THE ROLE OF SMALL AND MEDIUM ENTERPRISES ON POVERTY ALLEVIATION IN ZANZIBAR URBAN WEST REGION ZANZIBAR

THE ROLE OF SMALL AND MEDIUM ENTERPRISES ON POVERTY ALLEVIATION IN ZANZIBAR URBAN WEST REGION ZANZIBAR

BY

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A Dissertation Submitted In Partial Fulfillment of the Requirements for Degree of Master of Business Administration (MBA) Corporate Management of Mzumbe University

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a thesis entitled the "**Role of Small and Medium Enterprises (SMEs) on poverty alleviation in Zanzibar conducted in Zanzibar Urban West Region",** in partial/fulfillment of the requirements for the degree of Master of Business Administration (MBA)-Corporate Management of Mzumbe University.

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Accepted for the Board of School Of Business

Signature

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CHAIRPERSON /DIRECTOR, SCHOOL OF BUSINESS

DECLARATION

I, Juma Ali Khatib, declare that, this thesis is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

Signature ______________________

Date _________________________

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DEDICATION

To my lovely descendant Khalila Juma Ali, may Allah give her a quick recovery and better health while she is in treatment.

LIST OF ABBREVIATION

FSB	Federation of Small Businesses
SME	Small and Medium Enterprises
MKUZA II	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Zanzibar phase II
URT	United Republic of Tanzania
RGoZ	Revolutionary Government of Zanzibar
LDC	Lower Developing Countries
ILO	International Labor Organization
ZNCCIA	Zanzibar National Chamber of Commerce Industries and Agriculture
ZSGRP	Zanzibar Strategy for Growth and Reduction of Poverty
PBZ	People’s Bank of Zanzibar Ltd
TAHA	Tanzania horticulture Association
ZESA	Zanzibar Entrepreneurs Society Association
GDP	Gross Domestic Product

ABSTRACT

This study aimed investigating the role of small and medium enterprises on poverty alleviation in Zanzibar. This research paper is organized into five chapters.
The research was conducted in Small and Medium enterprises (SME's) sectors, financial institutions and the Government organizations which support SME's in Zanzibar. 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.

Chapter one explains about the role of Small Business Enterprises on poverty alleviation in Zanzibar. It comprises background and statement of the problem, objectives of the study, research questions, and significance of the study, scope and limitation of the study. Small Business Enterprises has big impact in poverty alleviation among poor people.

Chapter two presents the theoretical literature review and empirical literature review together with conceptual framework. The chapter also goes deep on what previous researcher has been said, text books, internet and various published and unpublished documents relating to the Role of Small Business Enterprises on poverty alleviation in Zanzibar.

Chapter three presents various steps that were adopted by the researcher in studying the research problem along with the logic behind them. In this essence, the chapter three presents the research design, description of the study area, the study population, the sampling frame and sample size, sampling techniques, types and sources of data, data collection methods, and the way data will be analyzed and presented.
The next chapter four presents various findings of the study in which the researcher analyze during the collection of data in various areas of the study. The findings prove that there has been a positive outcome of people engaging in entrepreneurial activities which alleviate poverty at different level through getting daily income.

The findings also prove various challenges that hinder the development of SME's and Zanzibar in different sectors, some from internal of SME's while other from external of SME's including government policies, regulations, financial barriers religious beliefs and ignorance.

The study come up with conclusion and various recommendation that if will be utilized poverty can be alleviated Zanzibar.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.0 Introduction

This chapter explains about the role of Small Business Enterprises in poverty alleviation in Zanzibar and how Small and Medium Enterprises (SMEs) has a big impact in poverty alleviation among poor people. It comprises background and statement of the problem, objectives of the study, research questions, and significance of the study, the scope and the limitation of the study.

1.1 Background Information

In this period of globalization, through world trade it well recognized that private sector development has an important role to play in poverty alleviation. The private sector including small and medium enterprises (SME's) creates and sustains the jobs necessary for poor people, women and people with disabilities to work and earn the income needed to purchase their goods and services.

Micro, small and medium enterprises is a very important sector in Zanzibar Economy and it is stipulated in the Zanzibar strategy for Growth and Poverty Reduction (ZSGRP) as a crucial towards addressing the concerns and aspiration of the Zanzibar vision 2020.

Zanzibar has been the centre of trade for many centuries. Zanzibar depends on commercial activities for economic growth and most of them are engaged in the small scale business as the major means of earning their income particularly on agricultural sector, fishing sector and other business. These sectors contribute significant towards the reduction of poverty and unemployment.

In Zanzibar before revolution people were more engaged in micro, small and medium enterprises as artisans and other activities in urban areas. In rural areas SMEs engaged people in agricultural activities and business involving agriculture products and other consumable.

After the 1964 revolution, the Government initiated a number of SMEs enterprises for the manufacture of nails, garment, cooking utensils, electrical wires, soaps and other products. The SMEs in Zanzibar create job opportunities among the low skilled people and therefore hold the key to employment creation and income generation.

In the mid 1970s SMEs were engaged in cooperative activities especially for women groups. The government in collaboration with Cooperative Union promotes SME activities in the form of technical advice, training in management, book keeping, marketing skills, and offering soft loans and working tools at reasonable price (Community dialogue 2009).

Community dialogue occurred in 31st January 2009 explains that,In 1984 the business started to build its root after the announcement of Free Trade (Trade Liberalization policy) in Zanzibar and this was the initiation for small Scale Enterprises. Since the policy was adopted together with investment codes of 1986 various investments have been approved and a large number of Small Scale Enterprise (SMEs), commercial farming and even manufacturing firms were established by natives and foreigners.

The small and medium enterprises (SMEs) are supervised by various ministries in Zanzibar depending on its nature of operation. Those ministries are: Ministry of Trade, Industry and marketing, Ministry of community, woman and children, Ministry of Labour, Economic empowerment and cooperatives and Zanzibar National chamber of commerce industries and agriculture (ZNCCIA). SMEs activities are in the form of batik making, antiques, handcraft works, medicine soap making, oil milling and other tourism articles involved in trades which include purchasing and sales of goods and agricultures. Long chains of this type of business are located at many places in Zanzibar Urban West District. Most of them are owned by individual and other by family or groups. These enterprises create many job opportunities to the people of Zanzibar especially the youth from different gender. The main objective of small enterprises is profit making and enabling people to improve their income through these kind of business.

Small Business enterprise contributes to poverty reduction when it creates employment either through the start up of new enterprises or the expansion of the existing ones. Job creation provides income to the poor. Poverty, following the broad definition, is also reduced when the conditions of work and representation are improved.

Key areas include policy, regulatory and legal environment that is simple, fast, inexpensive and free from corruption, finance that is accessible at low cost and does not require the poor to provide physical collateral, access to affordable business development services, workers who are trained in appropriate skills, and other facilities which are needed to support the creation and expansion of enterprises in poverty reduction.

1.2 Statement of the Problem

Generally, the Small and Medium Enterprises (SMEs) has become very popular entity in Zanzibar due to their important role they play in terms of reducing unemployment rate among people. The government of Zanzibar has undertaken various measures and programmes to establish and sustain the SMEs in order to contribute towards poverty reduction. This action has caused many people to formulate and engage in SMEs. Despite a rapid increase to the establishment of SME’s in Zanzibar, most of them are performing below its expected potential of reducing poverty due to many reasons (Zanzibar SME development policy 2006). Therefore, it is not clear whether the undertaken measures to strengthen SMEs have significant contributions in reducing poverty or not. It has been reported that about 51 percent of people in the rural areas of Zanzibar live below the basic needs poverty line as compared with about 36 percent in urban areas. Similarly, 16.8 percent of people live below the food poverty line in the rural areas of Zanzibar as compared with about 8 percent in the urban areas (Kessy & Omar 2014). This study examined the roles of SMEs in poverty alleviation in Zanzibar including its relationship between the role, contribution and challenges faced SME's in alleviating poverty in Zanzibar.

1.3 Objectives of the Study

1.3.1 Main Objective

The main objective of the study was to identify and understand more about the role of Small and Medium Enterprises on poverty alleviation in Zanzibar.

1.3.2 Specific Objectives

The study was guided by the following specific objectives:-

1. To identify the constraints for SME growth in Zanzibar
2. To assess the contribution of SMEs to alleviate poverty.
3. To identify the mechanism by which SMEs access financial support.
4. To find out the way by which government support SMEs

1.4 Research question

1.4.1 General research question

What are the roles of small business enterprises in poverty alleviation?

1.4.2 Specific research questions

1. What are the constraints facing SMEs in poverty alleviation?
2. What are the steps taken by members of SME's in poverty alleviation?
3. How the accesses of fund help to the growth of SMEs?

4. How the government support SME’s in poverty alleviation?

1.5 Significance of the study

This study act as a useful tool for the Ministry of Trade and Industries Zanzibar for reforming SME’s policy. It helps in the formulation of new poverty reduction strategies which help to achieve the objectives of small scale enterprises. The study also help those SME’s sectors to get knowledge and understand more about SMEs changes especially in technological changes and this current impact of climatic change. Findings of this study provide awareness among SME members on the strength and weaknesses which limit their ability to run successful business and opportunities available to them.

The study finally was very helpful by the researcher in the fulfillment for the award of Master degree on Business Administration (MBA) – Corporate Management (MBA – CM) for academic year 2013/2015.

1.6 Scope of the Study

The study covered part of Zanzibar area in Urban west District. Data were collected to examine the role of SME’s in poverty alleviation, how those SME’s help people and what effort they have taken to overcome those challenges faced in achieving these objectives.

1.7 Limitation of the Study

The most common limitation for many researchers is financial scarcity during their research work. Therefore, financial scarcity, limited time and availability of information and data were some of limitations of the study. By these reasons researcher got difficulties in covering the intended subject for his research work.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter discusses the key concept which were used in this study as well as looking at a number of theories that have been given by different authors concerning their views relating to the role of Small Business Enterprises on poverty alleviation, government supports to SME's in poverty reduction, constraints and those factors concerning the research topic.

2.1 Theoretical Literature Review

2.1.1 Definition of terms.

A small scale enterprise, also called mom and pop store by some in the United States, is a business that is privately owned and operated, with a small number of employees and relatively low volume of sales (Hashim 2005). Small business SMEs are normally privately owned corporations, partnerships, or sole proprietorships.

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 are one with less than 50 employees and micro as one with maximum 10 employees (Ganbold 2008).

At the same time, to qualify as one SME in the EU, a small must have annual turnover of Euro 40 million less and balance sheet valuation not exceeding Euro 27 million. In case of Japan SME defines as SMEs with employee 300 or less and capital size of 300 million yen or less. In manufacturing SME with employee 100 or less and capital size of 100 million yen or less. In whole sale SMEs with employee 50 – 100 or less and capital size of 50 million yen (Ganbold 2008).

In case of Tanzania, micro enterprises are those engaging up to 4 people. In most cases family members or employing .l;capital amounting up to Tzs 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. (Tanzania Small and Medium Enterprise Development Policy2002).

This is illustrated in the table below:

Table 2.1 Categories 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: Tanzania Small and Medium Enterprises Development Policy 2002.

The SME between the Tanzania mainland and Zanzibar as shown in the tables above and below:-

Table 2.2: SME Size Classified by Employment in Zanzibar

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

Source: Zanzibar SMEs Development Policy 2006)

Table 2.3 characteristic of enterprises in the Investment climate surveys for Zanzibar and Mainland Tanzania

	Zanzibar	**Dar es Salaam**	**Other Mainland**
Number of Enterprises	**40**	**112**	**143**
Micro (1 – 9) workers	34%	14%	10%
Small (10 – 49) workers	54%	37%	49%
Large (100 – 499) workers	11%	22%	14%
Very large (500 and up)	0% 0%	20% 7%	23% 4%

Source: World Bank Investment Climatic survey, 2004

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.

Rogerson (2010) explains that micro enterprises which operate mainly in the informal sector include survivalist business activities that are carried out mainly by unemployed people who are unable to find regular employment. Another set of micro enterprises involves the owner, family members, and a maximum of between one to four employees who generally operate informally but could well change into formal small businesses.

2.1.2 Importance of Small and Medium Enterprises

It is estimated that about third of the GDP is originated from the SME sector (Tanzania SME's policy 2002). According to the Informal Sector Survey of 1991, micro enterprises operating in the informal sector alone consist of more than 1.7 million businesses engaging about 3 million people that were about 20% of the Tanzanian labour force. Though data from SME sector it is rather unclear and unreliable, it is reflected already in the above data that SME sector plays a crucial role in the economy. (Tanzania SMEs Policy2002).

SME's tend to be labour – intensive, they create employment at relatively low levels of investment per job created, tend to be more effective in the utilization of recourses using simple and affordable technology (Tanzania SME's policy 2002).

SMEs play fundamental role in utilizing and adding value to local resources. The development of SMEs facilitates the distribution of economic activities within the economy and thus fosters equitable income distributions. Furthermore, SME technologies are easier to acquire, transfer and adopt. Also SMEs are better positioned to satisfy limited demands brought about small and localized market (Tanzania Small and Medium Enterprises policy 2002).

2.1.3 Role of Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SME's) play crucial roles in employment creation and income generations. All over the world and Zanzibar in particular it is easy to establish SME's since their requirements in terms of capital and managements are not as demanding as it is in the case for large enterprises (Zanzibar Economic Bulletin 2009).

Small and Medium Enterprises both urban and rural have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be archived. They are potential sources of employment and income in many developing countries. It is estimated that Small and Medium Enterprises (SMEs) employ 22% of the adult population in developing countries (Daniels & Ngwira, 1993, Fisseha, 1991, Gallagher & Robson, 1993).

Due to flexible nature, SMEs are able to withstand adverse economic conditions. They are more labour intensive than larger firms and therefore, have lower capital cost associated with job creation (Anheir & Seibel, 1987, Liedholm & Mead 1987). SMEs perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensives, they are more likely to succeed in smaller urban and rural areas, where they can contribute to the more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Because of their regional and labour intensity, the argument goes, small scale production can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of resources, thus facilitating long term economic growth (Rosemary Atieno 2001).

2.1.4 Meaning of Poverty

Kenkwanda (2003:3) defines poverty as a multidimensional phenomena influenced by a wide range of factors, which include: poor people‘s lack of access to income earning and productive activities and to essential services. Poverty can be manifested in intellect and poverty of ideology (Adejo, 2006). The Copenhagen Declaration of 1995 seems to shed more light on what really constitute poverty when it asserts that: Poverty has various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihood, hunger and malnutrition, ill health, limited or lack of access to education and other basic services, increase morbidity and mortality from illness, homelessness and inadequate housing, unsafe environment, social discrimination and exclusion. It is also characterized by a lack of participation in decision and in civil, social and cultural life (Edoh, 2003:68).

People work hard to reduce this international hunger (Poverty). In doing so and handling the program of poverty alleviation, poverty is categorized into different types depending on the nature of such poverty.

2.2 Types of Poverty

2.2.1 Absolute poverty

Is used to describe an individual or household below a minimum acceptable level which has been fixed over time as a global stand for meaningful human existence known as poverty. Absolute poverty is also referred to as subsistence poverty which is grounded on the idea of subsistence the basic condition that must be met in order to sustain a physical healthy existence. Individuals or groups who lack basic needs such as food, shelter and clothing fall under this category. It is held that standards for human subsistence are about the same for people of the same age and physique regardless of where they live (Tony Addison et al, 2009).

2.2.2 Relative poverty

Is used in positioning the individual or household compared with the average income in the country, such as poverty line set at one half of the mean income or at the 40th percentile of the distribution and which often varies with the level of average income. It exists when people may be able to afford the basic necessities of life but are not able to maintain average standard of living (World Bank, 1996).

2.2.3 Chronic/Structural poverty

This type of poverty used when it is persistent or long- term. Obadan (1997) opines that it causes are more permanent and depend on a host of other factors such as: limited resources, lack of skills for gainful employment, location disadvantage, or endemic socio-political and cultural factors (Oba et al 2013).

2.2.4 Conjectural/Transitory poverty

This is used if the poverty is temporary/transient or short term and it is caused mainly by transient factors such as: natural or manmade disasters (wars and environmental degradation) or structural changes induced by policy reforms which result in loss of employment, loss in value of real income, assets, etc(Oba et al 2013).

2.2.5 Spatial/ locational poverty

This type depends on geographical or regional spread and incidence. Two such conditions are recognized in literature, namely; urban squalor and rural poverty (Oba et al 2013).

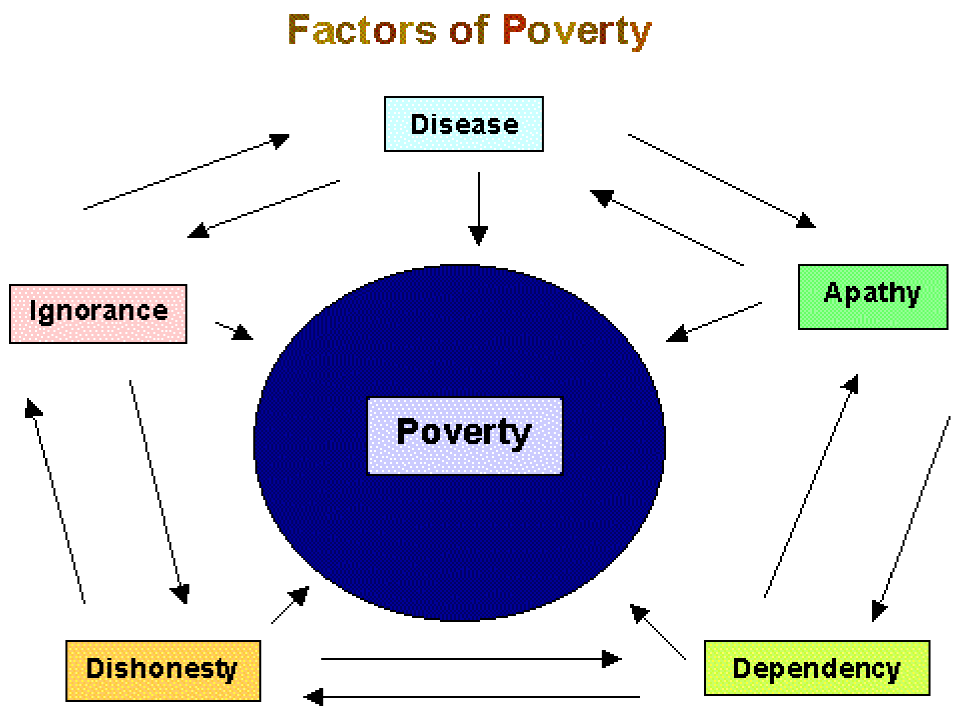
2.2.6 Generalized, island or case specific poverty

This conceptualization depends on the degree of its prevalence. It is described as generalized if it is widespread, common and pervasive, sometimes, among gender groups or social class arising from social and economic rights or exclusion mechanisms. It is described as island if it exists in the midst of plenty such as Nigeria‘s case, which the World Bank (1996) considers a paradox, and case specific, if it is caused by reversal in the fortunes of some individuals or families in affluent societies arising from mishaps such as ill-health or disability (Abaukaka, 2004).

2.3 Factors of Poverty

Poverty as a social problem is a deeply embedded wound that permeates every dimension of culture and society. It includes sustained low levels of income for members of community. It includes a lack of access to services like education, markets, health care, lack of decision making ability, and lack of communal facilities like water, sanitation, roads, transportation, and communications. Furthermore, it is a “poverty of spirit.” That allows members of that community to believe in and share despair, hopelessness, apathy and timidity (Bartle, 2007).

Figure 2.1: Factors of Poverty



Source: Community empowerment by Phil Bartle: (2007)

2.3.1 Ignorance

Ignorance means having a lack of information, or lack of knowledge. It is different from stupidity which is lack of intelligence and different from foolishness which is lack of wisdom. Knowledge is power, unfortunately, some people, are not willing to share knowledge in order to gain unfair advantage and hinder others to get knowledge. If you train someone in a particular skill, or provide some information, that the information or skill will naturally trickle or leak into the rest of a community. Most planners strongly believe that education is a key to poverty alleviation. Some information is important only for a particular situation. For example for a farmer timely access to relevant and current information about which kind of seed will survive in the local soil and which will not is useful information. Community empowerment in this context includes (among other things) the transfer and sharing of information. Unlike a general education, timely access to relevant information is aimed at strengthening capacities and knowledge base of those who use information (Bartle, 2007).

2.3.2 Disease

When a community has a high disease rate, absenteeism become high, productivity is lowered, and wealth is lessened. Apart from the misery, discomfort and death that are resulted from these diseases are major cause of poverty among communities. Being healthy help individual to contribute to poverty eradication. Prevention is a basic tenet of primary health care (PHC). The economy is much healthier if the population is healthy; than if people get sick and have to be treated. Health contributes to the eradication of poverty. If people have access to safe and clean drinking water, proper sanitation and if they are knowledgeable about hygiene and disease prevention. Clinics, doctors and drugs, are costly curative solutions rather than prevention against disease. Knowing the causes will not remove disease but knowing the factors can lead to better hygiene and preventive behaviors, and ultimately eradicating of diseases. Thus a healthy population contributes to the eradication of poverty, and it is also argued that poverty is not only measured by high rates of morbidity and mortality, but also that disease contributes to other forms and aspects of poverty. (Bartle, 2007).

2.3.3 Apathy

Apathy is when people do not care, or when they feel powerless that they cannot change things, fix mistakes, or improve conditions. Sometimes, people feel that they cannot achieve anything, or are jealous of their family/ relatives or fellow community members who attempt to overcome poverty and to achieve down to their own level of poverty. Apathy breeds apathy. Sometimes apathy is justified by religious beliefs, that is to accept what exists because God has decided your fate. This fatalism may be misused as an excuse.

It is right to believe that God decides our fate, but if we accept that God may decide then we should be motivated to improve ourselves. Pray to God, but also row to shore, a Russian proverb, demonstrates that “we are in God's hands”, but we also have a responsibility to help ourselves. We were created with many abilities: to choose, to cooperate, and to organize in improving the quality of our lives; we should not let God to be used as an excuse to do nothing. We must praise God and use our God-given talents. In the fight against poverty, the immobilizers use encouragement and praise, so that people firstly will want to and secondly will learn how to - take charge of their own lives (Bartle, 2007).

2.3.4 Dishonesty

This is when resources intended for community services or facilities are diverted into the private pockets of someone in a position of power. Thus dishonesty is a major cause of poverty. The amount extorted or embezzled from the public and enjoyed by the individual, lowers the wealth to the community. When investment money is taken out of circulation, the amount of wealth deprived from the community is greater than the amount gained by the embezzler. When a Government official takes a 100 dollar bribe, social investment is decreased by as much as a 400 dollar in the wealth of the society. It is ironic that when an official steals thousands of dollars from the public purse, which does four thousand dollars worth of damage to the society as a whole, yet the official is rarely punished. Actions of dishonest officials/embezzlers are a major cause of poverty for the majority poor. Embezzled money is deposited in foreign bank accounts impoverishes the national economy (Bartle, 2007).

2.3.5 Dependency

Dependency is being on the receiving end of charity. In the short run, such as after a disaster, that charity may be essential for survival. In the long run, that charity can contribute to the possible demise of the recipient, and certainly to ongoing poverty. The attitude or belief, that one is so poor, helpless, and cannot be self reliant but must depend on outside assistance tends to reinforce and perpetuate poverty. The community empowerment methodology is an alternative to giving charity (which weakens), but provides assistance, capital and training aimed at low income communities identifying their own resources and taking control of their own development-becoming empowered. All too often, when a project is aimed at promoting self reliance, unless you raise awareness among recipients, most recipients expect, assume and hope that the project is coming just to provide resources for installing a facility or service in the community (Bartle, 2007).

2.4 Poverty line

According to the World Bank appraisal group, the absolute poverty line is " the minimum cash and non cash expenditure needed to be made by a person or household in order to be able to consume a minimum number of calories (food) plus a small number of essential non food items such as housing and clothing" (World Bank, 1996: 5).

The World Bank group also calculates poverty line with and without food aid, original poverty line minus the amount of food aid received by a household. Using this definition they calculate poverty lines by region and national level. Without going deep into definition the philosophy of this argument we will adopt what was suggested by the World Bank. (World Bank, 2001).

2.5 Challenges Facing SME's In Zanzibar

According to Sanjay Sony (2005). The major obstacles all to business expansion faced Small and Medium Enterprises (SMEs) all over the world were the competitive environment, regulations and availability of a skilled workforce, the cost of finance, international expansion, lack of knowledge about markets, bureaucracy, political and social instability.

Despite the immense opportunities for developing Micro, Small and Medium Enterprises, almost all have remained informal or semi-formal, serving the low income segment of the population for which there is very stiff business competition. Their access to formal market and incidence of upward mobility is quite limited. There are many reasons for this state of affairs. This include limited awareness and capacity of operators, limited access to financial and other support services and absence of enabling business environment in terms of legal and regulatory frameworks (Zanzibar Economic Bulletin 2009).

The Tanzania SME development policy (2002) explains that, SMES face unique problems including heavy cost of compliance resulting from their size. Insufficient working premises and limited access to finance. Business training, marketing, technology development and information. Institutions and Associations supporting SMEs are weak, fragmented partly due to lack of clear guidance and policy for the development of the sector.

2.5.1 Awareness and Capacity

According to the Zanzibar economic bulletin 2009, among the biggest constraint that hinders the SMEs in Zanzibar is the limited awareness and capacity of existing and potential business operators, in terms of exposure, values, attitudes, knowledge and skills. The result is that most simply duplicate what their neighbors are doing and do not appreciate the importance of innovation, quality, credibility and customer care, and therefore limit the chance for new employment. To address this problem, there is a need to extend Business Development Services (BDS) through training, advice and other support. However, these services are under developed, with limited outreach (Zanzibar Economic bulletin 2009).

2.5 Access to Finance

Access to finance is always mentioned by potential and existing SME's operators as the most serious constraints to business start up or growth. Financial services are not well developed in Zanzibar (Financial Institution are few and less diversified) and with the exception of People's Bank of Zanzibar Limited all other commercial banks are branches of main banks located either in Mainland Tanzania or outside (Zanzibar economic bulletin 2009). "There are also problems of inexperienced staff in issues related to micro finance and high cost of screening and administering loans spread over big areas. This problem among others tends narrow the chance for SME growth as a result, they fail to foster more jobs creation. However, what is reported as "lack of funds to start or run a business is sometime a symptom of limited capacity to articulate and present ideas to appropriate financiers, failure to attract enough customers or poor management of finances. Nevertheless, there exists a wide gap between the financial institution and the reality of SME's" (Zanzibar Economic Bulletin 2009).

Research conducted by BOT Zanzibar Branch on the role of SMEs on economic development published by the Zanzibar Economic bulletin of 2009 vol. 2 No. 1 revealed that 62.2% of SMEs experience difficult while seeking finance, out of which 20.7% identified higher interest rates to be the major constraints and 19.5% experienced lack of information on lending procedures. Furthermore, 13.4% reported problems related to lack of collateral. Other hurdles include inadequate capacity to prepare project appraisal accounted to 2.4% and failure to prepare and submit proper financial report accounted for 1.2%.

2.5.1 Disenabling Regulatory Environment

Another constraint facing the SME's is the absence of enabling business environment in terms of legal regulatory framework. There is long legislative process and limited public knowledge of regulations that govern activities, increased cost of doing business due to numerous administration barriers, weak private association and poor marketing strategy for industrial products. These frustrate innovations in the SME's sector.

In many cases, the regulatory framework is tailored to the capacities of large companies and hence is not accessible to micro and small enterprises. This automatically discourages starts ups and condemns business that dares to start to the informal sector resulting in depriving SMEs then important role in jobs creation (Zanzibar Economic Bulletin 2009).

2.5.2 Other challenges faced SMEs in Tanzania

Zanzibar as a part of African countries also faces many SMEs challenges like other African countries. Among challenges facing SMES including those presented by Brinders *et al*. (2003) at the international trade conference on NEPAD priorities, global competition. Competitiveness in developing countries are hindered because of a lack of human resource and development skills. Under such circumstances, in order for small firms to maintain narrow profit margins, they are not able to introduce innovative improvements to products and processes which negatively impact their ability to take advantage of new market opportunities (Soni 2005).

Also lack of business knowledge and skills, poor culture of enterprise, lack of available working capital. Education and training were highlighted as important potential contributors to SMEs development as they can help to bring about a differential advantage in a competitive environment. In addition, technology simplifies the regulatory process through the provision of simple guides to SMEs and assessing the impact of regulation on employment and investment (Soni 2005).

In another global survey carried out by Arthur Anderson Consulting Group (2001), the majority of small businesses surveyors reported that finding and retaining qualified workers as the most significant challenge to growth and survival. Other major concerns for the small businesses surveyed in the study, were governmental regulations, economic uncertainty, keeping up with technology, and access to adequate capital. According to the interview with John Emmins, the Honorary Chairman of The Federation of Small Businesses (FSB) in the UK the main challenges facing small businesses today were cited as:

The ‘death of distance’, whereby with advances in technology such as the worldwide web, small businesses can operate on a global scale however it needs to be professional and efficient. It has to compete with laws as they apply to employees and customers. It also appeared that regulatory and legal issues are important challenges facing small businesses using the analogy that the legal issues for small businesses can be like climbing a mountain with sandals and shorts!(Soni 2005). Small business practitioners may often not understand the law and as a result may end up paying penalties and fines because of this.

Infrastructure

Transport makes it difficult and expensive to move goods from one point to another within the country and adds up to costs, Power, unreliability and instability, It can also disrupt deadlines, communication, undeveloped and costly for SMEs. As a result there is no or less exposure to international market and business skill, poor technology or lack of ability to engage in research and development, Insufficient working premises, matching of the product with the market and, market adaptation are also among the challenges facing our SMEs in the country (Omolola 2008).

2.6 Position of SME’s In Zanzibar

There are over 20,000 formal and registered SMEs and a good number of informal which are not registered SMEs representing around 99% of all undertakings in Zanzibar. They provide high percentage of total private-sector employment job creation and in Zanzibar. Out of estimated 500,000 total active labour force in

Zanzibar, public sector employs 27,000 (5.4%) and the remaining 473,000 (94.6%) is engaged in private undertakings formally or informally, micro, small or medium (MKUZA II, 2010).

2.7 Zanzibar Poverty Reduction Plan (ZPRP)

Since the 1964 Revolution, the Zanzibar Government has taken various measures to address the main development challenges it faces, disease and poverty. In 2000, the government launched the Zanzibar development vision 2020 a development strategy which provides the country with comprehensive social, political, cultural, and economic guidelines to follow until the year 2020.

On May 2002, the Revolutionary government of Zanzibar (RGoZ) launched first three year (2007 – 2010) plan for reducing poverty in Zanzibar known as Zanzibar Poverty Reduction Plan (ZPRP). ZPRP was 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 small and medium-sized enterprises (SME's) 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. (SME's Development Policy 2006).

Furthermore, under the ZPRP, the Government intend to improve the investment climate, to strengthen the financial sector and to implement good governance principles and practices as well as to create favorable conditions for investments by SME's. (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 Enterprises (SME's) 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..

2.8 Sources of Fund for Sme's In Zanzibar

Zanzibar likes any other poor country in the world, the issue of financing for stating or continuing of any business is a big problem, but informal financing schemes have a long history in Africa. The most common source of enterprise start-up funds is usually by own savings which are supplemented by either gifts or informal loans from friends and relatives. The development of financial services for the small enterprise economy has proven a major challenge across Africa. The formal financial institutions find offering services to this economy risky, costly and unprofitable. The access to finance is one of the key factors for development of SME (Rogerson, 2001).

Internal Sources of Funds

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 friends (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).

External Sources of Funds

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.

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.

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 invoice discounting, factoring, trade finance, wholesaler finance and group finance.

Banks (Commercial banks) provides funds to allow businesses to purchase inventory, and collect those funds back with interest when the goods are 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 where 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 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).

Micro-Finance Institutions MFIs

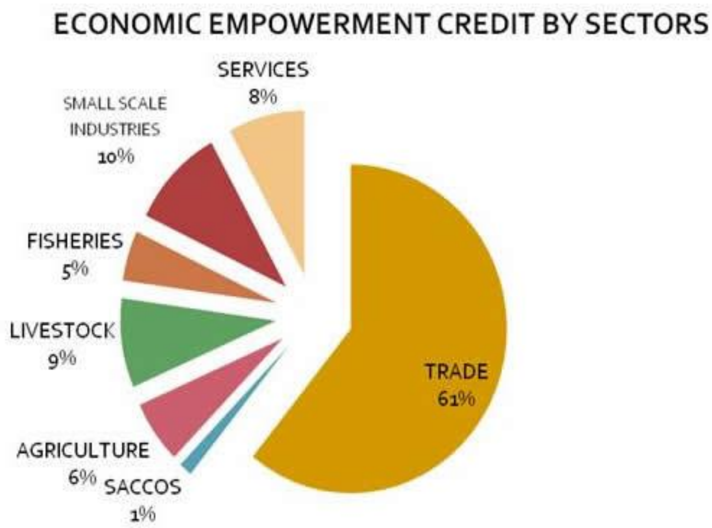
Microfinance refers to the practice of providing financial services, such as micro-credit, micro-savings or micro-insurance to poor people, to help them to accumulate larger sums of money, thus expanding their choices and reducing their risks and poverty rate. Institutions providing these services are 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 and insurance services. 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).

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.

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 2.2 economic empowerment credits by sector



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 Zanzibarian 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).

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 1,529,884,831/55 shillings that benefited 676 individuals, 64 economic groups and 10 SACCOS. The department is involved jointly with PBZ 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 and reduce poverty to Zanzibar people.

Table 2.4 below shows the requirements for both funds as explained.

Requisites	Zanzibar Self Reliance Fund	JK-AK Economic Empowerment Fund
Eligibility of the Applicant:	An applicant must be a Zanzibarian of 18 years old onward/ a registered economic group /live SACCOS	An applicant must be a Zanzibarian 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.

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.

Information and Advisory services to SME

In Zanzibar there is only one advisory service institution under the Ministry of Trade, Industry, Marketing and Tourism, which provides advisory and information services to SME's. This is the Trade Information Center. Tanzania Horticulture Association (TAHA) and Zanzibar entrepreneur Society Association (ZESA) for private sector which deals with SMEs especially in agricultural services.

2.9 Empirical Literature Review

Agupusi (2007) examined the role of the small business sector in poverty alleviation by the support from government and private sector initiative in Alexandra, South Africa. He applied critical analysis of secondary material complemented with primary data obtained through semi- structured interviews with key informants and actors, entrepreneurs and potential entrepreneurs. He found that with positive interaction between development agencies, and small businesses in Alexandra, predominantly informal and semi-formal SMEs in Alexandra could not only alleviate poverty but could also contribute to the general transformation process (Hussain Mohammed Dewar et al, 2014)

Tambunan (2008) examined the effects of the development of small and medium enterprises (SMEs) in less developed countries (LDCs) on two issues: the survival of SMEs in the course of economic development and the importance of government promotion programs for SME development with Indonesian data. He found that both real gross domestic product per capita and government development expenditure have positive impacts on SME growth. He also found that SMEs in LDCs can survive, and even grow in the long-run, for three main reasons: (a) they create a niche market for themselves, (b) they act as a "last resort" for the poor, and (c) they will grow along with large enterprises (LEs) because of their increasingly important production linkages with LEs in the form of subcontracting.

Misango & Ongiti (2013) has examined the economic role of women entrepreneurs in poverty reduction in Kenya. A case study was carried out among women entrepreneurs at the Maasai market within Nairobi City"s Central Business District. From the target population of 664, 15% were sampled for this study, through stratified and purposive sampling techniques. Quantitative and qualitative data were collected by use of questionnaires and interviews, hence analyzed concurrently. The study showed that the economic activities carried out by the respondents were similar in nature and included selling of African artifacts, clothing and ornaments. Most respondents (95%) used readily available raw materials to make their products for sale. Majority of the respondents (83%) agreed that the businesses had made them improve their economic status. The businesses contributed to the promotion of tourism, employment and export trade. The study concludes that women entrepreneurs play a major role in poverty reduction in Kenya.

Ali and Ali (2013) identified the relationship between entrepreneurship development and poverty reduction at Benadir region in Somalia. They use Correlation research design comprised of 80 participants of micro and small enterprises in Benadir region. The study found that there was weak positive correlation between entrepreneurship development and poverty reduction.

2.10 Conceptual Framework

The effective SMEs depend on various factors to play against poverty reduction. Key areas include policy, regulatory and legal environment that is simple, fast, inexpensive and free from corruption, finance that is accessible at low cost and does not require the poor to provide physical collateral, access to affordable business development services, workers who are trained in appropriate skills, motivation of works, and other facilities are needed to support the creation and expansion of enterprises which will enhance in poverty reduction.

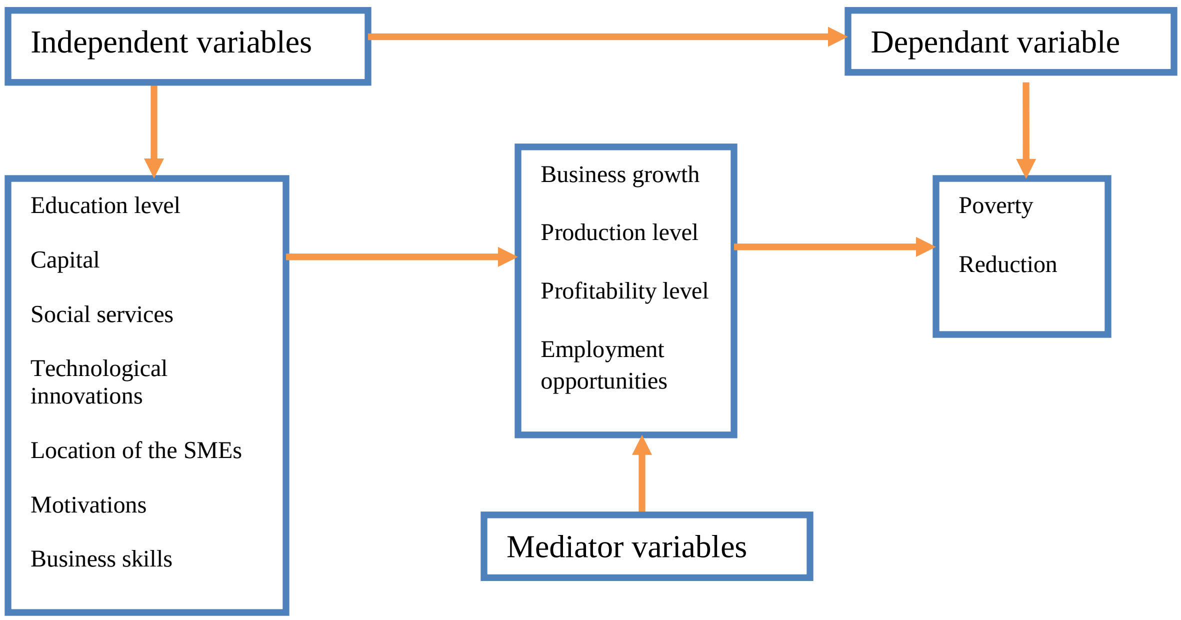
In this study, poverty reduction act as a dependent variable which influenced by various independent variables. Education level of SMEs and their employees start up capital, technological innovations location of SME, motivation of employees and business skills of works may give great impact on poverty alleviation.

The mediator variable of this study gives the relationship between dependent variable and independent variables on how poverty can be alleviated. In the below conceptual framework mediator variables act as a catalyst between dependent variable and independent variables in alleviating poverty.

Figure 2.3 Conceptual framework

Independent Variables **Dependant**

Variable



Source: Researcher's model 2015

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

Chapter three presents various steps adopted by the researcher in studying the research problem. In this essence, the chapter presents the research design, description of the study area, the study population, the sampling frame and sample size, sampling techniques, types and sources of data, data collection methods, and the way data are analyzed and presented.

3.1 Research Design

The research design is the conceptual structure within which the research is conducted. It constitutes the blue print for the collection, measurement and analysis of data (Kothari 2004).

The researcher uses survey design in this research.

3.2 Study area

The study was conducted in Zanzibar Urban West region which is located at Unguja Island. The reason for this location was the prescience of good number of SME's. Also this region is purposely selected as representative sample of small scale enterprises due to accessibility, convenience and heterogeneity of the population. This helped in minimizing time and other financial demand in terms of expenses.

Different areas in Unguja were used in data collection within the study area. These places include Mombasa kwa Mchina, Maungani, shakani Fuoni kibondeni, Mfenesini and kianga for western zone and Kikwajuni, Darajani, Mlandege , Michenzani, Mchangani, Mtendeni, and Saateni for urban area.

3.3 Sampling techniques and procedures

3.3.1 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 small scale enterprises of Urban West District was picked from respective registrations.

3.3.2 Sample size and sampling techniques procedures

3.3.2.1 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 unites should be surveyed and interviewed, (Kothari 1990). Large sample give more reliable results then small samples.

The sample size was fifty(50) in number where as forty (40) are from the owners of the small business enterprises (SME's), one (1) staff from Ministry of Tourism, Trade and Investment, one (1) staff from Ministry for Labor, Economic Empowerment and Cooperatives Zanzibar (MLEC), one (1) staff from Trade department and credit sections, two (2) staff from Tanzania Postal Bank (TPB) Zanzibar Branch, three (3) officers from The Peoples bank of Zanzibar Ltd (PBZ), one (1) staff from micro finance (Pride) and one (1) staff from Zanzibar Chamber of Commerce.

In Zanzibar the number of commercial banks has been now increased. There are several commercial banks that operate in Zanzibar. These includes CRDB bank, National Microfinance bank (NMB), Barclays bank, National bank of commerce (NBC) bank, Kenya Commercial bank and The People's bank of Zanzibar Ltd. PBZ

Ltd. Due to availability of data, the researcher use only one bank:- PBZ Ltd in data collection.

3.4 Units of analysis

Since the data collected were both qualitative and quantitative in nature data processing and analysis was include computation, classification and tabulation to enable the analysis to be done well. Quantitative data was presented using descriptive statistic methods including table and charts. Qualitative techniques were used to analyze qualitative data from the views of respondents. This increased the validity and reliability of information.

3.5 Data collection methods

The research study employed combination of data collection. This includes primary data and secondary data collection method. This enhanced the validity and reliability of data.

Primary Data Collection

3.5.1 Observation method

The observation method is the most commonly used method especially in studies relating to behavioral science. In a way we all observe things around us. Under the observation method information was obtained by a way of investigators own direct observation without asking from the respondents. The information obtained under this method relates to what currently happening. This method is particularly suitable in studies which deal with subjects' i.e respondents who are not capable of giving verbal reports of their feelings for one reason or another.

3.5.2 Interview method

The interview method of collecting data involves presentation of oral-verbal stimuli and reply in terms oral-verbal responses. This method was used through personal and telephone interviews. Both structured and unstructured question was administered to the respondents. The question were open and flexible so as to allow the greater opportunity for an individual. A set of predetermined questions was used to guides the respondent in order to provide the necessary information to meet the research objectives.

The questions was distributed to both from the owners of the small business enterprises (SME's), from Ministry of Tourism, Trade and Investment, from Ministry for Labor, Economic Empowerment and Cooperatives Zanzibar (MLEC), from Trade department and credit sections, from Tanzania Postal Bank (TPB) Zanzibar Branch, from The Peoples bank of Zanzibar Ltd (PBZ), from micro finance (Pride) and from Zanzibar National Chamber of Commerce and Industry and agriculture (ZNCCIA).

3.5.3 Questionnaires method

This method of data collection is quite popular, particularly in case of enquires. It is being adopted by private individual's research workers, private and public organizations and even by governments. In this method a questionnaire will be sent to the person's concerned with a request to answer the questions and turn to the questionnaires. A questionnaire consist 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.

Secondary data collection

Secondary data may either be published or unpublished data. Usually published data are available in various publications of the central state or local government or various publications of foreign governments or international bodies and their subsidiaries organizations, technical and trade journals, books magazines and news papers, reports and publications of various associations connected with business and industries, banks, stock exchanges etc. Report prepared by research scholars, universities, economists etc

In this work the researcher used many books, SME policy, trade policy and other important articles to collect data which include Zanzibar Small and Medium Enterprises policy, Zanzibar Trade policy and Zanzibar economic bulletin to collect secondary data.

CHAPTER FOUR

RESEARCH FINDINGS AND ANALYSIS

4.0 Introduction

This chapter presents data based on major results of both statistical and descriptive information derived from questionnaires gathered from various business areas. An interview guide was used to collect data from the officials of government institutions who provide support to SME's including Ministry of Labor economic empowerment and cooperatives (MLEC), Zanzibar National chamber of commerce, industries and agriculture (ZNCCIA), Ministry of Trade, Industries and marketing, loan and credit officers from banking institutions, and various SME's owners who conducts different business within the coverage area of the study. The data was analyzed and interpreted based on the study objectives and the research questions. In this chapter the results and outcome of research are disclosed wisely.

Furthermore, it is a chapter that tries to answer the research objectives and questions from various interviewed areas of study as started below:-

1. To identify the constraints for SME growth in Zanzibar
2. To assess the contribution of SMEs to alleviate poverty.
3. To identify the mechanism by which SMEs access financial support.
4. To find out the way by which government support SMEs

4.1 General Profile information

4.1.1 Origin of the SMEs

Out of 45 number of SME's owners, thirty (30) SMEs equivalent to 67% were from urban areas and the remaining 15 equivalent to 33% SME's were from western areas. Out of 15 respondents only three (3) were from western B area and 12 respondents were from western A area as shown in the table 4.1 below

Table 4.1 SME's Owners

SME Area %	No. of SME (N)	Percentage (%)
SME Urban Area	30	67
SME Western Area	15	33
Total	**45**	**100**

Source: Researcher findings 2015

4.1.2 Ownership structure of SME's

In Zanzibar now there are many companies operated and which provide large number of employments to the residents and non residents. But due to confidentiality issues and other reasons, it was very difficult to access this data. Findings show that Sole proprietors, groups and family has high number of enterprises compared to company and partnership owned which entered into SME sector as shown in table 4.2 below:-

Table 4.2 Ownership structure of SME's

Ownership	No. of SME (N)	Percentage (%)
Company	2	4.5
Partnership	0	0
Sole proprietor	32	71
Family	11	24.5
Total	**45**	**100%**

Source: Researcher findings 2015

4.1.3 Source of Capital to SME's

The issue of source of funds to many SME's in Zanzibar is still difficult due to many reasons including apathy as stated earlier.

The tables 4.3 below show that 35.6% of enterprises prefer to use their own sources of fund to finance their business activities. This is followed 31.0% of respondents who provide capital to their relatives, sons and daughters on starting business. The other groups are those that obtain capital from banks (8.9%), SACCOSS (17.8%), or other sources (6.7%).

Table 4.3 Source of Capital to SME's

Source	**Frequency (N)**	**Percentage (%)**
Commercial Banks	4	8.9
Family	14	31.0
Own capital	16	35.6
Other Source (Pride, groups etc)	3	6.7
SACCOS	8	17.8
Total	**45**	**100%**

Source: Researcher findings 2015

4.1.4 Capital invested on startup the business

The findings show that there is an increase of small enterprises in Zanzibar especially in the form of whole seller and retailer shops and high class saloons and multi business activities in urban areas while medium and large scale enterprises are very poor in its prescience. Because the main objective based on small and medium enterprises, the researcher was not deeply relay on large enterprises even though now there is an existence of it in Zanzibar as shown in the table below where small enterprises cover the large amount of enterprises in the study area.

Table 4.4 Capital invested on startup the business

Capital	**Category**	**No of SME (N)**	**Percentage (%)**
Up to 5 million	Micro Enterprises	7	15.60
Above 5 Mil to 200 mil	Small Enterprises	36	80.00
Above 200 mil to 800 mil	Medium enterprises	2	4.40
Above 800 mil	Large enterprises	-	-
Total		**45**	**100.00%**

Source: Researcher findings 2015

4.1.5 Number of employee

The respondents were asked for the number of employees they had employed for the previous year. Table 4.5 below presents the findings which show that out of 45 responses, the majority (66.67%) of participants in SMEs can be considered to be micro enterprises as they employ fewer than 5 employees with capital investment up to 5 millions. 28.89% employees between 5 and 19 employees with capital investment above 5 mills to 200 mills and thus can be considered as small businesses, whereas only two (2) responds equivalent to 4.44% of the participants are medium-sized enterprises employing between 20 - 99 employees as show in the table below:-

Table 4.5 Number of employees

Employee	Description	Respondent (N)	Percentage
1 – 4	Micro enterprises	30	66.67
5 – 19	Small enterprises	13	28.89
20 – 99	Medium enterprises	2	4.44
Total		**45**	**100.00%**

Source: Researcher findings 2015

4.1.6 Business Experience

The experience of SME's in Zanzibar mainly depends on the nature of business they performed. The SME's owners were asked about their experience in the business activities and the answer was obtained. These were very important aspect for researcher in the research findings because it helps to predict the SMEs who are most active in the entrepreneurship activities. Basing on this study, the result show that most of the respondents were those with experience from 5 – 10 years in business which takes 60% in total compared to those with experience from 1 – 5 years which takes 37.78%. From the findings the only one (1) respondent was obtained who has an experience of twenty two (22) years in operations and also who make very big contribution in poverty alleviation in Zanzibar and takes only 2.22% from the whole number of interviewed questionnaires.

4.1.7 Challenges facing SME's in Zanzibar

SMEs in Zanzibar facing major obstacles like other countries in the world as explained by Sony (2005). These include competitive environment, regulations and availability of a skilled workforce, the cost of finance, international expansion, and lack of knowledge about markets, bureaucracy, political and social instability.

1. **To identify the constraints for SME growth in Zanzibar**

What challenges have you experienced in running this business?
The answer was very clear from SME's owners. Startup capital is the first problem facing them, followed by working place.

Startup Capital

Most of Zanzibarian hesitates to request loans from financial institutions due to the religious beliefs. As it is known that more than 92% are Muslims. All loans from financial institutions must be returned in both principal and interest amount. This helps the institutions to operate well its business activities. But it is different to other side. Percentage and amount of interest allowed to pay is prohibited to Muslims and it is sin to accept it. By this reason many SMEs in Zanzibar failed to operate well as a result they collapse.

Working place is another problem. Amount of rent is very high compared to expect sells turn over against expected expenditures. Most of town areas are rented by high amount, which cause loss in doing business to many people. Government regulations, apathy and dishonest are among the challenges facing many SME's in Zanzibar and hinders the effort to alleviate poverty in Zanzibar.

Another crucial challenge facing SME's in Zanzibar is the increasing number of shops especially used items from overseas and classic saloons in urban area. The increase of the said activities cause big competition among sellers and make people to diverge from one business to another. This lead to failure in alleviating poverty (SME owners 2015).

Government regulations

There are many challenges facing SMEs derived from Government regulations in Zanzibar. These include business registration, business licensing, corruption and bureaucracy.

In Zanzibar, all businesses are required to register their business with the office of Registrar General according to Business Registration Decree Cap 168. Businesses are also required to report any changes in their business, such as changes in their names and registrations (SME Policy 2006).

Business licensing is mandatory for all businesses in Zanzibar with few exceptions, under the trade licensing Act No. 3 of 1983.

Many enterprises in Zanzibar are informal and semi-formal due to their size in terms of startup capital, serving the low income segment of the population for which there is very inflexible business competition. There are many reasons for this state of affairs. This include limited awareness and capacity of operators, limited access to financial and other support services and absence of enabling business environment in terms of legal and regulatory frameworks (Zanzibar Economic Bulletin 2009).

Banking regulations

Whenever asked about loan services from financial institutions basically banks, many SME owners argued that the interest rate charged is very high compared to amount of loan requested from the bank. Since most of them use the People's bank of Zanzibar limited. They said that when they make summation of the amount of loan acquired plus amount of rate of interest deducted, there is no need to request for loan service. Religious belief here takes place in 100% (Researcher findings 2015).

Gender equality

Many of SME's are owned by males and only few SME's are owned by woman. Most of growing enterprises are owned by males. And most of small and single owned are for females.

Even though the number of woman employed increase year after year, there is a big gap between man and woman. Analysis of employment by gender during the period under review showed that, the number of male workers was equivalents to 81% of the total employment in SMEs while the number of female workers representing 19% of employment. This shows that despite SMEs being dominant economic agents for poverty reduction, women stay marginalized as they account for a small proportion of SME employment.

A number of important gender issues are recognized in terms of investigating successful SME development in Zanzibar. In particular, because domestic responsibilities borne by African women limit the time and scope of their business strategies, women entrepreneurs often have different goals and different business strategies from those of male entrepreneurs. The goals of women, more so than of men, entrepreneurs are to feed, clothes and educate their children (Downing, 1991).

To achieve these goals, women seek means to secure their income in diverse ways, whereas men pursue individual strategies, taking business risks in pursuit of profits. Many women entrepreneurs who conduct their business activities around household and child-rearing responsibilities, graduation to a larger business outside the home may not suit their business plan (Steel, 1994: 9).

Employment condition

The findings indicated that significantly a proportion of SME's employees are working on temporary basis and thus their employment is unstable and that workers are highly helpless to socio-economic shock and therefore they are highly exposed to poverty.

2. **SMEs contribution on poverty alleviation in Zanzibar.**

Small and Medium Enterprises (SMEs) contribute at a wide range in alleviating poverty in Zanzibar. The findings show that SMEs helps in economic development of a country, it contributes to employment opportunities, it contributes to Gross Domestic Product (GDP), it is the source of government revenue. SMEs help Government on policy review, increase fund level, advice government on financial economic and administration, SMEs contribute the understable program, acceptance and commitment from government institutions (Researcher findings 2015).

4.1.8 Effort/Role played by SME's in alleviating poverty in Zanzibar

Most of SMEs owners whom friendly agreed to respond those questionnaires said that:- they use their experiences and knowledge to educate their employees and other groups of youth in order to reduce poverty between them. The discussion made with manager from Zanea seaweed said that they use their experience and knowledge to teach their employees on how to work and other activities. SMEs use their time to conduct various training and seminars during calendar year on entrepreneurial knowledge and skills to different groups of peoples including woman entrepreneurs and youth. They also release their employees when there is a need to do so especially when an employee got experience he/she can employ him/ herself in another area of production. (Researcher findings 2015).

4.2 Financial Institutions Contribution to SMEs in Zanzibar

There are several commercial banks in Zanzibar, but due to time limitation the researcher was not able to interview many staff from different banks. This makes the researcher to interview only member staff from the people's bank of Zanzibar Ltd (PBZ) and Tanzania Postal bank (TPB).

Financial Institutions contribute at a wide range in alleviating poverty in Zanzibar. The findings show that commercial banks provide different types of loans to SMEs owners such as personal loans, overdraft and letter of credit facilities. Also a bank corresponds with other government agencies in contributing to SMEs on poverty alleviation by providing special type of loan such as JK – AK loans (PBZ Ltd. 2015).

According to credit and loan departments staff from Pbz and postal banks, both types of loans provided have highly contributed to SME's sectors in alleviating poverty in Zanzibar and hence increase personal life position among member staff. SME sectors by using over draft and letter of credit services from banks are able to imports their goods from abroad easily. Letter of credit services gives business people security since bank itself act as guarantor to its customers. By making those business people able to reduce level of poverty rate among people (PBZ staff 2015).

Tanzania Postal Bank (TPB)

The discussion made with Postal bank was too short and the information was incomplete due to duty of confidentiality of the organization in disclosing its data. The bank is mainly deals with small scale business loans and personal loans to its customer who based on sole proprietor and small groups. As at May 2015 in Zanzibar branch only fifty (50) maximum number of business loan ware granted to customers which vary from 2,500,000.00 up to ten (10,000,000.00) million. Out of that size of amount granted, only forty (40%) was medium rate and the rest of sixty (60%) percentage was small rate. Among them ten (10%) deals with used items, while thirty (30%) percentage deals with clothes and the rest of sixty (60%) deals with food stuff shops (TPB 2015).

Table: 4.6 Type of Customer/Enterprises offered loan from the bank

Type of Customer/Enterprises for loan	**Percentage**
Small Customer/Enterprises	60%
Medium Customer/Enterprises	40%
Large Enterprises	-
Total	**100%**

Source: Researcher Findings 2015

Table 4.7 Types of business

Type of business	**Percentage**
Used items	10%
Clothes	30%
Food stuff shops	60%
Total	**100%**

Source: TPB 2015

NB: Used items include electronics equipment's, motor cycles, utensils, kitchens equipments, clothes and bicycles.

The Peoples Bank of Zanzibar Ltd

Information on the composition of the product portfolio was completed by the People Bank of Zanzibar and is illustrated in Table 4.11 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%. But due to the commencement of the Islamic banking services, many individual businesses and groups have now started to change their views on applying loans from Islamic banking services and cause the rate of the said loan to decrease

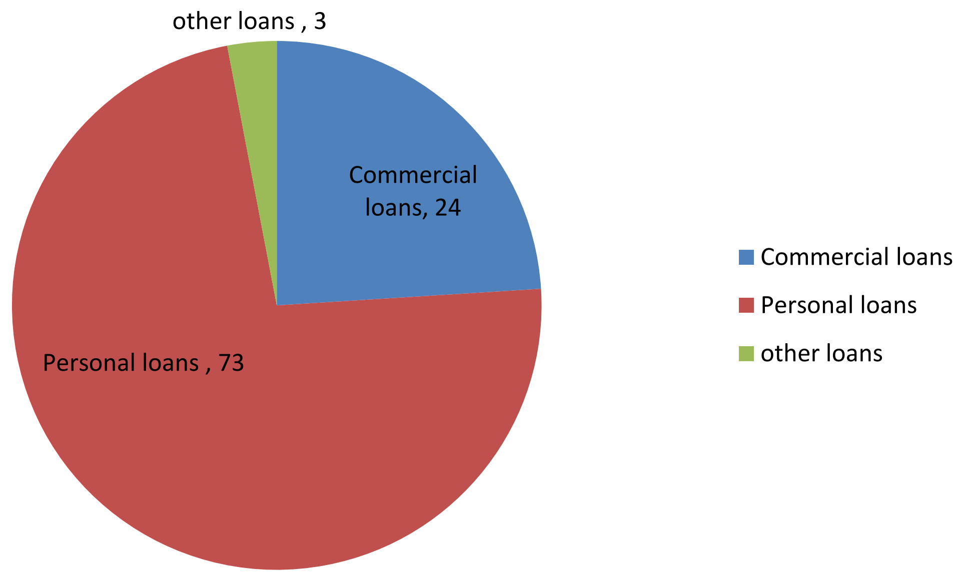
Table 4.8 Portfolio Information

Type of Loans	**Percentage**
Commercial Loan	24%
Personal Loan	73%
Other Loans	3%
Total	**100%**

Source PBZ 2015

It was, therefore, observed that the borrowing behavior on personal loan individuals and government employees seem to increase by 73 percent compared to commercial loans that involve loans to SMEs (which have 24 percent and other loans are only 3 percent). This is due to presence of more commercial banks operating and providing loans in Zanzibar. This was supported by the respondents from People Bank of Zanzibar (Pbz Ltd 2015),

Figure 4.1 Bank Portfolio Information



Source PBZ, 2015.

Challenges faced Financial Institutions for alleviating poverty to SMEs

The banking industries face many challenges from SMEs sectors that provide different types of loans. The main challenge is poor repayment of loans by customers. Findings show that out of Tzs 365,220,000.00 provided to various SMEs on JK – AK loan, only Tzs 183,065,592.00 was returned to the bank. Long time delaying for loan repayment, Cultural effects, apathy and Psychological effect are the challenges facing banking institutions. The staff from interviewed banks explains that most of their customers applying for different types of loans, fails to repay such loans and finally cause loss to banks. This failure is caused by poor business plan and knowledge of business, lack of conducive market place and other environmental factors including poor management team, cultural and religious beliefs. Another big challenge facing bank institutions is the size of security disclosed by SMEs. Some of

SMEs owner provide false information about their security when they request for loan to the bank.

4.3 Discussion of the results from government institutions

The researcher was not able to collect data in every section of the government offices due to limited time and financial scarcity at all. The researcher was only able to collect data using the Ministry of Genders and children, the Zanzibar chamber of commerce and the Ministry of Trade and Industries which both deals with SME's. In fact the government deals with those types of SME's. The government deals with both types including sole proprietors, groups, companies etc.

4.3.1 Government Support to Sme's In Poverty Alleviation

Once the government realized that Small and Medium Enterprises (SME's) are the catalyst in any development especially for developing countries, and recognized that SME's play crucial role in employment creation and income generation mainly in private sector, thus minimizing the burden to the public sector, the government has establish many policies (SME Policy, 2006).

In supporting Small business enterprises to reduce poverty rate of the country, the Government has adopted many policies, regulations and department within its ministries to make sure that SME's are succeeded. These policies include:-

4.3.2 Zanzibar SME Policies

The Government of Zanzibar has implemented a number of policies and plans to address the development of this country in poverty reductions mainly absolute poverty to its people. 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 includes key elements of these reforms and is fully compatible with high level national objectives. (SME Policy, 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.

4.3.3 Zanzibar Poverty Reduction Plan (ZPRP)

Until present, the revolution Government of Zanzibar has launched two phases of poverty reductions which is known as Zanzibar Poverty Reduction Plan (ZPRP I) and (ZPRP II). 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 (Zanzibar SMEs Policy, 2006).

4.3.4 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 possible productive income generating activities enabling them to reduce their poverty, self employment and improve quality of life in general and reduce the high burden for government to its people.

There are so many objectives to Credit department used for reducing poverty but the following are the important ones.

- To ensure timely fund disbursements of credits are available after screening, appraising then approving credits with pre loan trainings to SME's.
- To improve loan repayment rate from 85% to 95% by conducting follow up visits, local government and micro creditors' forums.
- Proper recording of 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. MLEC, Credit department 2015).

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 (security). 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.

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 Zanzibarian societies that employ itself for income generating activities to improve their lives and reduction of poverty. 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). MLEC, Credit department 2015).
- 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 loans 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 4.12 below (MLEC, Credit department 2015).

Table: 4.8 AK – JK Fund

Applicants	Applied No.	Amount Applied	Loan amount	Balance
Male		631,500,000.00	390,400,000.00	240,270,106.00
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
Cooperatives		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; MLEC, Credit department, AK & JK Fund 2015

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 within Zanzibar.

It is one of the departments in the Ministry of Empowerment, Youth, Woman and Children (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 as the year 2015 are as follow:-

- 3,854 people including youths were sensitized to engage into income generating activities through cooperatives.
- In general performance of the country 327 cooperatives were registered with majority of youths (Unguja 172 and 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.
- 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 (MLEC 2015).

Figure 4.2: Training from SACCOS group in Western B region Zanzibar from ministry's training to SMEs groups.

Source: MLEC 2015

Figure 4.3 Training from SACCOS group in Western B region Zanzibar from ministry's training to SMEs groups.

Source: MLEC 2015

Figure 4.4 Batiks from Tunaweza Saccos group in Jang'ombe, urban region in Zanzibar.

Source: MLEC 2015

Figure 4.5 Tunaweza Saccos group in Jang'ombe, urban region in Zanzibar.

Source: MLEC 2015

Figure 4.6 Mr. Rajiv, SMEs experts for reduction of poverty and other officials from MLEC Saccos groups addresses some important issues on poverty reduction in some of training conducted in western region in Zanzibar.

Source: MLEC 2015

Figure 4.7 Photograph **of SME member in Tunguu with Team leader from Ministry of empowerment in Zanzibar 2015.**

A group photo of some leaders for Youth Empowerment and Poverty Reduction team in Tunguu, West region Zanzibar, Leading by Mr. Msham Juma Khamis from Ministry of Labor, the second one from right sitting.

Challenges faced government Institutions

Loan repayment

Most of the member and groups are not returning the amount of loan they borrow from the government institutions especially the JK – AK loan. When the researcher asked some of the owners of the SME's, the only and simple answer was the same where the members claim that, the money borrowed from these financial institutions and government institutions are their own money in which government holds in one way or another. So there is no need for them to return it. These reasons cause the amount of loan returned to the government institutions to be less as a result failed to be granted another loan facility. Due to this reason it causes this loan service to be stopped and at the moment there is no such service provided by government through its financial institutions especially banking institutions.

Apathy

According to Phil Bartle: (2007), one of the strong factors of poverty is apathy. Apathy is when people do not care, or when they feel so powerless that they do not try to change things, to fix a mistake, or to improve conditions. Sometimes, some people feel they cannot achieve something, or are jealous of their family/ relatives or fellow community members who attempt to overcome poverty and try to achieve down to their own level of poverty. Apathy breeds apathy. Sometimes apathy is justified by religious beliefs**.** Findings show that many of Zanzibarian males due to their cultural and religious beliefs they think that women should stay at home waiting for their husband to send each and every thing. Due to this belief most of woman in Zanzibar are suffering from absolute poverty since they have to stay at home for feeding, and educating their children.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Conclusion

There are many under exploited opportunities in Zanzibar which could be exploited to generate wealth and creating jobs for the poor currently engaged in the informal sectors. These include markets, agriculture including new system called horticulture, natural endowments including tourisim attractions, sea (deep sea fishing) shops, and human resource. The growth in population, investments changing tastes and the access to regional and other foreign markets, represent significant opportunities for SME's. Unfortunately the SME's operators have not been able to respond competitively by providing goods and services to meet the growing demand.

Basing on this paper it can be seen that most of SME's are suffered in startup capital, business knowhow and cultural liabilities including religious factors. Access to finance plays a central role in development of enterprises, but this is only possible if it is accessible in reasonable conditions. SMEs are suffered from liquidity problems. They usually experience difficulties in accessing loans from the banking sector and other financial intermediaries to finance working capital and to provide credit for smooth business activities.

Those difficulties Long Procedures, limited management, technical skills, lack of collateral, poor technology, and lack of credible financial accounts. In addition to that there are reasons that are external to SMEs these reasons include poor physical infrastructure and limited market. These reasons cause those SMEs to find difficulties in accessing finance based on internal and external factors.

5.1 Recommendations

Zanzibar SMEs policy of 2006 are to be reviewed and updated so as to meet and satisfy the need to SMEs in current situations since there is high economical and technological changes around the world. This is because there are many changes recently such as SME's position, number of medium and large firms, changes in credit facilities from banks etc.

The Government through its responsible ministries which include Zanzibar National chamber of commerce and industry, Ministry of Trade and MLEC dealing with SME's and other sectors are supposed to provide related courses for SME's issues, seminars and workshops to enable SME's sectors including women entrepreneurs to acquire business skills and to improve their profiles and confidence. This will help them to be more innovative. In doing this, more productivity will be obtained and make the successful profit which will make the employment opportunities to be the source of poverty alleviation.

Government should create mechanism that will ensure repayment of loans to SME's who are granted loans from credit department in the Government of Zanzibar.

SMEs have to improve their operating efficiency and capabilities as this impact on their production costs and profits. Improve quality of goods and services in order to come up with global market changes as it is known that nowadays the globalization makes the world as a clan. Poor operating services make much material wastage and this make major source of high operating costs in many small businesses. SMEs need to invest in skills development and infrastructure to be able to benefit from electronic business international.

SME's owners should change their religious beliefs in order to come up with financial aid services provided from various financial institutions in the country. Religious beliefs to many SME's owners in Zanzibar is a barrier to their achievement.

So the Government has to give knowledge to SME's owners in understanding how those financing aids are granted and how payment procedure can be conquered.

In Zanzibar many of SME's are owned by family members who cause to fails in many business and entrepreneurial innovations. Generally family business activities lack of an employment facilities to others. In avoiding this, Government has to provide knowledge about SME's and innovation ideas to business owners. This will give opportunities of employment chances to outsiders and can changes SME's business environment by providing skilled workers and improve production services.

Government should encourage financial institutions to revisit their regulations so as to provide services to small business enterprises. This can be done by for example meeting the cost by human resource development to prepare competent bank staff who can work with SME's. Banks have to establish SME's windows within and encourage simplification of procedures. Promote innovative financial products for SME's such as hire purchase scheme, leasing, financial venture and capital for SME's with big growth potentials.

Financial institutions especially commercial banks should provide loan financing knowledge to their customers before granting loans in order to avoid the unpaid loan installments which cause sometimes selling of their collaterals.

Banks should review and make straightforward their loan repayment procedures and tax policies to enable those SME's sectors to access long term credit. In addition, banks should establish gender-sensitive programs to enable woman to be confident and participate in business activities.

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APPENDICES

APPENDIX 1: Interview guide For SME's Representatives

Dear Respondent,

This questionnaire is aimed at gathering primary data concerned the role of Small and Medium Enterprises (SME's) on poverty reduction in Zanzibar. You are kindly requested to fill in the questions depending on the instructions given. The information you provide will be treated with high level of confidentiality and will be used for the purpose of accomplishing an academic purpose only.

Part 1: Background information

1 Name: Enterprises / Firm / Store etc

……………………………………………………………………………………

……………………………………………………………………………………

2 Physical Address:

……………………………………………………………………………………

……………………………………………………………………………………

3 District/ Region:

…………………………………………………………..…………………

4 Establishment/Commencement Year:

……………………………………………………...………………………

5 Registered/ Unregistered:

……………………………………………………………………………………

6 Type of business

…………………………...

7 Ownership Structure: Tick appropriate

Company	**Partnership**	**Sole proprietor**	**Family**	**Others if any**

Mention if others: …………………………………………..

8 Source of Capital

Loan from commercial banks ☐

Other financial Institutions ☐

Contributions ☐

Other sources ☐

Please specify the source …………………………………………………

8 Number of Employees: Tick appropriate

a. 1 – 4 ☐

b. 5 -19 ☐

c. 20 – 99 ☐

10 How long have you worked in this Business Enterprises?

a. 1-5 Years ☐

b. 5-10 Year ☐

c. Above 10 years ☐

11 Indicate your work category

a. Top level management ☐

b. Middle level management ☐

c. Lower level management ☐

d. Marketing executive ☐

e. Support staff ☐

12 What motivated you to start this type of business?

a. Family tradition ☐

b. School fee for children ☐

c. Economical Independency ☐

d. Family dependency ☐

e. No other alternative of earning income ☐

f. Any other reason? Please specify ……………………………….

13 Do you have any technology used in your business?

Yes	No

Please explain according to your tick..

14 What social support is available to enable you to improve your business?

s/no	Particular	Tick appropriate
1	Government policies	
2	Easy access to credit	
3	Financial support from relatives/friends	
4	Material support from relatives/friends	
5	Both financial and non-financial support from relatives/friends	
6	Access to training opportunities	
7	Technical support	
8	Access to Market information	
9	Managerial support	
10	Business contacts	
11	Non	

Objective I: To identify the constraints for SME growth in Zanzibar

15 What challenges have you experienced in running this business?

(a) Working place ☐

(b)Working capital ☐

(c)Skilled labor ☐

(d) Access of raw materials ☐

(e)Access to market place ☐

(f) Government regulation? ☐

Climatic change ☐

Other ☐

(a) If other please specify

…………………………………………………………………………………

…………………………………………………………………………………

………………..………………..…………………………………………………

………

(b) How do you overcome those challenges?

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

………………………

(c) Do you keep records of all expenditures in order to calculate profit?

a. Yes ☐

b. No ☐

(d) Does your office/business play any role in alleviating poverty?

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

…………

Thank you for your cooperation

APPENDIX 2: Contribution of Financial Institutions on Poverty Alleviation to SMEs Support

Dear Respondent,

This questionnaire is aimed at gathering primary data concerned the role of Small and Medium Enterprises (SME's) on poverty reduction in Zanzibar. You are kindly requested to fill in the questions depending on the instructions given. The information you provide will be treated with high level of confidentiality and will be used for the purpose of accomplishing an academic purpose only.

1. Please indicate some of the products and services that are specifically adapted to SMEs

a. Small scale business loans ☐

b. Business management training ☐

c Marketing services ☐

d. Financial literacy skills ☐

e. Others (Please specify) ………………………………………………

2. Do any of the above mentioned services have contributed growth of SMEs

a. Yes ☐

b. No ☐

3. Do you face any challenge from those SMEs which you provide loan?

- Limited time for loan repayment
- Poor utilization of loan
- High interest rate if loan granted by banks

4. What is your recommendation on financing issues to support Small business enterprises on reducing poverty in Zanzibar?

Thank you for your cooperation

APPENDIX 3: Interview Guide for Government Officials / Ministry

Dear Respondent,

This questionnaire is aimed at gathering primary data concerned the role of Small and Medium Enterprises (SME's) on poverty reduction in Zanzibar. You are kindly requested to fill in the questions depending on the instructions given.

Objective 3: to find out the way by which government support SMEs

1 Name of organization…………………………………………………………………………

………………………………………………………………………………………

2 What kind of SME's do you deal with them?

………………………………………………………………………………………

………………………………………………………………………………………

3 Do you make any support to Small and Medium Enterprises?

Yes ☐

No ☐

4 If yes, what support are providing to them?

………………………………………………………………………………………

………………………………………………………………………………………

5 What roles do your organization undertakes to alleviate poverty through Small Business enterprises?

………………………………………………………………………………………

………………………………………………………………………………………

6 What is your recommendation to those SMEs on poverty alleviation?

Thank you for your cooperation.