitating changes in ownership of these larger SMEs, for example when the

founder wants to retire. Secondly, there is a sub-set of SMEs, especially start-ups with highly uncertain and fluctuating cash-flows, that are harder to finance through a debt model, and are better suited to external equity investment (“venture capital”). (Dalbberg 2011).

Historically, there were few external equity providers in developing countries, whether private equity or venture capital. The venture capital and private equity industry is still relatively new, and most players have not expanded beyond the developed world. Furthermore, equity financing is hampered by similar reasons as debt financing (e.g. asymmetric information, lack of reliable financial information). Finally, entrepreneurs in developing countries have little familiarity and affinity with the equity model. However, over the last decade a private equity industry for developing countries has surfaced, due to the efforts of pioneers such as Business Partners. Dalberg identified 192 private equity funds supporting SME investment in emerging markets and developing countries with an aggregated capital of US\$7 billion. Many of these funds were created in the last five years, and 60% of them focused on Sub-Saharan Africa. (Dalbberg 2011).

These players focus mostly on large- and medium-sized SMEs, and would commonly not invest in smaller SMEs. However, some specialized investment SMEs have emerged, such as Bamboo Finance, which focus on financing small enterprises that have an intentionally positive social impact and address poverty beyond local economic stimulation. In addition, albeit still at a very small scale, the first local venture capital funds have started to emerge in developing countries. (Dalbberg 2011).

2.7 The government support for the accessibility of fund to the growth of SMEs

Most literatures emphasize that the government best role in improving accesses to finance is to offer a policy environment that allow competitive and diverse financial service providers to flourish. It is to ensure that competitive is an essential part of broadening access as a competition encourage incumbent institutions to seek out

profitable ways of providing services previously excluded SMEs sector and increase the speed of new accesses. International experiences suggest broadly three complementary roles that government can address some of the constraints and facilitate the broadening the access to finance to SMEs. (I) improve or build sound legal and judiciary infrastructures. (II) Build effective information infrastructure. (III) Make some rational direct intervention. (Ganbold 2008).

2.8 Empirical Literature Review

Malhatra, Chand and others demonstrate that SMEs usually more credit constrained than other segments of the economy because of the following reasons:-

(I) financial sector policy distortions (II) Lack of know-how on the parts of the banks. (III) Information asymmetries for example lack of audited financial statements (IV) high risk inherited in lending to SMEs. (Ganbold 2008).

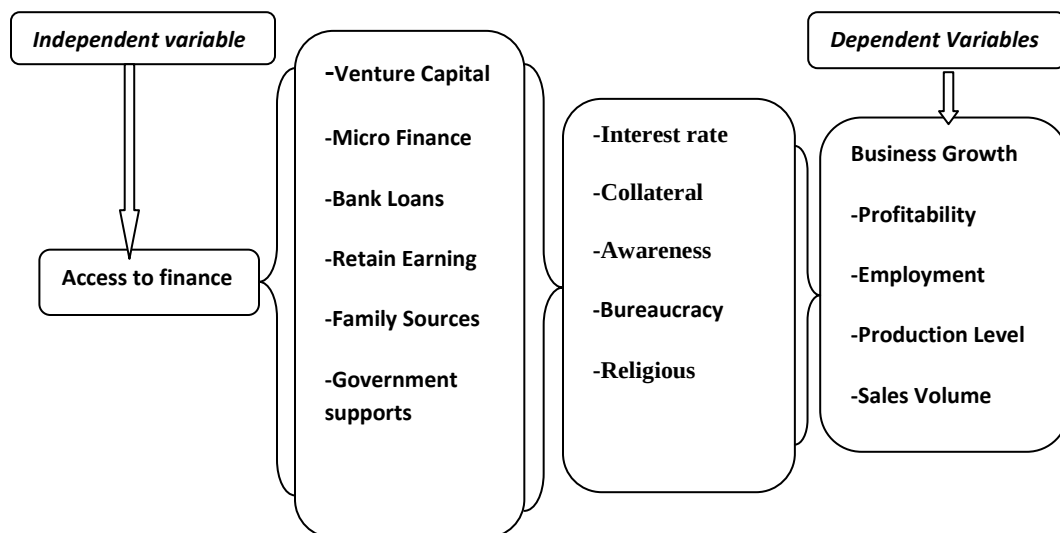
According to Oju (2009) on his study “small and medium scale enterprises in Nigeria: the problems and prospects.” said that Most of these enterprises cannot access loan on a long and short term basis. In a World Bank report in 2001, it was reported that almost 50 percent of micro, 39 and 37 percent of the small and medium scale SMEs are financially constrained in Nigeria as oppose to 25 percent of the very large SMEs. (World Bank, 2001).

Satio and Villanueva (1981) and Peel and Wilson (1996) showed that in general SMEs have higher costs and reduced access to financing because of the information asymmetries associated with newer, smaller SMEs. Furthermore, Levy (1993) concluded that restricted access to financial services slows the growth of SMEs. In comparison to these previous studies.

2.9 Conceptual framework and research model

The literature on accessibility of fund relates to the growth of small scale enterprises based on venture capital, loans from Commercial Banks, certain credits from micro finance, retain earning and other sources of fund are the factors that influence the performance and the growth of small and medium enterprises in terms of profitability, growth in employments, production level and sales volume. Table 1 illustrates the interactions between the accessibility of fund and performance for small and medium enterprises.

Figure 2.1: Effect of accessibility of fund to the growth of SME



SOURCE: Researcher's Model 2013.

2.10 Variables and their measurements

Independent variable	Measurements	Indicators
Access to finance	Equity finance	increase/decrease
	Debt finance	Increase/decrease
	Retain earning	Increase/decrease
	Government support	Increase/decrease
Dependent variable	Measurements	Indicators
Business growth	Production level	Increase/decrease
	Sales volume	Increase/decrease
	Profitability	Increase/decrease
	Employment level	Increase/decrease

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the type of study, the study area, study population, unit of analysis and sample size and sample techniques. It also discuss the type of SMEs and sources of data together with data collection methods.

3.2 Study Area

The study conducted at Zanzibar Urban West Region which is located at Unguja Island. This region is purposely selected as representative sample of small scale enterprises based on the following reasons, accessibility, convenience and heterogeneity of the population. This could minimize time consuming and other financial demand.

3.3 Research Design

A research design is the conceptual structure within which a research is conducted; it constitutes a blueprint for the collections, measurement and analysis of data (Kothari 1990). State that a research design provides a frame work for the collection and analysis of data. The research explore the impact of access to finance to the growth of SMEs in the region, hence cross section design was employed in the study.

3.4 Study population

Population is basically the universe of unit from which the sample is to be selected. According to Babbie (1992) a study population is the aggregation of element from which the sample elements actually selected. A detailed description of population of SMEs of Urban region picked from respective registrations.

3.4.1 Population

The population of this study was 541 registered business enterprises in Town Region according to available statistics from the Central Registry Office that involve the manufacturing sectors, merchandize, services providers like restaurants, stationeries, and so forth.

3.5 Sample size and procedure

3.5.1 Sample size

Sample size refers to the number of items to be selected from the universe to constitute the sample, and this answer how many sampling units should be surveyed and interviewed, (Kothari 1990). Large sample give more reliable results than small samples. The sample size was (66) where (60) from the owners of the small business enterprises, (1) from staff from Ministry of Trade, industries and marketing, (1) from Ministry of Community Development, Women and Children, (1) from Ministry for Labour, Economic Empowerment and Cooperatives Zanzibar, these from Trade department and credit sections, and (1) senior officer from Commercial Bank, (1) senior officer from micro finance (Pride) (1) from Zanzibar Chamber of Commerce.

The number of commercial banks has seen to be a total of (5) in the country but for the purpose of this study only (1) commercial banks operate in the central or city of country that is in Zanzibar island was selected because many commercial banks which operating in the country constitutes the population of the data and that banks under this study were also constitutes the sample of the study.

Below are the sample of the Commercial Banks

- Peoples Bank of Zanzibar (PBZ)
- National Bank of Commerce (NBC)
- Barclay's Bank
- CRDB Bank
- NMB Bank

So one among of the five Commercial Banks operating under the banking industry in Zanzibar Island, the *People Bank of Zanzibar* has been taken as sample for the study in order to focus the study to the large extent because many of Zanzibar enterprises, individuals and government employees use it compared with another Bank.

Only 1 bank was taken as a sample for the study because banks neither are the organization with huge coverage and turnover was nor truly give the fair result and conclusion due to various reasons such as time for this study, size and portfolio diversification of the banks.

Staff from credit department of PBZ with long experience in lending activities was selected to represent the commercial bank through interview method and filling the questionnaires, and other senior staffs in Government Institutions were interviewed through the same way. Random sampling method was used to select the respondents from both senior staffs of commercial banks and Government officials as shown on the table 3.1.

Table 3.1: Sample size

Category	Frequency (n)	Percentage
SMEs owners	60	85
Bank Staff	1	4.4
Micro Finance staff	1	4.4
Ministry of Trade, Industry and Marketing	1	1.4
Ministry of labour, Economic Empowerment and corporative	1	1.4
Ministry of community development Woman and Children	1	1.4
Chamber of commerce	1	1.4
Total	66	100

Source: Research findings, 2013.

3.5.2 Sampling procedure

This study used purposive stratified sampling in selecting key informants whose information was relevant to the study. The choice of participants depends on the researcher perception of their ability to increase improvement of data which is likely to enhance the quality of the study results and due to their knowledge.

3.5.3 Units of Inquiry

This study involved respondents from Zanzibar Town, from District level and ward level. From the District level people who involved in the study included staff members from Central Government, Commercial Banks, Micro Finance Institutions, Local government Authority from Town District and Non Government Organization. At the ward level the study was involved Entrepreneurs. (Nandram and Samsom, 2006).

3.6 Data collection method

Two major approaches or techniques to data collection that is primary data and secondary data. The research study employed Primary data where by observation, Interviews and questionnaires methods were used as primary data and reviewing of various documents was used in the secondary data collection method. This was enhanced the validity and reliability of data.

3.6.1 Primary Data

The primary data those which was collected fresh and for the first time, and thus happen to be original in character. Using primary and secondary data that was collected from a sample of small-scale enterprises in Urban District of Zanzibar, the paper was analyzed the nature of linkages between SMEs and financial institutions as well as the networks existing among SMEs, and the effect they have on enterprise performance.

3.6.1.1 Observation method

The observation method is the most commonly used method especially in studies relating to behavioural science. In a way we all observe things around us. Under the observation method information was sought by a way of investigators own direct observation without asking from the respondents.

3.6.1.2 Interview method

The interview method of collecting data involved presentation of oral-verbal stimuli and reply in terms oral-verbal responses. This method was used through personal interview and if possible through telephone interviews. The question was open and flexible so as

to allow the greater opportunity for an individual. A set of predetermined questions was used to guide the respondent in order to provide the necessary information to meet the research objectives.

3.6.1.3 Questionnaires

A questionnaire administered to the person's concerned with a request to answer the questions and turn to the questionnaires. A questionnaire consisted of number of questions printed or typed in a definite order on a form or set of forms. The respondents have to answer the questions on their own.

3.6.2 Secondary Data

Secondary data on the other hand are those data that are already available. i.e which have already been collected and analyzed by someone else and which have already been passed through the statistical process. For example secondary data involved reading books, articles, performance reports, papers etc.

3.7 Units of analysis

Since the data collected both qualitative and quantitative in nature data processing and analysis included computation, classification and tabulation so that they are enable to analysis. These manners reduce burliness and minimize data into manageable size to enable the reader or user of the information to understand the report easily. Quantitative data presented using descriptive statistic methods including table, charts, and graphs and like depending on the data obtained. Qualitative techniques were used to analyze qualitative data from views by respondents. This increased the validity and reliability of information.

3.8 Data Analysis Methods

Qualitative methods of analyzing data were used in this study. A series of tables charts and graphs were used so as to support the study analysis (Babbie, E.R et all, 2000). Data were analysed through software package like MS-Excel. The researcher preferred

to use tables, charts and graphs due to the fact that are simple to prepare, and can easily be understood and interpreted by many users.

CHAPTER FOUR

RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

This chapter discusses the major results and conclusions of both statistical and descriptive information derived from questionnaires gathered from SMEs owners that who conduct business, senior staffs from commercial banks, micro finance institutions and different government organizations who provide support to many SMEs and individuals interviewed. It was followed by data analysis and their interpretation, where the relationship of the data was presented among the variable under the study. It is a chapter where the results and outcome of research are displayed vividly. Moreover, it is a chapter that tries to answer the research questions.

4.2 Discussion of the results from questionnaires for SMEs

Questionnaires collected total (58) out of (60) distributed, equivalent to (96%) while (2) questionnaires equivalent (4%) were not collected due to the several reasons. Out of (58) SMEs owners (38) from Urban Area equivalent to (66%) and (20) equivalents to (34%) were from Western Area.

Table 4.1: SMEs owners

Area	Frequency (n)	Percentage (%)
SMEs Urban Area	38	66
SMEs Western Area	20	34
Total	58	100

Source: Research findings, 2013.

4.3 Profile of the respondents.

4.3.1 Number of respondents by sex

The study had a total of (58) respondents. Out of that respondent, (46) equivalent to (79.3%) were males and (12) equivalents to (20.7%) were females respondents. Table 4.2 below shows the total number of all respondents.

Table 4.2: SMEs owners

Gender	Frequencies	Percentages
Male	46	79.3
Female	12	20.7
Total	58	100

Source: Research findings, 2013.

The study sought to understand various activities carryout by SMEs in Zanzibar Urban an western District. The findings show that majority of entrepreneurs in Zanzibar Urban District are engaged in economic activities such as restaurant which were (20.6%) of the respondent, kiosk businesses which were (8.6%), followed by those who are doing stationeries activities (13%). Other activities include shops (24%), saloons ware (12%), tailoring (8.6%), and food/beverages (12%). As show in the Table 4.3:

Table 4.3: Activities carried out by respondents

Activities	Frequencies	Percentages
Restaurant	12	20.6
Kiosk	5	8.6
Shops	14	24.1
stationary	8	13.7
Saloons	7	12.1
Tailoring	5	8.6
Food /Beverages	7	12.1
Total	58	100

Source: Research findings, 2013.

The table 4.3 indicate that most of the enterprises carried out in the region are engaged in the shops that have high percentage followed by restaurants compared to other activities in the region. In this respect therefore the researcher reveal that this is due to the capital formation on this type of business is not difficult.

Table 4.4 Ownership structure

Ownership	Frequencies	Percentages
Sole proprietorship	45	77
Family owned	13	23
Partnership	0	0
Company	0	0
Total	58	100

Source: Research findings, 2013.

The table 4.4 indicate that most of the enterprise in Zanzibar are sole proprietorship which have high percentage of 77% followed by family owned business type which has 23% compared to other type of ownership like partnership and company.

4.3.2 Number of employees.

The respondents were asked for the number of employees and the capital investment they had employed during the preceding 12 months. Table 4.7 and 4.8 below presents the findings, showing that out of 58 responses, the majority (56%) of participating SMEs can be considered micro enterprises as they employ fewer than 5 employees with capital investment up to 5 mills. A further 43% employees between ten and 49 employees with capital investment above 5 mills to 200 mills and thus can be considered small businesses, whereas none of the participants are medium-sized enterprises employing between 50 - 99 and more than 100 employees with capital investment above 200 mills to 800 mills and above 800 mills respectively as show in the Table 4.5 and 4.6.

Table 4.5 Number of employees

Employees	Frequencies	Percentages
1 - 4 employees	33	56
5 - 49 employees	25	43
50 - 99 employees	-	-
100 and above	-	-
Total	58	99

Source: Research findings, 2013.

The table 4.5 demonstrate that most of the enterprises in Zanzibar are Micro Enterprises since they afford to employ only 1- 4 employees that have a high percentage of 56% followed by Small Enterprises which employ 5-49 employees that have 43% compared to other size enterprises according to URT SMEs Policy (2006)

Table 4.6 Capital Investments

Capital	Frequencies	Percentages
Up to 5 mills	14	24
Above 5 mills to 200 mills	44	76
Above 200 mills to 800 mills	-	-
Above 800 mills	-	-
Total	58	100

Source: Research findings, 2013.

The researcher found that majority of SMEs in the region are in the level of micro and small enterprises due to their number of employment and their capital investment according to URT SMEDP (2006).

Table 4.7 Sources of capital

Sources	Frequencies	Percentages
Bank Loans	6	10.3
Micro Finance Institutions	3	5.1
Family/Friends	12	20.6
Own capital	17	29
SACCOS	12	20.6
Others (Trade credits)	8	13.7
Total	58	100

Source: Research findings, 2013.

The table 4.7 above illustrate that despite of the many sources of finance available in Zanzibar most of enterprises prefer to use their own sources of finance to finance their business activities that have 29% followed by trade credit that have 13.7% and family or friends compared to other sources of finances.

4.4 Business experiences.

The participants were asked about their familiarity in the business was important variable in the research findings because it helps to predict the SMEs who are most active in the entrepreneurship activities. Basing on this study, the majority were those between (5-10) years of experience was (29) equivalent with (50%). This was followed by (21) respondent equivalent to (36%) was between (2 – 5) years of experience in the business activities. 4 respondent 7% was (1 – 2) and also 4 respondent equivalent to 7% was more than 10 years experience.

Table 4.8 Business experiences

Year of establishment	Frequencies	Percentages
1 - 2 years	4	7
2 - 5 years	21	36
5 - 10 years	29	50
10 and above	4	7
Total	58	100

Source: Research findings, 2013.

The table 4.8 show the most of enterprises are experience in business activities in 5-10 years that have 50% compared to other enterprises still young which are less than 5 years experience the lead to difficulty in access to finance to banks and other financial institutions.

Table 4.9 Monthly Turnovers

Turnover	Frequencies	Percentages
Up to 2 Tsh mills	33	57
Tsh 2 - 5 mills	18	31
Tsh 5 - 10 mills	6	10
More than 10 mills	1	2
Total	58	100

Source: Research findings, 2013.

Table 4.9 demonstrate that the enterprises which have monthly turnover up to 2mills are not active that have 57% compare to other enterprises which are high performance in turnover. In this respect which is active in monthly turnover are few.

4.5 Sources of Finance to SMEs

When the respondents asked in terms of their sources of finance for starting their business (36) respondents equivalent to (62%) said that they started their business activities through their own financial sources (own capital), (15) respondents

equivalents to (15%) said that they started the business through the capital from family/friend and relatives, then only (7) respondent equivalent to (12%) started their business from the source of trade credit, and the remaining answers were less frequent but can be seen in Table 4.10

Table 4.10 Sources of finance for starting capital.

Sources of finance	Frequencies	Percentages
Own capital	36	62
Family and friends	15	26
Trade credit	7	12
Financial institutions	-	-
Government	-	-
Total	58	100

Source: Research findings, 2013.

The table 4.10 demonstrate that the majority of SMEs in the region started their business activities through their own capital then followed by those from family and friends. This means that from the starting point of the business did not take loans from financial institutions.

4.6. The constraints factors of SMEs in accessing Finance

The respondents were asked about their recent experience in raising capital in the region. When questioned about whether they have attempted to apply for any sources of finance for past three years. (58) respondents provided an answer. As Table 4.11 shows, 25 respondents equivalent to 43% corresponding to 58 SMEs have tried to apply finance on more than one occasion in the last three years, 33 respondents equivalent to (57%) of whom have not tried to apply for any sources of finance.

Table 4.11 Application of source of finance

Application	Frequencies	Percentages
Yes	25	43
No	33	57
Total	58	100

Source: Research findings, 2013.

When looking at recent sources of financing, external and internal, it was most common for SMEs respondents to have only used external financing. A small majority of (7) of respondent equivalent to (28%) looked for internal source of financing only. A further (14) equivalent to (56%) of SMEs used both internal and external sources of funding, while relatively few of (4) respondents equivalent to (16%,) have used only internal funding sources. As shown in the Table 4.12.

Table 4.12 Uses of source of finance

Sources	Frequencies	Percentages
External sources	4	16
Internal sources	7	28
Both Internal and External	14	56
Total	25	100

Source: Research findings, 2013.

The table 4.12 observation show that most of recently-established companies active for less than two years were the most likely to have only used internal sources of funds to finance their operations compared to for longer-established companies likely to have just used external financing. Across most types of ownership structures, roughly a third of enterprises had used both internal and external sources of finance e.g. for enterprises with one male owner and for family-owned enterprise or business owned by several entrepreneurs.

Reasons for not applying for external financing.

Around (33) of the respondents did not attempt to apply for each of the various sources of finance because of the several reasons, (2) respondents equivalent to 6% they said because of high interest rate, (12) respondents equivalent (36%) said that insufficient security, (8) respondents equivalent to (24%) said that because of long application procedures (4) respondents equivalent to (12%) said that because of lack of information about accessibility of finance, other (4) respondents equivalent to (12%) said that because of sufficient internal fund to finance their business activities and (3) respondents equivalent to (9%) said that because religious belief as shown in the Table 4.13.

Table 4.13 not applied for any source of fund

Reasons	Frequencies	Percentages
High interest rate	2	6
Insufficient security	12	36
Long procedures	8	24
No information	4	12
Sufficient internal fund	4	12
Religious belief	3	9
Total	33	100

Source: Research findings, 2013.

The table 4.13 reveal that the main reasons that make enterprises not applying for any source of finance is insufficient security that lead to constraint factor to accessibility of finance because financial institution need collateral to secure loans that involve The house hold items and properties such as Land and Building which are usually not affordable to many of SMEs in Zanzibar. The number of SMEs owner managers saying that they had not applied for external financing because they thought the request would be rejected because of those reasons. Another answered that they had not applied for

external financing because they had sufficient internal funds to finance the project, and the proportions citing “other reasons” like religious belief.

4.7 The alternative source of finance to the growth of SMEs

Also the respondents asked about the sources of finance that are mostly used for their expansion of the business operation, (31) respondents equivalent to (53%) said that the source of finance are profit from business (retain earning), (7) respondents equivalent to (12%) said that the source of finance are from family, friends and relatives, (11) respondents equivalent to (19%) are from trade credit, (7) respondents equivalent to (12%) are from Bank Overdraft, only (2) respondents equivalent to (3%) are chamber of commerce, (3) respondents equivalent to (5%) are from government and the remaining answers were less frequent but can be seen in Table 4.14 .

Table 4.14: Sources of fund for business expansion.

Sources	Frequencies	Percentages
Retain Earning	31	53
Family/Friends and relatives	7	12
Trade credit	8	14
Bank over draft	7	12
Chamber of Commerce	2	3
Financial Institutions	-	-
Government sources	3	5
Total	58	100

Source: Research findings, 2013.

The table 4.14 illustrate that among of the enterprises that considered about source of fund as an alternative for the business instead of taking loan from the banks they prefer retain earning and trade credit to be relevant, the dominant opinion was that the willingness of business partners to provide trade credit while other use remain with use of their family friend and relatives.

4.8 Uses of fund to SMEs

When the respondents were asked on what they needed capital for (in the case of SMEs attempting to raise capital more than once, we asked respondents about the main fundraising event), (15) respondent out of (25) equivalent to (60%) said use for working capital purposes, (7) respondents equivalent (28%) used for buying the business equipments and (3) respondent equivalent to (12%) said use the fund for business expansion, and the remaining answers were less frequent but can be seen in Table 4.15.

Table 4.15: Uses of Fund to SMEs

Uses of fund	Frequencies	Percentages
Working capital	15	60
Land/Building or Equipment	7	28
Business expansion	3	12
Research and Development	-	-
Promotion	-	-
Staff Training	-	-
Buying another business	-	-
Total	25	100

Source: Research findings, 2013.

The table 4.15 illustrate the results obtained from the purpose or reasons of SMEs to have borrowed money across all types of business enterprise's loans were most frequently used to increase a business's working capital or to buy land, buildings, equipment or vehicles. Nevertheless, certain types of companies were more likely to have borrowed money to use as working capital e.g. those that had experienced deterioration in their financial situation. While others were more likely to have used the money business expansion.

4.9 The accesses of fund do help all size of SMEs in Zanzibar.

When the respondents asked according to their experience of their business in accessing the finances through several sources they said that. SMEs that have been active for longer were more likely to have obtained their last loan from a bank (57%) of SMEs active for about (5 to 10) years and more than 10 years obtained their last loan from a bank, compared with (36%) of younger SMEs who have been active for about 2 to 5 years. These newer SMEs who about less than 2 years were instead more likely to have received their last from a private individual (7% did so). As shown in the Table 4.16.

Table 4.16: Period for SMEs to acquire Loan

Time	Frequencies	Percentages
1 - 2 years	4	7
2 - 5 years	21	36
5 - 10 years	29	50
More than 10 years	4	7
Total	58	100

Source: Research findings, 2013.

The main reasons for younger SMEs encountering problems in accessing finance related to lack of credit history (31%,) insufficient security (52%) and poor business performance (10%). And respondents equivalent (7%) were restricted by other the problems such as poor feedback from lending institutions and delays in decision making, poor business plan and so forth. As shown in the Table 4.17.

Table 4.17: Reasons for young SMEs in access finance.

Reasons	Frequencies	Percentages
insufficient security	30	52
Lack of credit history	18	31
Poor business performance	6	10
Others	4	7
Total	58	100

Source: Research findings, 2013.

4.10 Financial Institutions

Financial institutions in Zanzibar were still largely dominated by the banking industry, although the development of other institutions such as micro finance and cooperatives has also been quite significant recently. The existence of non-bank financial institutions creates a larger market, and offers a wider variety of products, and terms and conditions, all of which will make the financial industry more flexible for Zanzibar customers. However, some of the information obtained from micro finance and banks is incomplete due to a number of reasons, but mainly because of confidentiality restrictions.

4.10.1 Discussion of findings from Bank Interviews

The purpose of the Interviews was to harvest information concerning the portfolio information, assessing creditworthiness of SMEs, collateral requirements, level of interest rate, rejections as well as the future of SMEs.

4.10.2 Portfolio Information

Information on the composition of the product portfolio was completed by the only People Bank of Zanzibar and is illustrated in Table 1.18 below. But other financial institutions did not complete mainly because of confidentiality restrictions. It can be seen that the majority of the portfolios consist of personal Loans is (73%), followed by commercial Loans including Term loan and Overdrafts is (24%) and others is (3%).

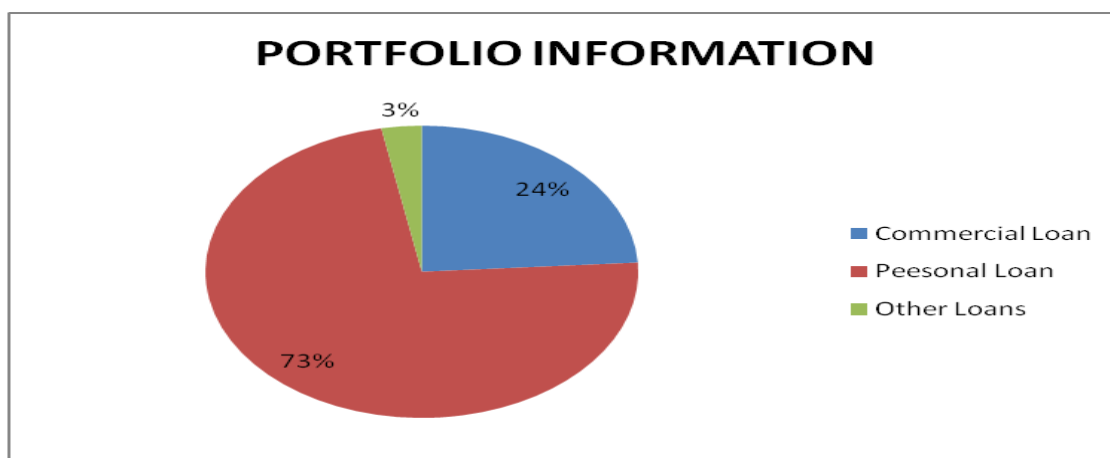
Table 4.18 Portfolio Information

Types of Loans	Percentages
Commercial Loan	24%
Personal Loan	73%
Other Loans	3%
Total	100%

Source PBZ, 2013.

It was, therefore, observed that the borrowing behaviour on personal loan individuals and government employees seem to increase which have 73 percent compared to commercial loans that involve loans to SMEs which have 24 percent and other loans are only 3 percent due to presence of more commercial banks operating and providing loans in Zanzibar. This was supported by the respondents from People Bank of Zanzibar (workers from bank interviewed),

Figure 4.1 Bank Portfolio Information



Source PBZ, 2013.

Table 4.19: Bank Loans

Types of Loans	Applicants	Amount in Tsh.
Individuals	682	1,244,596,256.20
Sacco's	10	117,700,000.00
Social groups	64	191,088,575.35
Total	756	1,553,384,831.55

Source PBZ, 2013.

Table 4.20 Unpaid loan

Details	Applicants	Loan amount Tsh.	Unpaid Loan Tsh.
Unguja	148	365,220,000.00	182,153,408.80
Pemba	117	227,450,000.00	132,780,590.95
Total	265	592,670,000.00	314,933,999.75

Source PBZ, 2013.

The above data reveal there a high number of individuals made the application of bank loans about 682 out of 756 applicants compared to other like saccos and social groups of SMEs. Also the bank complaints about the borrowers who fail to repay the loans as shown in the table 4.19 and 4.20 above.

4.10.3 Collateral Requirement:

Lending decisions of the financial institutions are usually based on the availability of collateral security, a sound business plan with sufficient cash flow, and personal guarantors for loans. Full collateral, using house hold items, mortgage, cash cover, land and buildings are often required by banks to cover losses in case of default. Personal guarantors can be used to supplement collateral. Thus, SME loans are usually fully secured. Our own interviews with FIs consider this. That is, having insufficient collateral is rated as very important when banks turn down financial requests. Often, a bank's evaluation of assets is conservative. Collateral requirements reflect the bank's perception of high risk associated with SME loans and the legal requirements for loan recovery. Insistence on collateral is thus a major impediment to SME financing.

4.10.4 Level of interest rate

When the respondents asked about the level of interest rate had the following to say. The interest rate are provided basing in the amount of loan to the clients as shown on the Table 4.21.

Table 4.21 Level of Interest Rate

Amount	Interest Rate
10 - 50 mills	19%
50 - 100 mills	18%
above 100 mills	17%

Source PBZ, 2013.

4.10.5 Required time for the loan to be paid

Also the interview aim to obtain the information concerning the time required for loan to be paid the result was a minimum time required for the loan to be paid is six months is for commercial loans and tow years for the personal loans and a maximum time for the loans to be paid is five years for both commercial and personal loans.

4.10.6 Assessing Creditworthiness of SMEs

When the respondents asked about the factors to be considered in the assessment of applicants creditworthiness had the following to say. The main characteristics considered to be the most important for the assessment of applicants' creditworthiness ware business experience, financial information, existing customer of the bank, property value, time in business, financial statement analysis, business documents, source of repayment, applicants' financial strength and weakness. The least important were: age, educational background of applicants and application type (sole, joint and company).

4.10.7 Rejection

The most frequent reasons for proposal to be rejected was a lack of quality or sufficient collateral together with the lack of track record of SMEs/owner. But accurate history of information, comprehensive cash flow information and lack of expert are not taken into consideration as the reasons for rejection. Generally these rejections are on the basis of subjective decisions of the experienced credit department officers.

4.10.8 Future of SMEs in relation to bank services

Through the interviews also the researcher was interested to obtain the information concerning with future of SMEs in relation to bank services that are distinctive advantage to encourage the SMEs to bank

Similar to that of the credit officer comments concerning the future of SME finance were mixed and taken from many perspectives. Some focussed on increased sophistication from either the banks" or the businesses" perspective. For instance, Credit applications and the credit decision process is becoming increasingly sophisticated with many factors having an impact on the outcome, Banks are evolving and adapting to conditions and regulations which may have a short term knock on effect on access to finance but ultimately finance will be available if the lending is responsible and the borrow can demonstrate the ability to repay, and Banks can communicate and explain the drivers behind how the lending is priced in a way that customers can understand. Also the banks want to improve the quality of the service rendered to its clients in terms price of loans (interest rate) and duration of the loans.(PBZ 2013)

The bank needs to continue to educate and inform their clients as to how to prepare themselves to approach a Bank for funding. A good business plan with some robust cash flow forecasts helps us to understand the cash dynamics of the business and we are then better placed to provide a solution to their funding need.

4.10.9 SMEs Policies and Government Supporting Programs

In this section, we first summarize SME policies and then describe major financial assistance and support programs for SMEs.

4.10.10 Zanzibar SME Policies

The Government of Zanzibar has adopted a number of policies and plans to address the development of this country. These include national and sectoral policies some of them initiated and implemented soon after the trade liberalization policy in mid eighties. The bulk of the financial and economic sectoral policy reforms have been initiated since the late 1990's. This SME policy encompasses key elements of these reforms and is fully compatible with high level national objectives. (SME Policies 2006)

In 2006, the government established basic policies on SMEs which could give coordinated and explicit guidelines for the promotion and long-term development of SMEs. Instead, SME-related policies and measures were articulated and embodied in the National Economic and Social Development plan. Various ministries then translated these policies into action plans, which could supervise the direction of SME development plans, and continuing emphases of SME significance for economic growth in the national plan.

4.10.11 Zanzibar Poverty Reduction Plan (ZPRP)

Zanzibar Poverty Reduction Plan (ZPRP) was launched in May 2002 as one of the steps towards addressing the concerns and measures indicated in Vision 2020. ZPRP provides for measures to decrease income poverty, to increase access to social services, to enhance the survival and well being of the population and to contain extreme vulnerability.

Support for micro, small and medium-sized enterprises (SMEs) takes on a central role towards the achievement of goals set out in ZPRP. The plan distinctly lists agro-processing, including fish, fruit and vegetable, forestry and livestock processing,

tourism and manufacturing as priority sectors for SME/private sector and indicates that development of domestic and international trade is required to bring the products and services produced in the other sectors to markets, and thus, they should be supported.

Private sector is described as a partner in combating poverty and to improve the well being of the people. Therefore, the ZPRP places strong emphasis on strengthening public-private partnerships in the design, implementation and monitoring of strategic interventions cited.

The plan aimed to enhance the efficiency of operators in SME businesses as well as other sectors, to create a business environment which would facilitate the founding and growth of SMEs, to improve market efficiency and competitiveness, and to promote grass-roots businesses so that they could play a more prominent role in income distribution and bring prosperity to the provinces.

4.10.12 Zanzibar Credit Department.

Main Objective of the Department of Credit is to empower society through providence of concessional credits and follow up their repayments to the poor disadvantaged unemployed society for viable productive income generating activities enabling them to reduce their poverty, self employment and improve quality of life in general.

Special objectives for the Year 2012-2013

- To ensure timely fund disbursements for 1000 concessional credits are available after screening, appraising then approving credits with pre loan trainings;
- To improve loan repayment rate from 85% to 95% by conducting follow up visits, local government and micro creditors' forums ;
- To proper recording credit database by updating through introduction of credit data management software and train staff on the usage.

- To ensure new micro credits opportunities are available and credit policies are improved by increasing collaboration with national and international micro credit institutions.
- To strengthen human capacity by training 4 staff in related long courses and short courses.
- To improve working facilities and environment by acquiring needed working facilities and safe working environment
- To ensure staff entitlements, incentives and other benefits are acquired accordingly.

Department of credit facilitates micro credits to clients where there was no alternative for credit (that is bank cannot lend clients due to unfulfilled conditions of the bank loan) and without collateral. This kind of credits include simple procedures for approving loans, quick disbursement, low interest rates, encouraging and accepting savings, access to business information, no collateral to secure loan, expertise, and advice to entrepreneurs. Credit for Economic empowerment can be a most powerful tool in helping people out of poverty and is also a means for self-empowerment. Sectors that are encouraged for economic empowerment credits are trade, fisheries, livestock, agriculture, processing and small scale industries, and services. So far, the chart here under will portray the distribution of economic empowerment credits through sectors of economy.

Department of Credit administers two funds for economic empowerment credits, these are:-

- Zanzibar Fund for Self Reliance This fund was established in 1991 to cater for unemployed Zanzibari society that employs itself for income generating activities to improve their lives. So far it facilitated 5,788 loans with amount

disbursed of Tsh. 871,889,850/- that benefited 8,334(4,606 females and 3,728 males). The department is fully operating this fund

- JK-AK Economic Empowerment Fund This fund was established in 2008 to economically empower poor society that has a privilege to self employ for income generating activities. The department is coordinating this fund, client follow normal banking procedures. So far, the fund provided 750 economic empowerment loan worth Tsh. 1,529,884,831/55 that benefited 676 individuals, 64 economic groups and 10 SACCOS. The department is involved jointly with bank and local government in screening, appraising and follow up repayments of these credits. As shown in the table 4.22.

Table 4.22: Loaned Amount

APPLICANTS	APPLICATION AMOUNTS	LOANED AMOUNT	BALANCE
MALE	631,500,000.00	390,400,000.00	269,270,106.00
FEMALE	403,020,000.00	227,820,000.00	139,830,325.00
GROUPS	11,000,000.00	3,000,000.00	854,769.00
SACCOS	194,600,000.00	79,500,000.00	54,425,459.00
COOPARATIVES	434,000,000.00	132,500,000.00	78,822,072.00
TOTAL	1,674,120,000.00	833,220,000.00	543,202,731.00

Source JK-AK Funds

4.10.13 Department of Cooperatives.

The Department of Cooperatives Zanzibar was established in 1980 following the enactment of the Cooperative Societies Decree no 3 (1979) which then was amended by the Cooperative Society's Act No 4 (1986) with its amendments of 1998, that provides for establishment, management and supervision of cooperative societies and other matters related therewith in Zanzibar.

It is one of the departments in the Ministry of Labor, Economic Empowerment and Cooperatives (MLEC). Previously, the department of cooperatives was under the Chief Minister's Office, and then was shifted to the Ministry of Agriculture, Livestock, Environment and Cooperatives and presently it is in the MLEC.

The department implements the pillar of MKUZA II which focuses on reduction of both income and non-income poverty and promoting sustainable growth. This is in line with MDG indicators of reducing hunger and to bring about improvement of people's income poverty.

Broad objective of Cooperative Department is to promote and expand programs for economic Empowerment:

Major Achievements

For the period of July 2011 -2012, Department of Cooperative successfully achieved the following:-

- The technical team completed the refining of the final draft of the Cooperative Development Policy, as well; its translated version.
- Completed the design of Computerized Cooperative Monitoring and Analysis System (COCOMAS). This provides a reliable database on cooperatives.
- 3,854 people including youths were sensitized to engage into income generating activities through cooperatives.
- 327 cooperatives were registered with majority of youths (Unguja 172, Pemba 155).
- Survey that show 1,009 youth employed into cooperatives was done. 18 got direct employment and 792 were self employed through income generating activities empowered by cooperatives and 199 were employed by other people empowered through cooperatives. (Insert Picture of Makuli SACCOS)
- In Pemba 62 people (men 30 women 32) were self employed through cooperative Income generating activities.

- Six Cooperatives assisted to write project proposals requested Tshs.291,080,000/- ‘Tunakuona Cooperative’ succeeded to Tshs.7,450,000.
- 52 cooperative were audited by the Department in collaboration with the Auditor General (38 SACCOS, 14 production)
- Improved collaboration with Auditor General where a team of 15 staff were trained on auditing and international report standards.
- Management training conducted for a 414 leaders (men 156, women 258) from 389 cooperatives. Also in collaboration with Action Aid 3,385 members(men 1,023,women 2,362) were trained
- 11 SACCOS BANKS organized and special operational training conducted to benefit 56 leaders (men 22 women 34) from 9 SACCOS Banks. (Insert Picture training)

Working with partners

The department has been forging conducive working with partners for wider impact to cooperative sector advancement. The UNDAF program through ILO, MIVARFP and ASSP through Ministry of Agriculture and Natural Resources, Financial Institutions (BoT, CRDB & PBZ, NMB) SELF Project, CUZA which represent cooperative movement of Zanzibar and other Cooperative Unions. Such collaboration helps to provide materials, technical, advisory and financial support services to cooperatives to enhance their operations. (Insert picture of training intervention),

4.11 Financial Assistance and Support Programs

In the Tanzania government, various efforts were made towards development of people at local grass root level, the efforts focused to different areas of operations and group of people engaged in income generating activities towards poverty reduction especially at rural areas. Some of special funds focused to empower people economically are, women Development Fund (WDF) which was launched in 1993 aimed at providing soft loans to women with fair conditions so as to enable them to run different activities.

There are some institutions which support them financially by providing loan that help them in starting the business and growth of business and in training to women entrepreneurs in topics like identify business opportunity that surround them, how to keeps record of business, how to develop some skills in planning and market of their products also training in loan or credit management. These trainings are offered by local government experts example Community Development Officers, Planning Officer, officers from vikoba/SACCOS, non government organization such as PRIDE, FINCA and financial institutions like CRDB Bank.

4.12 Private Sector Support

The Tanzania Private Sector Foundation (TPSF) was established on 4th November 1998 as a result of multi-folded efforts by various stakeholders of the Private Sector. The TPSF was established as a company limited by guarantee to promote private sector-led social and economic development in Tanzania.

4.12.1 Business Development Gateway (BDG)

The objective of the Business Development Gateway (BDG) is to strengthen the entrepreneurial culture of Tanzania by providing entrepreneurs with business ideas and start-up SMEs with risk grants, thereby enabling them to either start or upgrade a business. To attain this objective, the BDG will provide practical training on business growth and business planning. Over 2,100 Hard working participants will be awarded competitive business grants per year starting 2009 to 2012. The award size ranges from the grants of \$800 to grants of \$24,000.

The BDG program has three (3) integrated main components each of which is founded on entrepreneurship training;

- Business Plan Competition (BPC)
- Business Diagnostic Program (BDP)
- After Care Services.

Program Results

- BDG received over 25,000 applications in first three years
- Over 6,000 trained in practical business development
- TZS 15 billion disbursed in seed grants in 3 years
- 4, 320 Winners awarded SEED grants
- 40% youth participants
- 52% women in Business Plan top winners
- 40 BDSPs are being trained on BDG methodology

Impact of BDG to Businesses

- 18% of grant recipients started new businesses, 84% expanded businesses
- 59% injected additional capital to top seed grant
- 74% Increased in sales
- 51% Employment creation, 451 jobs
- Membership to BDG Alumni Clubs at 80%,

4.13 Growth of the Business

4.13.1 Growth in terms of turnover and profitability

The respondents were asked about their growth in terms of turnover and profit in the past 6 months (18) respondent equivalent to (31%) said that their turnover was increased. Followed by 15 respondents equivalent to (26%) said that their turnover has decreased and 25 respondents equivalent to 43% said that their turnovers remain unchanged. As shown in the Table 4.23.

Table 4.23: SMEs growth ambitious in terms of turnover and profitability.

Turnover	Frequencies	Percentages
Increase	18	31
Decrease	15	26
Remain unchanged	25	43
Total	58	100

Source: Research findings, 2013.

The table 4.23 show that the majority of the business enterprises said that the expected turnover of their business remain unchanged due to the obstacle of having loans from several sources.

Table 4.24: SMEs growth ambitious in terms of profitability

Profitability	Frequencies	Percentages
Increase	18	31
Decrease	15	26
Remain unchanged	25	43
Total	58	100

Source: Research findings, 2013.

4.13.2 Level of employment

The participants were asked about their growth in terms of level of employment in the past 6 months, majority of (40) respondents equivalent to (69%) said that their number of employees remain unchanged, (7) respondents equivalent to (12%) reported that have decreased and lastly (11) respondent equivalent to (19%) their number was increased during the past 6 month of their performance. As shown in the Table 4.25

Table 4.25: SMEs growth ambitious in terms of level of employment.

Number of Employee	Frequencies	Percentages
Increased	11	19
Decreased	7	12
Remain Unchanged	40	69
Total	58	100

Source: Research findings, 2013.

4.13.3 Level of production.

The participants were asked about their growth in terms of level of production in the past 6 months (24) respondents equivalent to (41%) said that their level of production remains unchanged within that period of time, (16) respondents equivalent to (27%) increased in the level of productions because have manage to introduce new improved production process in their business activities. And the rest (11) respondent equivalent to (19%) said that they were deteriorated in the level of production compared to other. As shown in the Table 4.26.

Table 4.26: SMEs growth ambitious in terms of level of production.

Production Level	Frequencies	Percentages
Increased	16	27
Decreased	11	19
Remain Unchanged	24	41
Not Respond	7	12
Total	58	100

Source: Research findings, 2013.

4.14 SMEs “ Growth Intentions for the future of the business

The participants were asked what their plans were for the next two years of their business, which was intended to establish their growth intentions. As shown in the Table below, (45) out of (58) respondents who answered this question, (40) respondents

equivalent to (88%) intend to grow their businesses, whereas only (3) respondents equivalent to (6.6%) aim to maintain the business at current levels and only 2 respondent (4.4%) wants to reduce the levels of trading.

Table 4.27: Growth Intentions for the future of the business

Intention	Frequencies	Percentages
Intend to grow	40	88
Maintain the same level	3	6.6
Reduce level of trading	2	4.4
Total	45	100

Source: Research findings, 2013.

The growth-oriented owner-managers were subsequently asked for more detail about their planned growth and the required financial resources. The high percentages of the respondents of the businesses which intend to grow expect to use external finance to fund all or some of their growth.

4.14.1 Preferred Sources of Finance for future.

After having indicated which sources of finance they attempted to obtain, respondents were further probed about which of these sources they preferred and why. 40 respondents answered this question and gave insights into their preferred sources. The Table below shows the responses, in descending order of preference, together with the reasons the SMEs gave for preferring these sources.

Table 4.28: Preferred Sources of Finance.

Sources of finance	Frequencies	Percentages
Bank Loans	14	35
Bank overdraft	9	22.5
Trade credit	8	20
Micro finance	4	10
Family/friends and relatives	5	12.5
Total	40	100

Source: Research findings, 2013.

Bank loans were not only the most frequently used type of external financing they were also by far the most preferred type of financing for future use: 35% of managers who expected their business to grow in the coming years answered that they would prefer to apply for a bank loan to realise this growth. Other types of loans for example, trade credit, a loan from micro finance or public sources were selected as the most preferred type of financing by.

4.14.2 The amount of finance will aim to obtain for growth ambitious.

There is significant variation in the amount of financing those SMEs would aim to obtain to realize their growth ambitions. A relative majority of (22) respondent equivalent to (38%) said that they would aim for financing of between 10,000,000 – 50,000,000, (18) respondents equivalents to (31%) said they would like to obtain between 5,000,000 - 10,000,000, (7) respondent equivalent to (12%) would aim to obtain 100,000-1,000,000 and also (7) respondents equivalent to (12%) would aim for financing of over 50 million. As shown in the Table 4.29.

Table 4.29: The amount for growth ambitious to SMEs

Amount	Frequencies	Percentages
100,000 - 1,000,000	7	12
1,000,000 - 5,000,000	4	7
5,000,000 - 10,000,000	18	31
10,000,000 - 50,000,000	22	38
More than 50,000,000	7	12
Total	58	100

Source: Research findings, 2013.

Combined, these findings show that a large number of SMEs will, in the near future, require access to external growth finance, which suggests that many (if not all of them) may soon be affected by potential difficulties in finding financial sources for their growth intentions.

Table 4.30: Limiting factors

Limiting factors	Frequencies	Percentages
Insufficient security	12	30
High Interest rate	8	20
Long Procedures	8	20
Low range of time	7	17.5
No obstacles	5	12.5
Total	40	100

Source: Research findings, 2013.

Managers who would prefer a loan from a bank or another source to realise their growth ambitions were asked if there would be any limiting factors that might stop them receiving such financing. Slightly more than a quarter (30%) of these SMEs owners thought that insufficient collateral (or guarantee) would be the main limiting factor to stop them receiving the required financing, while 20% mentioned interest rates and a price that would be seen as being “too high”. while mentioned “other obstacles”. Finally, 12% mentioned would be no obstacles.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Zanzibar SMEs are sole proprietorship and family relatively owned over 77% and 23% respectively so as to enjoy economy of scale this due to limited capital which hinder the expansions and use the modern technology which are efficient and produce high quality and competitive products.

Despite of the many sources of finance available in Zanzibar most of enterprises prefer to use their own sources of finance to finance their business activities that have 29% followed by trade credit that have 13.7% and family or friends compared to other sources of finances.

Study revealed that over 52% of Zanzibar SMEs are in infancy stages and face difficulties in securing loans because of insufficiency of security which are vital for their developments. Government need to support SMEs to have long term investments that could be used as collateral to access commercial loans.

Lack of collateral seems to be the main constraint in access to finance in Zanzibar as it was claimed by 36% out of 33 respondents who not attempt to apply any source of finance or loan from banks, and 24% out of 33 respondents claimed long application procedures.

It was also observed that the Islamic beliefs generally seem to be a major constraint in credit creation in Zanzibar. It was pointed out by 9% out of (33) respondents that, most of the people in Zanzibar do not borrow because of this belief. It is believed that borrowing associated with interest rate is considered to be a sin to Muslim believers. The effective of legal system in terms of collateral, cultural and religious beliefs and political differences in Zanzibar were also the major constraints and have strong effect on extending credits to customers. Similarly, the ability to repay the loans; level of

interest rates, limited business opportunities and borrower performance trend in returning the loans borrowed also have somehow positive effect.

5.2 Summary Findings from Banks

The main characteristics that are considered to be most important for the assessment of creditworthiness are: project viability; business documents; sources of repayment; applicants' financial strengths and weaknesses; and ability to repay.

The most frequent reasons for proposals being rejected was identified as a lack of quality and/or sufficiency of collateral as well as the lack of a prior track record of the enterprises /owner.

5.3 Conclusion.

Finance plays a central role in enterprise development but this is only possible if it is accessible and reasonably priced. While SMEs are increasingly seen as playing a strategic role in economic growth and development, they suffer from liquidity problems. Furthermore, they usually experience difficulties in accessing loans from the banking sector and other financial intermediaries to finance working capital and to provide credit for a smooth transition through liquidity cycles. Some of the reasons why SMEs find difficulties in accessing finance are internal to SMEs and they include Long Procedures, limited management and technical skills, lack of collateral, poor technology, and lack of credible financial accounts. Reasons that are external to SMEs include poor physical infrastructure, limited market, and the distance from SMEs to financial institutions in rural areas. Where SMEs succeed in accessing financial resources, the cost of funds (interest rates) is high, sometimes leading to non-performing loans. Therefore, while finance, would play a crucial role to enhance enterprise development, both the countries within which SMEs are located and SMEs themselves need to overcome constraints that would impede their access to financial resources. Countries such as Tanzania, therefore, should create the necessary policy,

legal, and regulatory environment. This should be supported by the establishment of effective information dissemination systems such as credit reference bureaux to provide information on the credit history of borrowers. SMEs on the other hand should overcome internal constraints such as lack of skills, lack of financial records and accounting systems, and poor loan repayment culture.

5.4 Recommendations

Financial institutions recommended to minimize the credit conditions such collateral requirement, level of interest rate and application procedures so as to enable more SMEs to acquire loans.

SMEs on the other hand should overcome internal constraints such as lack of skills, lack of financial records and accounting systems, and poor loan repayment culture.

They need to improve their financial records and accounting systems. Proper records need to be kept and maintained and the books of accounts have to be clear and should reflect a realistic picture of their operations and financial conditions. A good system and books of accounts are not only helpful to the banks; they are also crucial in managing and monitoring business as well as guiding tax authorities.

SMEs have to improve their operating efficiencies and capabilities as this impact on production costs and profits. Material wastage is a major source of high costs in small businesses. To increase their capacities and minimise wastage, SMEs need to invest in skills development and infrastructure to be able to benefit from e-finance.

5.5 Policies Implications

Zanzibar SMEs policy are to be reviewed and updated so as to meet and satisfy the need to SMEs according to the current situations since then the existing policies do not reveal apparently the SMEs credit policies.

The government are advised to have deliberate financial plans to address the said constraint to SMEs development. Zanzibar SMEs are large family and relatively owned so as to enjoy economy of scale this due to limited capital which hinder the expansions and use the modern technology which are efficient and produce high quality and competitive products.

The prevailing the Credit guarantees Scheme under the BOT have not accessed due to the stringent conditions which cannot be met by most of SMEs in Zanzibar. Specific difficulties include inability to prepare business plans to be acceptable by commercial banks. This stems from lack of experts and costs to prepare business plans. The other constraint lack of collateral to support the requested loans as per conditions by commercial banks.

Provision of training on how to run the business successful has to be enhanced as most of them lack entrepreneurial skills and other skills such as record keeping which can prevent their business from loss and business stagnation.

Weak business networking call for sensitization measures by the Government and existing business associations such as Zanzibar Business Councils and Zanzibar Chamber of Commerce, Industry and Agriculture. This need aggressive sensitizations campaign in the form of workshop and media to hence regional outlook among SMEs for the sustainability of the awareness campaign, the government and the Zanzibar Chamber of Commerce, industry and Agriculture (ZNCCIA) have to take the leading role.

5.6 Suggestions for further researches:

The study was based only on discovering the performance of SMEs on relation to financial accessibility from financial institutions, the source like; bank loans, loans from friends and relatives. Another source like trade credit, government support and internal sources of finance.

Also the researcher selected few sample of respondents for time and financial constrains. One the SMEs side only few small business in merchandise industries. Therefore the research institutions are advised to make further census 'researches on manufacturing industry, contraction industry and so forth.

At last, the researcher is advising other students to measure the accessibility of entrepreneurial training services, effect of technology business skills to SMEs on relation to their performance.

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APPENDIX I

QUESTIONNAIRES TO THE SMEs OWNERS

1 Name

Firm/Enterprises/store.....
.....

2 Address:

P.O.BOX.....
.....
.....

Telephone.....

Fax.....

Email.....

3 Year of Establishment.....

4 Ownership structures

Sole proprietorship	Family	Partnership	Company

5 Number of employees

Number of employees	1- 4	5 - 49	50 - 99	100+
Capital investment	Up to 5 mil.	Above 5 mil. to 200 mil.	Above 200mil.to 800 mil.	Above 800 mil.

6 Source of capital

Bank Loan	Trade credit	Bank overdraft	Financial Institutions	Family/friends	Own capital	Other sources

7 What is the main activity of your enterprises?

Restaurant	Tea and coffee	Food seller	Kiosk	Stationeries	Fishing	Machinga	Saloons

8 What was the monthly turnover of your enterprises?

Up to Tsh. 2 mill	Tsh. 2 -10 mills	Tsh. 10 - 50 mills	Tsh. 50 mills and above

OBJECTIVE I

To find out constraints factors of SMEs in accessing funds

1 Could please indicate whether you apply for any source of fund

Yes	No
-----	----

If yes what kind of source

Bank loan	Trade credit	Banks over draft	Other external financing such as Merger and acquisitions, SACCOS, FINCA, TUPENDANE, IMANI

2 If you did not apply why

High interest rate	Insufficient Collateral	Long procedures	Low range of time	No information	Others

3 If you applied did you receive all funds you requested or only part of it.

All fund received	Only part received

4 If only part give reasons.

Collateral requirements	Available maturity of loans	Available size of loans	Others

3 What is the size of the last loan, of any kind, that your firm has obtained in the last two years?

I did not take a loan	100,000 - 1,000,000	1,000,000 - 5,000,000	5,000,000 - 10,000,000	10,000,000 - 50,000,000	Above 50,000,000

Who provided you this last loan?

Bank loans	Microfinance institutions	Family or friend	Government-related sources
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4 What did you use this last loan for?

Working capital	Land/ buildings or Equipment/vehicles	Research and development	Promotion	Staff training	Buying another business	Other

5 Did you receive it in time?

Yes	No

6 If not in time give reasons and what the course of delay?

.....

.....

7 For each of the following ways of financing would you say that their availability should

	Increased	Decreased	Remain unchanged
Bank loan			
Trade credit			
Banks over draft			
Other external financing			

8 Could you please indicate whether the following terms and conditions of the bank financing should:

	Increased	Decreased	Remain unchanged
Level of interest rate			
Collateral requirements			
Available maturity of loans			
Available size of loans			

Others			
--------	--	--	--

9 What is currently the most pressing problem your firm is facing?

Finding customers	Competition	Access to finance	Costs of production or labour	Regulations	Other

OBJECTIVE II

To identify the alternative sources of financing for the growth SMEs

1 How do you raise your capital

Financial institution	Profit from the business	Bank loans	Family/friends	Other sources

3 At what percentage of profit do you re-invest in the business?

	25%,	50%	75%
Above			
below			

10 Do you face any problem through the above sources?

Yes	No

11 If yes please mention the problem (s)

.....
.....
.....

12 What steps do you suggest should be taken to improve the performance of your business?

.....
.....
.....

13 What is the most problems for the income generation of your enterprises?

	Increased	Decreased	Remain unchanged
Turnover			
Labour cost			
Other cost			
Operating cost			
Profit			

OBJECTIVE III

To find out whether the accesses of fund do help all small scale enterprises in Zanzibar.

Who are the owners of your business?

Male	Female

In which year was your business established?

1- 2years	2-5 years	5-10years	More then 10 years

Future, growth and obstacles to growth

1 During the past 2 years have you introduced...?

Yes	No

A new or significantly improved product or service to the market	A new or significantly improved production process or method	A new organization of management	A new way of selling your goods or services

2 What would you say that the amount of debt compared to assets of your business

Increased	Decreased	Remain unchanged

3 Over the last three years, how much did your firm grow on average per year

Over 20% per year	Less than 20% per year	No growth	Got smaller	Not applicable, the firm is too recent

4 Considering the turnover over the next two to three years, how much does your business expect to grow?

Substantially – over 20%	Moderately – below 20%	Stay the same size	Become smaller

5 Will you need external financing to rise your growth ambitions?

Yes	No

6 What type of external financing would you think will be highly demanded ?

	Highly demanded	Medium demanded	Low demanded	Not demanded
Bank loan				
Trade credit				
Banks over draft				
Micro finance institutions				
Other				

7 And what amount of financing would you aim to obtain?

100,000 - 1,000,000	1,000,000 - 5,000,000	5,000,000 -10,000,000	10,000,000 - 50,000,000	50,000,000

8 What do you see as the most important limiting factor to get this financing?

No obstacles	Insufficient collateral or guarantee	high Interest rates	Reduced control over the firm	Financing not available at all	Other

FINANCIAL INSTITUTIONS QUESTIONNAIRES

- 1 Sector responsible for
.....
.....
- 2 Age:.....
- 3 Years of experience in SMEs finance.....

PORTFOLIO INFORMATION

- 4 Total number of SMEs clients.....
- 5 Please state the composition of your portfolio (Tsh.) according to the following products
- Over draft
- Term loan
- Others (Please state)

CREDIT DECISION MAKING PROCESS

- 6 Are there any collateral requirements for loans application
- Yes ()
- No ()

- 7 If yes please state
-
-
-
-
-

- 8 What are the levels of interest rate?

.....
.....
.....
.....

9 What are the factors to consider assessing the creditworthiness of SMEs?

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.....
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.....
.....
.....

10 What are the most frequent reasons for rejection?

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11. What are the required time for the loan to be paid?

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12. What are the future of SMEs relation to bank services?

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