

**CONSTRAINTS TO GROWTH OF SMALL AND MEDIUM
ENTERPRISES IN ZANZIBAR:
THE CASE OF URBAN WESTREGION**

**By
Zena M. Hassan**

**A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree
of Master of Science in Economics (Economic Policy and Planning) of Mzumbe
University.**

2013

**CONSTRAINTS TO GROWTH OF SMALL AND MEDIUM
ENTERPRISES IN ZANZIBAR
THE CASE OF URBAN WEST REGION**

**By
Zena M. Hassan**

**A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree
of Master of Science in Economics (Economic Policy and Planning) of Mzumbe
University.**

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation/thesis entitled **Constrains to the Small and Medium Enterprises Growth in Zanzibar: the Case of Urban West Region**, in partial/fulfilment of the requirements for award of the degree of Master of Science in Economics of Mzumbe University

.....
Mursali Milanzi
(Supervisor)

Date:

.....

(External Supervisor)

Date:

Accepted for the Board of.....

Signature

DEAN/DIRECTOR FACULTY/DIRECTORATE/SCHOOL/BOARD

DECLARATION AND COPYRIGHT

I, **Zena M. Hassan**, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

Signature.....

Date.....

©

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

ACKNOWLEDGEMENT

Many people have contributed to the accomplishment of this dissertation, and I will forever be grateful to them. The greatest gratitude to my supervisor, Milanzi Mursali, for the guidance and, constructive comments and criticisms, which made this work successful. In spite of his tight schedule and endless workload, he spared his time to help me out on the difficulties I was constantly facing. His ideas were quite useful to the improvement of this work. Also, the greatest thanks to the Ministry of Finance of the Revolutionary Government of Zanzibar for providing financial support for my studies and made the completion of this dissertation possible.

My gratitude is also extended to my family for their encouragement and prayers. They all made my studies bearable. Special thanks, however, are due to my husband Salum Bakari for his endless support, to the Commissioner of Budget at the President's Office Finance and Economic Development (POFEDP) Zanzibar, Mr. Mwita M. Mwita who provided suggestions when needed. I would like to thank my classmates and friends for their support, especially, Khamis A. Shauri, Moh,d Makame, and Felister Tibamanya.

Lastly, I would like to express my sincere thanks to Mr, Yussuf and Sidik from Ministry of Trade, Industry and Marketing for their constant support during the whole period of writing this dissertation.

DEDICATION

This work is dedicated to my husband Salum who missed me during the whole comprehensive period of my study at Mzumbe with a great patience. I also wish to dedicate this work to my sisters Salama Mahmoud ,Riama Mahmoud and Hassanat for their true love and prayers in making my dream a true.

LIST OF ABBREVIATIONS

BEST	Business Environment Strengthening of Tanzania
BOT	Bank of Tanzania
CFA	Common Factor Analysis
GDP	Gross Domestic Product
ICT	Information Communication
MLYW	Ministry of Labour, Youth and Women
MSMEs	Micro Small Medium Enterprises
MTIM	Ministry of Trade Industry and Marketing
PBZ	Peoples Bank of Zanzibar
PCA	Principle Component Analysis
PPP	Public -Private Partnership
R&D	Research and Development
RGoZ	Revolutionary Government of Zanzibar
SMEs	Small and Medium Enterprises
TCE	Transaction Cost Economics
TZS	Tanzania Shillings
UK	United Kingdom
URT	United Republic of Tanzania
ZPRP	Zanzibar Poverty Reduction Plan
ZSGRP	Zanzibar Strategy for Growth of Reduction Poverty

ABSTRACT

Small and Medium Enterprises (SMEs) are very important to the Zanzibar economic growth and hence, the need to ensure that SMEs grow sustainably cannot be over emphasized. At present, however, SMEs growth rate is still limited due to a number of factors that act as the barriers to its growth. This study empirically examined the constraints to SMEs Growth. A survey of 70 small firms was carried out to firms in services, food processing, and agriculture and tourism sectors in Urban West Region of Unguja. The Principal Component Analysis was used to determine dominant constraints, of which five constraints were identified. These include lack of entrepreneur skill, unfavorable government regulations, lack of access to finance, lack of access to power supply, and unreliable of water supply. The constraints were analyzed further to determine the extent to which the identified constraints actually hinder SMEs growth. In this, a logistic regression model was estimated. The result of the analysis shows that unfavourable government regulations and unreliable utility supply (power) significantly hinder SME growth in Zanzibar. Therefore, this study argues that weaknesses and lack of government policy and inadequate provision of power supply do not meet requirements of Small and Medium Enterprises (SMEs) growth. The non government organization supported by central government should provide education concerns with business skills at the same time enterprenuers should be ready to attend seminars on how to run their business, institutions finance should regulate and reduce constrain on SMEs so as smoothing take a loan . To overcome these obstacles, various measures are suggested include appropriate policies that create conducive environment toward SMEs growth. The study concludes with a discussion of policy implications and areas for further research.

TABLE OF CONTENTS

CERTIFICATION.....	iii
DECLARATION AND COPYRIGHT	iv
ACKNOWLEDGEMENT	v
DEDICATION	vii
LIST OF ABBREVIATIONS.....	viii
ABSTRACT	ix
TABLE OF CONTENTS	x
LIST OF TABLES	xiii
LIST OF FIGURE.....	xiv
CHAPTER ONE: INTRODUCTION AND STUDY’S BACKGROUND	1
1.1 Introduction and Background to the Study’s Problem	1
1.2 Statement of Problem.....	2
1.3 Objectives of the study:	3
1.3.1 Overall Objective	3
1.3.2 Specific Objective	3
1.4 Significance of the study	3
1.5 The Scope of the Study.....	4
1.6 Organisation of the Study.....	4
CHAPTER TWO LITERATURE REVIEW	6
2.1 Introduction	6
2.2 Theoretical Literature Review	6
2.2.1 Definition of key concepts	6
2.3 Review of Theories	7
2.3.1 Institutional Theory.....	7
2.3.1.1 Formal institutions	7
2.3.1.2 Informal institutions.....	8
2.3.2 Transaction Cost Theory	9
2.3.3 Agency Theory	9

2.4 Discussion of the Reviewed Theories	10
2.5 Review of Empirical Literature	10
2.6 Discussion of the Reviewed Empirical Literature	12
2.6.1 Internal Constraints	12
2.6.2 External Constraints.....	12
2.7 Conceptual Frame Work.....	13
2.8 Research hypotheses	16
CHAPTER THREE :RESEARCH METHODOLOGY.....	17
3.1 Introduction	17
3.2 Research Design	17
3.3 Study Area.....	17
3.4 Study Population	18
3.5 Unit of Analysis.....	18
3.6 Variables and Measurements	18
3.7 Sample size and Sampling Technique	19
3.8 Type Data and Data Collection Techniques	19
3.9 Econometrics Model and Estimation Technique	20
3.10 Data analysis	20
CHAPTER FOUR :DATA ANALYSIS AND PRESENTATION OF FINDINGS...22	
4.1 Introduction	22
4.2 Demographic Characteristics of the Respondents	22
4.2.1 Entrepreneur Skill and Marital Status	22
4.2.2 Education Level of the respondents.....	23
4.2.3 Sex and Entrepreneur Skill	23
4.2.4 SMEs Ownership	24
4.2.5 Main Product Sold	24
4.2.6 Annual Turnover	25
4.3 Analysis of the Constrains to SMEs Growth.....	25
4.3.1 Correlation Matrix	30
4.3.2 Logistic Regression Analysis and Hypothesis Testing	30

CHAPTER FIVE : DISCUSSION OF FINDINGS AND INTERPRETATION.....	34
5.1 Introduction.....	34
5.2 Discussion of Descriptive Analysis of the Demographic Characteristics.	34
CHAPTER SIX SUMMARY, CONCLUSIONS AND POLICY IMPLICATION.....	37
6.1 Introduction.....	37
6.2 The Summary of the Findings.....	37
6.3 Conclusions.....	40
6.4 Policy Implication.....	41
6.5 Limitation of the Study and Areas for Further Research.....	41
REFERENCE.....	43
APPENDIX: 1 INTERVIEW QUESTION.....	44
APPENDIX: 2 SPSS OUTPUTOF THE LOGISTIC REGRESSION MODEL.....	48
APPENDIX: 3 FACTOR LOADED COMPONENT.....	49
APPENDIX: 4 VARIABLE MEASURE OF OUT PUT.....	50

LIST OF TABLES

Table 3.1 Variables and its Measurement	19
Table 4.1: Entrepreneur Skill by Marital Status.....	22
Table 4.2: Education Level by Marital Status.....	23
Table 4.3: Sex Entrepreneur Skill	24
Table 4.4 Run Company with Sharing or Individual	24
Table 4.5 Main Product Sell.....	24
Table 4.6: Annual Turn-over among Firms (Tsh in Millions)	25
Table 4.7 Rotated Component Matrix ^a	26
Table 4.8 Total Variance Explained.....	27
Table 4.9: Summary of the underlying Factor Dimension.....	29
Table 4.10 Factor score	30
Table 4.11 Correlations	30
Table 4.12 Logistic Regression.....	32

LIST OF FIGURE

Figure 2.1: Conceptual framework.....	14
---------------------------------------	----

CHAPTER ONE

INTRODUCTION AND STUDY'S BACKGROUND

1.1 Introduction and Background to the Study's Problem

This study examines the main constraints facing SMEs in Zanzibar. The study mainly focuses on the effect of constraints on SMEs growth. The Small Enterprises include establishments engaging between 5 and 19 employees or with total assets value from TZS 4 million to less than TZS 20 million or with annual turnover of between TZS 10 million to less than TZS 50 million. The Medium Enterprises employ between 20 and 99 people or possess assets valuing from TZS 20 million to less than TZS 225 million, with annual turnover of between TZS 50 and less than TZS 750 million (OCGS, 2004).

SMEs cover “all enterprise which are considered as an entity engaged in an economic activity, irrespective of legal form. This includes in particular, self-employed persons and family businesses engaged in technical or other activities, and partnerships or associations regularly engaged in an economic activity” (Euresearch News, 2012). SMEs can be formed by number of objectives. In effect, Zanzibar industrial policy puts priority to the development of SMEs. The broad objective of the Zanzibar SMEs development Policy is to create conducive environment to develop SMEs activities in Zanzibar, to foster jobs creation, income generation and maximizing value addition through supporting their efforts to improve performance and competitiveness (MTIM, 2006; Mzee, 2007). The focus of resources prioritization is on development of public-private partnership (PPP).

According to Ministry of Trade Industry and Marketing most SMEs are organized as cooperate and Industry (RGoZ, 2004). Zanzibar Business Census (2006) showed that there were 15,192 informal sector operators employing 67,526 persons, of which Urban West (Unguja). Statistics show that the majority of activities are concentrated in trade; wholesale and retail business (65%), followed by manufacturing (12%) and hotel and restaurants attracted only 8 % of business activities. MSMEs engage about 4 % in community and personal services while other sector attracted only 11 %. The major constraints faced by most of firms include huge transaction costs such as multiple taxes, license fees, corruption, and customs and trade regulations (Mussa, 2009).

Small and Medium Enterprises (SMEs) are the engine of economic growth (Todaro, 2004). They play a significance role in poverty alleviation and economic development. SMEs are labour intensive and mainly employ low skilled labour from the rural sector. Thus, the contribution of Small and Medium Enterprise (SMEs) on poverty alleviation is direct obtained through income generation, revenue collected by the government from the SMEs annually, the number of employment created, increasing of new investment and the change of the capital formation. It has been revealed that in the period between 2006 and 2007, the total number of employment in SMEs increased from 200,548 to 206,988 (Zanzibar Business Survey, 2009).

The Millennium declaration of the United Nations, the Zanzibar vision 2020 and the Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP II, 2010-2015) provide clear evidence. In all of these documents, it has been stipulated that the SMEs sector can facilitate (investments, creating jobs and improving productivity) growth and creates opportunities for the poor people. SMEs in Zanzibar have contributed to capital formation as a %age of GDP about 20% in 2009, mainly due to the growth investments in the tourism sector (BOT, 2009).

The development of an energetic SMEs sector is vital for economic growth. However, in many economies, the growth of SMEs has not been smooth due to the presence of a number of constraints. For example, the Ministry of Trade and Industries indicates that SMEs growth in Zanzibar is hindered by lack of finance, lack of managerial skills, equipment and technology, unfavorable regulatory issues, and access to international markets, ineffective and poorly coordinated institutional framework (RGoZ, 2006). Understanding the extent to which these constraints hinder growth is imperative for designing effective policy that stimulates SME growth.

1.2 Statement of Problem

Promoting SME is important for development as most of people in Zanzibar are employed in SMEs sector. Both Zanzibar and Union government have made a number of efforts to ensure a sustained growth of SMEs.

These include the formulation of SMEs policy and strategies that aims at creating an enabling environment for SME growth (URT, 2002 and RGoZ, 2006) , However, SMEs still face numerous constrains .Mhede (2012) studied SME constraints and found that real values of payments to the firm owners and workers have positive implications for poverty reduction therefore lack of access to fund has significantly hinder growth. Similarly, Nkya (2003) and, Fjeldstad, Kolstad and Nygaard (2006) found that institutional constraints such as taxes, duties, bribes, and regulations hamper growth of SME in Tanzania. Despite providing useful insights, earlier studies have a number of weaknesses that prompt further empirical research. Firstly, the number and nature of constraints vary across studies, which make it difficult to ascertain on what type of constraints matter. Secondly, most studies have examined the constraints with the purpose of identifying the type of constrains, mostly, by examining the frequency of their occurrences among firms. However, limited analysis has been done to determine the extent to which the identified constraints actually hinder growth of SME. Therefore, this study identifies dominant constraints and examines the extent to which they hinder SMEs growth.

1.3 Objectives of the Study:

1.3.1 Overall Objective

The main objective of this research is to identify constrains that hinder the growth of SME at Urban West Region in Zanzibar and show the significant impact to each constrains. The specific objectives of the research were:

1.3.2 Specific Objectives

- i. To identify major constraints facing SMEs in Zanzibar
- ii. To examine the extent to which the identified constraints differ among SMEs of different characteristics.

1.4 Significance of the Study

The finding of this study expected to contribute useful information for policy and decision makers in their efforts to improve the SMEs operation and also contribute to knowledge and enhance practices in the management of SMEs in Urban West Region of Zanzibar.

The significance of this research helps to examine those factors affecting the performance of SMEs to facilitate their contribution to economic growth. Many obstacles for the growth of SMEs have been revealed. These includes poor management, lack of accessibility to market, government regulation related to the entry of new businesses. This was marked as one of key element of business environment measured by the cost of registration fee for a firm, together with high tax may act as a barrier for the growth of the firms. It has been further observed from this study that although SMEs constitute a significant part of total employment in many countries, due to these constraints it is getting more difficult for them to contribute to nation's GDP as expected.

Therefore, this research work was beneficial, not only to the Government in terms of factors critical to SMEs performance, but also to the industries. The study also helps the private sector specifically SME sector in so as to expand the sector and generate employment opportunities hence increase output to the country.

1.5 The Scope of the Study

The research examined the constraints to SMEs growth in Zanzibar. In doing so, it describes why the SMEs are not growing while there is a good strategies, also it presents milestone factors for assessing the drawback of SMEs growth, due to time pressure. This study was focussed only to the registered SMEs and therefore excludes other issues which might be very unique to unregistered which are also common in Zanzibar. The study confined itself in Unguja Island and excluding Pemba Island which is part of Zanzibar. Furthermore, the focus was only given to Urban west Region in Zanzibar because most of SMEs in Zanzibar located at urban District. The Region also it has large number of SMEs to compared to other Districts. Therefore, this District could be the reliable area to conduct this study

1.6 Organisation of the Study

This study is organized into six chapters. Chapter one organized with introduction and background of the study, the statement of the problem, objectives of the study, significance of study and scope of the study. Chapter two describes theoretical literature review, definition of key concepts, and review of theories and conceptual framework of the study and research hypothesis.

Chapter three discusses research methodology. Presentation of study findings is covered in chapter four. Chapter five presents discussion of the findings. Lastly, chapter six provides summary, conclusion and policy implications

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses theoretical and empirical research relating with the constraints of the firm growth, which is the focus of this research. The chapter is divided into the following sections. Firstly, the theoretical literature review is presented, which begins by the presentation of the main concepts of the study. This is followed by the review of empirical studies in the second section. The third section presents the conceptual framework, from which hypotheses are formulated.

2.2 Theoretical Literature Review

2.2.1 Definition of Key Concepts

Entrepreneur is a coordinator of resources and a person who perceives an opportunity and takes risks in starting a new business.

Small Business is a firm with its share of the market is relative small, capital is supplied and ownership held by individual or small group and area of operation is mainly local. Worker and owners are in one community but markets need not to be local (American committee for Economic development, 1972).

Economically, Small firm has a relatively small share of the market, managerially; it is administered by its owners or part owners in personalized way, rather than by means of formalized managerial structure (Bolton committee, UK.1971).

Growth of Firm means increase in size or an improvement in quality as it of a process of development, internal changes lead to increase in size accompanied by changes in the characteristics growing object(Penrose, 1959).

In terms of employees, a micro-enterprise is one with fewer than five employees (capital of maximum of TZS 5 million) 10; a small enterprise has 5-49 employees (capital of maximum of TZS 200 million); a medium enterprise has 50-99 employees (capital of maximum of TZS 800 million); and a large enterprise has more than 100 employees and capital over 800 million United Republic of Tanzania (URT, 2003).

Constraint is anything that prevents the system from achieving more of its goal (Eliyahu, 2000).

2.3 Review of Theories

This section in particular, presents a review of theories that guide of these study, institutional theory was applied so as to the understanding of the problem under research. Broadly, institutional theory can be found into constituents depending on the unit of analysis of the study. These include Transaction Cost Theory/Economics which focuses on transaction as the unit of analysis and Agency theory which focuses on contractual relationship between the principal and the agent. The nature of the problem understudy suggests that the explanations of institutional theory can be complemented by transaction cost and agency theories. In this regard, the present study integrates transaction cost theory and agency theory into the broad institutional theory that encompasses both formal and informal institutions.

2.3.1 Institutional Theory

According to North (1991), institutions are the humanly devised constraints that structure political, economic and social interaction. Institutions are the “rules of the game,” consisting of both the formal legal rules and the informal social norms that govern individual behavior and structure social interactions (institutional frameworks). Informal institution include (sanctions, taboos, customs, traditions, and codes of conduct), whereas and formal institution comprise of (constitutions, laws, property rights).the reasons for taking this theory was guided with the nature of my study ,where by agency theory was applicable for internal constraints and transaction cost was appropriate for analysing the cost that incur for leanding , government policy and market process.

2.3.1.1 Formal institutions

Formal institutions as defined by North (1990) as a rules that human being devised a good example being laws and regulations enacted by governments. Formal rules are constitutions, statutes, and other government regulations. This include, among other legal regulations, business registration, taxes, social security payments licenses, and accounting standards. Government and support institutions play significant roles in the development and growth of SMEs.

These include providing conducive business environment in a stable political climate to stimulate economic growth through entrepreneurship. According to Small bone and Welter (2001b), in many transition countries with a slow reform progress, the legal framework is still the main barrier to the development of small business and entrepreneurship. Creating an adequate legal framework involves laws relating to property, bankruptcy and contracts. In Tanzania, Nkya (2003) also showed that formal institutions greatly hinder entrepreneurship and business growth.

2.3.1.2 Informal institutions

Knowles (2005) refer informal institutions as social capital. Social capital defined by Putman, Leonardi and Nanetti (1993) as features of social organization, such as trust, norms and network that can improve the efficiency of society. Ostrom, (1990); Pretty and Ward, (2001) define informal institutions as community based, local, social or grass-roots institutions, such as micro-credit schemes and groups formed for the purpose of managing common pool resources. Informal institutions will be economically productive in so far as they encourage cooperation and reduce transactions costs. North (1990) argues effective traditions of hard work, honesty and integrity simply lower the cost of transacting and make possible complex, productive exchange. Informal institutions influence such as attitudes, values and culture has also an impact on the growth of SMEs. These factors reflect the various influences on SME and entrepreneurship development such as shortage of qualified workers .Sometime family owner has no any ideas about entrepreneur skills to handle the business or fail to secure competent labor and see market opportunities. These Informal institutions mostly involve social behavior like personal attitudes, economic behavior and culture.. Therefore, in absence of the appropriate institutional setting, the informal factors emerge as a barrier to the growth of the firms. Thus, institutional theory is relevant for this study as it helps to explain the nature of the institutional constraints and how do they effect growth. The Theory will reflect firm size the margin between intra-firm transactions costs and market transactions costs, such that as market transaction costs fall relative to intra-firm transactions costs the optimal firm size falls (Coase, 1937).

2.3.2 Transaction Cost Theory

Williamson (1985) developed Transaction Cost Theory/Economics (TCE) to analyze the “comparative costs of planning, adapting, and monitoring task completion under alternative governance structures.” The transaction cost theory explains the existence of different contracts by means of a broad range of variables including the institutional framework, bounded rationality and uncertainty. Transaction cost economics exist in many variants is essentially a theory of coordination of transactions between and within business organizations. The theory assumes that organizations incur costs of, such as costs of writing contracts, supervision costs, costs associated with opportunistic behavior, and costs associated with specific assets (in particular those that are not easily used for different transactions). forms of governance mechanisms that minimize transaction costs include markets, common law and regulations all provide (Palay, 1985, p. 156).

Since all transaction involve costs, this theory is useful to this study. The transaction cost of running firms involve production costs, market cost as well as the costs associated with laws and regulations, which may be thought of as the costs of doing business. Firms must be able to overcome these costs/constraints in order to survive and grow. Therefore, based on the transaction cost theory, it can be argued that firms that cannot overcome the transaction costs are more likely to experience limited growth.

2.3.3 Agency Theory

This theory deals with the people who own a business enterprise and all others who have interests in it such as managers, banks, creditors, family members, and employees.

The theory assumes that the day to day running of a business enterprise is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders, Emery et al. (1991)

The theory is based on the notion of the principle of ‘two-sided transactions’ which holds that any financial transactions involve two parties, both acting in their own best interests, but with different expectations. For instance, managers may devote less effort in managing resources of the firm or be able to pass firm resources to their personal interest (Harris and Raviv, 1991).

The theory contends that in many small enterprises the agency relationship between owners and managers may be absent because the owners are also managers. The predominant nature of SMEs makes the usual solutions to agency problems. For example, monitoring and bonding cost which mainly increase the cost of transactions between various stakeholders are essentially not incurred by SMEs.

This theory is relevant to the present study because it cover the internal constrain specifically in management characteristics and it cover the cost linking to the effect of ownership in doing business.

2.4 Discussion of the Reviewed Theories

Transaction theory reveals that when the higher cost incurred to the firm the lower profit the firm will make. For instance multiple tax, high interest rate, high cost for business registration increase the running cost of doing business and raise the obstacle for firm to grow. Agency theory shows how the variables drive up the constraints when the firm manager has lack of entrepreneur skills. The manager himself become as constraints for firm's growth since manager can create unnecessary cost and disorganization among the labour that results difficulties to compete in the market. This theory is useful in this study as it enhance the availability of market and maintains healthy business activities. When all of these are undertaken the business becomes capable to maximize profit and enables academic and practitioners to pursue strategies that could help to sustain the growth of SMEs. The knowledge of manager smoothen the work of firm in terms of market access such as business competition.

2.5 Review of Empirical Literature

Tundui (2012) examined gender and small business growth in Tanzania by conducting a survey to 310 owner- managers of SMEs. The study used stratified sampling procedure and non probability sampling method was applied multivariate method, using logistic regression model. In this study it was found that financial capital has held positive impact on male growth aspiration but not for women. Access to loan has had a positive impact on growth aspiration for women.

However, this study did not take into account the effect of government constraints to small and medium enterprises.

Soini and Veseli (2011) examined the factors influencing SMEs growth in Kosovo using a qualitative method that involved interpretation and observation 200 were interviewed. The study found (entrepreneurial knowledge, education of employees, marketing, technology, innovation, financial support, law and regulations, business location, competition globalization, management and employment competence factors, are affecting negative on firm growth. Due to the nature of data, observation, belief and ideas it was difficult to measure in a quantitative way. Furthermore, the study did not use the model to explain the relationship between the factors and growth.

Grimsholme and Poblete (2010) examined internal and external factor hampering SMEs growth. The study applied qualitative approach. The study revealed that the major obstacles were the lack of access to finance, competition, barriers to trade, management competence, lack of skilled labour, low investment in R&D and new technology.

Naudé and Krugell (2008) using 140 sample size did the study on internal policies as effective tools for survival of firms and growth and found that government has created appropriate policy to favor the SMEs. However, the government used market approaches to moderate price which includes minimum support prices, farm income insurance, a price stabilization fund. The study suggested that good government policy resulted into an improvement in the business environment for domestic business to growth. However, managerial constraints were still relevant but limited attention was paid to understand their effect.

Another study was management entrepreneurial skill using a survey of 205 firms was conducted by Storey (1994). Based on regression model, the study concluded that education equips people with knowledge and skills they need to effectively manage and succeed in their businesses. That is, as the level of education increases and so does the individual entrepreneurial ability to cope with problems and take hold of opportunities. These are important to the growth of the firm he findings on the relationship between owner's education and business growth are somewhat mixed.

2.6 Discussion of the Reviewed Empirical Literature

The review of empirical research above provides relevant insights regarding the nature and severity of the constraints affecting growth firms in general and small firms in particular. The studies have shown that the nature of the constraints vary from one country to another, suggesting that each country's institutional framework may be the factors behind the varied nature of the constraints. However, for better understanding of the constraints, it is important to classify the constraints into conceptually meaningful groups. In this vein, the study identifies and classifies the broad constraint categories into internal and external constraints. Internal constraints are those factor that are within the control of the firms, whereas external constraints are those exogenous to the firms that occur as a result of activities of other actors in the markets such as the government.

2.6.1 Internal Constraints

According to Morrison (2006) internal factors emanate within an organization due to management and company organization characteristics. Factors that are frequently considered as part of the internal environment include the marketing objectives, human resource strategies such as employee motivation, staff turnover and provision of training, leadership styles, investment in R&D and its organizational culture. Others include entrepreneurial skill. The majority of the establishments in the informal sector lack capacity building programs, hence, they often employ people with low skills base. Due to financial constraints, SMEs tend to spend less on training than large Enterprises (Tannocket, 2001). In Zanzibar, the Small business Policy identifies several internal constraints to SMEs growth including:

- i. Inadequate market information
- ii. Inadequate resources for extension services
- iii. Lack of competent management and human capability
- iv. Inadequate of qualified personnel

2.6.2 External Constraints

External constraints emanate outside the firms due to activities of other agents in the markets such as suppliers, customers, competitors, and the government. The government influences the functioning of the markets through laws, rules, and regulations.

Therefore, these are the institutional frameworks that constraints the behaviors of firms. For example, trade regulation, labor regulation, public procurement procedures, business licensing and taxes. Efficient institutional frameworks enable firms to flourish, whereas inefficient institutional frameworks increases transaction costs and, hence, erodes profits and discourage investment by of the enterprises (World Bank, 2006). Excessively high rates of tax exert high cost in terms of lower private investment and growth. Taxes reduce the incentive to invest. Djankov et al. (2010) find that corporate tax rate has a large adverse impact on aggregate investment and entrepreneurial activity. Therefore, unfavorable government regulations can be a serious constraint to SMEs growth.

Market constraints can appear in many forms. For example, the size of the market can be one of the constraints. The geographical size of Zanzibar offers a limited market growth. However, firms can utilize the market outside Zanzibar such as Tanzania and across the borders of East African community to sell their products. Zanzibar has comparative advantage to certain products especially spices and fish products. Yet, entrepreneurs encounter difficulties in entering into these markets and other world markets (MLYW, 2007). Other constraints may be at play as well. For example, Mhede (2012) shows that insufficient marketing information on buyer and suppliers, and poor market infrastructure affect SMEs growth.

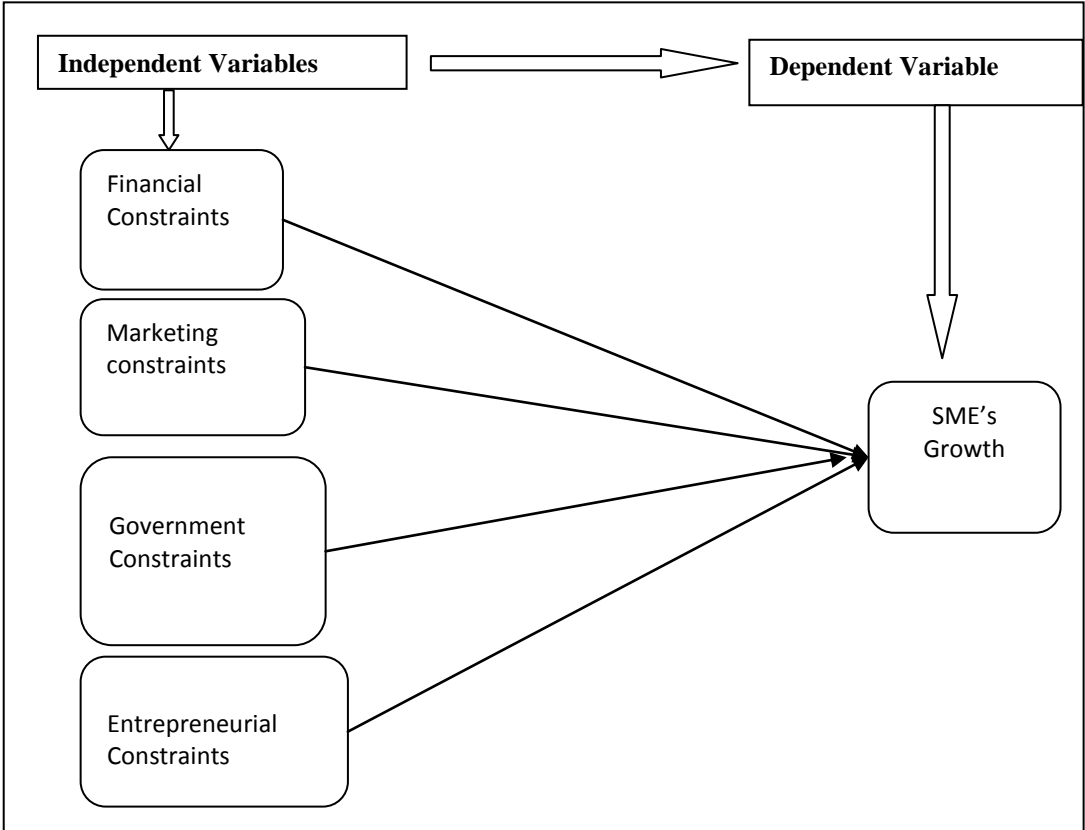
Access to finance is a critical problem for small and medium firms compared to large sized-firms. The majority of small firm's private investment comes from domestic sources (Sinha and Fiestas 201). In Zanzibar, like in many developing countries, financial market and institutions are less developed. Hence, firms encounter limited financial support for long term financing. Most banks in Zanzibar mostly provide short term loans with high interest rate (SMEs Development Policy, 2006). Finance banks have to charge higher interest to finance small enterprises.

2.7 Conceptual Framework

The conceptual model, Figure 1, summarizes the relationship between the constraints and the Growth SMEs.

The frame work suggest that internal constraints such as lack of management entrepreneur skills, and external constraints such as government regulation and policy, lack of access to finance and lack of access to market hinder growth of SMEs in Zanzibar.

Figure 2.1: Conceptual framework



Source: Author’s construction

Managerial Constraints: It can be argued that the quality of management is essential for organization business opportunities. However, in many developing countries the quality of the management is low (Bruhn , 2010). Studies concluded that education equips people with knowledge and skills they need to effectively manage and succeed in their businesses. That is, as the level of increases the Enterprenuer skills an individual entrepreneur’s ability to cope with problems and take hold of opportunities that are important to the growth of the firm also increase (Storey, 1994). Hence, managerial constraints can greatly hinder growth of SMEs.

Financial Constraints: There is a robust body of literature that shows that financial deepening, measured by the ratio of private credit to GDP, results in higher rates of growth and faster growth in the incomes of the poor, especially in the poorer countries with less well developed financial sectors. Firms need to be able to access those financial instruments that they needed in order to operate efficiently (e.g. payment services) and invest (e.g. loans, quasi debt). Financial capital is a significant obstacle that hinders small entrepreneurs from expanding their businesses (Hughes and Storey, 1994). Small business startups usually have little financial capital with which to finance their businesses, and access to capital from other sources is difficult to acquire. Most small entrepreneurs use their own sources for financing their businesses.

Market constraints: It can be argue that this is another obstacle for companies to grow. Many businesses confront challenges establishing effective distribution channels, communicating product features, pricing products and services in an attractive way, implementing sales and marketing efforts to win and retain customers and undertaking constant product development in order to sustain sales (Brush *et al.*, 2009). Therefore firm manager has direct impact on access to market.

In terms of Government constrains, it can be argued that firms need to be regulated and licensed. However, if the costs they incur in complying with regulation are unnecessarily high, business entry and firm growth will be lower. Regulations impose necessary costs on firms such as the need to adapt the business to meet regulatory requirements or to pay licensing fees.

But too often these costs are unnecessarily high because of rent seeking behavior, inefficient administration, or poor institutional fit (World Bank, 2005a). The effects of regulatory barriers and business licensing on firms' dynamics therefore reduce business entry and firm growth (Djankov, 2009).

2.8 Research Hypotheses

This study intends to test the following main research hypotheses:

- There is a negative relationship between internal constraints that SMEs encounter such as lack of entrepreneurial business skills and growth
- There is a negative relationship between external constraints that SMEs encounter such as lack of access to finance, lack of access to market information, and unfavorable Government regulation and growth

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology employed to answer the question posed in this study. The chapter is divided into the following sections: study area, research design, sampling, and estimation method.

3.2 Research Design

The study used a cross sectional design, which this was selected because of the nature and its advantage, these design is a cheap to undertake and useful to get information on a particular study time. Moreover, the study was able to assess the degree of relationship between SMEs growth and the factors hindering it. It also provides useful data for simple statistical descriptions and interpretations (Babbie, 1995) and the respondents was visited once for investigation (Dimoso, 2010).

3.3 Study Area

The study was conducted at Urban West Region of Unguja in Zanzibar. The selected area is relevant because a large number of SMEs are located in urban west as compared with other Regions. More than 50 % of the total enterprises are located in Urban West in Zanzibar Unguja (RGoZ, 2004). Also the area of study is easy for access to market. This helped to get the reliable and valid information.

Zanzibar consists of two main islands, Unguja and Pemba, and several other smaller islands some of which are uninhabited. Zanzibar is located in the Indian Ocean, about 30km off the East Coast of Africa between latitudes 5 and 7 degrees south of the Equator. The island has a total area of 2,654 square kilometers, out of this Unguja, which is the largest, has an area of 1,666 square kilometer (ZSGPR, 2011).

This study was conducted in the Urban District which is the one among the ten Districts that constitute in Zanzibar. It is surrounded by Indian Ocean in Eastern and Southern part. It is boarded by West District to West and Northern part to North side.

According to 2002 National Census, Urban District had a population of 205,870 people with estimate growth rate of 1.9% per annum.

Zanzibar lies off the eastern coast of Tanzania and is situated some 30 km. from the mainland of East Africa, in the Indian Ocean. It is a low-lying island of coral formation, and it has an area of about 2,654sq km of which 1,666 square kilometers are in Unguja and the remaining 988 square kilometers are in Pemba Island .During the year 2012, GDP growth rate of Zanzibar rose to 7.0 % from 6.8% registered in 2011. Good performance of industrial sector which its growth rate is 9.2% in the year 2012 from 5.8 in 2011.

3.4 Study Population

The population is an aggregate of elements defined prior to selection of a sample (Taylor, 1996). Due to the nature of work in these firms, interviewees were picked in general from different enterprises SMEs practice in Zanzibar. Targeted population is to cover those who have managed the enterprises, trade and industry associations and cooperatives. Due to the nature of work in these firms; questionnaires were distributed randomly in order to have diverse views based on their experiences and provide equal opportunity for firms' managers from different enterprises.

3.5 Unit of Analysis

The manager of the SME was a person who operates the business and all information from the individual, information of the organization and other operation document were centered to him/her, therefore the unit of analyses of this study was the manager.

3.6 Variables and Measurements

The dependent variable in this chapter is business growth. On the basis of the literature review, the study used the following measures for business growth invested capital growth rates, employment growth rate over five years, and a subjective performance measure.

The second measurement proposed is employment growth rate over five years. The study measured business growth in terms of number of employees. as growth was measured a difference in the number of employees at start-up and the time of study. The independent variables used in the model were internal and external constrains formulated in dummy variables ranged between 1 to 5.1 indicate minor constraints and 5 major constraints. Other variables include, return for industries, size of firm, number of labour per year as presented below.

Table 3.1 Variables and its Measurement

Variables	Measurement
Number of employees	Size of the Firm In term of Ratio Scale
Level of education	The highest level of education of the owner-manager of SMEs such as university level of Education
Entrepreneurship skills	Dummy i.e 1=have attended Training, 0= not attend
Constraints	Likert scale (describe it from 1 - 5) i.e 1=very minor constraints 5=very major constraints
Sector	Main economic activities 1=agricultural product, 2=tourism,3=services and 4=food processing
Firm age	Number of year in business (continuos)
Initial Size of Firm	Amount of sales in “Tsh”
SMEs Growth	Income improvement from Initial sales

Source: Own formulation

3.7 Sample Size and Sampling Technique

The research covers the SME that operate in the urban west region of Zanzibar. The primary sampling unit that used was the business areas and the sampling unit was manager. Due to number of SME found in survey areas the research purposively select only 70 SME, the sampling techniques that was employed to select the representative SME was non random sampling. This is because of specific area of production sector are considered and nature of resources available. The study could not capture all the groups. Therefore surveyed respondents were enough to represent the entire population.

3.8 Type Data and Data Collection Techniques

This research based on quantitative primary data collected using semi-structured questionnaire. Source of the data was the business which during period of research the

SME was operating. A questionnaire was employed to collect the information from owner–managers through personal interviews.

3.9 Econometrics Model and Estimation Technique

Given the nature of the data most of the variables are binary and categorical we opted to use a logistic regression, the method used to constrain for industry growth was logistic regression model. Compared with discriminant analysis, logistic regression is by far the most common used analysis, as it is stronger to the violation of the normality assumption related to categorical predictors (Cooper et al., 1994). The study used econometric techniques to estimate the coefficients parameters. The model that was fit to the data was given by

$$\text{Logit}(p) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$$

Where the dependent variable p is the probability of SME growth where by explanatory variables were constraints.

3.10 Data analysis

To analyze the data, we matched the explanations and observations with the literature and empirical findings elsewhere. Data was analyzed using SPSS package and tested by statistical tests, thus, the data in this study are mainly binary, predictors are categorical, therefore logistic regression is preferred to other approaches. In addition, logistic regression analysis takes into account the correlation among the exogenous variables (Fabowale et al., 1995). Therefore we applied the logistic model to the data to test the research hypothesis. Also, the results analyzed by descriptive statistics. The findings presented in term of %ages of frequencies table. To analyze quantitative data, we used several methods. First, we began with descriptive analysis, in which we use frequencies, means, and correlations, This analysis produced an overview of the data, tested whether there are significant relationships between variables used in the study, and examined group differences (e.g., gender, age) in relation to specific variables. Data analysis for the qualitative data consisted of examining, categorizing, and recombining the evidence (Yin, 2003) to address the research problem, categorical and continuous.

The dependent variable is a binary response measuring whether owner–managers have high growth 1 = an owner–manager has high growth s, and 0 = otherwise, assigned to the dependent factor

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This chapter presents the result of data analysis. The analysis aims at testing the proposed hypotheses of the study. The chapter is divided into two main sections. The first section presents of the descriptive statistics, in which univariate and bivariate analyses of the variables of interest are conducted. The section aims at examining bivariate relationship of dependent and independent variables of the study. In the second section, the chapter presents the results of econometric analysis.

4.2 Demographic Characteristics of the Respondents

4.2.1 Entrepreneur Skill and Marital Status

Table 4.1 shows marital status of the managers of SME on their marital status and their skill .The purpose of this analysis was to determine whether or not entrepreneur skills vary by marital status. The logic is that some personal characteristic has positive impact to the operation of the business. The result shows that 61.4 % of the managers interviewed married. The results also show that of the married respondents, 15.7 % did not have entrepreneurial skills.

Table 4.1: Entrepreneur Skill by Marital Status

Responses		Entrepreneur Training		Total
		Yes	No	
Marital Status	Married	32	11	43
		45.70%	15.70%	61.40%
	Unmarried	10	14	24
		14.30%	20.00%	34.30%
	Divorce	2	1	3
		2.90%	1.40%	4.30%
Total		44	26	70
		62.90%	37.10%	100.00%

Source: Field Data (2012)

4.2.2 Education Level of the Respondents

Education level in this study was taken as a proxy indicator of the ability of top leaders to manage the SME. Table 4.2 shows the results of the analysis. The findings suggest that only 1.4 %t of the respondents did not receive formal education, whereas 17.1 % have had a degree level education. The results show that the majority 60% of the respondent receives secondary education. The result also shows that most married managers have had a secondary level of education.

Table 4.2: Education Level by Marital Status

Responses		Marital Status			Total	
		Married	Unmarried	Divorce		
Education Level	No	1	0	0	1	
		1.4%	0.0%	0.0%	1.4%	
	Primary	4	2	0	6	
		5.7%	2.9%	0.0%	8.6%	
	Secondary	29	11	2	42	
		41.4%	15.7%	2.9%	60.0%	
	Certificate/ Diploma	5	3	1	9	
		7.1%	4.3%	1.4%	12.9%	
	Degree And Above	4	8	0	12	
		5.7%	11.4%	0.0%	17.1%	
	Total		43	24	3	70
			61.4%	34.3%	4.3%	100.0%

Source: Field Data (2012)

4.2.3 Sex and Entrepreneurship Skill

Table 4.3 shows the results of analysis of sex of respondent as it related with entrepreneur skill. The finding shows that 40.0 % of the interviewed managers ware males. It was also noted that of the female respondent 20.0 % did not have entrepreneurship skill as compared with 17.1% of male who also did not have entrepreneurship skill.

Table 4.3: Sex Entrepreneur Skill

Responses		Entrepreneur Skill		Total
		Yes	No	
Sex	Male	16	12	28
		22.90%	17.10%	40.00%
	Female	28	14	42
		40.00%	20.00%	60.00%
Total		44	26	70
		62.90%	37.10%	100.00%

Source: Field Data (2012)

4.2.4 SMEs Ownership

Table 4.4 presents the information about ownership of the enterprises. The results show that about 35.7% of SMEs are owned by individual, whereas, about 64.3% are owned in the form of sharing.

Table 4.4 Run Company with Sharing or Individual

Responses	Frequency	Per cent
Individual	25	35.7
Sharing	45	64.3
Total	70	100.0

Source: Field Data (2012)

4.2.5 Main Product Sold

The small medium enterprises in urban Unguja District engaged on provision of services and selling goods, the study shows that 10% of firms are in services sector. Most small firms are engaged in tourism about 37.1 % sites ware in this sector. This might be the reasons that Unguja is island and economic activity of its people depends much on tourism. Agriculture is the back born of the economy in many developing countries including Zanzibar. About 24.3 % of firms were involved in agriculture as compared with 30 % firms in the food processing sector.

Table 4.5 Main Product Sell

Responses	Frequency	Per cent
Services	6	8.6
Food Processing	21	30.0
Tourism Sector	26	37.1
Agricultural Product	17	24.3
Total	70	100.0

Source: Field Data (2012)

4.2.6 Annual Turnover

This study was interested to obtain the information about SME on annual turnover during twelve months when the firm was established and the turnover that firms was received for the period of twelve months back and last to the survey month. Table 4.6 show that firms that receive between Tsh 50 to 500 million was less than 10.0 % whereby the firms that were received between Tsh 5 to 50 million was equal to 14.3 %, this research reveals that majority of the firms receive less than Tsh 5 million which is equal to 77.1 %.

However, the current turnover shows that .Business that stated to earn less than Tsh 5 million was high compared to other categories which is equal to 60.0 % followed by those who stated they earned between Tsh 5 to 50 million was equal to 28.6 %, firms which shown to less than 5 % was earning over Tsh 500 million.

Table 4.6: Annual Turn-over among Firms (Tsh in Millions)

Level	Turnover at Start up		Current Turn Over	
	Frequency	Per cent	Frequency	Per cent
Less Than 5	54	77.1	42	60
Between (5 -50)	10	14.3	20	28.6
Between (50 -500)	6	8.6	5	7.1
Over 500	0	0	3	4.3
Total	70	100	70	100

Source: Field Data (2012)

4.3 Analysis of the Constrains to SMEs Growth

This section presents the findings on constrains to SME growth. The analysis was done using principal component analysis/factor analysis. The factor analysis is a statistical method which can be used to address the problem of analyzing the structure of the interrelationships (correlations) among a large number of variables by defining a set of common underlying dimensions, known as factors. Factor analysis was used to identify the separate dimensions of the structure and then determine the extent to which each variable is explained by each dimension. It is important to note that in factor analysis, the varieties are formed to maximize their explanation of the entire variable set, not to predict a dependent variable(s).

The main objective of performing factor analysis in this study is to reduce the data by summarizing the important information contained in the 14 variables by a fewer number of factors. In this study factor analysis was performed to determine the important constraints hindering SMEs growth. Factor analysis is conducted in different stages as follows:

Table 4.7 Rotated Component Matrix^a

Variables	Component				
	1	2	3	4	5
lack of reliable water supply	0.174	0.189	0.063	0.013	0.702
government failed to provide reliable power supply to SMEs	-0.069	0.083	-0.008	0.846	-0.027
lack of enterprenuer skills	0.27	0.481	0.083	-0.118	-0.543
lack of access to credit from financial institutions	0.201	0.679	-0.375	0.183	-0.117
lack of reliable supplies of input	0.462	0.079	0.204	0.471	0.074
problem of fund availability	0.042	0.884	-0.151	0.171	0.037
high rate of taxation by the central government	0.153	-0.089	0.465	0.567	0.462
country regulation is unfouvariable to SMEs	0.324	-0.353	0.592	0.098	0.000
problem of market information and market services	0.736	0.08	0.055	0.049	-0.379
lack of management enterprenuer training and qualification	0.806	0.172	-0.011	-0.218	0.187
difficult to get financial support from the government	-0.039	0.67	0.267	-0.177	0.268
high corruption	-0.044	0.092	0.674	-0.005	0.284
lack of managment experience	0.834	-0.049	0.055	0.166	0.154
extent of government regulation hinder SMEs growth	0.049	-0.062	0.806	0.11	-0.193

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation convergd in 8 iterations.

Table 4.8 Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.845	20.320	20.320	2.845	20.320	20.320	2.384	17.031	17.031
2	2.527	18.049	38.369	2.527	18.049	38.369	2.154	15.388	32.419
3	1.665	11.893	50.262	1.665	11.893	50.262	1.964	14.028	46.447
4	1.209	8.632	58.894	1.209	8.632	58.894	1.466	10.468	56.915
5	1.137	8.123	67.017	1.137	8.123	67.017	1.414	10.102	67.017
6	.915	6.535	73.552						
7	.824	5.886	79.438						
8	.716	5.117	84.554						
9	.573	4.093	88.647						
10	.492	3.513	92.160						
11	.353	2.523	94.683						
12	.309	2.210	96.893						
13	.261	1.867	98.760						
14	.174	1.240	100.000						

Extraction Method:

PrincipalComponent Analysis.

In step two, here decision was made as to which factor extraction methods are to be used. There are two types of extraction method namely Principal Component Analysis (PCA) and Common Factor Analysis (CFA). Keeping in view the objective of the study and upon through analysis of the various extraction methods, it was found appropriate to apply Principal Component analysis as it best suits the purpose of the study, i.e to summarize the original information (variance) into a minimum number of factors.

In step three, Latent Root Criterion was used to determine the number of factors to be extracted. Only the factors having latent roots or eigenvalues greater than 1 were

considered significant and selected. All factors with latent roots less than 1 were considered insignificant and disregarded.

The exercise was done by grouping the variables found in specific factors are treated separately to other variables found in another factor. This means that entrepreneur skill constrain factor have 4 variables which resulted in extraction of 3 components from the 4 variables. The financial factor constrain has 3 variables which resulted in extraction all 3 component from 3 variables. government constrain factor which have also 6 variables which resulted in extraction of 3 component from 6 variables and the water supply constrain factor was having 2 variables which resulted in extraction of 1 component from 2. The last factor was power constrain was 1 variable and extract one The rationale for the latent root criterion is that any individual factor should be accounted for the variance of at least a single variable if it is to be retained for interpretation.

Factor analysis was performed on the 14 variables using component analysis. The results of analysis are shown on Table 4.10. The analysis identified 5 dominant factors that explain about 67.017% of the total variance. Factor rotation was conducted to determine the underlying factor dimensions. The results of analyses are shown in Table 4.11

As can be seen on the table, the first factor was related with the problem in entrepreneur skill. This factor constitute four items namely, lack of management experience, lack of entrepreneur training and qualification, and problem of market information and market services .The second factor is labeled financial constrains which comprised most finance related problems including items such as lack of access to credit from financial institutions, difficulties in getting financial support from the government. The third factor was government regulation which includes Country Regulation and policy, corruption and government regulation. Fourth factor power supply constrains which include lack of access of power supply. The last factor was constrained of water supply which includes only one variable lack of reliable water supply.

Table 4.9: Summary of the underlying Factor Dimension

S/N	Factor Name and Items	Mean	Std. Deviation	Factor Loading
1	lack of management experience	3.42857	0.931	0.834
2	lack of management entrepreneur training and qualification	3.47143	0.499	0.806
3	problem of market information and market services	3.85714	1.053	0.736
4	problem of fund availability	4.785714	0.35	0.884
5	lack of access to credit from financial institutions	4.671429	0.675	0.679
6	difficult to get financial support from the government	4.985714	0.12	0.617
7	country Regulation and policy	2.64355	1.027	0.806
8	corruption	2.24286	1.245	0.674
9	Government regulation	2.42857	1.084	0.592
10	access of power supply	3.857143	1.266	0.846
11	lack of reliable water supply	2.142857	1.322	0.702

Table 4.11 also shows the results of descriptive statistics such as mean, standard deviations, and factor loadings. The component which has high loading was used to label formulate the variable. The mean scores suggest that financial constraints are the most important hindrance to SMEs growth. These items have the mean scores ranging from 4.7 to 4.9.

Having identified the factors, the next step is to convert the factors into factors that can be used for further analysis in the regression model. Table 4.12 shows the results of loading for each factor scores and the labels. In the following section, the factor scores are used to the test the hypotheses using logistic regression.

Table 4.10 Factor score

Factor Name and Items	Component				
	Entrepreneur skill constrains	Financial constrains	Government regulation constrain	Power supply	Water supply
Entrepreneur Skill					
lack of management experience	0.834	-0.049	0.055	0.166	0.154
lack of management entrepreneur training and qualification	0.806	0.172	-0.011	-0.218	0.187
problem of market information and market services	0.736	0.08	0.055	0.049	-0.379
Financial Constrains					
problem of fund availability	0.042	0.884	-0.151	0.171	0.037
lack of access to credit from financial institutions	0.201	0.679	-0.375	0.183	-0.117
difficult to get financial support from the government	-0.039	0.67	0.267	-0.177	0.268
Government Regulation Constrain					
Country Regulation and policy	0.049	-0.062	0.806	0.11	-0.193
Corruption	-0.044	0.092	0.674	-0.005	0.284
Government regulation	0.324	-0.353	0.592	0.098	0
Power supply constrains					
access of power supply	-0.069	0.083	-0.008	0.846	-0.027
Water supply					
Lack of reliable water supply	0.174	0.189	0.063	0.013	0.702

4.3.2 Logistic Regression Analysis and Hypothesis Testing

Before running the logistic regression, the variables were subjected to correlation analysis. The results of analysis are reported in Table 4.11.

4.3.1 Correlation Matrix

In step one correlation matrix is computed. The correlation matrix shows the interrelationships among all variables. In this step, variables with small correlations with other are eliminated. It is used to assess the factorability of the correlation matrix and to identify those that are statistically significant.

R-type factor analysis was used as the objective is to group the variables and not respondents. The Correlation Matrix (Table 4.9) shows the component Matrix for 14 variables.

Correlation is a statistical technique which can show whether and how strongly pairs of variables are related. It measures the linear relation between two or more variables. In order to evaluate the correlation between variables, it is important to know the “magnitude” or “strength” as well as the significance of the correlation. There are several different correlation techniques but the most widely used type of correlation coefficient is Pearson r , also called linear or product moment correlation. The main result of a correlation is called the correlation coefficient (r) and ranges from -1.0 to +1.0. The closer r is to +1 or -1, the more closely the two variables are related. The value of -1.0 represents a perfect negative correlation while a value of +1.00 represents a perfect positive correlation. A value of 0.00 represents a lack of correlation. If r is positive, it means that as one variable gets larger the other gets larger too. On the other hand, if r is negative it means that as one gets larger, the other gets smaller, often called an “inverse” correlation. While correlation coefficients are normally reported as $r =$ (a value between -1 and +1), squaring them makes it easier to understand. The square of the coefficient (or r square) is equal to the % of the variation in one variable that is related to the variation in the other. After squaring r , we should ignore the decimal point. An r value of .5 means 25% of the variation is related (.5 squared = .25). An r value of .7 means 49% of the variable is related (.7 squared = .49).

Table 4.11 Correlations

	Growth	1	2	3	4	5
factor 1 sig (2 tailed)	0.012					
	0.922					
factor 2 sig (2 tailed)	0.022	0.0000				
	0.859	1.0000				
factor 3 sig (2 tailed)	.265*	0.0000	0.0000			
	0.027	1.0000	1.0000			
factor 4 sig (2 tailed)	.299*	0.0000	0.0000	0.0000		
	0.012	1.0000	1.0000	1.0000		
factor 5 sig (2 tailed)	0.114	0.0000	0.0000	0.0000	0.0000	
	0.346	1.0000	1.0000	1.0000	1.0000	

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.11 shows the correlation between the dependent variable (SME growth) and independent variables where by entrepreneur skill represent factor one ,finance factor two , government regulation and policy factor three ,power supply factor four and water supply was factor five.

Table 4.12 Logistic Regression

		B	S.E.	Sig.	Exp(B)
Step 1 ^a	FAC1_ent	0.011	0.295	0.971	1.011
	FAC2_fin	0.091	0.346	0.792	1.095
	FAC3_gov	0.657	0.306	0.032	1.928
	FAC4_pow	0.780	0.333	0.019	2.182
	FAC5_war	0.266	0.309	0.389	1.305
	Constant	-1.209	0.323	0.000	0.298
Cox& Snell R		0.166			
Nagelkerke R ²		0.24			
2 log likelihood		69.176a			

Table 4.12 shows the result of the logistic regression .The results show that two variables are significance namely government constraints and power supply.

Both variable are significant at the 5% level, the coefficient of Government factor constrain was 0.657 indicating that for every increase in the perceived strength of , regulation and policy, corruption and country regulation will influence the probability of firm growth, all else being equal. For electricity power constraints, the result show that a unit change in the perception of electricity power constraints results in the change in SME growth, all else being equal.

The result of logistic regression analysis, model summary show existence of the relationship between dependent variable and independent variable, it reveals that the SME was explained by 69.176% of variance in owner – managers growth by this model. The model with all predictors explains a significant amount of the original variability, the model. Likewise, Cox and Snell R² and Nagelkerke R² indicate the amount of variation in the dependent variable explained by the model. In the full model, the two values are 0.166 and 0.24.

CHAPTER FIVE

DISCUSSION OF FINDINGS AND INTERPRETATION

5.1 Introduction

This chapter present the discussion of the finding derived from the previous chapter. The organization of the chapter is as follows .The first section discusses the descriptive analysis of the study started with demographic attribute of the respondents and then discusses the descriptive analysis of the small and medium enterprises of the study. The second sections discuss and interpret the empirical analysis of the research hypothesized. The third section discusses on the effect of SMEs constraints.

5.2 Discussion of Descriptive Analysis of the Demographic Characteristics.

The information that was covered under this section was the age, marital status, education level and entrepreneurial skill. These variables were associated with influence of management of business operation and performance. The study assumed that when the top leader has business knowledge the chance of growth of SME would be high. The analysis revealed that 61.4 % out of the total interviewed, followed by those who agreed that they were not married was 34.3 %; respondent who stated divorced was less than 5.0 %. However, the result shows that married were more than other categories, information was also shows that out of the married respondents 15.7 % were not have entrepreneurial skill, this put an indication that manager have skill of running business was 84.3 %.

This result implies that age of manager were likely. The fore the result will improve the theoretical review which indicate lack of management entrepreneurship skill will lower the capacity of production as the most respondent lie at little grow on the volume of sale.

However, regression result was found there is no significance between firm growth and entrepreneur skills therefore we do not discuss the factor variable was found lack of managerial capital affects firm growth.

5.3 External and Internal Constraints to the SME growth

Considering that all respondents in this research have similar perceptions and experiences regarding factors affecting SMEs growth, the study identified five major obstacles constraining the growth of SMEs in Zanzibar, from the responses it seems that all companies studied grew slightly during the research period. However, most of the firms have experienced similar constraining toward their growth. Regarding external factors, it is argued that limitations in government regulation, finance, power and water make Zanzibar entrepreneur more vulnerable to threats such as, corruption, country regulation and policy, access to credit, financial support water supply and power supply

The test of this hypothesis was based on the other past study; we had assumed that external constraints which include three components which are Government, financial and marketing. Government constraint in the sense of government regulation, and policy were more hindering factors to the performance of SME, financial constraints was assumed to be another constraint to the growth of SME due to the fact lack of capital and lack of credits from different formal and informal financial institutions have directly relation to the productivity. Another area found in this study very important to deal with the availability of guarantee market place, it has been discussed from literature whenever there is guarantee of market the performance of SME in term of level of production increases which result growth. On analyzing these constraints, there was an assumption made to justify whether external constraints (Government, Financial and Markets constraints) have no significant impact to the SME growth against the alternative hypothesis these external constraints has significant impact to the SME growth.

Dependent variable p is the probability of SME growth and explanatory variables were defined as β_0 is the constant term of the regression line, while X_1, X_2, X_3, X_4 and X_5 is the component of entrepreneur skill factors that is factor 1 financial constrain was 2 and government constraints 3 power constrain was 4 and last one was X_5 water constrain.

In terms of internal hampering factors, all firms and institutions recognize that similar issues are affecting the growth of Zanzibar SMEs. For instance, lack in management competencies have been mentioned as one of the obstacle for firms to grow.

The study argues that poor management capabilities have very negative impacts on firms since it affects the entire performance

The evidence of the results show that government constrains has parameter 0.657 has statistical significance at 0.05% that is factor three and 0.780 for entrepreneur skill estimated parameter which has significance by 0.05% test statistical significance level, therefore we reject the null hypothesis which said that government constrains has no significance impact to the SME growth and conclude that statistically the government and power constrains have significance impact to the growth at 5% significance level . The result implies that government reduce the constraints and if no constrains to the entrepreneurial skill there was probability for SME to growth.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND POLICY IMPLICATION

6.1 Introduction

This chapter presents the summary and conclusion of the study. The chapter is divided into four sections. First, the chapter summarizes key results obtained in chapter five. Second, the chapter presents conclusion, linking the results to the objective and hypotheses of the study. Third, based on the findings, the study draws policy implications. Lastly, the chapter discusses the limitations and areas for further empirical research.

6.2 The Summary of the Findings

The information of the managers of SME on their marital status and entrepreneur skill, these information's were very useful for the study to understand the personal attribute of the top leaders of the SME with logic that their personal characteristic has positive impact to the operation of the business. The result reveals that 61.4 % out of the total interviewed was married, followed by those who agreed that they were not married was 34.3 %; respondent who stated divorced was less than 5.0 %. However, the information also shows that out of the married respondents 15.7 % were not received entrepreneurial skill.

Managers have had different education levels categories in this study taken as proxy indicator on measuring the ability of top leaders to manage the SME, the information on education level against their marital status, the total number of respondent was 70 in which only 1.4 % did not receive formal education and only 17.1 % receive degree and above. The information shows that the majority of the respondent receives secondary education which is equal to 60.0 %.

The information of the managers of SME on their sex and entrepreneur skill, the finding shows that 40.0 % out of the total interviewed was male and 60.0 % were female, the information were also portray that out of the female only 20.0 % did not receive Entrepreneur skill whereby out of the male who have been interviewed only 17.1 % were not received Entrepreneur skill.

This section present the key researched information from the SME that operate the business urban district Unguja, the information were collected for the large and small scale enterprises. The information about ownership of the enterprises, individual enterprise indicates that only person who has full own of the business. However may have many staff but sharing means that the enterprises were not own by one person whether it was a group business or the family business whose every member has it share or any other form of sharing. The finding reveals that 64.3 % stated that the business was sharing and only about 35.7% respond that the business was individual.

The small medium enterprises in urban Unguja District was engaged on provision of services and selling goods, in this study four categories were observed, the number of interviewed enterprise that operate in the sector of provision services to the final consumer was less than 10.0 %. SME engaged in tourism sector was the leading one found to have 37.1 %, this might be the reasons that Unguja is island and economic activity of its people depend much on tourism, however, agriculture is the back born of the economy in many developing countries including Zanzibar the proportion of that sector was equal to 24.3 % which was less than food processing sector which has 30.0 %.

This study was interested to obtain the information about SME on annual turnover during twelve months when the firm was established and the turnover that firms was received for the period of twelve months back and last to the survey month. Table 4.6 show that firms that receive between Tsh 50 to 500 million was less than 10.0 % whereby the firms that were received between Tsh 5 to 50 million was equal to 14.3 %, this research reveals that majority of the firms receive less than Tsh 5 million which is equal to 77.1 %.

The finding reveals that business that stated to earn less than Tsh 5 million was high compared to other categories which is equal to 60.0 % followed by those who stated they earned 5 to 50 million was equal to 28.6 %, firms which shown to less than 5 % was earning over Tsh 500 million. This research measured the performance of selling or providing services from the past five years and above to see whether changes were exist or not.

The information shows that majority of respondent agreed that there was little growth in the volume of sales which was equal to 68.0 % and those who agreed that the volume of sales were substantial grown was equal to 11.4 %. The surveyed area in Urban District shows that on average the manager were about 44 years of old and the magnitude that deviate from the mean was 8.7 this result implies that the age of top members are close to the average. The information about employment when the business established and the current status both show that the deviation from the average was high which implies that the number of staff in the operating business were not equally distributed.

The analysis of this hypothesis was based on the external constrains which include three components which are Government, financial and marketing. Government contrarians in the sense of government regulation, policy and tax regions were more hindering factors to the performance of SME. Financial constrains was assumed to be another constrains to the growth of SME. This was contributed by the lack of capital and lack of credits from different formal and informal financial institutions have directly relation to the productivity.

Another area found in this study very important to deal with the availability of guarantee market place. It has been discussed from literature whenever there is guarantee of market the performance of SME in term of level of production increases which result growth. On analyzing these constrains there was an assumption made to justify whether external constrains (Government, Financial and Markets constrains) have no significant impact to the SME growth against the alternative hypothesis these external constrains has significant impact to the SME growth except the market information has no major impact to the growth of SMEs government and power significance level.

Therefore, we reject the null hypothesis which said that government constrains has no significance impact to the SME growth and conclude that statistically the government constrains have significance impact to the growth at 5% and significance level respectively. The result implies that government reduce constrains and if no constrains there was probability for SME to grow.

The first step which was taken to analyze internal constraints to SME growth was to make an assumption about whether the internal constraint (entrepreneurial skill) have directly positive impact to the growth of SME. The null hypothesis was formulated as

$H_0: \mu = 0$ (An entrepreneurial skill has no insignificant impact to SME growth against the alternative one which stated as $H_1: \mu \neq 0$ (An entrepreneurial skill has significant impact to SME growth. The test statistic that employed to evaluate about the claim was t-test and concluded that if the observed $t^* > t_{\alpha/2}$ with (n-k) degree of freedom, we reject null hypothesis.

The results of logistic regression model revealed that p-value (0.971) is greater than the significant level (5%), therefore we do not reject the null hypothesis which means that at 5 % significance level an entrepreneurial skill has no significant impact on SME growth. This economic analysis tells us that SME growth can be grown without internal factor (constrain).

6.3 Conclusions

The main objective of this study was to identify the SMEs constraints and to examine their effect toward SMEs growth. Based on the principle component analysis, the study identified five dominant constraints. These included lack of entrepreneur skill, lack of market information, government regulation and financial constraints. Most literature publicized that possible factors which prevent SME growth include insufficient legal framework, lack of education and experiences among the actors, and financial accessibility (Ishakawa, 2003; Carlein, 2007). The study, confirmed the above empirical studies, where other factors indicated differently. However, empirical findings on the relationship between owner's education and business growth are somewhat mixed. While some studies confirm a positive relationship between prior level of education and firm performance (Barkham, 1994; Cooper et al., 1994; Kangasharju, 2000), others have found that owner-managers' education is not significantly related to business growth (Barkham et al., 1996; Olomi, 2001). Moreover, Fischer et al. (1993)

found no relationship between education and size of the business. The reason for this relationship is that entrepreneurs with higher education. Subject to five constraints was identified out of fourteen, the objective one which lie on identified major constraint on

SME growth. The hypothesis constrains was observed only Government and power constrains has significance impact toward SMEs growth at 5% significance level.

On other side the study found there is no variation of constraints between the firms. Since Most of entrepreneurs constraints are highly related. Therefore the result obtain was somehow, reflect the study assumption.

6.4 Policy Implication

Government support is a crucial for the development of SMEs growth therefore government should create favorable policies that create enabling environment toward SMEs. Eg. SME policy the government should establish entrepreneurship colleges that could provide specific training concerns with business skills allowing the manager to have capability in market competition so as to sale their products. However the managers them self must be aggressive in searching for market information and learn about how to market their products. The use of Information Communication Technology (ICT) can help to alleviate most market information related problems. Similarly, entrepreneurs should participate in seminars in order to meet other entrepreneurs and share business and market ideas. The government and non-governmental organization should support SMEs by funding short-term training and seminars since most SMEs lack financial resources.

For financial institutions, it recommended that they should regulate and reduce conditions for lending SMEs.

6.5 Limitation of the Study and Areas for Further Research

This study has several limitations that must be taken into consideration when interpreting results. First, the study was limited to only one region (urban west areas) in the country. This suggests that to some extent, these results might reflect regional (geographical) differences, culture, and economic trends. In that regard, while the results of this study are likely to be generalized to micro and small businesses in other parts of the country include Pemba.

This research does not answer all the questions related to external and internal constraints, there were others questions which show the growth of SME.

The study has been conducted in Zanzibar. These results may be relevant for Zanzibar, a small economy. Other researchers can extend the study to other settings.

The study observed that there were many unregistered businesses in Zanzibar. Other study should into this issue and assess whether the constraints identified in this study can explain why some firms register and others do not.

Another possible source of bias may result from the sampling procedure used in this study. A lack of proper database of small business owners in Zanzibar made it difficult to use probability sampling techniques; instead, we applied a non-probability sampling method—Researchers in the future could use probability sampling (if the list of business owners is available), because it would allow them to specify the sampling distributions of sample statistics and their relationship population parameters.

REFERENCES

- Fjeldstad, O., Kolstad, I, and Nygaard, K. (2006). *Bribes, Taxes and regulations: Business constraints for micro enterprises in Tanzania*. CMI Working Papers 2, CMI, Norway.
- Gujarati, D.N. (2006). *Essentials of Econometrics*, 3rd edition. New Delhi, Tata Mc Graw-Hill
- Joshua, A. (2010). *SME Development in Ghana and South Africa* International Research Journal of Finance and Economics .39(3), 1450-2887
- Kothari, C.R. (2004). *Research Methodology*, 2nd ed, New Age International (P) Ltd, New Delhi, India.
- Milanzi, M.A. (2012). *Export Barrier Perceptions* Journal of African Business. 13(1) 29-39 Tanzania
- Milanzi, M.A. (2012). *The Impact of Barriers on Export Behaviour of Developing Country Firms*. International Journal of Business and Management .7 (3) 10
- Mussa, R.O. (2009). *Quantitative data from SME and Tourism development survey in Zanzibar* .International Journal of Trade economics and Finance .2(4), 17-31
- Mwalim, O. H. (2009). *Making Decent Work a Reality in SMEs: Workers and Social Dialogue in Food and Beverage Enterprises in Zanzibar* research paper presented International Institute of Social Studies. Netherlands
- Nkya, E. J. (2003). *Institutional barriers to small-scale business development: a need for flexibility in Tanzanian tax and regulatory systems*. Journal of Entrepreneurship, 12(1), 43 – 73
- North, C. D. (1991). *Institutions, Institutional Change and Economic Performance*. The Journal of Economic Perspectives, 5(1), 97-112 UK: Cambridge University Press
- Olomi, D. R. (2003). *Entrepreneurship and Small Business Development*. Doctoral dissertation, University of Dar –es- Salaam.
- RGoZ. (2007). ‘Zanzibar Strategy for Growth and Reduction of Poverty-ZSGRP’, Zanzibar Government Publishing Services

- RGoZ.(2004). 'The Zanzibar Business Census on SMEs Zanzibar. OCGS , Zanzibar Government Publishing Services.
- RGoZ.(2006). '*Zanzibar Small and Medium Enterprises (SME) Policy*. MTIM. Zanzibar, Government Publishing Services.
- Sholm ,E., and Problet, L. (2010) .*Business Administration Internal and External factors hampering SME growth* Gotland University in Thailand. General Learning
- Sinha. S. ,and Fiestas, I. (2011) .*The Constraints to Investment in Developing Countries* Department for International Development, International Labour Organization: Cossovo
- Todaro, M. ,and Smith, S. (2009). *Economic development* 10th edition Pearson. London
- Tundui, H.P. (2012). *Gender and Small Business Growth in Tanzania. The Role of Habitus* Economics and bussness Publisher university of Groningel, Netherland.
- URT. (2007). '*The Role of Small and Medium Enterprises (SMEs) in Economic Development* . BoT annual Report. Zanzibar', Bank of Tanzania Zanzibar Branch,
- Vesel, L., and Soini, E. (2011). *Factors Influencing SMEs Growth. International Bussness Welfare Reform and Corporatism in the Netherlands'*, Amsterdam
- Welter, F. (2005). *Challenges in Entrepreneurship and SME* European Council for Small Business and Entrepreneurship (ECSB) in Germany. In *Frontiers of Entrepreneurship Research*, Wellesley, MA: Babson College,
- Whonderr, J. (2009). *Modern Financial Management Theories on SMEs* Esq. PhD thesis.University of Dar-es -salaam

APPENDIX: 1
INTERVIEW QUESTION

QUESTIONNAIRE

I am studying Master of Social Science in Economics at Mzumbe University. I have designed the following questionnaire for the study for the factors that hinder SMEs Growth, firms will be asked since are the most required for my dissertation work as an integral part of my study. The purpose of this questionnaire is to give you a chance to tell how you feel factors affecting the firm. On the basis of your answers, I hope to get a better understanding of the things concerning the constraints for the firm growth the information that will be gathered will be used for academic purpose only. I therefore request you to answer the following questions as honestly and as openly as you can.

PART A: SOCIAL DEMOGRAPHIC

Owner-Manager Characteristics

- 1) Age.....
- 2) Sex.....
- 3) Education level
- 4) Marital status
- 5) Have you attended any entrepreneur training?

PART B

Firm Characteristics

6. When your company establish.....
7. Do you run company with sharing or individual owner?
8. How many employees did you have when the company was established?
.....
9. How many employees do you have in your company now?
10. Name of main products you sell.....

11. What was your Annual turnover (in Million Tsh) when the firm was established?

- a. Less than 5 mill
- b. 5mill - 50mill
- c. 50mill - 500mill
- d. Over 500 mill

12. What your Annual turnover (in Million Tsh) for the current?

- a. Less than 5 mill
- b. 5mill - 50mill
- c. 50mill - 500mill
- d. Over 500 mill

13. How would you describe the change in the volume of sale/services of your Firm for the past 5 years?

- a) There has been a substantial growth in the volume of sale
- b) There has been a little growth in the volume of sales
- c) There has been no change in the volume of sales
- d) There has been a little decrease in the volume of sales
- e) there has been a substantial decrease in the volume of sales

PART C

Constraints

The following items represent the constraints faced SMEs in Zanzibar

Tick the appropriate answer in the table below

14. To what extent do consider the following factors as significant constraints hindering growth of your enterprise:

(1=very minor constraint; 2=minor constraint; 3=moderate constrain; 4= major constraint, 5=very major constraint).

	ITERMS(CONSTRAINTS	1	2	3	4	5
1	Lack of reliable water supply					
2	Government policy and action have failed to provide reliable power supply to SMEs					
3	Lack of access to credit from financial institutions					
4	Availability of Fund					
5	Shortage of raw materials, reliable suppliers and other inputs.					
6	Strong competition in the markets					
7	Government policies have failed to lower the taxes for small enterprises(High rates of taxation)					
8	country regulation is unfavorable to SMEs					
9	Problem of market information and marketing services.					
10	Lack of management entrepreneur trained and qualified					
11	Difficult to get financial support from the Government					
12	High Corruption					
13	extent of Government regulation hinder SMEs growth					
14	lack of entrepreneur skill					

APPENDIX: 2

SPSS OUTPUT OF THE LOGISTIC REGRESSION MODEL

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	FAC1_1	.011	.295	.001	1	.971	1.011
	FAC2_1	.091	.346	.069	1	.792	1.095
	FAC3_1	.657	.306	4.596	1	.032	1.928
	FAC4_1	.780	.333	5.486	1	.019	2.182
	FAC5_1	.266	.309	.742	1	.389	1.305
	Constant	-1.209	.323	14.030	1	.000	.298

a. Variable(s) entered on step 1: FAC1_1, FAC2_1, FAC3_1, FAC4_1, FAC5_1.

APPENDIX: 3
FACTOR LOADED COMPONENT

Component Matrix^a

	Component				
	1	2	3	4	5
lack of reliable water supply	.334	.018	.407	.218	-.487
government failed to provide reliable power supply to SMEs	.236	-.029	.371	-.712	.161
lack of enterprenuer skills	.194	.509	-.235	.126	.503
lack of access to credit from financial institutions	.140	.781	.155	-.179	.052
lack of reliable supplies of input	.639	.000	.048	-.279	.013
problem of fund availability	.185	.752	.464	.004	.148
high rate of taxation by the central government	.598	-.431	.431	-.208	-.099
country regulation is unfouvarable to SMEs	.500	-.527	-.192	.081	.141
problem of market information and market services	.554	.279	-.532	-.080	.155
lack of management enterprenuer training and qualification	.610	.322	-.320	.270	-.332
difficult to get financial support from the government	.209	.330	.484	.475	.110
high corruption	.354	-.360	.356	.366	.173
lack of managment experience	.745	.088	-.308	-.088	-.294
extent of government regulation hinder SMEs growth	.409	-.449	.035	.179	.551

Extraction Method: Principal Component Analysis.

a. 5 components extracted.

**APPENDIX 4:
VARIABLE MEASURE OF OUT PUT**

Classification Table^a

Observed			Predicted		
			firm groth		Percentage Correct
			no growth	there is growth	
Step 1	firm groth	no growth	47	4	92.2
		there is growth	14	5	26.3
	Overall Percentage				74.3

a. The cut value is .500

Dependent Variable Encoding

Original Value	Internal Value
no growth	0
there is growth	1