

**An Examination of the Policies and Practices toward Promoting SMEs Development in
Mwanza, Tanzania**

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Master of Commerce

2012

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Mwanza, Tanzania**

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**Submitted in partial fulfillment of the requirements for the Degree of
Master of Commerce at Strathmore University**

School of Graduate Studies

Strathmore University

Nairobi, Kenya

June, 2012

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Abstract

This study examines policies and practices toward promoting SMEs development in Mwanza, Tanzania. It was guided by three specific objectives; examining public policies and practices toward SMEs promotion, examining MFIs policies and practices toward SME promotion, as well as examining the contribution of Tanzania enterprise culture to SMEs development. The period from 2000 to 2009 is chosen due to the fact that numerous government policies and strategies were established and implemented in the country to stimulate the SME sector. The data was collected through interviews and questionnaires from SMEs operators, MFIs loan officers and government officials. The research finds that the establishment of SMEs is motivated by push factors. Such factors include lack of adequate formal education, lack of alternative payable employment and loss of jobs. The research also finds that Tanzania education system limits the creation of an enterprise culture. This is due to the fact that it prepares students or people for white collar jobs. Moreover, most MFIs policies and practices hinder the development of SMEs. This is shown by the placing of more emphasis on loan provisions and less on business skills generation. Lastly, the research finds that public policies and practices are not geared toward SMEs promotion. This is due to lack of clear guidance on what should be done to promote entrepreneurship development in the SME sector. The study suggests future research to be undertaken in examining public policies fostering entrepreneurship and its impact on the macro economy, the taxation system and interest rates charged to SMEs as it has been found to be a problem to the sector.

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Abbreviations

BOT-	Bank of Tanzania
BRAC-	Bangladesh Rural Advancement Committee
CRDB-	Cooperative and Rural Development Bank
FINCA-	Foundation for International Committee Assistance
MCC-	Mwanza City Council
MFIs-	Microfinance Institutions
MKUKUTA-	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania
MSEs-	Micro and Small Enterprises
NMB-	National Microfinance Bank
PRIDE-	Promotion of Rural Initiative and Development Enterprises
PRS-	Poverty Reduction Strategy
SEDA-	Small Enterprises Development Assistance
SMEs-	Small and Medium Enterprises
TZ-	Tanzania
TAMFI-	Tanzania Association of Microfinance Institutions
UK-	United Kingdom
UN-	United Nations
URT-	United Republic of Tanzania
US-	United States

Acknowledgement

I appreciate the support and encouragement extended to me by my dear wife and friends; Mr. Naila, Mr. Kumalijah and Mrs. Ngowi during the course of my study. Without them, I would not be what I am today. Their generosity is accorded a special attention it deserves.

I also wish to extend my heartily gratitude to the SMEs owner managers and MFIs loan officers in Mwanza for their general support, availing the essential data, which led to the success of this study. My particular appreciation goes to my family and the management of St. Augustine University of Tanzania for their encouragement, material, financial, and moral support, which made it possible to complete my studies successfully.

I greatly recognize all teaching and non teaching staff of Strathmore University especially my Supervisor, Dr. Koshal and Master of Commerce Thesis Coordinator, Mr. Mathuva for the valuable and excellent guidance and contribution made to make this work a success. Lastly, I like to acknowledgment, my friends and colleagues in the School of Management and Commerce and other faculties who stood by me during hard times. God bless you all.

Dedication

I dedicate this work to my lovely wife Evelyne, dear parents Mr. and Mrs. Fredrick Ntakabanyula, my dear sisters Neema, Frida, Debora and my brothers Fortunatus and Felix. Friends and relatives without whose support and encouragement, it would not have been possible for me to produce this thesis.

CHAPTER ONE:

INTRODUCTION

1.0 Introduction

This chapter covers the background information to the study, the problem statement, the general objectives of the study with its specific objectives, research questions, and the significance of the study.

1.1. Background of the Study.

There is no precise and universally accepted single definition of Small and Medium Sized Enterprises, SMEs (Ministry of Industry and Trade, United Republic of Tanzania, URT 2002). Different countries use various measures in defining the term SMEs as to their level of economic development. The commonly used measures are the total number of employees, capital invested, sales turnover, value of assets, and profitability of the firm (The Bolton Committee Report, 1970; Department of Trade and Industry in UK, 1999; Tanzania, 2002). Since the study is conducted in Tanzania, it has adopted the SMEs definition as per Tanzania SMEs Development Policy, 2002.

It is recognized that SMEs, if planned and facilitated appropriately, can play a vital role as engine of industrialization, employment creation, competitiveness, entrepreneurship, income generation, poverty reduction, and ultimately contribute to economic development (Kirkpatrick and Murinde, 2006; Ministry of Industry and Trade, URT 2002; Kayanula and Quartey, 2000; and Szabo, 1996; Acs, 1992). But it should be noted that the creation of entrepreneurship is partially dependent on the creation and advancement of efficient education and training programmes (Gurol and Atsan, 2006). Ensuring access to education and training programmes that train entrepreneurs and upgrade the capacity of SMEs is cited as the main way in which the government can assist SMEs growth and reduce failure (Luiz, 2002).

Likewise, SMEs are also believed to bring a sense of innovation compared to conglomerates. In U.S, SMEs contributed 43% of the job creation between 1990 and 1994, in Switzerland and the European Economic Area (EEA), SMEs contributed two-third of all jobs in Africa; - SMEs contributed 20.27% of all jobs in Cameroon, 39% in South Africa, and 32% in Tanzania (UN/ECE Secretariat, 1997; Ayyagari, Beck, and Demirguc-Kunt, 2005). In order for all these benefits to be realized, Wennekers and Thurik (2001) suggest a role for the government in stimulating cultural or social capital and creating the appropriate institutional framework at the

country level to address the supply side of entrepreneurship, that means entrepreneurship training should be readily accessible to develop the right motivation, financial means, necessary skills and capabilities to launch business.

However, most academic and policy discussions in developing countries focus on the access of credit and assume their human capital to be fixed (Karlan and Valdivia, 2006). As a matter of fact, they point out that government and MFIs in particular should attempt to build the human capital of micro entrepreneurs in order to improve their livelihood and further their mission of poverty alleviation. SMEs' failure rate in Africa is more than ten times as high as for larger established firms (Cant, Brink, and Ligthelm, 2003). Jennings, Beaver, and Richardson (1992), point out that Stanford and other researchers have not attempted to distinguish between symptoms, causes and the occasional exogenous events which may force SMEs into failure.

Studies in Africa indicate that entrepreneurial skills, national culture, preferences, political-institutional factors, policies and regulations were listed as further factors limiting the sector (Temtime & Pansiri, 2004; Rwigema & Venter, 2004; Guzman & Santos, 2001; Thomas & Mueller, 2000; Fialho, 1998; Correici & Reis, 1996). However, these studies do not provide a clear view with regard to why and how they had affected the SME sector in those different areas, context, and how the problem could have been solved. It should be remembered that SMEs are not homogeneous entities and to think otherwise is not only misleading, but dangerous because by their very nature, they are different and have special characteristics, operating context, and qualities (Beaver, 2005).

It should also be noted that, if business start ups are a desperate response to unemployment, as is the case in Tanzania (Mfaume and Leonard, 2007), rather than based on sound principles, education, training, strategic awareness programs and entrepreneurship orientation, the committed fashioning, and management of competitive advantage, it is inevitable that many firms will fail (Beaver and Jennings, 1996). In order to develop a successful SME sector, entrepreneurship is a necessary condition to national development (Ojo, 2009). Explanations such as these all seem to suggest that ultimately the key players do not have the talent and abilities necessary to succeed. A careful look should be taken by all stakeholders in the SME sector if they want positive results from it.

Therefore, this study examines policies and practices toward promoting SMEs development in Mwanza, Tanzania. This is due to the fact that SME sector is still struggling in attaining its objectives. The sector experiences high dropout rate, creating and sustaining low quality jobs, unfavorable legal and regulatory framework, poorly coordinated institutional support, inability to effectively contribute to economic growth, and development, and ultimately questioning the possibility of Tanzania reducing and eradicating poverty by the year 2025 according to her development vision (Ministry of Industry and Trade, URT 2002 and Prime Minister's Office, URT 2009).

These are observed despite the enormous efforts made by the Tanzanian government to develop the SME sector, including among others; The National Strategy for Growth and Poverty Reduction (MKUKUTA), the Property and Formalization Program, National Micro-finance Policy, National Employment Policy and SMEs credit guarantee scheme in which loans worth TZS 42.8 billion were issued (Prime Minister's Office, URT 2009). The findings of the study are of great importance to SMEs operators, microfinance institutions, donors, policy makers both in private sector and in government.

1.2. Problem Statement.

SMEs do play a vital role in employment creation, income generation, poverty reduction and ultimately contribution to economic development. In realizing these advantages both researchers and policy makers have at different times in different contexts studied the reasons for its success and/or failures. Though there are a number of studies on SMEs development in transition countries concerning the role of public policies and strategies in promoting this sector (Stevenson and Lundstrom, 2001), little has been done in East Africa to examine what actually need to be done in order to further promote SMEs. Similarly, no study has been done in Tanzania in particular concerning SMEs development with particular reference to public and MFIs policies and practices. This study was introduced to fill this research gap.

This study is of great importance to SME sector in Mwanza, Tanzania as it has experienced a number of efforts to facilitate its development, although the impact is hardly visible only to realize mushrooming SMEs. SMEs in Tanzania are still experiencing high dropout rate, creating and sustaining low quality jobs, export, tax revenue, inability to effectively contribute to economic competitiveness, economic growth and ultimately to poverty reduction (Ministry of

Industry and Trade, URT 2002; Prime Minister's Office, URT 2009). This study examines policies and practices toward promoting SMEs development in Mwanza.

1.3.0. Research Objectives.

1.3.1. General Objective.

The study examines policies and practices toward promoting SMEs in attaining their established objectives in Mwanza, Tanzania.

1.3.2. Specific Objectives.

1. To examine public policies and practices toward promoting SMEs.
2. To examine microfinance institutions' policies and practices toward promoting SMEs.
3. To examine enterprise culture toward promoting SMEs development in Mwanza, Tanzania.

1.4. Research Questions.

1. Do public policies and practices promote development of SMEs?
2. Do MFIs policies and practices promote development of SMEs?
3. What role are the SMEs playing in order to self-promote?
4. Does Tanzania culture allows the development of SMEs?

1.5. Scope of the Study.

This study examines policies and practices toward promoting SMEs in Tanzania with particular reference to Mwanza SMEs served by selected microfinance institutions, established from 2002 to 2009. Meanwhile their source of capital was from selected MFIs, this period is selected since in 2000s major financial reforms including the National Microfinance Policy and Small and Medium Enterprise Policy in Tanzania among others were established.

1.6. Justification of the Study.

Most studies concerning SMEs concentrate on the internal constraints as major contributory factors as summarized by (Storey, 1994). Different researchers have at different times suggested solutions to these constraints especially lack of capital. It was believed that MFIs will be a panacea to SMEs problems since financial institutions, commercial banks in particular failed to

cater for their needs. It is now recognized that even in the presence of many formal and informal microfinance institutions and numerous government policies, the SME sector in Tanzania is still ineffective.

The study on the examination of policies and practices toward SMEs and entrepreneurship promotion provide a unique opportunity from the perspective that suboptimal performance and the likelihood of SMEs failure are closely related to a lack of enterprise culture and business strategy. Tanzanian policy makers have to explicitly embrace the establishment of enterprise culture. This does not only mean production of microfinance policies, but a closer attention must be paid to the link between enterprise culture, MFIs policies and practices, as well as appropriate government policies to enhance SMEs. The study helps to explain and give a broader view of what hinder SMEs development in Mwanza, Tanzania and provide a new platform for all stakeholders.

1.7. Definition of Terms and Concepts.

SMEs: Means Small Medium Enterprises. It covers mainly manufacturing, commerce and services having the number of employees (less than 50) and capital investment less than TZS 200,000,000/=.

Microfinance: Is defined as the provision of a broad range of financial and non-financial services such as deposits, loans, payment services, training, business advice and insurance. It is more than just credit; otherwise we should always call it microcredit.

MFIs: Institutions which provide small scale financial services to those who lack access to traditional banking services, in this study the main focus is on SMEs.

Entrepreneurship: Is defined as the disciplined, systematic process of applying creativity and innovation to needs and opportunities in the market place. This involves applying focused strategies to new ideas and new insights to create a product that satisfies customer needs. Entrepreneurship can take many forms and can be defined in many ways. In this paper, the focus is on entrepreneurship as it takes place in small and medium enterprises (SMEs).

Entrepreneurship Policy: A policy formulated to promote entrepreneurship development.

Enterprise Culture: Refers to values, norms and attitudes that are conducive for entrepreneurship development. This culture is the one that validates and promotes entrepreneurship throughout the society by developing capacity within the population to recognize and pursue opportunities.

1.8. Summary of Introduction Chapter

This chapter presents the main reasons for taking up the study. The background of the study, problem statement and the objectives of the study are well stated to guide the research work. Generally, SME sector in Tanzania is highly expected to contribute to employment creation, income generation, poverty reduction and ultimately contribute to economic development. However, the expectation is yet to be realized despite enormous efforts taken by SMEs stakeholders in general and the Tanzanian government in particular.

The current study tries to examine the reasons behind the scene looking specifically to SMEs development, including MFIs policies and practices, enterprise culture, as well as government policies and practices. The study covers the period from 2000 to 2009 due to the fact that many policies were formulated and implemented. The next chapter presents literature related to the topic from earlier researchers.

CHAPTER TWO: LITERATURE REVIEW

2.0. Introduction

This chapter presents what the existing literature says about SMEs, government policies and practices, MFIs' policies and practices, enterprise culture, and their contributions toward the promotion of SMEs development. A critical review of the related literature has also been carried out.

2.1. SMEs' Definitions

The Ministry of Industry and Trade, URT (2002) points out that, there is no precise and universally accepted single definition of SMEs. This implies that different countries or regional groups use various measures in defining SMEs as to their level of economy or development. But in common the following are used as rationale; number of employees, sales turnover, capital invested, and profitability of the firm. These definitions are for the purpose of keeping record right in the first place.

The Bolton Committee Report (1971) defines SMEs within the UK economy in both a quantitative and qualitative element. Quantitatively, SMEs are defined in terms of size by observing the number of employees in some sector and the turnover in other sectors. Thus, all quantitative or statistical definitions comprise reference to both the two elements. The main issue was to quantify the current size of the small firms and their contribution to the economy such as gross domestic product (GDP), export, employment, and innovation.

Qualitatively, SMEs must fulfill the following criteria; relatively small market share within the industry, managed mainly by their owners or part owners in a personalized way and not by an organized structural management, and independent with the owners or managers having control of the activities of the business and should only be limited by outside elements in matters of financial observation (The Bolton Committee Report, 1971). Meanwhile, the European Commission (1996) adopted a single definition of SMEs that was to be applied across all the community proposals and programs from December, 1997 onwards. This definition is the same as that of the Department of Trade and Industry in the UK. The categories are as follows; Micro firm, 0-9 employees; Small firm, 10-49 employees; and Medium firm, 50- 249 employees.

The SMEs nomenclature in Tanzania is used to mean micro, small and medium enterprises engaging in non-farm economic activities. It is sometimes referred to as micro, small and medium enterprises (MSMEs). The SMEs sector cover mainly manufacturing, mining, commerce and services. With regard to the 2002 SMEs Development Policy, micro enterprise are those up to 4 employees, in most cases family members or employing capital amounting up to US\$ 5,000, majority of which fall under informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from US \$5,000 up to US\$ 200,000. Medium enterprises employ between 50 and 99 people or use capital investment from US \$200,000 to US\$ 800,000.

Since the study is conducted in Mwanza, Tanzania, it has adopted the SMEs definition as per Tanzania SMEs Development Policy, 2002. The choice of Micro and Small Enterprises, (MSEs) is due to the fact that it composes 90% to 98% of all SMEs in Tanzania (Ministry of Industry, Trade and Marketing URT 2010 and the Guardian 2010).The SME sector plays a role in the economy generating about a third of the GDP (Ministry of Trade and Industry 2002). The sector has great potential for generating a broad growth and hence poverty reduction in the short run and eradication in the long run only if planned and managed appropriately. The sector may create employment, be more efficient and effective in local resources utilization and use simple technology. Given that Tanzania is endowed with abundant natural resources, the creation of enabling business environment will facilitate exploitation of these resources through SMEs.

SME sector is seen as the major source of jobs in the future, but the full potential of the SMEs sector is yet to be tapped due to the existence of a number of constraints hindering its development. The sector remains with marginal players, due to the creation and sustaining of low profile jobs and unable to provide a competitive edge in export, tax, employment, local market and ultimately economic growth. A number of reasons were suggested by different researchers including among others; lack of access to finance in different stages; starting, operating and expanding business, lack of managerial skills, poor record keeping, lack of formal planning and inability to cope with the market demand (University of Dar es salaam Enterprise Centre, UDEC, 2004; Mutalemwa, 2005 and Ministry of Trade and Industry, Tanzania, 2002).

2.2. MFIs and SMEs Development

It is widely recognized that SMEs play an important role in employment creation, income generation, trade and diversifying economic activities around the globe (Szabo, 1996). This means that the existence of healthy relationship between MFIs and SMEs is the basis for the future of not only developed but also developing countries in stimulating the economy and provision of competitiveness in the market.

Microfinance has attracted much attention in the recent years. It has been seen as the panacea to underdevelopment. By resting on market incentives, microcredit is able to promote small scale investment that generates sufficient revenues from otherwise unrealized market activities, while yielding a return on the amount lent (Luzzi and Webber, 2006). This is a powerful lever to provide credits and deposits possibilities to poor people who are largely ignored by commercial banks and other lending institutions. This is reflected by the figure that by the mid 1990s the microfinance industry had extended around US\$ 7 billion in loans to more than 13 million individuals around the world (World Bank, 1996) and claim that by 2000 the number of clients would be approaching 20 million.

Microfinance institutions were established due to failure of formal financial institutions like commercial banks in particular to save the small business operators. This paved a way for MFIs in Asia and Latin America; the Grameen Bank, The Foundation on International Community Assistance (FINCA), Accion International, Bank Rakyat Indonesia and Banco Solidario SA (Bancosol) in enhancing SMEs. In Tanzania, banks are discouraged and not willing to lend due to inadequate information and insufficient competition on the credit market (Ministry of Industry and Trade, Tanzania, 2002), meanwhile majority of commercial banks have in recent years denied SMEs credits because of higher defaulting rate (Calcopietro and Massawe, 1999). According to Meyer (2006), one of the arguments given for establishing and expanding the microfinance industry is to help poor people escape the clutches of evil money lenders who allegedly charge usurious rates of interest.

In US, economic performance has been stimulated by the creation of SMEs in which they account for 43% of the job creation between 1990 and 1994 (UN/ECE Secretariats 1997). According to Schmiemann (2006), SMEs represent about 99% of all EU-25 enterprises in 2003, in which they employ about two-third of the work force and generate more than a half (57.3%) of

its value added while in Switzerland and the European Economic Area (EEA), the enterprises are more than 16 million, this means that less than 1% constitute of large enterprises while the remaining are the SMEs. Therefore, in this region, two-third of all jobs is created by the SMEs and the remaining is provided by large firms. Ayyagari et al. (2005) shows job creation in Africa as 20.27% in Cameroon, 38% in Malawi, 39% in South Africa, and 32% in Tanzania.

Despite the worldwide recognition of SMEs in economic development, its failure rate is more than ten times as high as for larger established firms. Failure is the central and consistent phenomenon of small business sector and one of the key characteristics that dominate policy agenda (Storey, 1994). There are many factors contributing to this high failure rate, according to Stanford (1982). The causes of the failure may be; inadequate accounting systems, poor location, lack of marketing skills, lack of capital budget, in- adequate provision for contingencies, lack of managerial skills, excessive inventory, incompetence, lack of experiences, fraud, neglect, reckless money management, poor record keeping, lack of formal planning, inadequate employees and inability to cope with growth.

Researching SME sector management failure is fraught with difficulties. Only those people immediately affected by organization failure or near failure, have sufficient knowledge of the precise circumstances to be able to suggest cause and effect relationship. However, it is clear that the survival rate of SMEs is relatively low. For example in South Africa, less than half of newly established firms survive beyond five years. This is consistent with a study done by Cant et al. (2003) in the same country who finds the failure rate of SMEs being between 70% and 80%.

2.3.0. MFIs Policies and Practices

Microfinance in one form or another has existed for centuries. Throughout history, people in need of financial services, who lack opportunity or ability to enter the formal financial markets, have designed micro savings and microcredit programs without the intervention of outside institutions or agencies. In the last four decades, however, serious efforts have been made to formalize these processes and services through the creation of microfinance institutions (MFIs). According to Tauban (1998) and Pal (1997), the most successful MFIs which commonly serve as a model for new MFIs are The Grameen Bank, The Foundation for International Community Assistance (FINCA), Accion International, Bank Rakyat Indonesia (BRI), and Banco Solidario S.A (Bancosol).

This concept of micro financing institutions originated in Bangladesh, around 1976 through a pioneering experiment by Muhammad Yunus (winner of the 2006 Nobel Peace Prize). Small groups of people called Self Help Groups (SHG) were established to ease capital accessibility through savings, and Yunus proposed an interest rate of 20% which is typically used by the Grameen Bank (Grameen Bank, 2000). MFIs provide similar products and services to their clients as formal financial institutions (FFIs) provide. The scale and method of delivery differ, but the fundamental services for savings programs, extending loans, and offering insurance are the same. Extending loans (or microcredit) is the dominant product of MFIs (Nourse, 2001). Since these early microcredit programs, some MFIs have begun to offer additional products such as education and equity services.

Along with the lending function, a market for savings exists in poor areas around the world. Grosh and Somolekae (1996) in an article that analyzes whether microfinance can serve as a catalyst or seedbed for industrialization in Botswana, identify savings products as one of the key mechanisms needed to promote development. Addressing MFIs education services, Dumas (2001) and Edgamb (2002) all using case methodologies to analyze the MFIs services of microenterprise education and conclude that this service significantly improves performance and entrepreneur empowerment.

With regards to MFIs best practices, Dunford (2000) argues that best practices vary constantly as the microfinance field matures. Due to the nature of MFIs clientele, best practices must be adopted to the specific area in which the institution operates. Bhatt and Tang (2001) discuss MFI vehicles, technologies, and performance assessment and conclude that the future success of SMEs will depend on MFI design tailored to specific clients. Their study highlights the importance of research to develop sound practices of MFIs design and management as a vehicle to push the SME sector. However, much of the microfinance industry focuses on the infusion of financial capital into micro-enterprises, not human capital, as if the entrepreneurs already have the necessary human capital (Paulson and Townsend, 2004). In addition, Schreiner (1999) shows that those who are successful in the transition have above average assets, education, experience, and skills.

In modern economy, knowledge has replaced raw materials and physical labour as key resources (Drucker, 2001). Both macro growth models as well as micro market models often include

human capital as a critical component. However, many of our models of entrepreneurial activity in developing countries treat human capital as fixed, and focus instead on financial constraints and information asymmetries in credit and equity market (Banerjee and Newman 1993; Paulson and Townsend 2004). MFIs and government in particular should attempt to build the human capital of micro-entrepreneur in order to improve their livelihood of their clients and help further their mission of poverty alleviation. This contradicts with developed countries belief that treats human capital as not fixed.

According to a study done by FINCA 2006 in Lima, on credit with education; clients (SME sector) received handouts and had to do homework. The training materials were organized into two modules; the first module introduces attendees to what a business is, how a business works, and the market place. Clients were taught to identify their customers, competitors, and the position of the business in the market place and then learned about product, promotional strategies and commercial planning. The second module explained how to separate the business and home finances by establishing the differences between income, costs, and profit, teaching how to calculate production costs, and product pricing. This is contrary to most of African countries, especially Tanzanian MFIs training which focuses on loans repayments.

Meanwhile, much tension exists in development finance community regarding whether lenders should specialize on financial services only, or should integrate non-financial services into their programs (Mknelly, Watetip, Lassen, and Danford, 1996). FINCA did a study in Peru and finds strong benefits for both the client (SMEs) and the MFIs. The client shows improved business processes and knowledge and increased sales after receiving the training compared to the control group which did not receive the training. Also MFIs had direct benefits through higher repayment and client retention rates (Dean and Valdivia, 2006).

Both research and practice have seen an increasing concern about the impact of microfinance on SMEs. To say that microfinance empowers the entrepreneurial spirit that exists among SMEs worldwide is not an exaggeration. Microfinance has the ability to strengthen micro enterprises and encourage best practices among operators of SMEs. Furthermore, a study done in Nigeria by Ojo (2009), revealed a significant difference in the number of entrepreneurs who used MFIs and those who did not, a significant effect of MFIs activities in predicting entrepreneurial productivity, microfinance is sustainable to the development of entrepreneurship activities, and

entrepreneurship development is vital to the industrialization process of the country. Birley and Norburn (1986), find that contrary to popular belief, recent studies have found the entrepreneur to be as well educated. The artisan who drifts into small business ownership, perhaps on the basis of the unfriendly push syndrome or the no alternative syndrome may have absolutely no intention or desire to maximize profits and growth through risk taking strategic management.

2.4.0. Enterprise Culture

Mueller and Thomas (2000) define enterprise culture to refer to a national system of shared values in a particular society that embraces and support entrepreneurship. Ireland, Hitt, Camp, and Sexton (2001) define entrepreneurship as a process through which more efficient means of producing, distributing, and exchanging resources are recognized and exploited. According to Aidis and Sauka (2005), entrepreneurship can take many forms and can be defined in many ways. In this study the focus is on enterprise culture as it takes place in SMEs. As Wennekers and Thurik (1999) note; small firms are the vehicle in which entrepreneurship thrives.

On the other hand Lundstrom and Stevenson (2001) define entrepreneurship policy as; policy measures taken to stimulate entrepreneurship at the pre-start, the start-up and post-start-up phases of the entrepreneurship process. They pointed out that it should be designed and delivered to address the areas of motivation, opportunity and skills with the primary objective of encouraging more people to start their own business. The General Assembly of the United Nations, during its 48th session, adopted a resolution-Entrepreneurship and Privatization for Economic Growth and Sustainable Development, encouraging member states to promote and facilitate the growth of entrepreneurship and the support of local entrepreneurs. This resolution is a reflection of the growing international realization that lighting the flame of entrepreneurial spirit empowers nations and peoples with the knowledge and the ability to fish, rather than just giving those fish (Timmons, 1994).

The first attempt to create an enterprise culture should be centered on the promotion of a culture for enterprise largely through the implementation of a range of external structural changes (Morris, 1991). In the U.K, advocates of enterprise and entrepreneurship such as Margaret Thatcher emphasized the need for a moral revolution as much as an economic one. From this perspective, it is believed that economic challenges are rooted in human nature, leading

enterprise culture to be increasingly represented in cultural terms, connected to the self-understanding, values, and attitude located in individual and institutional activities (Hall, 1988; Keat, 1991). Similarly, in the mid 1990s organizations such as the Organization for Economic Cooperative and Development, (OECD), the European Union and APEC began serious efforts to examine economy approaches to developing entrepreneurship (OECD, 1995; European Commission, 1998, and 2001).

This was a recognition that structural change alone could not bring about the required cultural transformation, contributing to a phase of cultural engineering. In this phase a conscious attempt is made to initiate the economic and moral revival of Britain through a program of sustained cultural change, which could release or create an enterprise spirit. It is suggested here that in order to facilitate a greater exploration of how enterprise culture has been and still is actively produced, a closer attention must be paid to the linkage between culture and government. A key reason for such attention is the recognition that cultural transformation necessitates active intervention of the state (Marquand, 1992).

Though the enterprise culture phenomenon is traditionally located in Britain, Tanzanian policy makers have also explicitly embraced the establishment of enterprise culture. This should not only be reflected by production of a number of policies, such as Microfinance policy but also putting in place the enabling environment for entrepreneurship to flourish, since entrepreneurship flourishes when the context is right and the entrepreneur is ready. Innovation or destruction (Schumpeter, 1976) is one positive outcome of entrepreneurial activity. The value creation that results from the interaction of right context and ready entrepreneurs is important for individuals, institutions, and societies. Knowledge is an invaluable input that drives entrepreneurship.

Likewise, with regard to shaping entrepreneurial value in the culture, government intervention helps shape positive attitude towards entrepreneurship by introducing entrepreneurship elements in the education system and paying attention to entrepreneurship in the media. This set of policies encompasses a broad role of government, including the education system and overlaps with culture (Stevenson and Lundstrom, 2001). Furthermore, Wennekers and Thurik (2001) suggest a role for the government in stimulating cultural or social capital and creating the appropriate institutional framework at the country level to address the supply side of entrepreneurship.

Moreover, Reynolds, Hay, Bygrave, Camp and Autio (2000) from the findings of their international benchmarking study of entrepreneurial activity recommend that governments should focus their effort on creating a culture that validates and promotes entrepreneurship throughout society and develops a capacity within the population to recognize and pursue opportunity. They should target policies and programs specifically at the entrepreneurial sector (rather than at aiming to improve the overall national business context), and to increase the overall education level of the population, specifically ensuring that entrepreneurship training is readily accessible to develop the skills and capabilities.

According to Kent (1990), entrepreneurship is a topic that can and should be integrated into the secondary curriculum in a variety of courses. Entrepreneurs introduce new products or services into the market, develop and implement new technologies, open new markets, discover new sources of supply, or recognize existing enterprises. Consequently, entrepreneurship is more than starting a new business. It is any innovative activity in large corporations, non-profit organizations, or even in government agencies or socialist enterprises. Likewise, high school students want to be educated about entrepreneurship, 85% of the students indicated as important to very important that the nation's schools teach more about entrepreneurship and starting a business. The general public and SMEs owners and managers agreed with the high school students (Kourlsky, 1995).

Likewise, integrating entrepreneurship into secondary curriculum begins with awareness. Students need to be aware of the importance of entrepreneurship to the economy and of the possibility of taking entrepreneurship as a career choice for them. Without both types of awareness, it is extremely unlikely that the students will even consider entrepreneurship or have a favourable attitude toward the role of the entrepreneurs in the society. The second step in integrating entrepreneurship into the curriculum at the secondary level is to convey the skills that the entrepreneurs need. There are two types of skills; the technical insights in that students must be knowledgeable about the field in which they entrepreneur (Kent, 1990).

Turning to developing countries, one of the responses to the challenges of development is the encouragement of entrepreneurial development scheme. For example, Nigeria had even taken more robust steps by including entrepreneurial studies in the academic curriculum of her education system Ojo (2009). The belief of such policy makers is that such decision will

inculcate entrepreneurial spirit in the mind of people so as to prepare them for wealth creation through small scale enterprises (Fasua, 2006). Entrepreneurship is a conditional sine qua non (necessary condition) to national development, poverty eradication and employment generation (Ojo, 2009).

2.5.0 Public Policies and Practices

2.5.1 General Public Policies and Practices

Ireland et al. (2008) suggest that, the attitude of political actors toward entrepreneurship has significant implications for how value (in all forms) is produced, distributed, and exchanged throughout a society. Some political actors prefer a larger role of the state in distributing scarce resources, as in socialist system. On the contrary, capitalist oriented political actors favour the market in dispersing scarce resources. The theoretical argument is that socialism hinders entrepreneurship development.

Verheut et al. (2001) outlined types of government policy interventions influencing entrepreneurial activity; availability of resources, knowledge, and resources for potential entrepreneurs. One, government intervention aims to overcome financing and knowledge gaps by increasing the availability of financial and other informational resources. This includes policies to stimulate the venture capital market, provide direct financial support, provide relevant business information (advice and counseling), and offer entrepreneurship education in schools.

Looking on externalities, there exist some evidence showing factors limiting SMEs; however, the studies do not provide a clear view with regard to the why and the how. Their studies find the lack of entrepreneurial skills and preferences limiting the firm size and thus lead to failure. According to Fialho (1996), most countries in Africa simply did not have any local entrepreneurs while under colonial rule. This is consistent with a study done by Correici and Reis (1996) on the impact of cultural factors and the socialist past influencing the willingness to be an entrepreneur. Indicators like individualistic against collectivistic behavior and the attitude towards risk can either restrict or motivate the business activities.

Likewise, emerging economies are countries experiencing rapid economic development that is stimulated by transitioning institutional policies favouring and supporting private enterprise (Hoskisson et al. 2000). Their study is consistent with Ireland et al. (2001) who find

entrepreneurship expected to be constrained in countries with socialism movement activity that advocates the values and norms of the previous socialist system. A typical example is given by Ireland et al. (2005), which postulate that the socialist economies of Central and Eastern Europe collapsed in the late 1980s. They find that events leading to the demise of socialism are complex; the ineffectiveness of the socialist economic system to adequately distribute resources across societies is a primary causal agent. Lagging technological development, production inefficiencies and blockages and product shortages are examples of ineffectiveness characterizing socialist economic systems.

2.5.2 Tanzania Public Policies and Practices

In recognizing the importance of SMEs sector, the government has and (is continuing) designing and implementing a number of policies and programs supportive to the development of the sector.

The SMEs Development Policy (2002)

The SMEs Development Policy covers the categorization of businesses in Tanzania, including micro, small, medium and large. In addition, the policy recognizes the need for financial and non-financial support to SMEs so as to facilitate their businesses. However, more emphasis is placed on the needs of capital as opposed to human capital (SMEs Development Policy, 2002). The vision of the policy is to have a vibrant and dynamic SME sector that ensures effective utilization of available resources to attain accelerated and sustainable growth. The overall objective of this policy is to foster job creation and income generation through promoting the creation of new SMEs and improving the performance and competitiveness of the existing ones to increase their participation and contribution to the Tanzania economy (SMEs Development Policy, 2002).

SMEs account for a large share of the enterprises active in Tanzania. In fact SMEs are the emerging private sector and do form the base for private sector-led growth. The policy has been designed to revitalize the sector to enable it to contribute to the objective of the National Development Vision 2025. Furthermore, it aims at creating a mechanism to put in place an effective institutional framework for its implementation, coordination, monitoring and evaluation. Central to all these strategies is the ultimate objective of attaining rural

industrialization in line with the Poverty Reduction Strategy and the Vision 2025. The policy aims at revolutionizing the SME sector to make it a vibrant and sustainable agent of stimulation of growth of the economy.

The National Micro Finance Policy (2001)

The National Micro Finance Policy (2001) covers the provision of financial services to small and micro enterprises in rural areas as well as in the urban sectors that are engaged in all types of legal economic activities. The policy is guided by a vision of achieving widespread access to micro-finance throughout the country, made possible by institutions operating on commercial principles. The Government considers micro-finance system as an integral part of the financial sector that falls within the general framework of its Financial Sector Reform Policy Statement of 1991. The overall objective of this policy is, to establish a basis for the evolution of an efficient and effective micro financial system in the country that serves the low-income segment of the society, and thereby contribute to economic growth and reduction of poverty.

In addition, the government established the National Employment Policy which recognizes that the private sector including SMEs is the major source of employment in the country and also outlines policies that will contribute to the creation of an enabling environment for private sector development. The roles and responsibilities are to see that all Tanzanians have access to financial services, the Government will at times take on a promotion role. The Government will leave it to the institutions to make their own choices on matters that properly belong to the institutions themselves, such as product development, delivery methodology, loan terms and pricing, geographical location and target clientele (Ministry of Labour, 1997).

Likewise, The Tanzania Development Vision foresees that by the year 2025, Tanzania should have created a strong, diversified, resilient and competitive economy, which can effectively cope with the challenges of development and, which can also easily and confidently adapt to the changing market and technological conditions in the regional and global economy. The challenge is therefore to mobilize human and other resources towards that goal. The objective of the National Vision 2025 is to transform the predominantly agricultural economy to a semi-industrialized one. The SME sector has a significant role to contribute towards attaining this

goal. It is on this basis that the Sustainable Industrial Development Policy identified specific strategies targeting at stimulating the SME sector to be able to play their crucial role.

The National Strategy for Growth and Poverty Reduction (PRS)

The government had initiated a number of measures to ensure that the sector is realizing its objectives in the economy. One among others was the Poverty Reduction Strategy (PRS), popularly known as MKUKUTA reflecting increased emphasis on tackling income poverty. The strategy also provides priority to improvement in the level of quality of employment, realizing the importance of this business sector to the economy as it aim at addressing constraints which limit their establishment and development (Bank of Tanzania, 2005).

In supporting the strategy put forth, the Government established Small and Medium Enterprises Credit Guarantee Scheme (SME-CGS). The Scheme is geared towards promoting and supporting SMEs by creating an enabling environment for expansion and facilitating access to financial resources thereby accelerating economic growth and job creation. This initiative is in line with the National Policy on SME Development and Poverty Reduction Strategy. The Scheme is managed by the Bank of Tanzania as an agent of the Government of the United Republic of Tanzania. The SME can access the guarantee facility through the Participating Financial Institutions (PFIs) with which the Bank of Tanzania has made arrangement. This includes among others; the provision of special funds to entrepreneurs (Bank of Tanzania, 2009). The Scheme engaged in businesses with capital requirements ranging from TZS 5 million.

The Scheme guarantees loans that do not exceed TZS 500 million with duration between 1 to 5 years. The Scheme will share the risk with PFIs on every guaranteed loan on a pro-rata basis to the extent of 50% of the principal amount. The Scheme cooperates with various stakeholders in promoting SMEs entrepreneurial skills (Bank of Tanzania, 2009). There is no any government assessment which has been carried out to see their contribution in the SMEs sector in particular and the economy at large; however the impact was or is hardly visible only to realize SMEs mushrooming (The Guardian, URT 2010).

Despite the above efforts, SMEs and the Government in general are yet to realize the demand and benefits attained through business development services which include among other; training, business skills, counseling, advising and consultancy. However, the government has

placed excessive efforts on the provision of financial services to SMEs unlike non-financial services (human capital) as mentioned earlier. In addition, a persistent culture has not recognized the value of entrepreneurial initiative in improving the lives of the people. Cultural transformation towards entrepreneurship necessitates active intervention of the State/government with a clear vision on what they want to achieve (Ireland et al.2008).

2.6. Conceptual Framework

To support SMEs' usefulness as a tool for poverty reduction in the short run and poverty alleviation in the long run in Tanzania and elsewhere, the study is of the opinion that policies and practices should be directed toward SMEs development as shown below.

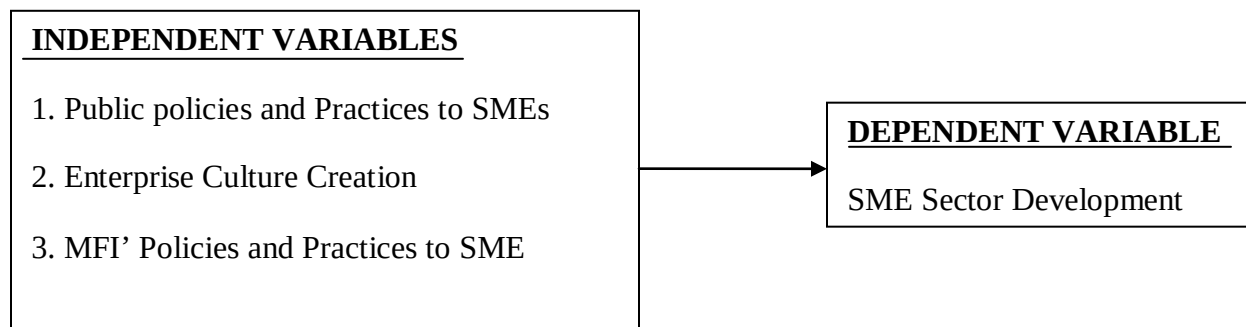


Figure 2.1 Factors influencing SMEs development in Mwanza, Tanzania

Source: Researcher, (2010)

The study examined policies and practices toward promoting SMEs development. The choices of these factors are due to persistent ineffectiveness of SME sector in Mwanza, Tanzania despite of a number of initiatives taken by the government, MFIs, donors and other business stakeholders. Figure 2.1 above, indicates that SME sector development depends on favourable public policies and practices, enterprise culture and favourable MFI' policies and practices.

2.7. Chapter Summary

The chapter explored several literatures concerning SME sector development, MFIs policies and practices toward SMEs development, public policies and practices toward SMEs and the

enterprise culture. The study adopted the SMEs definition as per Tanzania SMEs Development Policy, 2002.

MFIs best practices should be adapted to the specific area in which the institution operates. For effective and efficient SME sector, conducive MFIs policies and practices should be in place as a strategic vital platform not otherwise. However, most of our model of entrepreneurial activity in developing countries treats human capital as fixed as opposed to developed countries. The fact is that in order to realize the benefits gained through MFIs services to SMEs, credits/loans should be given associated with genuine business education. This resolution was a reflection of the growing international realization that lighting the frame of entrepreneurial spirit empowers nations and peoples with the knowledge and ability to fish, rather than just giving those fish.

The artisan who drifts into business ownership, perhaps on the basis of the unfriendly push syndrome of the no alternative syndrome may have absolutely no intention or desire to maximize profits and growth through risk taking strategic management. If countries want to become more entrepreneurial, students should be exposed to entrepreneurship in the school system so as to change the values and ultimately impart enterprise culture.

CHAPTER THREE: RESEARCH METHODOLOGY AND DESIGN

3.0. Introduction

The purpose of this study is to examine policies and practices promoting SMEs development in Mwanza, Tanzania. The chapter shows the research design, sample, how data was collected and analyzed to obtain the results.

3.1. Research Design

The study adopts both qualitative and quantitative approach. Questionnaires were administered to MFIs while interviews were undertaken to SMEs managers and two government officials (Ministry of Industry, Trade and Marketing- MCC Community Development Officer and Ministry of Education-Mwanza Education Officer). Questionnaire and interview schedule for the study have been prepared in appendix 2 in order to gather accurate and reliable data.

The basis of both questionnaires and interviews were based on the effects of MFIs policies and practices, present public policies and practices and enterprise culture on SMEs. The usage of these concepts depended on the availability and convenience of respondents during data collection. The design of the methodology for this study was greatly influenced by the works of Mosley, 2001; Hassan & Renteria-Guerro, 1997; Kuzilwa & Rweyemamu, 2003; and Kessy & Urio, 2006.

3.2. Population

Breakwell (1998) defines population as the set of all units of analysis in one's problem area. The targeted population for this study was the SMEs in Mwanza. SMEs were selected from respective MFIs, which were drawn from The Central Bank of Tanzania (BOT) data base and Tanzania Association on Microfinance Institutions (TAMFI). The choice of Mwanza is due to the fact Mwanza is the second largest commercial city in Tanzania with the largest number of SMEs and SMEs' support institutions. Various Government policies and publications were reviewed, for instance National Microfinance Policy (2001), SMEs Development Policy, 2002, and Tanzania Education curriculum.

3.3. Sample and Sampling Technique.

According to Nesbary (2000), a sample is a subset of a population that has been selected to reflect or represent characteristics of a population. The researcher's primary goal is on understanding of social processes rather than obtaining a representative sample (Arber, 1993). The study adopted a purposive sampling technique for generating the primary data. Kombo (2006) suggested that this involves selecting people whose views are relevant, reliable, important and particularly worth obtaining for the researcher. From the BOT data base a total of 5 MFIs were drawn, namely; SEDA, FINCA-TZ, PRIDE-TZ, CRDB Bank, and NMB Bank with addition of other 3 MFIs during the survey as they were significant in the area of study. These were; Azania Bank Ltd, BRAC, and Standard Chartered Bank. The sampled firms have been selected due to their wide coverage and high loans portfolio.

In considering sample size, Saunders et al. (2003) suggested that a minimum number of 30 for statistical analyses provide a useful rule of thumb. Nevertheless, the researcher chose randomly a sample of 35 SMEs due to the fact that all have almost the same characteristics in terms of their needs and source of loans. SMEs' owners/ managers (managing director) and MFIs loan officers were administered with questionnaires.

3.4. Data Collection

Primary data were gathered through both face to face field interviews and questionnaires. Questionnaires were sent to selected MFIs' loan officers, it comprised two sections. The first section aimed at gathering personal information of the respondents and open ended questions. Section two comprised of a Likert Scale questionnaire with a rating scale starting with 1 strongly disagree to 5 strongly agree which were sent through hand delivery. This was due to the fact that respondents had adequate time to give well thought out answers and those who were not easily approachable could also be reached conveniently (Kothari, 2004). In addition, pre-arranged interviews were used to obtain further data from SMEs which could not be expressed precisely or obtain intended results from the questionnaire. In addition, more information and that too in greater depth could be obtained (Kothari, 2004).

Oral interviews were done by using pre-set questions. This method mainly obtained data from 35 SMEs managers, the selected sample were interviewed for at least 30 minutes each person

individually. The researcher chose this method due to its advantages in getting answers promptly and more information including personal emotions and perceptions is obtained.

Secondary data were gathered through documentary analysis. This involved paying particular attention to important government documents related to SME sector development. This involved SMEs Development Policy, National Micro-finance Policy, The National Poverty Eradication Strategy, Poverty and Human Development Report, 2009 and a Report on the Tenth Conference on Financial Institutions under Bank of Tanzania.

The responses obtained have been analyzed and cross-checked for completeness and accuracy. Respondents were reminded to provide appropriate views on the policies and practices toward promoting SMEs and entrepreneurship in Mwanza so as to aid decision makers in putting in place appropriate SMEs policies and practices to enhance the sector. Ethical measures as far as confidentiality is concerned were adhered to all information given by respondents.

3.5. Data Management and Analysis

Since the study is a mixture of qualitative and quantitative, the descriptive and statistical analysis was conducted from both primary and secondary sources on SMEs and MFIs to ease the analysis. Responses received were grouped in their respective category by figures, graphs, and percentages. Quantitative data were analyzed using Statistical Package for Social Science (SPSS) software to compute tabulation as it can take data from almost any type of file and use them to generate tabulated reports. The patterns or relationships aided with numerical weights to check the existence of the dependent variable (SMEs ineffectiveness) and the independent variables (MFIs policies and practices, public policies and practices and enterprise culture), as variables are more than one (Kothari, 2004).

3.7. Chapter Summary

The study adopts a mixed approach as a research design to enable the collection of data. The study covered SMEs owner managers, MFIs loan officers and government officials in the area of study as the population. The study adopted a purposive sampling technique for generating primary data. Both questionnaires and interviews were used to collect primary data and documentary analysis was used for secondary data collection from various government policies. Likewise, the descriptive and statistical analysis was conducted to enable presentation and

analysis of data associated with tables, charts, frequencies and percentages as output from SPSS computer software. Most of SMEs owner managers were not able to understand English, so the researcher had to translate into Kiswahili as it is the Tanzanian national language.

CHAPTER FOUR: RESEARCH FINDINGS

4.0 Introduction.

This section presents the findings and analyses on the basis of the objectives set out earlier in the study. These are; examine public policies and practices toward SMEs promotion, examine MFIs policies and practices toward SMEs and examining Tanzania enterprise culture toward SMEs development. The results are presented and explained clearly to show the outcomes of the analyses and ensure easy reading and interpretation.

4.1.1 Nature of Respondents

Table 4.1: Targeted Respondents.

Targeted respondents	Target Subject	Actual Respondents	Non- Respondents
SMEs Owner Manager	47	35	12
MFIs Loan Officers	9	9	-
Government officials	2	2	-
Total	58	46	12
Percentage	100%	79.31%	20.69%

From the above table, the targeted subjects were 58 respondents but the actual respondents were 46. This means that 12 of those to whom questionnaires were sent either lost them or just ignored. The response rate was 79.31% and the non response rate was 20.69%.

4.1.2 Profile of SMEs.

Urban and semi-urban SMEs were studied. The majority, 95% were located in the city centre compared to 5% in semi-urban areas. This is due to the fact that MCC is divided into two districts; Nyamagana which mostly is in the city centre and Ilemela in semi-urban and rural areas. SMEs covered were those established between 2000 and 2009, most of them established by initial capital obtained from personal sources and later received loans from either banking microfinance institutions or non-banking microfinance institutions, NGO-MFIs. SMEs owner managers ranged from 20 years of age to 50 years of age and 60% were female while 40% were male.

Table 4.2 SMEs Gender

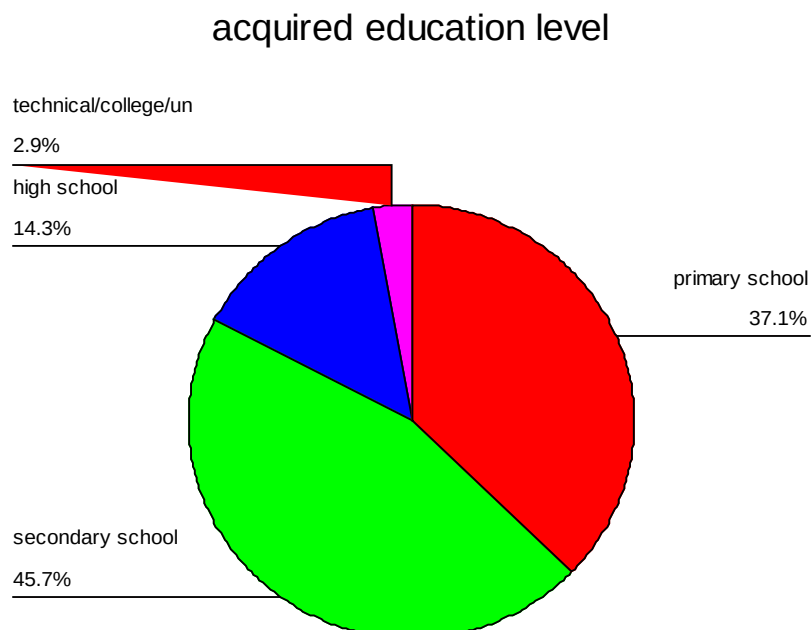
Gender	Frequency	Percent	Valid Percent
male	14	40.0	40.0
female	21	60.0	60.0
Total	35	100.0	100.0

From the above table it can be observed that SME sector in Mwanza is dominated by females 60% compared to males 40%.

4.1.3 SMEs Education Level.

The researcher found that SME sector in Mwanza in particular is dominated by primary and ordinary secondary school leavers, who comprised of 82.8% compared to 17.2% for high school and college and university leavers. This implies that those who failed to reach higher level of education and have no alternative are the ones opting to do business in Mwanza.

Figure 4.1 SMEs Education Level



From the figure above, the findings indicated that SMEs operators in Mwanza are led by ordinary secondary school leavers 45.7%, primary school leavers 37.1%, high school leavers 14.3% and technical/college/university 2.9%.

4.1.4 Motivations for starting SMEs

Human beings have various demands on them and these demands shape their priorities and motivations for starting business. The reasons for starting business can be classified into two types; push factors and pull factors. Push factors exist when a business entrepreneur is desperate or stranded to meet his or her basic needs. Such factors include loss of job, lack of adequate formal education, lack of alternative payable employment, lack of adequate income sources etc. The findings indicated that 34 SMEs which amount to 97.1% rated agree to strongly agree that push factors cause them enter into business as opposed to 2.9% who remained neutral/undecided.

On the other hand, pull factors are incentives that motivate business entrepreneur to start business. Incentives include profits or additional income, diversification, growth, etc. The researcher found that majority of SMEs were motivated by push factors 75% while pull factors were 25%.

Table 4.3 Push factors cause SMEs to enter into Business

		Frequenc y	Percent	Valid Percent	Cumulative Percent
Valid	undecided or neutral	1	2.9	2.9	2.9
	agree	11	31.4	31.4	34.3
	strongly agree	23	65.7	65.7	100.0
	Total	35	100.0	100.0	

From the above table the findings indicated that push factors motivate SMEs to enter into business in that 65.7% strongly agreed, 31.4% agreed and the rest (2.9%) were undecided/neutral.

4.1.5 MFIs Policies and Practices and SMEs

4.1.6 Business Trainings

The survey revealed that, MFIs mainly provide two types of services to SMEs; financial services and non-financial services. The financial services provided by MFIs are mainly in the form of loans and savings. The non-financial services provided by MFIs are business training and business advice to SMEs. However, it was found that NGO-MFIs only concentrate on loan repayment as focus of their business training and advice rather than business and technical training as opposed to Banking- MFIs which to some extent offer business skills. They rated it as 54.3% agree and 45% strongly agree that the trainings mostly concentrate on loan repayments rather than offering business skills. The research findings revealed that SMEs do not appreciate the services which emanates from a culture of thinking business can be done only if you have capital and the rest are secondary.

Table 4.4 Business Training concentrates on Loan Repayment rather than Business Skills

		Frequenc y	Percent	Valid Percent	Cumulative Percent
Valid	agree	19	54.3	54.3	54.3
	strongly agree	16	45.7	45.7	100.0
	Total	35	100.0	100.0	

Likewise, it was observed that, the trainers were not expert or practitioners in small business operations; they were just credit/loan officers. The pre-loan training offered by most of MFIs was not considered as technical support training by most SMEs owners.

4.1.7 MFIs Loan Repayment Period

The findings indicated that the loan repayment period was too short, and this cause inconveniences to SMEs to SMEs operators as 23 of them, which is 65.7% agree and 8, which is 22.8% strongly agree as opposed to 2 which is 5.7% of them, who disagreed. This is proved by the fact that they were supposed to visit MFIs weekly to make the loan repayment. All SMEs selected agree to strongly agree that the time was very frequent thus limited their growth strategy.

Table 4.5 MFIs Loan Repayment Period is too short, cause Inconvenience to SMEs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	2	5.7	5.7	5.7
	undecided or neutral	2	5.7	5.7	11.4
	agree	23	65.7	65.7	77.1
	strongly agree	8	22.9	22.9	100.0
	Total	35	100.0	100.0	

From the above table it was observed that MFIs loan repayment period was too short as a result it caused inconvenience to SMEs operators. The findings indicated that 65.7% agreed, 22.9% strongly agreed, 5.7% disagreed and again 5.7% of them remained undecided.

4.1.8 Key Elements of Training Necessary and Sufficient for SMEs Development.

The data indicates that the key elements of training are not necessary and sufficient for SMEs development due to the fact that majority of them either disagreed or strongly disagreed rating 71.45% and 14.3% respectively as opposed to 5.8% who agreed. This is supported by the fact that when asked if MFIs policies and practices were for SMEs development, 54.3% disagreed as opposed to 8.6% who agreed.

Table 4.6 Key Elements of Training Necessary and Sufficient for SMEs Development

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	5	14.3	14.3	14.3
	disagree	25	71.4	71.4	85.7
	undecided or neutral	3	8.6	8.6	94.3
	agree	1	2.9	2.9	97.1
	strongly agree	1	2.9	2.9	100.0
	Total	35	100.0	100.0	

4.2.0 Profile of MFIs

Both NGO-MFIs and Banking-MFIs were studied; NGO-MFIs include; SEDA, FINCA-TANZANIA, BRAC-TANZANIA, and PRIDE-TANZANIA. Banking-MFIs include; CRDB BANK PLC, NMB PLC, AZANIA BANK LTD and STANDARD CHARTERED BANK. The researcher looked at the MFIs loan officers' education level, MFIs lending methodology, types of services/products provided by MFIs, MFIs loan repayment schedule, conditions for service accessibility and MFIs loan officers' assessment with regard to SMEs business skills, enterprise culture and education system.

4.2.1 MFIs Loan Officers Education Level

The researcher wanted to know the education qualification of loan officers. The rating started from primary to university level of education. The findings indicated that MFIs loan officers had college and university education level 100%.

Table 4.7 MFIs Loan Officers Education Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Technical /college/ University	9	100.0	100.0	100.0

4.2.2 MFIs Lending Methodology

Findings indicated that both MFIs used two types of lending methodology. Firstly, individual lending, whereby, a person had to own a business and having collateral to pledge. This was the type of methodology which allowed SMEs to ask for bigger loans. The collateral was used as a security. Secondly, group methodology or solidarity group for issuing small loans. The group was used as a security. It was found that most of MFIs used group methodology as compared to individual methodology with the exception of BRAC which insist on individual loans for business men and women.

4.2.3 The Types of Products Provided by MFIs to SMEs

The findings observed that Banking-MFIs provide loans, term loans, overdraft facility, deposit and savings to SMEs. Non- banking MFIs provide capital loans and savings for both individual and group with the exception of BRAC which provide group loans for women only and individual loans for business men and women.

4.2.4 The Necessary Conditions before Accessing MFIs Services

It was observed that SMEs owners had to meet the following before getting access to MFIs services;

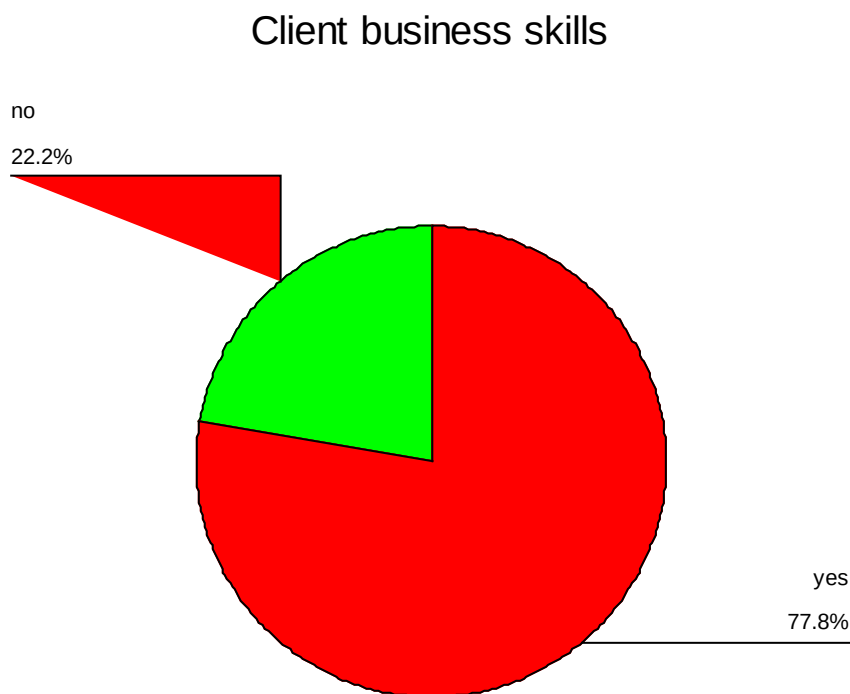
- o Availability of viable business in operation not less than a year,
- o Presence of adequate collateral,
- o Registered with valid business license and TIN number,
- o Stable cash flows,

- o Having a running business with proven returns and
- o Opening an account with a bank for those of banking-MFIs.

4.2.5 SMEs Business Skills

MFIs loan officers were asked to evaluate their clients' business skills. It was observed that about 78.8% of them agreed that their clients have business skills as opposed to 22.2% who did not agree. The reasons for agreement were; the training being provided before they access loan, the training being provided every year, before getting loans they were to prove the existence of a running business and also running the business through experience. The reason for disagreement on the other hand was that most of SMEs operators perform their businesses just based on experience and not entrepreneurship skills.

Figure 4.2 SMEs Business Skills



From the table above, it is revealed that SMEs have adequate business skills acquired through training and experience. But on the other hand the findings show that the MFIs trainings were just based on loan terms and conditions which indicate that they rated to defend their position.

4.2.6 The Creation of an Enterprise Culture

MFIs loan officers were asked to evaluate if Tanzania education system allow the creation of an enterprise culture. The findings indicated 33.3% in favour and 66.7% not in favour. The reasons for agreement were;

- o The introduction of entrepreneurship subject in college and universities but this ignores the fact that most of SMEs operators have low level of education (82.8%).
- o Many NGOs are volunteering to educate the citizens in entrepreneurship and
- o More graduates are conducting entrepreneurship seminars and training.

On the other hand the reasons for disagreement were;

- o Entrepreneurship is taught only in college and universities thus ignoring majority of SMEs(82.8%) as they have low level of education,
- o Absence of emphasis on entrepreneurial thinking and support,
- o The education system prepares students for only white collar job,
- o The education system is too much theoretical, and
- o Lack of specialization.

Table 4.8 Tanzania Education System

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	3	33.3	33.3	33.3
no	6	66.7	66.7	100.0
Total	9	100.0	100.0	

From the table above, it is observed that the Tanzania education system does not allow the creation of an enterprise culture.

4.2.7 Motives for Establishing SMEs from MFIs Perspective

Loan officers were asked to respond to the motives behind SMEs establishment, 77.7% agreed that push factors were behind the scene as oppose to only 11.1% who disagreed and 11.1% who remain undecided.

Table 4.9 Push Factors Motivate SMEs to enter into Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	1	11.1	11.1	11.1
	undecided or neutral	1	11.1	11.1	22.2
	agree	4	44.4	44.4	66.7
	strongly agree	3	33.3	33.3	100.0
	Total	9	100.0	100.0	

From the above table it is observed that most SMEs operators enter into business due to lack of adequate education and difficulty in finding formal employment.

4.3.0 Public Policies and Practices and SMEs

This section covers findings obtained from SMEs, government officials (MCC Community Development Officer and Education Officer). The areas covered were; the role of government in entrepreneurship development, enterprise culture and Tanzania education system.

4.3.1 Government Policies and Practices Improve SMEs Living Standard

The data indicates that 51.4% disagreed and 11.4 strongly disagreed as opposed to 2.9% who agreed and others remained undecided that government policies and practices improved SMEs living standard.

Table 4.10 Government Policies and Practices Improved SMEs Living Standard

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	4	11.4	11.4	11.4
disagree	18	51.4	51.4	62.9
undecided or neutral	12	34.3	34.3	97.1
agree	1	2.9	2.9	100.0
Total	35	100.0	100.0	

4.3.2 The Role played by the Government in the Development of Entrepreneurship in the SME Sector

The findings indicated that the government played an important role in establishing the following; first, strengthened the Small Industry Development Organization, SIDO in giving both business and technical trainings as per SMEs needs. He said: “*SIDO inatoa elimu ama mafunzo kulingana na mahitaji mteja, to mean SIDO provides education or training according to clients’ needs*”. Second, facilitating and enabling SMEs operators especially attending various national and international exhibitions and trade fairs, for instance, The Dar es salaam International Trade Fair and Mwanza East Africa Trade Fair. Lastly, the provision of business loans to women and youth are based on groups. With regard to group loans, he said: “*the only problem we encounter is management within those respective groups, discipline is violated*”. Likewise, the business training were given before one received a loan, as he said; “*we consider and value the importance of training before loan provision*”. Last, the facilitation role by giving business licenses and areas to SMEs to conduct their business operations.

However, he conceded that the loans were not sufficient as per the number of women and youth who were in need and only few SMEs operators are being given opportunity to attend those trade fairs and exhibitions. Due to presence of many people in need of loans, he said: “*biasness is unavoidable*”. Turning to the government loan guarantee scheme, he observed only established

business men and women were able to get the loans. This was due to the fact that the only way to access the loans were through banks, especially NMB and CRDB which required collaterals as security for the loans granted as per their procedures and principles. In this case he said: *“wanaopata mikopo ya serikali (Mabilioni ya Kikwete) sio waliokusudiwa, to mean those who access loans, popularly known as Kikwete billions were not intended”*.

When asked to respond to issues related to the role of government in shaping the values within the culture to enable the creation of an entrepreneurial society, the officer said, by attending to various exhibitions and trade fairs SMEs operators will learn from each other as they composed attendees from both domestic and foreigner countries.

4.3.3 Tanzania Education System and the Creation of an Enterprise Culture?

The findings revealed that the education system in Tanzania is not supportive for entrepreneurship development as it prepares students to be employed by government institutions and private institutions (white collar jobs) rather than preparing students ready for self employment. These were the responses from both government officers, the MCC Community Development Officer and the Education Officer. The Education officer said: *“Education is an important factor for creating values and norms which may enhance an enterprise culture”*. On the other hand, the MCC Community Officer said: *“The education system is not so much intended to make students of any level to be self-employed that is to say it is too much theoretical”*. The education system has tended to create employment seekers rather than job creators. The officers observed that the creation of an enterprise culture will necessitate the changing of the entire existing education system.

4.3.4 MFIs Policies and Practices and SMEs Development

When asked to respond to issues related to MFIs policies and practices toward SME sector development, the MCC Community Development Officer said: *“banking MFIs are to some extent set to help SMEs development as there is no incidence of clients’ domestic properties being taken”*. This was contrary to NGO-MFIs as SMEs owners obtaining services from these companies were in worse situations after failing to pay back the loans as even their domestic households were taken away. He further explained that: *“there are a number of cases reported in all our ward executive officers concerning NGO-MFIs and their clients with regard to loan*

default”. He suggested to the researcher to go and meet with those ward officers for more clarification as they were the very people concerned with conflicts solving.

4.4 Findings from an evaluation of the major SMEs and MFIs Policies toward SMEs Promotion and Development (Policy document).

4.4.1 National Microfinance Policy (2000)

The overall objective of this policy was to establish a basis for the evolution of an efficient and effective microfinance system in the country that serves the low income segment of the society and thereby contribute to economic growth and reduction of poverty (section 2.1).

Policy Weaknesses disclosed

One, the policy insists on credit, savings, payments, and other services. Non-financial services which include among others, entrepreneurship development either is included in other services or is not mentioned at all.

Two, the role of the government in promoting and developing entrepreneurship is not stipulated clearly only to realize the burden shifted to donors and MFIs.

Three, the policy state that MFIs are not required to support the sector, but will be encouraged to learn about such services. So, it is clear that the responsibility of MFIs is just on credit and savings, entrepreneurship promotion is left on MFIs will to do or not to do.

Four, there are no specific regulations or procedures for coordination, tracking and analysis of MFIs activities toward SMEs and entrepreneurship promotion.

Five, the local and central government is not involved in administering the development, application and implementation of standards. For MFIs, standards address mainly three broad areas; out-reach to clients, institutional development and financial performance.

Lastly, no intervention in product development, delivery methodology, loan terms and conditions as well as pricing, the pricing is set by respective MFIs.

4.4.2 Small and Medium Enterprises Development Policy, 2002

The policy preparation process includes government officials (different Zones) and international organizations. The policy recognizes (in chapter one) that one of the major obstacle for viable SME sector, which is persistent culture that has not recognized the value of entrepreneurial initiative in improving the lives of the people. The policy also recognized the fact that SMEs have lower demand for business development services such as training, counseling, advising and consultancy due to cost considerations and lack of knowledge about the benefits of external services in improving competitiveness.

Policy Weaknesses disclosed

One, the policy rely on the infusion/provision of capital as a solution to SMEs problems as opposed to human capital as shown in its Credit Guarantee Scheme and MKUKUTA,

Two, the policy preparation process was not participatory, as it excludes potential stakeholders with particular reference to SME and MFI operators in that they are the main target.

Three, the policy does not direct what should be done to address SMEs problems, for example the lack of entrepreneurship development.

Four, the policy recognized SMEs to have lower demand for training, counseling, advising and consulting but it does not state that these elements are necessary and sufficient for sector development. The policy should inform SMEs on the importance of these elements and state what should be done to impart these skills to SMEs operators rather than just insisting on the provision of financial services.

Five, the policy lack coordinated programmes and intervention aimed at supporting the sector. For example no clear connection between this policy and MFI Policy, 2001.

Lastly, strong or viable SME sector is a result of having a well-designed policy which put in place clear guidance, focused visions, and appropriate strategies.

4.5 Chapter Summary

The chapter dealt with the presentation of findings and analysis. The data were processed and interpreted based on SPSS computer software; tables, charts, frequencies and percentages were

used to summarize the data for easy understanding. Research findings were obtained from 46 respondents; 35 SMEs owner managers, 9 MFIs loan officers and 2 government officials through questionnaires and interviews. The study took place in Mwanza, covering both urban and some rural areas. SMEs covered were those established between 2000 and 2009.

Likewise, push factors motivated SMEs owner managers to enter into business. MFIs business trainings were found to concentrate on loan terms and conditions. Trainers were not experts in small business operations and the MFIs preferred group lending methodology. It was observed that SMEs owner managers had to have a viable business, adequate security and an account before getting access to MFIs services/products. MFIs policies and practices were found to be self centered while Tanzania education system was found to be an obstacle towards creation of an entrepreneurial society. Generally, SMEs and MFIs policies are not geared toward creating an entrepreneurial society and taking entrepreneurship as a career option.

CHAPTER FIVE:

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

In this chapter, the researcher focuses on the interpretations, implications, conclusions and recommendations of the findings from the study based on the research objectives.

5.1 Summary

As explained previously, the purpose of this study is to examine policies and practices toward promoting SME development in Mwanza, Tanzania. To attain this goal, the researcher put forth three specific objectives. First, was to examine public policy and practices regarding SMEs development. The second objective was to examine MFIs policies and practices toward SMEs development, and finally, the study examined Tanzania enterprise culture toward promoting SMEs development.

Data was collected from 35 SMEs, 9 MFIs loan officers and 2 government officials. From the review of related literature, the study identified several factors that are potential for SME sector development. It should be noted that there is nothing automatic about the formation and development of a successful small business. It has to be planned, managed and nurtured from the top against a seemingly endless array of internal and external constraints. Likewise, microfinance is not a magic sky-hook that reaches down to pluck the poor out of poverty. It can, however, be a strategically vital platform that the poor can use to raise their own prospects for an escape from poverty. The important role of the government should be in promoting and facilitating the growth of SMEs and support local entrepreneurs.

This study found that SMEs are established and motivated by push factors. This implies that most of the SMEs operators enter into business undertakings because all other alternatives have proved futile. Second, Tanzanian education system may limit the creation of an entrepreneurial society. This implies that most of the SMEs operators run their businesses out of experience and through trial and error. Third, MFIs policies and practices might not be directed toward SME sector development. This implies that MFIs may not be a vital tool toward SME sector development as well as a poverty reduction tool amongst the poor people. Also MFIs policies put

more emphasis on provision of loans to SMEs. Lastly, public policies and practices might not be focusing toward SME sector development.

The findings support the argument put forth by Beaver and Jennings (1996) that, if business start ups are a desperate response to unemployment, as is the case in Mwanza, Tanzania, rather than based on sound principles, education, training, strategic awareness programs and entrepreneurship orientation, the committed fashioning, and management of competitive advantage, it is inevitable that many firms will fail.

5.2 Discussion

5.2.1 SMEs and Entrepreneurship Promotion

From the findings in chapter four, it can be observed that SME sector in Mwanza is dominated by females, who constitute 60% compared to 40% for males. It was also observed that SMEs owners ranged from 20 years to 50 years of age. This does not correspond to other studies done in Tanzania, especially Dar es salaam (Mfaume and Leonard, 2004; Kuzilwa 2003; and Mbwambo, 2003) who assert that most of SMEs operators were male (56%). This study may provide a partial support to the study done by Chijinga (2011) which found that women businesses are not sustainable as compared to men.

Human beings have various demands on them and these demands shape their priorities and motivations for starting business. It was observed that push factors unlike pull factors were behind SMEs establishment. For a person, who engages in business as a way of securing employment, popularly known as “*unfriendly push syndrome*” or the “*no alternative syndrome*” which may have no intention or desire to maximize profit or growth for himself or herself profit is not as a high priority as those with purely income motives (Birley and Norburn, 1986).

The findings indicated that 97.5% of SMEs operators rated agree to strongly agree that push factors cause them to enter into business. Similarly; loan officers were asked to respond to the motives behind SMEs establishment, and 77.7% of them agreed that push factors were behind the scene. Most SMEs operators enter into businesses due to lack of adequate formal education, and difficulty in finding formal employment and lack of alternative payable employment. The result is consistent with a study done by Barron (2003) which found entrepreneurs had no clue on how to run businesses and had no underlying appreciation of business fundamental.

The result above is contrary to a study done by Schreiner (1999) which found entrepreneurs who were successful had experience, education and skills. It should be noted that firms motivated by pull factors had more potential to generate higher profits as opposed to push factors. The objectives for establishing a business have an influence on the operation of the business, and in turn, an influence on the profitability of the business. The whole scenario implies that majority of SMEs operators enter into this sector as the last resort for them to earn a living.

Likewise, the researcher found that the SME sector in Mwanza is dominated by primary and ordinary secondary school leavers having no business acumen to self-promote with 82.8%. The results are not different to those done in Tanzania by Mfaume and Leonard (2004) who found primary school leavers leading by 73%. The current results contradict with a study done by Birley and Norburn (1986) which found entrepreneur to be well educated, if not better educated than the population in general. The result also contradict with Mueller and Thomas, 2001; Morris et al. 1996; and Rwigema and Venter, 2004 which found entrepreneurs to be more of opportunity driven, innovative, change-oriented, dynamic, formal, professional and strategic.

5.2.2 MFIs Policies and Practices toward SMEs Development

The survey revealed that, MFIs mainly provide two types of services to SMEs; financial services and non-financial services. The financial services provided by MFIs are mainly in the form of loans and savings. The non-financial services claimed to be provided by MFIs are business training and business advice to SMEs. However, it was found that NGO-MFIs only concentrate on loan repayment as a focus of their business training and advice rather than business training as opposed to Banking- MFIs which to some extent offer business skills. About 98.3% agreed that much of the trainings concentrated on loan repayments rather than offering business skills. This result support that fact that lack of appropriate education and training leads to skills shortages and thus hinder entrepreneurship (Pretorius and Shaw, 2004; Ligthelm and Cant, 2002; and Tustin, 2001, 2003).

The research findings revealed that SMEs do not appreciate the services which emanate from a culture of thinking that business can be done only if they have capital and the rest are secondary. This kind of thinking from both MFIs and SMEs operators is contrary to what Schumpeter (1976) considers an entrepreneur to be; a person who identifies a market opportunity and transforms it into profitable economic value. In his view, entrepreneurship is seen as quality of a

person, in both attitudes, takes responsibility for risk outcomes and behavior. This also contradicts with work done by GEM (2005) which found education and training to be key elements in successful venture creation.

Also, it was observed that the trainers were not expert or practitioners in small business operations; they were just credit/loan officers. The pre-loan training offered by most of MFIs was not considered as technical support training by most SMEs owners. This negates the fact that SMEs flourish when the context is right and the entrepreneur is ready as pointed out by Schumpeter 1976. Observations such as these all seem to suggest that ultimately the key players do not have the talent and abilities necessary to succeed. Microenterprises' education and training to SMEs operators should significantly improve performance and empowerment as suggested by (Dumas 2001; Cook et al 2001; and Edgamb 2002).

Moreover, the findings indicated that the loan repayment period was too short, thus cause inconveniences to SMEs and SMEs operators as 88.5% agreed strongly. This is proved by the fact that they were supposed to visit MFIs weekly to make the loan repayment. All SMEs selected agree to strongly agree that the time was very frequent thus limit their growth strategy.

The data indicates that the key elements of training are not necessary and sufficient for SMEs development due to the fact that majority of them disagreed (84.48%). This is supported by the fact that when asked if MFIs policies and practices were for SMEs development, 54.3% disagreed. This negates the fact that Zimmer and Norman (1996) described entrepreneurship as a result of being disciplined and systematic in the whole process of applying creativity and innovation to needs and opportunities in the market place.

Furthermore, it was found that MFIs training programs build loan repayment spirit rather than business expertise in which 57.1% agreed and 42.9% strongly agreed. This was the response from SMEs owner managers. In order to get consistent results, MFIs loan officers were asked if MFIs group loans just solve immediate family problems. About 66.6% agreed. This proves the fact that many MFIs may not be a tool for SMEs development and poverty reduction in general. This is consistent with studies done by (Barron, 2003 and Brink, 1997) who surveyed small business failure and maintained that entrepreneurs often have good ideas but they don't have a clue on how to run a business and have no underlying appreciation of business fundamentals.

On whether government policies and practices have improved their lives, the data indicates that 62.8% disagreed. This is consistent with a study done by Dimoso and Masanyiwa (2010) on the contribution of micro finances to poverty reduction in Tanzania, which found very minimal contribution to SMEs due to difficult conditions they face in accessing and servicing loans.

MFIs loan officers were asked to evaluate their clients' business skills. It was observed that about 78.8% of them agreed that their clients have business skills as opposed to 22.2% who did not agree. The reasons for agreement were; the training being provided before they access loan, the training being provided every year, before getting the loans they were to prove the existence of a running business and also running the business through experience. However, these reasons were just to defend MFIs interest as SMEs themselves revealed the lack of business know how. The reason for disagreement on the other hand was that most of SMEs operators perform their businesses just based on experience and not entrepreneurship skills.

5.2.3 Public Policies and Practices toward SMEs Development.

The findings of the study revealed that the education system in Tanzania is non supportive for entrepreneurship development as it prepares students to be employed by government institutions and private institutions (white collar jobs) rather than preparing students for self employment. These were the responses from both government officers, the MCC Community Development Officer and the Education Officer. The Education officer said: *"Education is an important factor for creating values and norms which may enhance an enterprise culture"*. On the other hand, the MCC Community Officer said: *"The education system is not so much intended to make students of any level to be self-employed that is to say it is too much theoretical"*. Education system has tended to create employment seekers rather than job creators. The officers observed that the creation of an enterprise culture will necessitate the changing of the entire existing education system.

The study maintains that the creation of an enterprise culture will necessitate the changing of the entire existing education system. This supports Ireland et al. (2001) who find entrepreneurship expected to be constrained in countries with socialism movement activity that advocates the values and norms of the previous socialist system. Also, education system should overlap with culture (Stevenson and Lundstrom, 2001). This negates the fact that cultural transformation should necessitate active intervention of the state as urged by Marquand (1992).

Entrepreneurship is created by a combination of three factors; opportunities, skilled people and resources (Ahmad and Hoffman, 2007).

When asked to respond to issues related to MFIs policies and practices toward SME sector development, the MCC Community Development Officer said: *“banking MFIs are to some extent set to help SMEs development as there is no incidence of clients’ domestic properties being taken”*. This was contrary to NGO-MFIs as SMEs owners obtaining services from these companies were in worse situations after failing to pay back the loans as even their domestic households were taken away. The development officer further explained that: *“there are a number of cases reported in all our ward executive officers concerning NGO-MFIs and their clients with regard to loan default”*. He suggested to the researcher to go and meet with those ward officers for more clarification as they were the very people concerned with conflicts solving.

On the other hand an examination of various government policies and practices (Microfinance Policy 2000, SMEs Development Policy 2002, and The National Poverty Eradication Strategies) with regard to SMEs and MFIs and entrepreneurship development revealed the following hindrances;

1. The government is not involved in administering the development and application of standards as per its MFIs policy of 2001. For MFIs, standards need to address mainly three broad areas; out-reach to clients, institutional development and financial performance. During the interview with the MCC Community Development Officer, it was revealed that MFIs especially NGO-MFIs are not for SME sector development rather than just exploiting them. This is due to the fact that most SME operators were in worse situation after getting loans from these institutions even than before as their domestic properties were taken. These were proved by both SMEs operators and the respective officer. While MFIs are enjoying high profits, SMEs lose on both sides. Under such circumstances, SMEs and entrepreneurship promotion will be very much limited.

2. No interference in product development, delivery methodology, loan terms and pricing. The pricing is set by respective MFIs themselves, not by the government, Bank of Tanzania or donor. This has resulted into charging excessive interest rates of more than 36% by some MFIs (observation from the field). The reason for the lack of interference was based on the fact that

they are not allowed to mobilize savings from their customers. This limits SMEs and entrepreneurship promotion as MFIs look only for their interest first and SMEs later on.

3. The emphasis is placed on financial services only, including savings, credit, payments and other services which are not mentioned and no or little emphases on entrepreneurship training and education. This supports the study done by Paulson and Townsend (2004) which found developing countries treating human capital as fixed and focused instead on financial constraints as opposed to developed countries belief that treat human capital as not fixed. However, Stevenson and Lundstrom (2001) pointed out that government intervention helps shape positive attitude towards SMEs by introducing entrepreneurship elements in education system and paying attention to entrepreneurship to the media.

4. Tanzania is one of the countries that have undergone or undertaken notable reforms in public administration, and gained some positive improvements in the business environment. However, these improvements are not enough to sustain economic development as well as enhance the competitiveness of the economy. From the research findings, there is clear evidence that the existence of some inadequate business factors has obstructed the development of a business environment. These business factors include; a poor level of technology development, unskilled labour and inadequate quality of business support services for technology and information. The current unfavourable business environment does not allow SMEs to utilize their creativity and undertaken further business expansion. Moreover, the results of this study indicate that SMEs are neglected by consulting firms; hence, there is a gap between SMEs needs and the services available to SMEs.

5.2.4 Tanzania Enterprise Culture and SMEs Development

Since Tanzania was once a socialist State, this by itself hinders the development of business ideas, as few people popularly known as central planners were given a mandate to plan for the country. This also was and is reflected in the norms and values as people or students are just prepared for white collar job, hence limit the creation of a business culture. This has been proved by the fact that most of SMEs operators cited push factors motivating them to enter into business undertakings.

Likewise, SMEs operators ignored the importance of having necessary business skills which as a matter of fact is derived from trainings and education from either MFIs or education system. SMEs operators cited the need for only capital to either start or expand their businesses. This is due to the fact that majority of SMEs owners are primary school leavers, so they have no clue of what it takes to be an entrepreneur as entrepreneurship is taught in college and universities. Likewise, even those who attended the MFIs training were not different from others due to the fact that most of the training concentrated on loan terms and conditions as opposed to offering business skills.

The study is consistent with Ireland et al. (2001) who find SMEs development and entrepreneurship expected to be constrained in countries with socialism movement activity that advocates the values and norms of the previous socialist system. However, the study is contrary to what Reynolds et al. (1999) found on their international benchmarking study of entrepreneurial activity recommending that governments should focus their effort on creating a culture that validates and promotes SMEs and entrepreneurship throughout society and develops a capacity within the population to recognize and pursue opportunity.

A key reason for such attention is the recognition that cultural transformation necessitates active intervention of the state (Marquand, 1992). FINCA did a study in Peru and finds strong benefits for both the client (SMEs) and the MFIs. The client shows improved business processes and knowledge and increased sales after receiving the training compared to the control group which did not receive the training. Also MFIs had direct benefits through higher repayment and client retention rates (Dean and Valdivia, 2006).

5.3 Conclusions

A critical factor in SME sector development in Mwanza is the recognition that SMEs development should not be taken as a strategic tool as opposed to desperate response to unemployment. The research examined policies and practices toward promoting SMEs development in Mwanza, Tanzania. The most important findings are as follows; the research finds that the establishment of SMEs is motivated by push factors and most of the operators are primary and secondary school leavers. This motive by itself is an obstacle to SMEs development as key players have no clue of what it takes to be an entrepreneur.

The research also finds that Tanzania education system limit the creation of an enterprise culture as it prepared people for white collar job. This implies that business is done through experience, as well as trial and error, as most of SMEs' operators enter into this business believing that this kind of economic activity can be done by everyone so long as capital is available. However, this is a mistaken idea due to the fact that successful businesses require not only capital but business expertise.

Similarly, the study finds that in MFIs most policies and practices are not focused toward SMEs development. This is due to the fact that the only criteria to assess MFIs' performance is based on how many customers have been reached (customer out-reach) and how much have been granted as loans or credits (loan-base). No or minimal assessment is done to see how SMEs have been imparted with business skills and the benefits realized as a result of MFIs services.

Lastly, government policies and practices are not geared toward SMEs and entrepreneurship development as most policies are directed toward financial assistance to facilitate the SME sector. Critical issues like the importance of entrepreneurial or enterprise culture promotion for a viable SME sector is not addressed. Also, the application, implementation and impact assessment of these policies are left to the MFIs unlike the banking sector which is under control of central bank of Tanzania. This is why MFIs are flourishing in their performance year after year while their counterpart, SMEs are not.

5.4 Recommendations

Based on the above findings and implications, in order to create value out of SME sector, the following recommendations are made:

One: There is a need to introduce entrepreneurial education in schools from primary, in order to cultivate an enterprise culture so that individuals can be created and made better by acquiring, developing and refining certain behavior.

Two: There is a need for government policies and practices to be restructured in such a way that targeted SMEs challenges are addressed and dealt with, especially on the fact that acquiring and developing entrepreneurial competencies is more important than even direct provision of financial services. This necessitates the establishment of SMEs and Entrepreneurship Development Policy.

Three: MFIs should restructure their training contents to include among others; improving SMEs business skills, emphasis on individual lending methodology, organize regular business training for SMEs and qualified training institutions should conduct these trainings. This will enable MFIs to increase loan repayment and customers' retention rates and SMEs profits.

Four: A grace period for group loans should be extended from one or two weeks to at least a month so that money returned by SMEs operators to MFIs may come from the profit generated by loan investments.

Five: MFIs should be flexible enough by raising the minimum base loans to reflect changes in the value of money over time. Also, formulate flexible payment conditions, such that the payments schedule should be flexible enough to comply with borrowers economic activities and at the same time help those who are poor to afford loans and make success out of them.

Six: Suggestions for future researchers; - Future researchers should examine public policies and practices fostering entrepreneurship and the macro economy development, secondly, the local and central government taxation system to SMEs. This has been the cry of many SMEs managers mentioning multiple taxes as obstacles for the sector. Thirdly, the reasonable interest rates that should be charged by MFIs to SMEs that would cater for the operating expenses of MFIs and at the same time facilitate the growth and development of SMEs sector.

5.5 Limitations and Delimitations

The sample of the study may not be representative of the entire SME sector, but this does not limit the conclusion. In addition, the specified time for conducting the research was not sufficient hence; this limited the collection of adequate data. Lastly, many respondents particularly SMEs owner managers were not able to understand English, therefore the researcher had to translate into Kiswahili. In order to reduce its effects on the findings, the researcher used his own judgment to select only relevant respondents.

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Appendices

Appendix 1

Introduction Letter

TO WHOM IT MAY CONCERN,

RE: REQUEST TO GRANT AUDIENCE/RESPONSE ON A GRADUATE SCHOOL SURVEY QUESTIONNAIRE.

As a partial fulfillment of the Masters of Commerce degree program, The Strathmore University School of Graduate Studies (SGS) requires the graduate students to carry out a research project/thesis on different current subjects.

The study will examine policies and practices toward promoting SMEs and entrepreneurship development in Mwanza, Tanzania. It will be of importance to policy makers, MFIs and SMEs. The information obtained during the survey will be kept as confidential and used only for the intended purpose.

The questionnaire attached is in three forms; SMEs, MFIs policies and practices, and government ministries officials. It comprises simple closed and open statement aimed at obtaining the intended view from a variety of stakeholders covering a period from 2000 to 2009.

Hope positive cooperation in completion of the questionnaire and for the fulfillment of the study.

SAUT,

BOX 307, MWANZA-TZ,

MOBILE: 0784408457,

E-MAIL: phinnyfredy@yahoo.com.

Yours faithfully,

Ntakabanyula Phinias Fredrick.

Appendix 2
Questionnaire

PART ONE- SMEs

For statistical purpose only, Place a tick where appropriate

1. Respondent name or number -----
2. Gender : Male ☐ Female ☐
3. Age of respondent-----
4. Acquired education level:
No schooling ☐ Primary School ☐
Secondary School ☐ High School ☐
Technical/College/ University ☐
5. Years in business-----
6. Total number of employees-----
7. Estimated annual profits-----
8. The nature of business (Industry type)-----
9. Motives for starting a business venture-----

10. The roles played (SMEs owners/managers) in order to facilitate business skills and operations-----

11. The source of initial capital?
Personal source/friends/relatives ☐
Banking financial institutions ☐
Non banking financial institutions ☐

Likert Scale Instrument

For each of the following statement below, please indicate the choice and the extent of agreement or disagreement by circling the appropriate number.

The response scale is as follows;

1. Strongly Disagree
2. Disagree
3. Undecided or Neutral
4. Agree
5. Strongly Agree

STATEMENT CATEGORY: SMEs	SCALE	FOR OFFICE USE ONLY
12. Present microfinance institutions policies and practices are necessary and sufficient toward SMEs development	1 2 3 4 5	
13. The key elements of training before granting loans/credits are necessary and sufficient for SMEs development.	1 2 3 4 5	
14. The current government policies and practices have significantly improved the standard of living of SMEs.	1 2 3 4 5	
15. Microfinance institutions' lending methodology based on groups is suitable for SME sector development.	1 2 3 4 5	
16. Microfinance institutions are important tools for poverty alleviation among SMEs.	1 2 3 4 5	
17. Microfinance institutions have the capability to provide credits/loans to SMEs.	1 2 3 4 5	
18. Microfinance institutions loan repayment period is too short, thus, cause inconvenience to SMEs operators	1 2 3 4 5	
19. Microfinance institutions offer too small loan sizes to SMEs hence limit their growth strategy	1 2 3 4 5	

20. Microfinance institutions offer loans associated with high interest rate.	1 2 3 4 5	
21. Microfinance institutions loan officers are not suitable for provision of business training to SMEs.	1 2 3 4 5	
22. Business training concentrates more on familiarizing the clients with loan terms and conditions rather than providing business skills.	1 2 3 4 5	
23. Microfinance institutions training and practices build up the spirit of loan repayment rather than business expertise and growth among SMEs	1 2 3 4 5	
24. The required weekly reporting to microfinance institutions offices is very frequent which consume a lot of productive time and hence reduce the time they could concentrate on other productive activities	1 2 3 4 5	
25. Qualified training institutions should provide business training rather than the present microfinance loan officers.	1 2 3 4 5	
26. Push factors (i.e. loss of jobs, lack of formal employment, lack of adequate income) mostly cause SMEs to enter into business.	1 2 3 4 5	
27. Education is not an important factor for entrepreneurship development	1 2 3 4 5	
28. Entrepreneurship education will facilitate SMEs effectiveness	1 2 3 4 5	
29. In order to have a vibrant SME sector entrepreneurship should be integrated in the education curriculum.	1 2 3 4 5	

PART TWO.

Microfinance Institutions (NGOs-MFIs, Banking-MFIs and MB-MFIs) Policies and Practices

You are kindly requested to mark a tick in the box or provide a brief explanation in the space provided.

1. Name of the company -----

2. The number of employees-----

3. Qualification of employees

No schooling ☐ Primary School ☐

Secondary School ☐ High School ☐

Technical / College / University ☐

4. The company's lending methodology (i.e. individual, group, initial and final loans) -----

5. Types of services/products provided to SMEs?-----

6. The necessary conditions before accessing services.-----

7. Assess Tanzania education system and the creation of an enterprise culture with particular reference to Mwanza SMEs?-----

Likert Scale Instrument

For each of the following statement below, please indicate the choice and the extent of agreement or disagreement by circling the appropriate number.

The response scale is as follows;

1. Strongly Disagree
2. Disagree
3. Undecided or Neutral
4. Agree
5. Strongly Agree

STATEMENT CATEGORY: MICROFINANCE INSTITUTIONS	SCALE	FOR OFFICE USE ONLY
8. SMEs know exactly how to separate the business and home finances.	1 2 3 4 5	
9. SMEs training programs should specialize not only on financial services but also non financial services.	1 2 3 4 5	
10. Present microfinance institutions policies and practices are necessary and sufficient toward SMEs development.	1 2 3 4 5	
11. The key elements of training before granting loans/credits are necessary and sufficient for SMEs development.	1 2 3 4 5	
12. Microfinance institutions lending methodology based on groups is not suitable for SMEs development.	1 2 3 4 5	
13. Microfinance institutions loan repayment period is too short this may cause inconveniences to SMEs operators.	1 2 3 4 5	
14. Microfinance institutions offer inadequate loan sizes to SMEs hence limit their growth strategy.	1 2 3 4 5	
15. Microfinance institutions loan officers are not suitable for	1 2 3 4 5	

the provision of training to SMEs.		
16. Business training concentrates on familiarizing clients with loan terms and conditions rather than providing business skills.	1 2 3 4 5	
17. Microfinance institutions may not be an effective poverty alleviation strategy amongst SMEs	1 2 3 4 5	
18. Microfinance institutions terms and conditions discourage SMEs development.	1 2 3 4 5	
19. Loans/credits provided by microfinance institutions make SMEs more dependants.	1 2 3 4 5	
20. Group loans provided by microfinance institutions involves small amount of money which in most cases is used to solve immediate family problems rather than being allocated to productive activities.	1 2 3 4 5	
21. Push factors (i.e. loss of jobs, lack of formal employment, lack of adequate income) mostly cause SMEs to enter into business.	1 2 3 4 5	
22. In order to have a vibrant SME sector, entrepreneurship should be integrated in the education curriculum.	1 2 3 4 5	

PART THREE

Public Policies and Practices on SMEs promotion. The study mainly focuses on Micro and Small Businesses/Enterprises.

Please answer the questions attached below, put a tick where appropriate.

23. What role(s) has the government played in the promotion and development of SME sector in Mwanza, Tanzania?-----

24. Creating an entrepreneurial society necessitate changes in the values within the culture. What measures have been taken by the government to shape these values in Mwanza, Tanzania?-----

25. What is your assessment of Tanzania education system in the creation of an enterprise culture?-----

26. SME sector is still in infant stage, underdeveloped and experiencing high drop-out rates. What should be done by stakeholders to promote SMEs and entrepreneurship development in Mwanza, Tanzania?-----

27. As part of poverty reduction and alleviation strategies, Tanzanian government in 2010 spent almost 48 billion TZS as loans to SMEs. Assess this strategy towards promoting SMEs and entrepreneurship in Mwanza, Tanzania? -----

28. What kinds of SMEs or entrepreneurial promotion activities are taking place in Tanzania?-----

Appendix 3

MFIs investigated in Mwanza, Tanzania.

S/NO	Company Name	Symbol
1.	Cooperative and Rural Development Bank PLC	CRDB BANK PLC
2.	National Microfinance Bank PLC	NMB PLC
3.	AZANIA BANK	AB
4.	Standard Chartered Bank	-
5.	Small Enterprises Development Assistance-Tanzania	SEDA-TZ
6.	Foundation for International Community Assistance-Tanzania	FINCA-TZ
7.	Bangladesh Rural Advancement Committee-Tanzania	BRAC-TZ
8.	Promotion of Rural Initiative and Development Enterprises Ltd	PRIDE-TZ

Appendix 4

Tanzanian SMEs Policies and Measures

1. The National Micro Finance Policy, 2000.
2. SMEs Development Policy, 2002.
3. The National Strategy for Growth and Poverty Reduction (MKUKUTA).
4. The Property and Business Formalization Program (MKURABITA).
5. SMEs Credit Guarantee Scheme.

Note: The first two are the major SMEs Policies, the rest are measures to enforce the policies.