



**What are the factors limiting the success and/or growth of small businesses in  
Tanzania? – An empirical study on small business growth**

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<p>Abstract:</p> <p>The aim of this study was to determine the factors that limit the growth/and or success of small businesses in Tanzania and to try and suggest solutions to these factors. Nine interviews were conducted which included six small business owners and three officials representing three organizations. The results obtained identified a number of limiting factors to small firm growth. The author saw it as a merit to group the results into two groups; limiting factors that are internal to the firm (Inadequate education and training, lack of a proper business plan, capital constraint etcetera) and those that are external to the firm (comprising things like corruption, government policy, bureaucratic processes etcetera). The author concludes by making following main recommendations; firstly a reform of the SME policy by the government, a search of an adequate business education by the small business community and trying to develop services and the maintenance of good relationships with small business owners by other stakeholders like the financial institutions.</p>	
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## **ABBREVIATIONS**

AIDS – Acquired Immune Deficiency Syndrome

BIT – Board of Internal Trade

CBE – College of Business Education

CIA – Central Intelligence Agency (USA)

EC – European Commission

GDP – Gross Domestic Product

HIV – Human Immuno Deficiency Virus

IFC – International Finance Corporation

IFM – Institute of Finance Management

ILO – International Labor Organization

MSME – Micro, Small and Medium Enterprises

NBS – National Bureau of Statistics

PCCB – Prevention and Control of Corruption Bureau

SADC – Southern African Development Community

SIDO - Small Industries Development Organization

SME – Small and Medium Enterprises

TCCIA – Tanzania Chamber of Commerce, Industry and Agriculture

THA - Tanzania Harbors Authority

TSHS - Tanzanian shillings

U.K. – United Kingdom

UDBS – University of Dar es salaam Business School

UNDP – United Nations Development Programme

UNIDO – United Nations Industrial Development Organization

USA – United States of America

USD – United States Dollars (Currency of the United States of America)

VLC - Virtual Learning Centre Tanzania

## **ACKNOWLEDGEMENTS**

This study is a final thesis report marking the ending of my undergraduate studies in International business. The idea of this study was to highlight the factors limiting the growth/success of small firms in Tanzania and eventually make suggestions/recommendations on what should be done by the involved parties to curb the situation.

I would like to express my gratitude to all whom in one way or another made the accomplishment of this piece of work possible. First of all to the Almighty God for the health, open mind, agape love and a gift of life.

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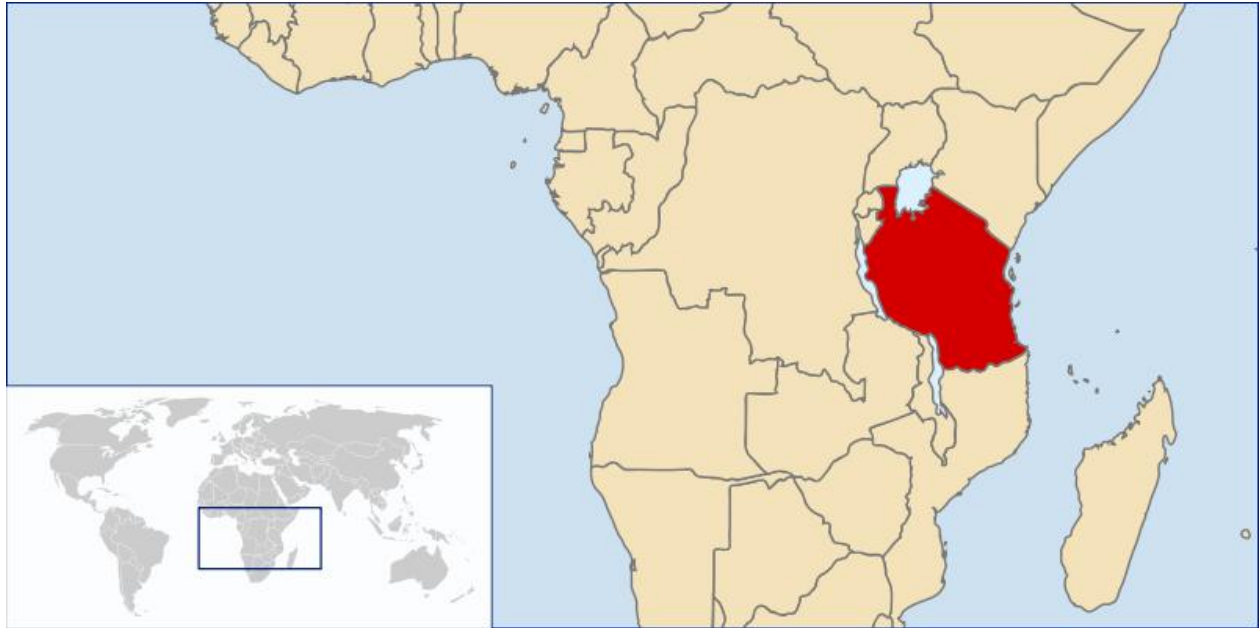
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Finally, as the saying in Swahili goes ‘Tuko Pamoja Daima’ meaning we are together always, this is it from me. Cheers!

# 1. INTRODUCTION



**Figure 1 – location of Tanzania in Africa. (Source: Wikimedia commons website)**

## **1.1 Background**

Over the past twenty years or so Tanzania has constantly been embarking on a long process of political, economical and social reforms to improve the business environment, promote economic growth and reduce poverty in the country. The economic hardship the country has been facing has been attributed to a lot of factors among them being the underdeveloped private sector which accounts for over 80% of employment (IFC 2006). Unemployment has been a chronic problem in the country. Today the unemployment rate stands at a staggering 12.7% (NBS 2009 est.) forcing a large number of the working population to opt for self employment. But due to a number of reasons the newly formed businesses fail to operate on profits and eventually close down or continue operating without a good return on investments constrained from growth and expansion. Recent studies on Small and medium enterprises by Mfaume R and W. Leonard(2003) and Kuzilwa J.A (2003), all of which were undertaken in Tanzania have identified the factors limiting the success of small and medium sized businesses among them being corruption, lack of education and training, government policy, in-access to finances and many more to be revised later on in this particular study. This study will focus on reviewing previous studies made on the subject in question both in and out of Tanzania and later on drawing conclusions are relevant to the context in Tanzania.

## **1.2 Motivation for choice of topic**

As a young boy, the author grew up witnessing his mother trying out different types of small businesses apart from doing her normal day work. These businesses always ended up closing down or operating without a good return on their investment at different stages on their growth. As a student in secondary school, the author started selling phones as an agent for a local phone store owner in Dar es salaam, Tanzania (see figure 1 for location on map). The owner was very

successful in what he does. As his agent, the author was always inspired by how he conducted his business and became very much interested in doing business. It was then when questions arose to the author, what makes the store owner successful? what is he doing different?, what lessons can be learnt from them both such that the author would be in a better position when starting his own business?. The author never had a chance to actually find he answers to those questions but this thesis project has provided the opportunity to conduct such a significant research.

### **1.3 Thesis aim**

The aim of this thesis is to determine the factors that limit the success and growth of small businesses in Tanzania and eventually make suggestions on how to deal with the factors limiting small business growth. Taking into account the author's interest in starting a small business in the future, this knowledge puts him in a better position to overcome the threats that stand along the way while doing business in the future. Moreover, by identifying the possible solutions to the problems, it will not only help the author as an entrepreneur but it could be of great advantage to the Tanzanian business community and the government as a whole.

### **1.4 Research questions**

The key question(s) that are to be answered by this research are;

- I) What are the factors limiting the success/growth of small businesses in Tanzania?

**Sub question:**

I) what should be done to take control of the problems?

**1.5 Limitations**

This study will be limited in a sense that it will ignore the recent trends in the economy (as to say the world financial crisis impacts to small businesses). The study will analyze only the general factors affecting the day to day life of small businesses. Because of the time constraint factor of conducting this study and the under-developed information management systems in Tanzania, the study will be delimited in such a way that it will only include studies (interviews) made in Dar es Salaam, which is the business capital of Tanzania.

**1.6 Tanzania fact file**

Tanzania is located in eastern Africa bordering the Indian Ocean, between Kenya and Mozambique with geographical coordinates of 6 00 S, 35 00 E. Other neighboring countries include: Burundi, Democratic Republic of the Congo, Malawi, Rwanda, Uganda and Zambia. The country encloses an area of 947,300 square kilometers with a coastline of 1424 kilometers and is a home of some of the world's greatest landmarks.

The landmarks include; The Kilimanjaro – which is the highest mountain in Africa standing at 5895 meters above sea level, Lake Victoria – the world’s second largest freshwater lake and Lake Tanganyika – the world’s second deepest lake. To top it up Tanzania also boasts a variety of wildlife with over fifteen national parks and game reserves around the country. In addition to all this, the country has abundant supplies of natural resources which include gold, diamonds, coal, natural gas and a wide variety of gemstones.



**Figure 2 – Map of Tanzania (Source: CIA World fact book)**

Population wise Tanzania is home to 41,048,532 (estimates taking into account excess mortality due to HIV/AIDS) people among which 21.23 million (2009 est.) are considered to be labor force. All this makes Tanzania one of the world’s wealthiest nations from a biological point of view. (Source: CIA World fact book).

Despite all this wealth, Tanzania is ranked as one of the world's poorest countries. It is heartbreaking that the infant mortality rate in Tanzania is estimated to be as high as 69.28 deaths/1,000 live births(2009 est.) and population below poverty line was at a record high of 36% (2002 est.). The estimated GDP per capita in 2009 was USD 1400, which is absolutely trivial compared for example to that of South Africa which was USD 10,100 in the same year. Both South Africa and Tanzania are in the sub Saharan region and members of SADC that is the reason the author see it's only logical to compare the two nations as it only serves to prove how Tanzania is lagging behind when it comes to development matters. (Source: CIA Fact book).

## **2. SMALL BUSINESS CONCEPT**

### **2.1 Defining a small business**

#### **2.1.1 Contradicting definitions**

There is no single uniformly acceptable definition of a small business. This is so because a small firm in one industry and one in another industry might have different levels of capitalization, sales and employment from a small firm in another industry. Thus, definitions which are objective in nature (considers size such as number of employees, sales, profitability , net worth etc) at a sectoral level, mean that in some sectors all firms may be regarded as small while in other sectors there are no possibly firms which are small (D.J. Storey 1994).

McMahon et al (1993) referred to defining a small business as a 'vexing and enduring difficult' and went on to indicate that small enterprises are easier to describe than to define in precise terms. What small enterprises in fact have in common and what sets them apart from large enterprises, are other less tangible attributes that are more difficult or even impossible to

measure. (p.9). McMahon et al (1993) have summarized a common view that small firms are best identified by their inherent characteristics.

The Bolton Committee of 1971 attempted to overcome this problem by formulating what they called an economic definition and a statistical definition. The economic definition regarded firms being small if they satisfied the following criteria:

- They had a relatively small share of the market
- Managed by owners or part owners in a personalized way and not through the medium of a formalized management structure
- They were independent in the sense of not forming part of a large enterprise

The statistical definition on the other hand was designed to address to three issues

- The first was to quantify the current size of the small firm sector and its contribution to economic aggregates such as GDP, employment, exports and so on and so forth.
- Second purpose was to compare the extent to which the small firm sector has changed its economic contribution overtime.
- Thirdly the statistical definition in principle had to enable a comparison to be made between the contributions of small firms in one country with that of other nations.

Statistical definitions of a small firm are summarized in the table below;



Sector	Definition
Manufacturing	200 employees or less
Construction, mining and quarrying	25 employees or less
Retailing, miscellaneous	Turnover of 50000 sterling pounds or less
Services, Motor trades	Turnover of 100000 sterling pounds or less
Wholesale trades	Turnover of 20000 sterling pounds or less
Road transport	Five vehicles or less
Catering	All excluding multiples and brewery-managed houses

**Table 1:** Showing Bolton committee definitions of a small firm (source: Bolton 1971)

The definitions by the Bolton committee were largely criticized and to top it up to a large extent they favor the western context, but the author is in the opinion that it is only logical to include them in this study since they laid out foundations on how a small business should be defined. Also taking into account that Tanzania was a British colony, many of its government policies, rules and regulations are drawn out from the British system.

Following a number of criticisms of the Bolton committee definitions, the European commission developed a term called small and medium enterprise (SME). The SME sector is disaggregated into three components:

- Micro enterprises: those with between 0 and 9 employees
- Small enterprises: those with 10 to 99 employees

- Medium enterprises: those with 100-499 employees.

The definition bases itself to the number of employees in a firm and it is of an advantage since it does not vary according to the sector of the enterprise. Another advantage of the definition is that it regards employees less than 100 being a small business which is more appealing given the rise of productivity which have taken place in the last quarter of a century or so. Moreover, the definition recognizes that the SME group is not homogeneous since distinctions are made between micro, small and medium-sized enterprises (D.J. Storey 1994). The EC definition is currently deemed to be more appropriate than the Bolton definition and many countries have devised their definitions of a small business in light of the EC definition to reflect the context of their particular countries, among them being Tanzania.

### **2.1.2 Definition adopted by the Tanzanian government**

According to the ministry of industry and trade in Tanzania, small businesses are collectively defined under the nomenclature SMEs. SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). In the Tanzanian context, micro enterprises are those engaging up to four people in most cases family members or with an investment not exceeding 5.0 million TSHS the majority of which fall under the informal sector. Small enterprises are mostly formalized undertakings engaging 5 to 49 employees or with capital investment of TSHS.5.0 million to TSHS.200 million. Medium enterprises employ about 50 to 99 employees and use capital investment from about 200 to 800 million TSHS.(Tanzania SME policy 2002) This is illustrated in the following table below;

<b>CATEGORY</b>	<b>EMPLOYEES</b>	<b>CAPITAL INVESTMENT (TSHS)</b>
Micro	1- 4	Up to 5 mil.
Small enterprise	5- 49	Above 5 mil – 200 mil.
Medium enterprise	50 – 99	Above 200 mil. to 800 mil.
Large enterprise	100 +	Above 800 mil.

**Table 2:** Showing categories of SME's in Tanzania

**N.B.** – In the event of an enterprise falling under more than one category, then the level of investment will be the deciding factor.

## **2.2 Significance of small businesses in the Tanzanian context**

SMEs are known to play a major role in social economic development which is the case also to Tanzania. In Tanzania SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas, In-turn contributing to the development of the country as a whole economically, socially and even politically.

In Tanzania it is estimated that about a third of the GDP originates from the SME sector. According to the informal sector survey of 1991, micro enterprises operating in the informal sector engaging 1.7 million small businesses consisted of about 20% of the labor force (3 million people then). Though data in Tanzania especially in the SME sector are somewhat unreliable and sketchy, the above data serves to show how crucial the SME sector is to the Tanzanian economy.

Since SMEs tend to be labor intensive, they create employment at relatively low level of investment per job created. With the current unemployment rate standing at a record high of 12.7 (NBS 2009 est.), most of these unemployed people opt for entrepreneurship which falls in the SME sector. Given the situation and the fact that Tanzania is characterized by low capital formation, SMEs are the best option to address to this problem.

Moreover, SMEs tend to be more effective in the utilization of local resources and affordable technology. To a large extent they add value to the resources. Another importance is that SMEs facilitates distribution of economic activities within the economy thus promoting equitable distribution of resources.

The technology applied by SMEs is easier to acquire, transfer and adopt. Also SMEs are better positioned to satisfy limited demands brought about by localized and small markets due to their low fixed and overhead costs. In addition SMEs owners tend to show more resilience in face of hardships holding on to their businesses since they are prepared to be compensated lower temporarily.

Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industries requirements. This is in terms of supplements of raw materials and other factors of production like labor and entrepreneurial skills. Since the

linkages of large enterprises and SMEs in Tanzania are relatively weak, this advantage has not been realized per se.

### **3. THEORY**

#### **3.1 Short review of literature on small business growth**

Although the significance of rapidly growing small businesses in creating employment (especially in a third world country like Tanzania) is very obvious to many, the empirical and theoretical understanding of the growth of small firms remains sketchy. This is partly because of the fact that small firms which makes the transition from small to large changes in character (Penrose 1959). What Penrose pointed out about small firms changing in characters encouraged a number of researches to be done on the changes in a firm associated with growth. This is how the stage models came to life.

The stage models suggest that a small firm moves from one stage to another in pursue of growth. Below is an illustration of the stage models taken from Scott and Bruce (1987) who infer that a small firm moves from stage 1 (inception) through to stage 5 (maturity). At each of the stages it is assumed that the role which top management plays, the management style and the organization of structure change.

Table no.3 Management role and style in the five stages of small business growth

Stage	Top management role	Management style	Organization structure
1.Inception	Direct supervision	Entrepreneurial, Individualistic	Unstructured
2. Survival	Supervised Supervision	Entrepreneurial, administrative	Simple
3.Growth	Delegation/ co- ordination	Entrepreneurial, co- ordinate	Functional, centralized
4. Expansion	Decentralization	Professional, administrative	Functional, decentralized
5.Maturity	Decentralization	Watchdog	Decentralized functional/ product

Source: Scott and Bruce (1987)

Apart from the work of Scott and Bruce, there have been a number of other researches explaining the phenomena of small business growth as a life –cycle stage through which a small firms passes. One of the most popular ones is the works by N.C Churchill and V.L Lewis (1983).

Even though it has become very common to view small firm growth as a life-cycle development process through which a firm passes, these stage models aren't free of drawbacks.

D.J. Storey (1994 p.122) present a comprehensive critique of stage models of SME development which acknowledges four weaknesses of business growth conceptualisations. And the drawbacks are outlined in the limitations of these models as follows;

- First of all not all firms begin at stage 1 and move to stage 5. This is so because a significant number of small businesses cease to trade fairly early in their lifetime, so never progress beyond stage 1 or 2.
- The second drawback of the stage models is that a firm may well have a management style which is more or less advanced than the stage, for example of its organisational structure. The management roles do not move in parallel as assumed in the table.
- Thirdly, firms may achieve a particular stage, most notably Survival, and never have any intention of moving beyond that stage. Hence, not all firms move from stage 1 to stage 5, even if they continue to exist.
- Fourthly, stage theorists such as Scott and Bruce (1987) or Churchill and Lewis (1983) assume that a movement from one stage to another are triggered by a point of crisis. To our knowledge this has essentially remained an untested – and possibly un-testable hypothesis.

It is for these reasons therefore the credibility, relevance and value of the stage models remain under strong scrutiny whether or not to still be used as a base point for explaining small business growth. This is partly because the models describe rather than predict. It is also because the vast bulk of firms make no clear transition and if they do, the transition is only one of the three dimensions identified.

### **3.2 Towards a theoretical framework for this particular study**

Because of the above mentioned critics of the stage models, this study will not in any way attempt to discuss small business growth in the common way of basing arguments on the stage models. Instead, the author sees more merit in considering the growing small firm by a

categorization combining three components namely; the starting resources of the entrepreneur(s); the firm; and the strategy; as adopted from the work of D.J Storey (1994) and in addition the study will briefly address small firm growth in light of the so called ‘barriers to growth’ literature as adopted from Barber, Metcalfe and Porteous (1989).

### **3.2.1 Factors influencing growth in small firms**

The theory as presented by D.J. Storey (1994) considers the growing small firm by a categorization combining three components namely;

- the starting resources of the entrepreneur(s);
- the firm;
- And the strategy.

As illustrated below in figure number three, the three components may be considered as overlapping or intersecting circles. They cannot be considered wholly independent influences.



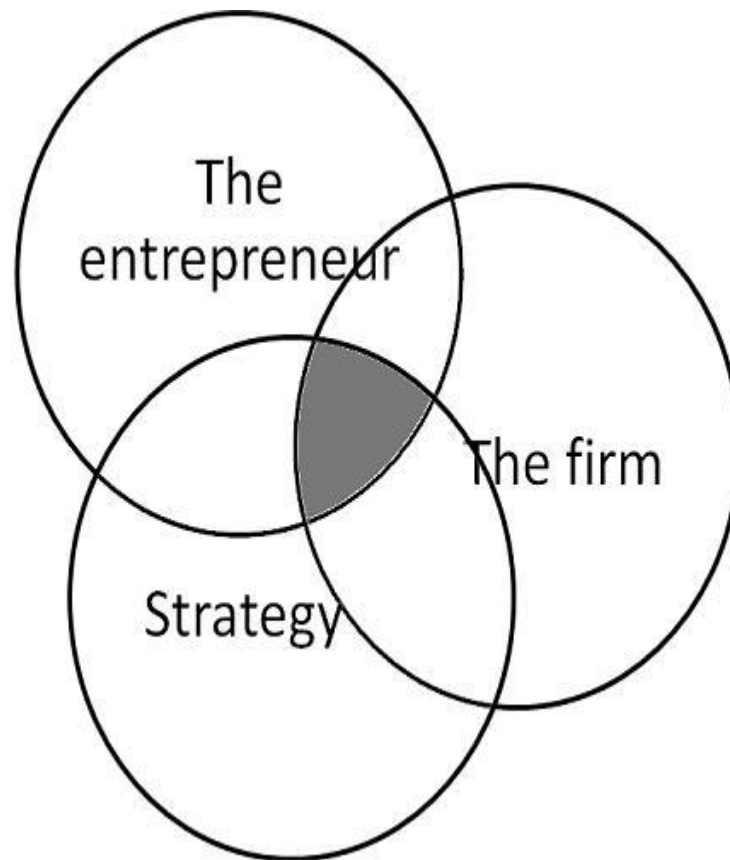


Figure no 3: Growth in small firms (source: D.J. Storey 1994)

The purpose of figure number three above is to demonstrate that the three components – the entrepreneur, the firm and the strategy – all need to combine appropriately in order that the firm achieves rapid growth. The figure above shows that it is only in the shaded area, where all three circles intersect, that the combination is appropriate. It is also clear that the shaded area constitutes only a small proportion of each of the individual circles or components. Less rapidly growing, no-growth or failing firms may have some appropriate characteristics in the entrepreneur, firm or strategy areas, but it is only where all three combine that the fast- growth firm is found. Each component provides a distinctive contribution to our understanding of the

growth of small firms, but it is possible to consider the components as comprising a set of separate elements. Table number four shows that each component can be considered as a variety of different elements.

Table no. 4 Factors influencing growth in small firms

The entrepreneur/resources	The firm	Strategy
1. Motivation	1. Age	1. Workforce training
2. Unemployment	2. Sector	2. Management training
3. Education	3. Legal form	3. External equity
4. Management experience	4. Location	4. Technological sophistication
5. Number of founders	5. Size	5. Market positioning
6. Prior self employment	6. Ownership	6. Market adjustments
7. Family history		7. Planning
8. Social marginality		8. New products
9. Functional skills		9. Management recruitment
10. Training		10. State support
11. Age		11. Customer concentration
12. Prior business failure		12. Competition
13. Prior sector experience		13. Information and advice
14. Prior firm size experience		14. Exporting
15. Gender		

The table above identifies fifteen elements within the entrepreneur/ resources component, six within the firm component and fourteen within the strategy component.

**The entrepreneur/ resources component** – These refer to the characteristics of the individual or individuals who provide the prime managerial resources of the small business. The entrepreneur(s) and their access to resources can be identified prior to the business being established. In principle each element could be measured or assessed prior to starting the business, although some elements are more difficult to measure than others. An example is measuring motivation or social marginality might pose more problems than specifying gender, number of founders or their ages. Nevertheless, the integrating, or common characteristic of the entrepreneur/ resources component is that all elements can be identified prior to business start-up and they relate exclusively to the entrepreneur and his/her access to resources, not to the business which is established.

**The firm** - The characteristics in this component reflect decisions made by the entrepreneur upon starting the business such as choice of legal form, location, or the sector in which the business should operate. They are not, however, operational decisions which are made once the business starts, since these are what are included in the strategy component, although clearly it is possible to change location or legal form once the business has begun to trade. The second common characteristic of firm elements is that they are factors which are generally held constant in examining the growth performance implications of entrepreneurial characteristics.

**The strategy** – It is perhaps the elements in this third factor that are of prime interest. To some extent strategy in this context can be considered as asking the question – given the characteristics of the entrepreneur(s) and the firm – what managerial actions, once the firm has started, are likely to be associated with more rapid rates of growth. The fourteen elements listed in this component

have been considered by researchers as dimensions of strategy which could influence small firm growth.

### **3.2.2 Barriers to growth**

In addressing the question of growth of small firms, an alternative way is to look at the so called 'barriers to growth' literature. This literature assumes that a number of small firms wish to grow, but they are prevented from doing so by 'barriers'. In this perspective, a study by Barber, Metcalfe and Porteous named Barriers to Growth in Small Firms (1989) can be consulted. The study summarized the literature on the topic under three headings: Management and Motivation, The sources, and Market Opportunities and Structure. The idea is the same as presented above by D.J. Storey's factors influencing small business firm growth, only that barrier to growth looks at the question of small business growth in a negative way.

It can also be argued at this point that, even though these studies were done in the U.K. and Europe mostly, they provide a general base on how small firms are constrained from growth. Also considering the fact that small business growth studies in Tanzania and in developing countries in general are few and those few have not been done to the extent of providing concrete insight to be used as frameworks for further studies such as this. Not all elements in this literature would fit (as factors influencing small business growth) into the developing world context of small firms, but the most important thing is that the degree of relevance and usefulness is checked.

## **4. METHODOLOGY (secondary research)**

### **4.1 Expert interview**

The method used to do the secondary research is expert (in-depth) interviews. The method appealed to be more appropriate for this study because:

- It enables to learn about things that cannot be directly observed
- It adds an inner perspective to outward behaviors
- It allows for probing
- increases accuracy of response
- respondents can raise concerns
- It enable modification to lines of inquiry

But above all the author is in the opinion that expert interviews enables to go deep into the subject in order for reliable conclusions and solutions to be drawn concerning this major problem which is crucial especially to a poor country like Tanzania. For the study, nine interviews were conducted; six of which comprised of small business owners and three comprising of other stakeholders in one way or another helping or are essential for the growth, success and development of these small businesses.

### **4.2 Criteria used to choose the respondents (interviewees)**

The companies and organizations for this study were basically chosen on the author's judgment of how well the interviews related to the topic in question. Three questions were used in trying to find suitable interviewees by the author's own judgment, these questions are;

- Does the respondent have the information I need?
- Is the person available for the interview?
- Will the respondent transmit to me freely and accurately the information I need?

These questions were very useful in selecting respondents from the three organizations in this study. Also the cost and practicality (how hard it is to collect the information) of choosing respondents was considered. Since the project was personal, the author was determined to keep the cost at the lowest while making sure the sample size makes sense to avoid any tradeoffs to occur.

The criterion used for the selection of small business respondents is the number of employees in the company and the age of the company. In this particular study companies chosen had to meet the following requirements;

- Had employees less than 49 meaning the company should fall under either a micro or small enterprise according to the definition by the Tanzanian government.
- Age of the company should be less than 5
- Ownership of the company should be by a single proprietor or at least two to three partners

### **4.3 The respondents**

Apart from interviewing six business owners, three officials representing three corporations were interviewed to get a mixed sample and thus a variation in ideas and thoughts concerning the challenges facing these small businesses. This is to make sure that things are not overlooked on only one side of the coin, and all this therefore giving way for reliable relevant credible

conclusions to be drawn from the study. The companies and corporations interviewed are divided into two groups, First is the actual small firms and the second one is the organizations as explained below;

### **4.3.1 Actual small firms**

These are the small firms owned privately. Six were interviewed in this group and each one of them explained in brief as follows;

**Magari bei poa** – This is a privately held company owned by Martin nako. Magari bei poa is a Swahili term which means cheap cars. The idea of the company is to connect buyers and sellers of cars. This is through e-marketing of cars on its website <http://www.magaribeipoa.com> . The company also imports used cars and sell them to final consumers in Tanzania. The firm is one year old.

**Nasir Barbers** – This is a barbershop owned by a single proprietor. The business is informal since it is not registered. The owner Nassoro is a single staff but employs on occasion one or two more people to help him. The barbershop is three years old since establishment.

**Mama E's restaurant** – This is a small restaurant owned solely by Mrs. Ismail. It is not formally registered and therefore can rather be considered as an informal food vendor. The firm employs some seven people. The firm is seven months old since establishment.

**D's pharmacy** – This is a privately held pharmacy, selling drugs. The firm is owned by David Gaston who is a pharmacist by profession. The firm is three years old since establishment. The firm has two stores.

**Viwaro clothing** - This is a chain of clothing stores owned by Miss Urassa. The firm is four years old since establishment with five stores. Viwaro is a Swahili slang word meaning stylish, fashionable clothes.

**VLC** – The Company is a partnership between two brothers, Albert and Edison Kiiza. The company makes and sells consumer electronics and accessories that are educational. The firm is one year old since established in 2009.

### **4.3.2 Organizations**

Three officials representing three organizations were interviewed. The organizations interviewed are as explained in brief as follows;

**Bank M Tanzania Limited** – This is a private commercial bank in Tanzania. It was established in 2007 with the main aim of catering to corporate financial needs.

**SIDO** - This is a parastatal organization focusing on developing the small business sector in Tanzania. The long-form of SIDO is Small Industry Development Organization.

**THA/TPA** – Tanzania Harbors Authority or Tanzania Ports Authority is a public parastatal organization established in order to manage and operate the sea ports and lake ports of Tanzania.



## 4.4 What was done

Most of the information provided here is adopted from Henry Ericsson's lecture notes on interviews and case studies (2008) in the course Research methodology.

The author first got started by familiarizing himself with his subject by reading some books, journals and surfing the internet on the subject and some notes taken on the then current knowledge. Then a list of questions was made directed at answering the research question posed on the research plan. Next a list of potential respondents was made. This stage termed preliminary desk research in academic terms. After a discussion with his supervisor, the author updated the list of questions taking into account new ideas which were introduced by the supervisor and which appealed relevant. This stage called pilot study or test round.

A glossary of terms was made after which a plan for the round of interviews was created. The respondents were approached one month before landing since at the time the author was in Finland and the interviews were to be made in Tanzania. An introductory letter was mailed to each of the twelve potential respondents giving them flexibility to choose for themselves time slots and dates for the interviews during the period of June to July 2010. A follow up was made to confirm the interviews, ten respondents accepted and two rejected giving reasons such as being on a business trip around that time and another one being on holiday.

The author took off from Finland in the first week of June 2010 and interviews were done during the course of those two months. In the author's opinion it was quite a hassle to conduct the interviews since Tanzanians don't have that culture of keeping time and sticking to schedules. Every now and then the appointments had to be rescheduled and it is for this reason that out of the ten respondents who accepted to be interviewed earlier on, one couldn't be interviewed.

Moreover, it is for the same reason why the nine interviews took about one and a half month to be completed, something that could have been done in two weeks.

The transcriptions of the interviews were then made after each interview. Each interview question was designed to address to a particular group according to the theory of factors influencing growth. Questions are grouped into two themes; with the first five questions addressing matters that affect the entrepreneur and the resources and the last six questions directed to matters of the firm and its particular strategy. This was done so that it would be easy to analyze the answers according the theory in use. In finalizing the finding/results, the author observed that some of the factors that were raised were directly from within the firm while others were from outside the firm. And that led to the author grouping the results into two groups; internal factors limiting small business growth and external factors limiting small business growth.

Transcriptions of the interviews were later on forwarded to the supervisor Mr. Henry Ericsson in mid July 2010 for consultation.

## **5. RESULTS**

In this section the results of the interviews conducted will be presented with the major challenges/ problems outlined which will later on be discussed in depth in the discussion part of this particular thesis work.

After obtaining the results from the interviews conducted, the author saw it as a merit to group the factors/problems limiting small firm's success/growth into two groups; first is the factors that

originate from within the firm (in other words they are internal to the firm) and the second group is factors that originate from outside the firm (these are external to the firm).

## **5.1 Internal factors limiting small firm growth**

These have to do with the characteristics and attitude of the entrepreneur(s) and the firm as a whole. These factors can be impacted by the decisions made in the firm either by the entrepreneur(s) or the staff in the firm. These factors are as listed below:-

- Lack of motivation and drive
- Lack of background and experience in the business
- Capital constraint
- Lack of a proper business plan/vision
- Theft/cheating and lack of trust in doing business
- Poor management
- Running informal/unregistered businesses
- Lack of proper record keeping
- Inadequate education and training
- People factor/lack of needed talent
- Improper professional advice and consultation

The following is Table no. 5 showing Internal factors limiting small business growth;

	Mama E's	Nasir Barbers	VLC	Magari Beipoa	Viwaro	D's Pharmacy	SIDO	THA	Bank M
<b>6.1 Lack motivation and drive</b>	√								
<b>6.2 background and experience</b>	√		√	√			√		
<b>6.3.2 Capital constraint</b>		√	√				√		√
<b>6.4 Lack of a proper business plan/vision</b>	√	√	√				√		√
<b>6.5.1 Theft/cheating and lack of trust</b>	√	√		√	√	√		√	
<b>6.6 Poor management</b>	√	√	√						
<b>6.7 Informal/unregistered firms</b>		√					√		√
<b>6.8.2 Lack of proper record keeping</b>	√	√	√				√		√
<b>6.8.1 Education and training</b>	√	√	√				√		
<b>6.9 People factor</b>	√		√	√		√	√	√	
<b>6.10 Lack of advice and consultation</b>	√	√	√		√		√		

Key:

√ - Element mentioned by the particular firm/organization as an internal factor limiting small business growth.

## **5.2 External factors limiting small firm growth**

These factors have to do with decisions, rules and policies that affect a small firm directly, and in response the firm has not really control over the decisions made but an influence to a change of their existence is possible. These factors originate from outside the firm. They are as follows:-

- Corruption
- Competition
- Government policy
- Technological barrier
- In access to finances/funding
- Bureaucratic processes
- Unfavorable economic factors

The following table illustrates the responses of the interviewees by company in relation to the above listed external factors limiting small business growth.

Table no. 6: External factors limiting small business growth

	Mana E's	Nasir Barbers	VLC	Magari Beipoa	Viwaro	D's Pharmacy	SIDO	THA	Bank M
<b>6.5.2 Corruption</b>		√	√	√	√			√	
<b>6.11 Competition</b>			√	√	√	√			
<b>6.12 Government policy</b>	√	√	√		√	√	√	√	√
<b>6.13 Technological barrier</b>		√	√	√			√		
<b>6.3.1 In access to finances</b>	√	√				√	√		
<b>6.14 Bureaucratic processes</b>		√	√			√	√		√
<b>6.15 Unfavorable economic conditions</b>			√	√	√	√	√	√	√

Key:

√ - Element mentioned by the particular firm/organization as an external factor limiting small business growth

**NOTE: The numbers in the tables represent the sub-header's number in the manner the factors are represented in the discussion**

## **6. DISCUSSION**

In this chapter the writer attempts to analyze the data/results presented in the previous chapter, by basically critically examining, summarizing and providing interpretations in relation to the research question posed earlier. The following below is the discussion of the results obtained;

### **6.1 Motivation and drive**

Starting with the lack of motivation and drive, this has to do with the main reason(s) for the entrepreneur(s) establishing the business and the relationship of this with the growth of the firm. It is clear that there are positive and negative motivations for starting a business and it is quite obvious that positive motivations of the entrepreneur(s) are more likely to establish a business that grows than those with negative motivations. Positive motives include such things as the perceptions of high demand for a product and market opportunities while negative motives include such things as dissatisfaction with an existing employer. Also included here are the entrepreneurs starting a business with no clear visions for their business meaning they are just about being in business to earn normal income to meet their basic human needs? Even though the results in this study show only one respondent whose business is constrained by lack of motivation and drive, it has been proven that this is a major constrain to many small business owners. A study by Bark ham (1992) shows a positive relation between the motivation of the entrepreneur(s) and the growth of the firm; in other words the more positive motivation of the entrepreneur(s) the more likely the business will grow.

### **6.2 Background and experience**

Adding to the above element is the second factor which is the lack of background and experience in the business. This factor is closely related to the first factor. With prior experience in the same business; higher motivation and drive are involved when establishing or getting involved in a new business (and the vice versa is true). It is hypothesized that background and experience are

likely to be associated with more rapid growth of the small firm. This is so because experience automatically gives the entrepreneur(s) or manager(s) adequate managerial capabilities to handle and overcome more easily the problems which are experienced as the new business grows. Background and experience in this context implies prior self employment, prior employment in the same business and prior business failures. It is shown in the results that four of the interviews linked lack of background and experience as a factor limiting small firm growth.

### **6.3 In-access to finances and capital constraint**

The third factor is in-access to finances which can be linked to capital constraint. The difference here is that capital constraint is failing to raise funds to start or establish a business while the in-access to finance refers to in accessibility of funds for expanding/ running or maintaining a business undertaking. Capital constraint and inaccessibility to finances are obviously the most discussed by many as major factors limiting business growth.

#### **6.3.1 In-access to finances**

In the finance industry where this study was undertaken, it is argued that there are a few things that arise making it hard for entrepreneur(s) to be able to have access to proper financing. These things are such as collateral constraint, inadequate business plan, state of the economy and bureaucratic procedures in applying for loans/finances. Collateral constraint and bureaucratic procedures being cited mostly as major factors; these constrain the attainment of funding from financial institutions (Kuzilwa J.A 2005). In a poor country like Tanzania, it is quite hard to find an average citizen owning valuable land or other property that can be used to secure loans; if they do own one, most average Tanzanians don't find it a merit to have title deeds citing the difficulties of plot valuing and measuring as reasons for not seeking title deeds for their lands. Moreover, it is argued that there are so many procedures to be adhered to in order to obtain finances as stated in the interview by D's pharmacy and Viwaro (see appendix two for the interviews). This is on the business owners part but on the other hand, the banks claim to have no problems on their side saying that most of the problems causing difficulties are either from the



clients themselves (inadequate business plans, collateral constraint) or state of the economy (inflation rates leading to high interest repayments plans for loans).

### **6.3.2 Capital constraint**

Despite the constraint of raising funds from financial institutions being raised by the business owners, it is indeed a surprise as to why other sources of financing are overlooked; these being for example selling shares or part ownership to other parties such as business angels or financial institutions or venture capitalizing. A study by Kuzilwa A.J 2005 suggests that small entrepreneurs are reluctant to sharing ownership which leaves them opting to short term debt financing which may constitute a constraint upon the growth of the business. It has been argued that the businesses which shared or were willing to share part of their ownership with other parties were likely to grow or have grown rapidly than the businesses which didn't share equity (Kinsella et al 1993). In the results, four respondents pointed out capital constrain as a limiting factor to small firm growth and in access to finances was mentioned by four interviews. The significance of finances as a constraint to small business growth cannot be overlooked since capital is a major factor of production.

### **6.4 Lack of business plan/vision for the business**

Coming down to the matter of lack of a proper business plan/vision for the business, it is evident that firms which have no proper business plans at start face the most challenges during the course of their lives. It is emphasized that a formal plan for a business is needed in order for proper goals and objectives of the firm to be laid out in the open so that the team in the organization/firm works together for the same goals in their minds. Also the business plan is important since it is helpful in monitoring the extent to which these plans are successful in terms of materialization and it provides the opportunity to review reasons as to why the plans and outcomes differ. In addition a business plan is an important tool in securing loans from financial institutions as evident in the interview with David Gaston of D's pharmacy.

## **6.5 Theft, cheating, lack of trust and Corruption**

### **6.5.1 Theft, cheating and lack of trust**

Theft/cheating and lack of trust in doing business on the other hand seem to have prevailed in the Tanzanian small business community. As evident in the study 5 interviewees have had a case of theft/cheating and lack of trust in his/her particular business. This can be linked to the fact that the economy of the country isn't as good and therefore salaries of normal Tanzanians aren't really enough to meet daily human needs. A study on small entrepreneurship in Dar es Salaam by Mfaume conducted in 2004 shows a close relationship between poverty, theft/cheating to corruption and bribery in affecting small business growth. This is as such that people working in these small firms normally are looking to make money above their normal pay even if it means that they receive black money. People are ready to go as far as bankrupting the owners business so long as they are in a position to do so and earn a better living for them and their respective families.

### **6.5.2 Corruption**

As a constraint, corruption prevents fairness to prevail and therefore it is to a large extent a cost/expense to a business owner or individual, the community and the government as a whole. As corruption deprives people of their rights, this means businesses cannot be established by deserving individuals; customers and buyers of products are reaped off (prices become high) since businessmen want to compensate for the money paid out as bribery, productivity is lowered, customer loyalty and demand falls as a result and then therefore growth of small firms affected in a negative way. The problem of corruption has been raised by five interviewees as a barrier to growth in business.

## **6.6 Poor management**

Another factor mostly cited by many researches is poor management. Poor management can be categorized in two parts these being poor management experience and lack of management training. It is argued from a theoretical perspective that management experience and continuous training provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship (Casson 1982). With adequate education mixed with management experience and training puts a manager in a better position to make tough decisions and fore castings under conditions of uncertainty which in turn with those competencies making these particular managers perform better than untrained individuals. Research conducted in 2007 about determinants of small business growth in Nigeria by Okpara, John O., Wynn and Pamela shows that firms which provide management training are more likely to grow faster than the firms with no management training. Here it is argued that prior experience of the manager in dealing with particular type of tasks is likely to supplement the expertise of the entrepreneur and enable business objectives to be more easily achieved. It is funny enough though in the results of this study only three interviews raised the issue of poor management with no clear linkage to small firm growth.

## **6.7 Running informal/unregistered businesses**

Running informal/unregistered businesses is the eighth factor limiting small business growth. It is not very clear how it does so but it is obviously linked to the characteristics of the business itself and the relationship it has with other parties. One of the things that can be associated here is the businesses' own legal formality. For example a limited liability company is more likely to grow faster than a sole proprietorship or partnership because of the limited liability and the credibility a particular business has with its customers and banks. Running unregistered/ illegal or rather call them informal businesses prevents it from benefiting from government SME's packages (An example being the SME guarantee scheme by the government of Tanzania) catered to develop the sector. Also there is un-ease of getting finances from financial institutions and adding to that the incapability of it to create and enjoy customer loyalty; all these constraining a particular business from developing/growing.

## **6.8 Education and training and improper record keeping**

The next two factors can be linked to together. These are the lack of proper record keeping and inadequate education and training. It is obvious that the inadequacy of education and training leads to improper record keeping or rather say no record keeping at all.

### **6.8.1 Education and training**

Education is a key constituent of the human capital needed for business success. It is argued that education and training provides the basis for intellectual development needed by entrepreneurs in business to be successful. Moreover, they provide the entrepreneurs with confidence to deal with clients. (D.J. Storey 1994). As seen in the study, the educated entrepreneurs showed more promising results in terms of how their business is doing. It is always argued also that business ownership is not an intellectual activity rather entrepreneurship is an opportunity for the less academically successful to earn high incomes. It may even be that individuals with the highest academic attainment are likely to be insufficiently challenged by many of the mundane tasks associated with business ownership (Mike Simpson et al 2004).

### **6.8.2 Improper record keeping**

The improper record keeping comes as a result basically of inadequate education and training in business; because of this a firm loses track of its cash flows and in turn leading to cost control and liquidity problems just to name a few. If the records of the transactions a business undertakes are not kept properly, growth cannot be achieved since the firm loses track of where it is heading .This seen in the case of Mama E's and Nasir barbershop in the study (see appendices for the respective interviews).

## **6.9 People factor**

The people factor/lack of needed talent is another problem identified in the study. Six interviewees mentioned lack of people needed as a constraint to growth; at times the business is in possession of needed talent but these fail to deliver up to their full potential either because of mistrust or low salaries. In the case of Tanzania, mostly because entrepreneurs want to cut costs they employ cheap labor. What is often done is that they hire unemployed relatives to help out in their businesses in return for compensations such as food allowances, or other favors instead of actual cash payment. This has costed many small business owners since these workers don't take business seriously as they know they are owned by their relatives and Tanzania being a high context culture, firing a relative is close to impossible because of face losing. In the long run it is the firm which suffers as it is constrained from growing. Labor as it is a factor of production as explained in economics. So without proper labor force productivity is low in terms of quality and quantity.

## **6.10 Professional advice and consultation**

The improper professional advice and consultation as a factor limiting small business growth is of great significance. In this aspect the sources of information and advice that business owners use or seek are analyzed. Professional advices include those from lawyers, banks, consultants and so on and so forth. The advices commonly sought are those in the areas of financial management advice, market research, business strategy, public relations and advertising and personnel and recruitment matters. The key point here is showing how these services influence the growth of small firms. As shown in the results, the firms which sought advices from professionals were performing better than firms which never used advice from outside sources (D's pharmacy and Viwaro being good examples of companies that sought for advice). It has been found that more rapidly growing firms are more likely to have sought and used information and professional advice from external sources than other types of small firms (Dunkelberg et al 1987). But to sum it up on this matter, the study suggested that it is difficult to infer how the provision of these advices caused the growth of the firms.

## **6.11 Competition**

Competition on the other hand has been mentioned by small business owners also as a barrier to growth. The nature of the market into which a firm operates is a key influence upon its growth (Storey et al. 1987); it is argued also here that the low growth firms seem to have the poorest understanding of their competitors. Hence subjective estimates on the part of firms of the nature of the competition which they experience may tell the researcher as much about the firm's own understanding of their market place as anything else. In this particular study competition has been raised five times in the interviews, but no clear relationship can be drawn of competition limiting small firm growth. Instead in the writer's opinion competition should be a driving force for small firms to strive to perform better than their rivals hence favoring growth.

## **6.12 Government policy**

Moreover, there is a matter of government policy concerning SME's, the policies are there but they aren't really benefiting the majority in developing countries. Taking the case of Tanzania, the government has discovered the importance of small firms in boosting the economy and therefore it has an SME reform policy. In this policy the main aim is to provide government support promoting growth to SME's in the form of loans at subsidized interest rates, free or subsidized information and advice, ensuring smaller firms get shares of government contracts and so on and so forth. Many organizations have been established to ensure these activities run smoothly for example SIDO, TCCIA etc. But the major problem remains that many small owners are not made aware of these services and surprising enough the minority ones benefiting from these schemes or services are the large scale businessmen. In this study, some eight interviewees raised government policy as a constraint to small firm growth. It is not yet clear how government policies boost growth of small firms' theoretical wise since there aren't so many researches done on the area, but the fact remains that if these schemes and policies are put into use for the benefit of the majority, positive results will be achieved.

### **6.13 Technological barrier**

Furthermore, another factor limiting the success of small firms is technological barrier. It is argued that the firms that adopt modern technological tools in their business are more likely to cause the business to grow faster than small business without modern technological tools (Michael Gardias 2006). This is basically because modern tools enable efficiency and effectiveness to be achieved in doing business, therefore saving money, time and energy (Saving more for less). However because of the poor economic conditions and low level of education, business people in Tanzania see it as a disadvantage to invest in technology since its benefits are not easily realized in the short run. If only education about the benefits of modern tools is provided, small firm growth would be materialized heavily across the country and the whole of east African region.

### **6.14 Bureaucratic processes**

Bureaucratic processes in conducting businesses in Tanzania are yet another factor which is a constraint to small business success. This is so because small businesses find it difficult (in terms of procedural processes) in areas such as business license obtaining, registering a business, tax matters and so on and so forth. It is so as such because there isn't a clear system of providing small entrepreneurs information on such matters neither by the government nor by other stakeholders. This leaves small businesses out and about with no formal way of conducting their businesses hence lacking professional appeal to their customers, stakeholders in their particular industries and even to the government. And then therefore they miss out on many opportunities being offered either by aid from overseas or locally.

### **6.15 Unfavorable economic conditions**

Last but not the least is the question of unfavorable economic conditions. In this matter it is important to notice that most of these economic factors are hard to deal with since they are triggered by many outside factors (influenced by the world economy). The lack of proper business education to small business owners prevents them to fail to forecast the direction of the

economy and the way their particular businesses would be affected by the changes. For example changes in demand of products due to inflation, currency exchange rates affecting the exports or imports of a particular product and the underestimation of the rise of costs of production due to scarcity of resources etcetera. If only adequate information and education is provided to small business owners on how changing economic situations affect their particular business; this matter shouldn't be much of a big problem since the owners would be aware of the changes beforehand and make adjustments to their business in line with the forecasted economic conditions.

## **7. CONCLUSIONS AND SUMMARY**

This study has attempted to identify the factors limiting the growth of small business growth in Tanzania. The reasons of doing this research as deemed by the author being determining factors limiting the success and growth of small businesses in Tanzania and eventually suggest the solutions to these factors. Therefore then putting entrepreneurs, the Tanzanian community and the government as a whole in a position to overcome the threats posed while doing business in the country.

A number of factors have been identified as the reasons as to why small firms in Tanzania fail to grow. The study has discussed these constraints in light of literature concerning factors influencing growth of small firms and barriers to growth in small firms. Comparing the results as obtained from the interviews that were conducted by the author; a few factors emerged stronger in limiting small firms' growth as they were mentioned more times than the others by the interviewees. These constraints include corruption, in access to finances/capital constraint, government policy, unfavorable economic conditions, people factor/ lack of needed talent, lack of proper record keeping, lack of or improper professional advice and consultation, theft/cheating and lack of trust in doing business, lack of a proper business plan/vision for the business,



Inadequate education and training and lack of background and experience in the business. Those factors mentioned above are the key constraints which have emerged as the most influential in impacting the growth of small firms in Tanzania.

The issue of constraints to small firm growth is not only a problem to small firm owners, but this impacts the Tanzanian community and the economy of the country as a whole. This is so because if small businesses fail to grow it accelerates unemployment, lowers productivity; hence lowering savings and investment, last but not the least the government loses money that it would have made as tax revenue. This means national income deteriorates. As it is already evident comparing the results with the factors influencing growth in the literature, there are differences. This study found only eighteen factors that could influence business growth, while the literature lists thirty five elements that could influence small business growth. This is so because of the nature of where the study has been conducted. Factors influencing growth in one country might be different from factors influencing growth in another country.

At this point it is a merit to comment on the lack of validity of such a small studied sample. The main disadvantage of the small sample used in this study is that the results have limited value. This is to say that the results obtained here are only practical to the small scale business people particularly in the city where the interviews were conducted (Dar es Salaam). The issue of hardship in generalizing the results (practicality) makes it hard for these results to be applied by the large scale business community and also business people in other regions of the country since constraints to business growth might be different in other areas. In addition the types of companies studied here might have different constraints to growth factors from companies in other sectors of the economy. In a nutshell, this is what this study has been able to find out. Further recommendations and suggestions can be found in the next chapter.

## **8. RECOMMENDATIONS**

As far as the author of this study is concerned, much is to be done to improve the business environment in Tanzania in order to harness the growth of small firms. For this particular purpose the author draws a number of suggestions and divides them in three categories depending on the type of group involved in the reforms. The groups involved are the small firm community, the government and other stakeholders. The recommendations are as follows:-

### **8.1 To the small firm community**

It is very important for the small firm community to get proper guidance and support in order for their particular businesses to grow. But to do that the small firm community (private entrepreneurs and companies) has to do the following;

Seek first an adequate knowledge of business before rushing into doing any kind of business idea they have. Small business owners can do this by enrolling into training programmes and courses on business administration conducted by various educational institutions in the country like UDDBS, CBE and IFM just to name a few. Also there are a number of training programmes on small business management subsidized by the government run by organizations like SIDO, BIT and TCCIA. Furthermore apart from undertaking courses and training, small firm owners can first acquire experience in running a business by working first in a similar line of business for a number of years before establishing their own businesses. They should also try to work with what best suits them and their personalities as this will ensure good motivation and drive making their own businesses a success. Training and education will motivate and strengthen small business owner's views of running successful businesses while equipping them with adequate business knowledge. This will eliminate the problems of lack of education and training, lack of motivation and drive, lack of background and experience, improper record keeping and business plan unawareness as raised by the business owners in response to the questions posed about the issues (refer to questions 1,2,3 and 6 of appendix one).

Secondly, It is important for small business owners to seek and maintain good relationships with credit providers like banks and other financial institutions. Adding to this is the importance of small firms not only considering loans as to increase equity, but also they should be ready to opt for selling equity or part ownership of the business. This will improve the issue of in-access to finances and capital constraint (see question 5 of appendix one and the respective responses in appendix two).

In addition, they should reform unions or organizations that are active in looking after their rights and address to their needs to appropriate authorities. These reformed unions or organizations should work under government ‘watch-dogs’ like the PCCB to ensure transparency, efficiency and effectiveness of their activities. This will ensure that the small business community have a common voice concerning problems, challenges and issues that affect their respective business growth progress.

Lastly is that the small firms should try to seek professional advice and consultancy in matters that are not very familiar to them or in other words matters that they lack capabilities to accomplish themselves. These advices could be on marketing, human resource management etc. This will ensure that improper advice and consultations have no place in a small businessman’s world while dealing with different matters in their respective business ( This recommendation is in line with question 4 of appendix one and respective responses in appendix two). By doing all these the small firm community will be in a good position to embrace growth and survive even in difficult times.

## **8.2 To the Government**

The government as it is plays a major role in promoting growth of small firms. In order to obtain good results in doing this the government should;

First, make a major reform on SME policy which will harness the breeding environment for small firms to grow. This can be by reducing corporate taxes charged to small firms, reducing fees for registering small firms etc. Government policy constraints would be curbed to a large extent if these reformed policies are implemented in the economic system and they are non-discriminatory and non-exempted to some big wigs in the country. As an example, there have been cases were some firms owned by politicians and other well known figures, being exempted from business license fees, taxes and so on. This is not a fair policy, which in turn makes the ordinary tax payers to avoid these statutory fees and taxes.

Secondly, the government should concentrate on creating macroeconomic framework that firstly promote products that are produced locally and also which is suitable for encouraging the small firms to grow. This can be by creating government schemes which support special types of firms or the central bank's special packages for SME's working within a particular industry for example technology/science or agriculture. Also by imposing tariffs on goods imported from abroad which compete with products that are produced locally. In addition to this is the corruption policy which is a major constraint to many small firms (see appendix two interview 1, the case of Nassoro kassim being ready to offer a bribe but not to register his particular business). If proper policy for fighting corruption is formulated, to a large extent small firm growth will be boosted. All this will reduce the problem of corruption and favor the economic conditions of the country enabling small firms to grow.

Thirdly, the government should invest in research and development so as to explore what can be done to improve the small firm's situations either by looking into what other developing countries have done or by coming up with new ideas. This in general will help in improving the challenges faced by small businesses in the country (refer to question 10 of appendix one and the respective responses by the business owners to see the challenges).

Lastly the government should develop parastatal organizations which oversee activities of small firms and address to their problems. These organizations will provide financial assistance, information/advice and also conduct training courses for small firms. If these are adhered to by the government, it is a good starting point for the small firms to start growing rapidly as the grounds for growth are improved.

### **8.3 To other stakeholders**

By other stakeholders here it is meant the organizations or individuals which in one way or another can affect the growth of small firms in either a positive or a negative way. Examples of these could be financial institutions, educational institutions, business guru's etc. These stakeholders should;

First, develop training programmes and courses aimed at small business owners and their respective staffs. This will ensure that the small business owners are equipped with adequate business knowledge and experience for them to run successful small businesses.

Secondly, a network of business guru's and angels should be developed so as the small firms can seek for help easily on matters that they are incapable of handling themselves. Matters such as the modern technological tools they can use and what to do with regards to the expansion and growth of their respective businesses as mentioned in the interviews (refer to question 8 and 9 of appendix 1 and respective responses in appendix 2).

Moreover, financial institutions should develop better lending terms enabling small firms to benefit from them. In this also the services of financial institutions should be improved to ensure

their reliability and stability eliminating the problem of financial constraints to small firms while increasing the goodwill of these particular institutions.

In addition, other stakeholders should develop institutions or organizations that would be reference centers for SME's for information and advice, consultancy and acting as important meeting points for small firm owners to discuss matters that affect them and their particular industries. This will harness the business environment by providing common meeting place for different suppliers/producers and buyers/consumers of different products.

If all these are done by the respective groups mentioned, it can be fairly stated that small firm growth will be up for grabs in Tanzania. Furthermore, the author's opinion on top of all that is that more research on the topic should be done including a large sample of respondents in order for credible solutions to be drawn. This will ensure that major problems are identified and solutions to them are worked out not only for the benefit of small firms, but also to the Tanzanian community and the government as a whole.

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# **APPENDICES**

## **APPENDIX 1 - Interview questions for business owners**

1. Why did you choose this type of business? Are you passionate about this particular business or just about being in business? How did it come about?
2. What is your level of education and experience in line with the business you are in?
3. Are you aware of what a business plan is? (Before starting your business, did you have a formal or written business plan? Do you feel it would have been useful to have it or have you ever needed one?)
4. How do you choose the people you work with and what type of people you consult about different issues regarding your business?
5. Did you have any difficulties in finding finances either for start up or expansion?
6. Do you keep any records? And what is your volume of sales if I may ask?
7. Is your business registered? (If not, why if I may ask?)

8. What type of modern tools/technology you apply in your business to keep it up to date and competitive in line with the current technological era?

9. How is your business doing from the point you started it up until now?

10. What are the challenges you come across within your line of business?

11. What are your plans for the future, where do you see yourself and your business say in 5 years time?

### **For other interviewees**

Questions were asked here according to the main implications imposed by small business owners about the functionality of the respective organizations.

## **APPENDIX 2 - Actual interviews**

**Interview 1: 5<sup>th</sup> June 2010**

**Name of interviewee: Nassoro Kassim**

**Line of business: Barbershop**

**Gender: Male**

**Nationality/Ethnic Group: Tanzanian/Black**

**Type of Company: Sole proprietorship**

**1. Why did you choose this type of business? Are you passionate about this particular business or just about being in business? How did it come about?**

- In a way I can say I have been into this business at an early age, my Father had a barbershop. So as a kid I spent a lot of time at the shop and learnt everything about the business. I didn't get proper education so I needed to find another way to earn a living. So then I thought it is easier for me to do something I have been familiar with all of my life.

**2. What is your level of education and experience in line with the business you are in?**

- I managed to complete primary school.

**3. Are you aware of what a business plan is? (Before starting your business, did you have a formal or written business plan? Do you feel it would have been useful to have it or have you ever needed one?)**

- I don't know what it is.

**4. How do you choose the people you work with and what type of people you consult about different issues regarding your business?**

- I don't really consult anyone concerning my business. I run it on my own, what I am is what my business is. Only in rare cases mostly weekends and public holidays when I forecast that there may be many customers, I hire an assistant or two.

**5. Did you have any difficulties in finding finances either for start up or expansion?**

- In my case I didn't need any external finance since I used my inheritance money.

**6. Do you keep any records? And what is your volume of sales if I may ask?**

- No I don't keep any records. Basically since I am my own boss, I just count how much I have made in a particular day and that's it.
- On average I get around 30 customers on weekdays and 40-50 on weekends, that is sales of about 80000 T. Shillings. Mind you these are only estimates.

**7. Is your business registered?**

- No I have not registered my business.

**Why if I may ask?**

- First of all for my type of business I find the costs of registering very high and also I don't get any benefits from registering. Secondly, I find the process of registering very long and bureaucratic.

**8. What type of modern tools/technology you apply in your business to keep it up to date and competitive in line with the existing technological era?**

- Not really, just normal hair cutting machines and cosmetics.

**9. How is your business doing from the point you started it up until now?**

- I would say it is surviving since it's been three years since I started. This is how I earn my living.

**10. What are the challenges you come across within your line of business?**

- Challenges are many and they will always be there. Specifically in my line of business I have had the following challenges:

I) Theft – It has happened many times that there have been cases of theft whenever I hire an assistant to help when I am not around. This has contributed to me incurring losses many times.

ii) Corruption – many times I have been forced to pay a bribe to the tax people, since whenever they come to inspect businesses they find my business not being registered and am forced to pay them a bribe.

iii) Mixing business with friendship – It has happened many times that friends and relatives come in and they want services for free, and at times borrow money from the business and when it comes to paying back it is a problem. Considering our culture that binds us to save face and not ask back what is ours, especially if it is a close friend or relative involved. So in a way all this loss has to be incurred by me at the end of the day.

**11. What are your plans for the future, where do you see yourself and your business say in 5 years time?**

- Am in a process of opening a bank account, so I can save some money to be used as capital for expansion. In a year's time, am planning to venture with my brother and with enough capital we want to open up a shop in the city centre where there is much traffic. With this expanding our profit / sales base.

**Interview 2: 9<sup>th</sup> June 2010**

**Name of interviewee: Mrs. Ismail**

**Line of business: Mama E's**

**Gender: Female**

**Nationality/Ethnic Group: Tanzanian/Black**

**Type of Company: Sole proprietorship**

**1. Why did you choose this type of business? Are you passionate about this particular business or just about being in business? How did it come about?**

- I retired from work last summer, and I had to find a way to stay active and productive. I get retirement benefits but they are not enough if you still have a lot of people as your dependants. So I thought of selling food since it is a basic human need and considering the number of inhabitants in dare s salaam, a restaurant seemed to be the best idea.

**2. What is your level of education and experience in line with the business you are in?**

- Secondary school Ordinary level.

**3. Are you aware of what a business plan is? (Before starting your business, did you have a formal or written business plan? Do you feel it would have been useful to have it or have you ever needed one?)**

- I have no idea.

**4. How do you choose the people you work with and what type of people you consult about different issues regarding your business?**

- I don't really have anyone in particular that I consult, but I try every now and then to ask for advice from friends and family. Currently I employ two chefs and five other staff.

**5. Did you have any difficulties in finding finances either for start up or expansion?**

- I was lucky my retirement benefits were enough to cover these. So I didn't need any finances from external sources.

**6. Do you keep any records? And what is your volume of sales if I may ask?**

- No I don't keep any records, I just record my total revenue for the day then I minus my expenses and determine my profit. In a week my volume of sales is about 200000 Tanzanian shillings.

**7. Is your business registered?**

- No I have not registered my business.

**Why if I may ask?**

- I tried registering but because my business is still small they just told me they have a new system of registering such businesses. The new system appeared to be too long for me, so I decided to postpone the process.

**8. What type of modern tools/technology you apply in your business to keep it up to date and competitive in line with the existing technological era?**

- No modern tools used in my business.

**9. How is your business doing from the point you started it up until now?**

- I would say it is stagnant; I am even worried that it would die after sometime. It has been seven months now and am not seeing any signs of it expanding or becoming a big thing.

**10. What are the challenges you come across within your line of business?**

- In this business, I have come across a lot of challenges but the main ones have been:

I) Theft – every now and then when I was away from the restaurant, cases of theft occurred. The money from the business has been stolen so many times leading to fall in sales therefore losses. I have been forced to sack three staff because of this in a period of seven months since we started operating.

ii) Because of my lack of proper business knowledge, cost control has been a major problem. I have noticed most of the times that my expenses are more than my revenues. This is not good for me and my business.

**11. What are your plans for the future, where do you see yourself and your business say in 5 years time?**

- Am having change of plans now and I want to try something else. So now I am researching on which business to start, it is either a bakery, used computers store or farming products shop. The restaurant is not working well as I expected.

**Interview 3: 12<sup>th</sup> June 2010**

**Name of interviewee: Martin Nako**

**Line of business: Magari Beipoa Cars e-marketing**

**Gender: Male**

**Nationality/Ethnic Group: Tanzanian/Black**

**Type of Company: Private Limited Liability Company**

**1. Why did you choose this type of business? Are you passionate about this particular business or just about being in business? How did it come about?**



- I chose this type of business because I forecasted the number of people who will be in need of buying/selling cars in the country. The number has been increasing rapidly and I thought of linking car buyers and dealers of cars. That's my business idea.

**2. What is your level of education and experience in line with the business you are in?**

- I have a bachelor's degree in international business.

**3. Are you aware of what a business plan is? (Before starting your business, did you have a formal or written business plan? Do you feel it would have been useful to have it or have you ever needed one?)**

- Yes I know what it is, am a graduate remember. So I did a market research, forecasted the demand and then wrote down a formal business plan.

**4. How do you choose the people you work with and what type of people you consult about different issues regarding your business?**

- I don't have a particular type of people I work with. Basically I deal with anyone wanting to buy or sell cars. So in these there are commercial dealers, private dealers and other individuals.

**5. Did you have any difficulties in finding finances either for start up or expansion?**

- I didn't really try to get a loan or anything like that. I used my own savings as capital with a little help from a friend.

**6. Do you keep any records? And what is your volume of sales if I may ask?**

- Yes I do keep my records.
- Regarding the volume of sales to be honest it is difficult to say at this point since my company policies are restricting me.

**7. Is your business registered?**

- Yes, my company is registered as a private limited company. For me the registration process was quite easy and went smooth I think because I familiarized myself with the process before actually going there to register.

**8. What type of modern tools/technology you apply in your business to keep it up to date and competitive in line with the existing technological era?**

- Basically the theme of the company is e-marketing, so the main tool used is a website which requires internet connection.

**9. How is your business doing from the point you started it up until now?**

- I would say it is expanding. It has been one year since I started and it has grown from a small to an average business.

**10. What are the challenges you come across within your line of business?**

- There are lots of challenges in this business:

I) Internet access in developing countries – My target market is developing countries concentrating in the east African region. Since the cars are displayed online, there is a problem of in access to internet connection for many. Meaning they are not able to know easily what is available for sale.

ii) Competition – there have been a number of car dealers creating website for selling and buying cars. Most of them stand as a threat to my business since it lowers the customer base automatically.

iii) Cheating of car dealers – sometimes I buy cars myself from Japan, it has happened quite a few times that what I ordered is not what I received. There have been a number of cases of Nigerians and Asians acting as car dealers and displaying fake pictures of cars, I am worried that this might happen in my website and am still trying to figure out a way around this problem. If it does happen; it is definitely bad for my business.

iv) Customs, taxes and corruption – there have been cases when the cars I imported had to be revalued to be taxed at the customs authority. Sometimes the officials add up the value for their personal benefits, this is bad for me as am then required to pay a lot of taxes. A way around this has been to offer something in advance to some key ports officials. You only have to know the right people.

**11. What are your plans for the future, where do you see yourself and your business say in 5 years time?**

- I have big plans for the future, apart from expanding and developing the website I am planning to develop a new website for selling properties in Tanzania.

**Interview 4: 15<sup>th</sup> June 2010**

**Name of interviewee: David Gaston**

**Line of business: Pharmacy**

**Gender: Male**

**Nationality/Ethnic Group: Tanzanian/Black**

**Type of Company: Private Limited Company**

**1. Why did you choose this type of business? Are you passionate about this particular business or just about being in business? How did it come about?**

- My background contributed to me starting up a pharmacy. By profession I am a pharmacist, but because of the employment situation and working conditions for my profession I realized that am not enjoying being employed and especially considering what you get in return being little.

**2. What is your level of education and experience in line with the business you are in?**

- I have a pharmacy degree and I worked at Muhimbili hospital for eight years before starting my own pharmacy.

**3. Are you aware of what a business plan is? (Before starting your business, did you have a formal or written business plan? Do you feel it would have been useful to have it or have you ever needed one?)**

- Earlier I wasn't aware of what it is, but I learnt about it and its significance as my business started growing. For now I do have a business plan.

**4. How do you choose the people you work with and what type of people you consult about different issues regarding your business?**

- What I look for in people I work with is knowledge and experience in the field but I do employ people without such background and bear the costs of training them. I have a business consultant that I work with and a few other partners I work with whom I consult when I need to do something out of my knowledge.

**5. Did you have any difficulties in finding finances either for start up or expansion?**

- I used my own savings at start up and also borrowed money from family and friends. But as the business was expanding I had to borrow money from a bank. Getting the loan wasn't an easy process.

**6. Do you keep any records? And what is your volume of sales if I may ask?**

- Yes, I consider this as a very important in any business. Earlier on when I started I didn't keep any proper records and they stole from my shop without my knowledge. I have learnt my lesson.
- I prefer not talking so much about the volume of sales since this is a private company.

**7. Is your business registered?**

- Yes my business is registered. But there are many procedures to follow when registering it wasn't as easy. I think it is because the business has to do with people's lives directly. Medicines /drugs could be harmful if not handled or prescribed properly. So there are so many regulatory policies and licenses in this line of business.

**8. What type of modern tools/technology you apply in your business to keep it up to date and competitive in line with the existing technological era?**

- There aren't really any modern tools that I use, the basic tools are the computers for recording transactions and the database for drugs, clients etc.

**9. How is your business doing from the point you started it up until now?**

- I thank God my business is growing, expanding to be more precise. It has been three years since I started out and I already own two pharmacies.

**10. What are the challenges you come across within your line of business?**

- Challenges are many and they will always be there. Specifically in my line of business I have had the following challenges:

i) Theft – I once experienced this problem when I was on a business trip and I left the store to someone. Unfortunately I didn't have a proper book keeping system at that time and he managed to still a lot of money without me noticing early. This was a very big cost to me.

ii) Difficulty in obtaining finance – the whole process of getting a loan is a hassle, very bureaucratic and also with very harsh terms like high interest rates.

iii) Complex regulatory policies and registration – the process of registering this type of business is long with complex regulatory policies. The Government should look into this to make it easier for us considering drugs are basic to human life.

iv) People factor – It is expensive to hire graduates in the field considering there aren't so many pharmacists in Tanzania and everyone these days wants to be his or her own boss. So finding experienced and qualified people to work with has been a problem.

## **11. What are your plans for the future, where do you see yourself and your business say in 5 years time?**

- If everything is going well in 5 years time I will have two more stores as I believe the demand is there even though the competition is growing.

- It is also in our plans to create a modern websites where all our products will be displayed for the customers to know what is available at a particular time.

### **Interview 5: 17<sup>th</sup> June 2010**

**Name of interviewee: Miss Urassa**

**Line of business: Viwaro Clothing Shop**

**Gender: Female**

**Nationality/Ethnic Group: Tanzanian/Black**

**Type of Company: Private limited Company**

**1. Why did you choose this type of business? Are you passionate about this particular business or just about being in business? How did it come about?**

- I chose this type of business basically because of my passion for fashion and style. I have always enjoyed dressing up because to a large extent it portrays a person's personality. In addition my love for fashion and clothing arises from the fact that fashion, style and clothing can be used to give a certain impression in a particular environment.

**2. What is your level of education and experience in line with the business you are in?**

- I have a bachelor's degree in business administration.

**3. Are you aware of what a business plan is? (Before starting your business, did you have a formal or written business plan? Do you feel it would have been useful to have it or have you ever needed one?)**

- I am very much aware; when I started out I had a business plan. It is very important if you are serious about your business.

**4. How do you choose the people you work with and what type of people you consult about different issues regarding your business?**

- This is a bit tricky, but I try to choose people who are outgoing, hardworking and with a sense of humor. You might ask why, this is so because the business as it is deals with customers directly so those qualities are necessary in order to maintain a good customer relationship. I do consult a few friends who have been in the business for long concerning issues affecting my business.

**5. Did you have any difficulties in finding finances either for start up or expansion?**

- When I started I had some savings but unfortunately they were not enough. So I had to borrow money from friends and family. In addition to that I got a loan from a bank and this is where the business plan became useful in securing the loan.

**6. Do you keep any records? And what is your volume of sales if I may ask?**

- I do keep records yes, it is essential for the success of the business.
- On average in a week I would make sales of about 3.5 million shillings.

**7. Is your business registered?**

- Yes it is, it is very important to stay legit because it is only in that way that we as a business can benefit in a number of ways such as support from government programmes directed to SME's, customer loyalty etc.

**8. What type of modern tools/technology you apply in your business to keep it up to date and competitive in line with the existing technological era?**

- Computers with database software for recording transactions taking place in the shops. That's basically it.

**9. How is your business doing from the point you started it up until now?**

- It is expanding and growing I would say. I opened my first shop four years ago and now I have five shops all together. I thank God for that.

**10. What are the challenges you come across within your line of business?**

- Challenges are many and they will always be there. Specifically in my line of business I have had the following challenges:

i) Theft – I travel a lot since I import my products from England, Europe and Asia. So it has happened that at times the staffs you leave steal from the shop. It is quite hard to manage everything at the shops if you are always away especially if you have a number of shops.

ii) Corruption – Many times while trying to clear my imported merchandise at the customs authority, they require you to pay something above the normal charges in order to fast track your merchandise. Avoiding this is almost impossible and out of the question.

iii) Competition – competition in the fashion and clothing business has been increasing rapidly because of globalization, the fashion industry has been growing rapidly. Many business people



have realized that the business is lucrative. This lowers the customer base meaning the market has to be shared by many.

**11. What are your plans for the future, where do you see yourself and your business say in 5 years time?**

- My main plan remains to grow in other major regions of the country. Possibly in five to ten years maybe even beyond our borders to neighboring countries, I mean why not if we are already a success at home.

- Am also working on developing an up to date website so our customers can know what we have in store online even before visiting our shops. With so many other offers and discount programmes being advertised online.

**Interview 6: 20<sup>th</sup> June 2010**

**Name of interviewee: Albert Kiiza**

**Line of business: Consumer electronics and services**

**Gender: Male**

**Nationality/Ethnic Group: Tanzanian/Black**

**Type of Company: Partnership**

**1. Why did you choose this type of business? Are you passionate about this particular business or just about being in business? How did it come about?**

- I choose this kind of business because, it is new in my country and I think it will bring challenge especially in education sector and hence improve the quality of service to students. It came about after a research as to why students just want to pass exams but don't really have knowledge of what they have studied.

**2. What is your level of education and experience in line with the business you are in?**

- College level – Diploma in computing.

**3. Are you aware of what a business plan is? (Before starting your business, did you have a formal or written business plan? Do you feel it would have been useful to have it or have you ever needed one?)**

- Yes, I had a business plan.

**4. How do you choose the people you work with and what type of people you consult about different issues regarding your business?**

- The only criterion we choose the people to work with is-

I) Employees - at least people with university level education

ii) Students - students in need from kindergarten up to university level

I always consult professional consultants especially who always deal with education matters in their daily life, e.g. university lecturers and professors.

**5. Did you have any difficulties in finding finances either for start up or expansion?**

- Yes, I had some difficulties in finding finances. It is very hard to get a loan or some other form of financial assistance without valuable collateral. For an average Tanzanian collateral to secure loans is a big issue and that's why most people end up doing businesses in small scale in the informal sector with no hope of expanding.

**6. Do you keep any records? And what is your volume of sales if I may ask?**

- Yes we do keep our records but at the moment we only use Microsoft excel in simple terms, but a plan is in line to hire a professional accountant for such a task. At the moment it is really hard to estimate our sales since we have just started the company.

**7. Is your business registered?**

- Yes we are registered as a partnership type of company.

**8. What type of modern tools/technology you apply in your business to keep it up to date and competitive in line with the existing technological era?**

- There are a number of these since we are trying to stay up to date with the current technological era. But just to name a few we use; computers, internet, projector, digital camera, printers, DVD deck, software programs.

**9. How is your business doing from the point you started it up until now?**

- It is doing well at the moment we are getting positive responses regarding our products; it has only been about a year since we started working on the idea. Am sure in a year's time we will be speaking the success language, there is light at the end of the tunnel.

**10. What are the challenges you come across within your line of business?**

There have been a number of challenges but I can say somehow we are getting somewhere;

- First of all there has been a problem of poor government support. We have tried to make a proposal to the ministry of education here in Tanzania about the project, but bureaucracy in the government distorts the ideas and motivation we have at the moment.

- Also in these early stages there have been cases of us being asked for bribery to get a go ahead in the procedural matters concerning the proposal we made which we have been trying to avoid from government officials.

-Income level of people is too low compared to the production costs of our products so we are facing the challenge of how to keep our production costs lower to make our products affordable to many.

- Poor computer access is a challenge also to us since many people here don't have reliable access to computers and especially the internet since our products are online and/or need a computer to access them.

**11. What are your plans for the future, where do you see yourself and your business say in 5 years time?**

- We are very confident about the significance of our ideas and we think it is going to grow and we plan to expand it beyond our borders to neighboring developing countries.

**Interview 7: 22<sup>th</sup> June 2010**

**A discussion with Simon Kulindwa from Bank M, Loan officer**

**Gender: Male**

**Nationality/Ethnic Group: Tanzanian/Black**

**Type of Company: Public Limited Company**

**ME: Thank you very much for your time. As I already explained the main purpose of my research, I would like to know the awareness of your bank in difficulties in getting loans for SME's and the repayment terms being too harsh as many can't really afford the loans.**

SIMON: Yes thank you for making the appointment. It is a very good starting point I would say. By SME's am sure you are talking about the small and medium enterprises. We are very much aware of that problem as a bank, but let me tell you something that may be you don't know or haven't been made aware of; some of these problems are completely out of our control. You are probably thinking to yourself why that is at this point.

**ME: You are very right. It has come to my knowledge as I have been doing my research, many small business owners say; the whole process of obtaining finances from financial institutions is a bit of a hassle meaning long processes, bureaucracy and high interest rates. What do you have to say about this?**

SIMON: Very well, all these problems do exist. The fact is ever since Tanzania adopted capitalism from socialism encouraging private ownership of economic resources leading to industrialization and therefore a few people owning a large stake of the economy. I always like to say there is always a price for every incident. We are a private bank; this is a business with the main intention of making profits enough to pay back good returns on our shareholders.

Let's face the facts here:

Most Tanzanians especially SME's owners don't have valuable collateral as a requirement for loans. What has happened here is that the poor are getting poorer and the rich are getting richer (the minority) as a result of capitalism. As a loan officer I represent my bank and am responsible in making sure that collateral security presented is valuable for the amounts of credit applied for. Without proper collateral security, my hands become tied. The loan process as it is isn't long at all, so long as you have all the requirements with you as our customer. Every now and then a businessman or an ordinary citizen walks into the bank asking for a loan without proper requirements being met. In these cases, the process has got to be long since risks involved have to be evaluated, the collateral and the probability of repayment.

**ME: Tell me more about your repayment terms and interests**

SIMON: For Bank M in particular we have repayment terms of a fixed amount for a period of 3, 6 and 12 months depending on a type of loan. It is very true about the interest rates being too high but this is something we have no control over. The state of the economy determines our interest rates. I believe I don't have to go deep into economics to explain what is happening.

**ME: What are you doing as a bank to make it easier for SME's to have access to finances or what should be done?**

SIMON: First of all we at Bank M, have a special loan package aimed at SME's, I can assure you that it has the best terms in the country since the bank was specifically established to cater for the needs of SME'S. The package has the lowest interest rate with repayment terms of up to three years. One of the best things that can be done is to improve the newly established government guarantee schemes. Since collateral is a problem to many, the schemes will act as collateral for many small businesses with viable business projects for them to access sustainable funds. Secondly, the government should promote the financial sector growth since it is a single sole guarantee that many small businesses will have access to finances. Thirdly, either SME'S or the government should form organizations or unions which address to SME's problems and challenges. This will ensure a steady growth of the sector and eventually the economy of the country.

**Interview 8: 5<sup>th</sup> July 2010**

**An interview with Mrs. Mkubwa, Public relations officer, SIDO**

**Gender: Female**

**Nationality/Ethnic Group: Tanzanian/Black**

**Type of Company: Parastatal organisation**

**ME: Good morning and thank you very much for giving me this opportunity to interview you about various issues concerning SME'S**

Mrs. Mkubwa: Good morning to you and it is always a pleasure to us as SIDO for people to come and conduct interviews and researches on how we work and the purpose of our existence, you are very welcome.

**ME: Thank you very much. Let's get down to business, for a start we should know what SIDO stands for and its purposes as a parastatal organization?**

Mrs. Mkubwa: SIDO stands for Small Industries Development Organization; it is a parastatal organization offering support services to small and medium enterprises in Tanzania. The services include technology development, training and extension services, marketing and information and financial services. This is basically why SIDO exists.

**ME: Brief but sufficient explanation. As I have been doing my research, I noticed that many business owners are not aware of organizations like SIDO in order for them to benefit from these support services. What is SIDO doing to reach as many SME's as possible?**

Mrs. Mkubwa: Apart from advertising and promoting the organization in different media channels, we at SIDO have three centers providing information to SME's. These centers are the SIDO information center, South South Global Asset and Technology Exchange (SS-GATE) System center and World Trade Organization (WTO) reference center. All these under one roof called the business information resources center equipped with mini library having various articles, brochures, catalogues, fliers, journals etc. In addition we have computers at the centers to enable SME's to get materials necessary in developing and improving their businesses. The centers are spread across the country in all regions to enable even business owners in rural areas to benefit from our services. But you can imagine how many ordinary Tanzanian business owners are aware of these facilities or take advantage of these resources. Unfortunately in Tanzania we don't have that culture of looking up information or reading, so many business opportunities are lost/wasted in that way.

**ME: Tell me more about how SIDO conducts its training and development services, since it is obvious many business owners lack adequate knowledge and training in doing business.**

Mrs. Mkubwa: SIDO in collaboration with other major stakeholders in SME's development conducts training and development programmes throughout the year. Basically we have a yearly schedule on which training programme is being conducted when and where. Programmes like business plan preparation, business management skills, food processing skills, batik making skills etc. All these programmes are catered to meet the needs of the businesses in high demand. It is very hard to say much on this matter since it is very new even to SIDO. We established these programmes just a few years ago; they are a success in their own way. But we are looking forward to improving and developing the programmes.

**ME: How about the financial services you provide, I would like to know in detail about them, since access to finances is a major challenge to many SME's.**



Mrs. Mkubwa: Very true indeed. Access to funds has been a major challenge to many here in Tanzania, not only to business owners. A recent research by the ministry of finance and economic affairs has shown that in the banking industry only 9 percent of Tanzania bankable population has formal access to financial services (The Guardian of March 2010). This is a disgrace at least to me. Anyway, we as SIDO provide credit for working as well as for investment capital to individuals or groups of entrepreneurs from the SME sector. The credit ranges from 50000/= to 6500000 million shillings. The main requirement for funding being the project must be lawfully acceptable, financial feasible, economically viable and socially acceptable. We also recommend lucrative projects that require funding of more than 6500000 million to banks. We are in collaboration with NMB bank in doing this. Apart from all this we also have a special loan programme for women called WED. An abbreviation for women entrepreneurship development, this is for the recognition women play in the society. Basically these are the financial services we offer.

**Interview 9: 6<sup>th</sup> July 2010**

**An interview with Mr. Hassan Kassim, Public relations officer, Tanzania Harbors/Ports authority (THA/TPA)**

**Gender: Male**

**Nationality/Ethnic Group: Tanzanian/Black**

**Type of Company: Parastatal organization**

**ME: Hallo and good morning. I am very pleased to be given this chance to interview you concerning various issues on how business is conducted here at THA.**

Mr. Hassan: A very good morning to you too and you are warmly welcome to THA.

**ME: Thank you very much. Briefly tell me what THA stands for and what it does exactly?**

Mr. Hassan: A very good morning to you too and you are warmly welcome to THA. These days called TPA meaning Tanzania ports authority, but we still use the original name THA. What THA does basically is connecting Tanzania to the world through international trade involving either importation or exportation of products. This is a main reason why THA exists. But also as a parastatal organization locally we are responsible of making sure that SEA transportation locally runs smoothly. Our services in short include; maintaining the three major ports of Tanzania, warehousing of products, collection of customs duties and taxes in collaboration with Tanzania revenue authority (TRA) and many more functions. Apart from this we also manage and operate the lake ports. I think up to now you have a rough idea of who we are and what we do. I believe this is a brief description of THA.

**ME: Fair enough, I believe it is.**

Mr. Hassan: Well it is maybe a little too brief, but I don't want us to spend a lot of time on that, what I will do is I will give you some brochures with more information on the functions of THA.

**ME: Thank you. Now as my introduction letter has already explained the purpose of me doing this interview, I would like to point out the major issue that has brought me here, many SME's engaged in international trade claim there are cases of corrupt practices and bureaucracy that are going on here at the port whenever they import or export goods or rather say products. I would like to know whether THA is aware of this.**

Mr. Hassan: Yes, this is not the first time we hear this from an external source. The fact is that we are aware of this and we are trying our best to curb the situation. There are laid out procedures when we are dealing with our clients but at times these procedures are exaggerated by our

officers for them to take advantage of asking for bribes and things like that. We have had several cases like these. This is definitely not good for our country's economy and for our people's welfare.

**ME: But what is THA doing to deal with the situation?**

Mr. Hassan: That's where am getting at. We as THA are working with other government bodies like the anti corruption bureau to try and locate corrupt people here at THA. But apart from this, we have a code of conduct here that lay out penalties of asking or receiving bribes for our staff. We have sacked a number of our staff since this conduct was introduced a few years ago, and not only sack but most of them have been sewed for doing this .What else, the problem is still an issue since we also need collaboration from our clients meaning the ordinary citizens. The fact remains that if they do not cooperate, the problem cannot be resolved. The thing is it has become a common practice for many ordinary citizens to offer bribes that instead of reporting officials who ask for bribes. People find it easier to offer bribes than to go into the difficult of reporting these corrupt individuals.





