

**PREVAILING CHALLENGES AFFECTING PERFORMANCE OF MICRO,
SMALL AND MEDIUM ENTERPRISES IN TANGA URBAN**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR AWARD OF MASTERS DEGREE IN BUSINESS
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2025

CERTIFICATION

We undersigned certified that we have read and hereby recommend for acceptance by the Open University, a dissertation entitled “**Prevailing Challenges Affecting Performance of Micro, Small and Medium Enterprises in Tanga Urban**” in partial fulfilment of the requirements for the award of Degree of Masters in Business Administration of the Open University of Tanzania.

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(Supervisor)

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DECLARATION

I, **Buduka Omary**, declare that, the work presented in this dissertation is original. It has never been presented to any other University or Institution. Where other people's works have been used, references have been provided. It is in this regard that I declare this work as originally mine. It is hereby presented in fulfilment of the requirement for the Master of Business Administration of the Open University of Tanzania.

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Signature

.....

Date

DEDICATION

This work is dedicated to all my friends and family for their love and support.

ACKNOWLEDGEMENT

The preparation and writing of this dissertation has been the most important challenges to me, thus it could be very difficult to accomplish this research without support from the following people whom I owe deepest gratitude for the completeness of the study.

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ABSTRACT

This study explored the prevailing challenges affecting the performance of Micro, Small, And Medium enterprises (SMEs) in Tanga urban, specifically in Mgandini, Ngamiani, and Streets 15 and 16. The study aimed to assess the impact of procedures for accessing microcredit services, examine the role of government and non-governmental organizations in promoting SME growth, evaluate the effects of working capital loans, and investigate the influence of technological change and innovation on SME performance. The research was guided by Agency Theory and Institutional Behaviour Theory. Data was collected through questionnaires from 50 randomly selected respondents and analyzed using SPSS. Findings revealed that the loan procedures offered by microcredit institutions are often complex and not aligned with the needs of SME owners. Respondents indicated limited support from government institutions in raising awareness and providing relevant business information. Furthermore, inadequate knowledge about technological changes, market dynamics, and microcredit services were major obstacles to business development. Other significant challenges identified include misallocation of funds, rigid credit policies, and poor access to domestic markets. The study concludes that addressing these barriers is essential for SME performance improvement. It recommends regular engagement between SMEs and stakeholders, enhanced information sharing, and a review of loan policies by financial institutions to better support business growth.

Key words: Capital, technological, training and regulatory

LIST OF ACRONYMS AND ABBREVIATIONS

GDP	Gross Domestic Product
MFI	Microfinance Financial Institutions
MSE	Micro and Small Enterprises
MTI	Ministry of Trade and Investment
NGO	Non-Governmental Organization
NIGP	National Income Generation Program
NMB	Bank PLC
SACCOS	Savings and Credit Cooperative Society
SIDO	Small Industry Development Organization
SME	Small and Medium Enterprises
TBCo	Tanzania Business Community
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
TRA	Tanzania Revenue Authority
UNIDO	United Nations Industry Organization
URT	United Republic of Tanzania

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Problem

Micro, Small, and Medium Enterprises (SMEs) play a critical role in the economic development of both developed and developing nations. Globally, SMEs are widely acknowledged as engines of innovation, employment creation, poverty alleviation, and inclusive economic growth. According to the World Bank (2022), SMEs represent about 90% of businesses and more than 50% of employment worldwide. They are instrumental in driving entrepreneurship and innovation, especially in emerging markets. However, despite their significance, SMEs consistently face numerous challenges that hinder their growth, sustainability, and competitiveness. These challenges include limited access to finance, poor infrastructure, inadequate business skills, regulatory bottlenecks, and limited access to markets and technology (OECD, 2017; IFC, 2021). These constraints have been exacerbated in recent years by global uncertainties, such as the COVID-19 pandemic and supply chain disruptions, which disproportionately affected small businesses due to their limited resilience and resources (UNCTAD, 2021).

In African, SMEs are even more vital to economic transformation, accounting for about 80% of jobs across the continent and contributing significantly to GDP (AfDB, 2020). They are central to achieving inclusive growth and reducing dependency on the formal public sector. However, African SMEs face a unique set of challenges that limit their contribution to sustainable development. Structural issues such as weak

institutions, bureaucratic red tape, lack of adequate financing mechanisms, unreliable electricity and transport infrastructure, and political instability in some regions continue to pose significant barriers (World Bank, 2021; Asare et al., 2015). Additionally, most African SMEs operate in the informal sector, limiting their access to formal credit systems, legal protections, and public procurement opportunities (OECD, 2020). The continent's slow digital transformation and technological gaps further reduce SME competitiveness in a rapidly digitizing global economy (ITU, 2022).

In Tanzania, Small and Medium Enterprise SMEs has been providing a vibrant role in the economy and are estimated to contribute 35% of the Gross Domestic Product (GDP) and employ about 30% of persons from rural and urban areas in the country and it has been categorized differently from one country and another depending on economic perspective. Wangle (1999). It depicts that, there has been growth of SMEs between 1990s to date in Tanzania due to adoption of economic reforms and clear stated of legal interpretation of SMEs that was revealed according to the need and growth of the country's economy perspective that sets as a catalyst for driving innovation in the sector.

In Tanzania, initiatives and various measures have been taken by the Government through Ministry of Trade and Investment (MTI) involving international and local stakeholders in sanitizing implementation of SMEs policy since 2002 in the country. The implementation helped to identify concisely meaning of the term MSMEs implicitly to cover a large promotion of enterprises segments in the country. According to UNIDO (2012) The SMEs implementation and initiatives by the

Government was intending to focus and realize the economic vision to 2025 as a development plan including Tanga region. The study is specifically focusing on the predominant socio - economic outlook found in the region and the way they can help to promote and sensitize private sector including SMEs performance. In this respect, the study also takes cognisance of the view that the SME policy as reviewed is a combined findings of analysis that contribute in the development of economic activities in Tanzania.

Despite the growth in SMEs as verified by various researchers, development partners and Non-Governmental Organizations (NGOs), the Government through the Ministry of Industry and Trade (MIT) have not been vigorously provided favourable business environment and incentives for the sake of stimulating higher development of the sector especially in Tanga. UNIDO. (1999), precisely sensitizing and helping the small businesses to grow, the Government of Tanzania introduced institutional framework so as to boost development of the sector. The Small Industries Development Organization (SIDO) is found almost in every region in the country but is still struggling and facing a lot of challenges to pave a way for small business manufacturers to grow. The Law establishing SIDO sets out that the institution will provide business advisory and credit but it seems the institution is now funding itself. UNIDO (1999), consequently narrates that the role played by SMEs sector is guaranteeing job security and maintaining sustainability and growth the economy of the country. SMEs in Tanga however, face challenges that limit their ability to effective performance, sales in Tanga market is declining due to growing competition from foreign firms especially Mombasa Kenya. Customers in Tanga are

able to access foreign suppliers which in turn the later distort and reduce local demand, hence something must be done by the Small Industry Development Organization (SIDO) in helping business owners in Tanga to internationalize their operational activities to protect internal market in the region.

On the other hand, there are increased numbers of financial institutions (Banks) and financial services such as savings and credit cooperative Society (SACCOS) in Tanga urban. Banks like National Microfinance Bank (NMB PLC), CRDB LTD, NBC Bank, Diamond Trust Bank (DTB), Barclays Bank, Exim Bank and Amana Bank. Recently Small business owners in Tanga City can use these institutions to boost their business depending to their potentials in Tanga city because the situation is different compared to the previous perception of 1970's to 1990's respectively.

Despite the fact Tanga City is located on the shores of Indian Ocean in Northern east Tanzania it has been attracting huge number of investors which is considered as a catalyst for development of SME's in the region and backbone for economic growth compared to increase of population as well. In National Bureau of Statistics NBS (2012), it gives the clarity about total number of people in Tanga City that is estimated to be 273,332 hence the number expected to increase and pave a way for increase small business owners for the sake of neutralizing more identified potentials in the urban areas.

To convey and address the intended goal of the study the research was directly dealing with the businesses existing for more than one year to 2018. Precisely the research was dealing with various owned businesses like retail shops, wholesale

shops, restaurants and woods. The research observed lack of good customer service excellence between these businesses owner, which in turn may distort their businesses.

Despite the above circumstance, there must be more efforts to revive major production and service sectors much faster for the sake of gaining and increasing small business working capital. It will help to avoid those challenges which were identified and associated during privatization in some decades ago where economic reforms did not benefit the poor (Chijoriga 2000).

1.2 Statement of the Research Problem

The problem of raising capital through commercial banks by the small business owners has led to increased interest rates by the policy makers (Berger 2007). Most of small business owners approaching Microfinance and commercial Banks for credit access they end with amount below their target that distort their capacity to making business based on potentials.

According to (Fin scope 2009) 12.40% of SMEs has access to financial institutions, 4.30% saved by Microfinance and SACCOS whereas 56.00% had no access to financial services. Despite the increase number of the financial service, Government efforts and other stakeholders to transform the SME's sector but business owners in Tanga urban have been absurd access to Micro – credit from various financial institutions in transforming their business in the region.

On the other hand, small business owners have been failed to utilize the existing Government institutions established to help indigenous on creativity, innovation and bland for products produced in the region. These institutions have not precisely helped SME's to identify markets and grow their working capital at accepted level (Olomi, 2006). Therefore, the study aimed at investigating the prevailing challenges affecting performance of Micro, Small and Medium Enterprise (MSEs) in Tanga City.

1.3 Objectives of the Study

1.3.1 General Objective

To assess the prevailing challenges facing performance of Micro, Small and Medium enterprises (MSMEs) in Tanga City.

1.3.2 Specific Objectives

To achieve the general objective of the study, the following objectives were formulated

- i. To identify the impact of existing procedures on accessing micro credit services of financial institutions to the development of SME is in Tanga urban.
- ii. To investigate the contributions of Government and Non-Government in promoting and boost business growth (SME's) in Tanga urban
- iii. To discover the outcome of working capital loan to the performance of SMEs in Tanga

- iv. To examine the impact of technological change and innovation to the performance and development of SMEs in Tanga urban

1.4 Research Questions

- i. Are the existing procedures of accessing micro – credit service of Financial Institutions are they favourable to the performance of SME's in Tanga urban?
- ii. What are the contribution of Government and Non-Government institutions to the performance and growth of small business in Tanga urban?
- iii. Are the loans granted by financial institutions were used accordingly to meet your working capital expectation?
- iv. What are the impact of technological change and innovation to the performance and development of SMEs in Tanga urban?

1.5 Significance of the Study

Importantly, this research is expecting to contribute and add value to small business owners in Tanga urban community positively. Policy makers will be stimulated to understand special areas that need to be improved basing on the special potential areas because the study will indicate the gaps to be addressed for the sake of boosting economic development in the region. On the other hand, all financial institutions and business service providers in Tanga region will be helped to identify and take a positive change on services delivery for the sake of making all indigenous in region to enjoy same level of prioritization and benefit of microcredit financing, hence sensitizing MSEs growth and development.

As the study is intending to meet partial fulfilment of the postgraduate degree (MBA – Marketing), Open University of Tanzania. It will help the researcher to come across with positive findings that help to understand challenges facing SME's and the way the sector can pave a way for economic development in the region and country at large.

Significantly, the policy makers will be able to analyse whether the policy introduced SMEs has well been compiled by the stakeholders and business development partners or it needs some amendment on the procedures and requirements to ensure its effectiveness and positive applicability and contributions in the development of MSEs in Tanga Urban.

The most important of the study is to sensitize the Tanzania society to understand SME's functions and measures to be considered to boosting small business owner's capital for their economic development especially in Tanga urban. Most significantly, all stakeholders will be helped to acquire correct information in case of potential identification in business.

The research will be used as the sources of material and reference to other students especially when measuring effectiveness of SME's in the business development and basis of clarity in case of advice to financial institutions and MFI is basing on various localities in the country.

The fact that all Banks are financial Institutions and not all financial institutions are Banks precisely depicts different eligibilities conditions for small business owners to borrow cash from these institutions for the sake of boosting their working capital.

This study is going to be useful for the institutions and Banks to identify potentials for granting loans in Tanga urban.

1.6 Scope of the Study

The study intends to address and focuses on prevailing challenges affecting performance of SMEs in Tanga urban, especially working capital challenges, the accessibility of financial credit from financial institution and the government. The study was directly dealing with the businesses existing for more than one year to 2019. Precisely the research was dealing with various owned businesses like retail shops, wholesale shops, restaurants and woods at Ngamiani, Mgandini and street number 15 and 16 in Tanga urban.

1.7 Organization of the Study

The main purpose of the study is to assess the prevailing challenges affecting performance of Micro, Small and Medium Enterprises (SMEs) in Tanga urban. The first chapter provide the background of the problem, ways used to overcome such problems. This chapter provide statement of the research problem, objective of the study and the significance of the study.

In the chapter two, discloses theoretical literature review and empirical literature review as narrated by various authors in matters related to the challenges investigated together with conceptual definition of the words used in this study such as bank, microcredit, business development and financial institution.

Followed by chapter three, which describes the research design, study areas, population of the study, sampling techniques, data collection methods and data analysis techniques.

The chapter four addresses results, discussion and findings of the data presented. It discusses the analysis of views and opinions of the respondents in Tanga urban commenting on the prevailing challenges affecting performance of SMEs sector in the region. However, in these study discussions of the findings arranged in sub section to reveal correct results and discussion of the respondents, which will bring more clarity of challenges identification and way, forward.

While chapter five, precisely addresses the summary of the research findings, conclusion and recommendation of the study.

CHAPTER TWO

LITERATURE REVIEW

5.1 Introduction

This is the information dense intelligently structured to enable a reader to grasp the key arguments of the current study in relation to that of other researchers. Therefore, this chapter discloses theoretical literature review and empirical literature review as narrated by various authors in matters related to the challenges investigated.

5.2 Conceptual Definitions

5.2.1 Business Development

Sorensen, Hans Eibe et al (2012) define Business development referring to a business that highly generates earnings, which increase at fastest rates compared to overall economy of a particular country. Moreover, business development can be precisely defined to mean activity of either a small or a large Organization, non-profit or for profit enterprise which serves the purposes or intended goals of developing the business in the same way.

5.2.2 Microcredit

Microcredit is also known as micro lending or microloan, it refers as an extremely small loan given to poor people to use to purchase goods and services when you are in need or to help them to become self-employed, (Kameyama (2001). In this

respect, the one who borrow the money and agreed to pay back and finance charges as per agreement furnished between the parties.

2.2.3 Financial Institutions

Financial institutions are corporations which provide services as intermediaries of financial market, they can be grouped into three components such as depository institutions (deposit taking institution that accept and manage deposit and make loans), contractual institutions (http://en.wikipedia.org/wiki/Financial_institution).

These financial institutions are responsible to grant loans to the SMEs basing on the procedures and requirements for business development of the sector; the performance of MSEs sector depends on those institutions to boost their businesses. In most countries, financial institutions operate in a regulated environment depending to a particular country economy.

2.2.4 Bank

Srivastava (1996) defines Banks to mean institutions that are responsible for receiving and depositing the money, lending the money and processing transactions. A commercial Banks are institutions that both accepts and make loans though there are also that provides selected banking services without meeting the legal definition of Bank.

2.2.5 Small Business

Small businesses are precisely explained basing on the economic system of a particular country in operations as well as the adopted policy (Berger 2007). However small businesses depict the clarity depending on the owner of the premises being personalized to manage the business, it has relatively small share of the market economic terms and does not form part of large enterprise and relatively free ownership from outside control on the main/ principle decisions (Stokes 2002).

2.2.6 Borrowers Eligibility Conditions

Banks and financial Institutions lending policy provide guiding procedures that only 18 years old businessman and women can be considered to microcredit loan regardless of their working capital margins identified, hence the applicant also must have sufficient experience of business for more than three months and have been operating business account for more than six months as per NMB lending policy (2016). The business premise should be located within the designated kilometre from financial institution's branch and business loan product requires good reputation of the borrowers, steady cash flow, business licence, copy of registration, tax clearance record from Tanzania Revenue Authority (TRA), marital status, having legal collateral to secure potential loan. On the other hand, if the borrower identified to have loan from another lender has to provide his/her repayment history so that the Bank/ financial institutions can verify business profitability before granting loan to the borrower.

2.3 Theoretical Literature Review

Both developed and developing countries have been explaining the dogma of MSE's development in a different ways basing on country's economies and the original theories as were narrated by various authors. The model of these theories is classified into various stages in the development of the SME's; these stages include struggle for existence (beginning), survival and success. There have been argued that most of researchers have mostly concentrated only in stages of those models and deny going further to evaluate and explain the features of the theories as well. This study on the other hand, made inclusion of the same and other models as they were narrated by various commercial companies and individuals for the sake of making concise explanatory remarks of the study. The following are the theories that have been successfully employed to acquire the intended approach herein for the sake of forming the basis of this study:

2.3.3 Lewis Growth Model

It provides stages on which firms are going through in categorizing the problems and growth of small businesses in a systematic way that is useful to entrepreneurs. The existence and development of small businesses are also characterised by independence of action, referring Organizational structures and varied management style, hence for the sake of its stability small businesses owners have to go through the existence, survival, success, take off process and resources maturity Kameyama (2001). The important features of the Lewis model are that the economy consists of two sectors; an agricultural, rural and subsistence sectors and an industrial, urban and

capitalist sector. In the subsistence sector, population is so large relative to products and natural resources that the marginal productivity of labour in the subsistence sector is very low or zero. Therefore, labour supply exceeds demand. Hirota (2002).

In Tanga urban, there is challenge on the stages the firm need to go through. Most of the firms exist for less than six (6) years before they shut down. This mostly caused by lack of managerial skills, business knowledge, enough capital, technological change and government policies. Mostly enough capital and business knowledge are the challenges that faced by all small businessperson in Tanga urban.

Similarly, the potential entrepreneurs in Tanga City Urban will gain and understand that starting a business requires an ability to do something very well (conducive and marketable areas), high energy, favourable cash flow. In Tanga urban there is a need to provide the entrepreneurs with the right business knowledge, how to find the market, how their capital rise and how to match their products with the customer's demand, by doing so, will assist the sector to move from one stage to another if everything is ok.

2.3.4 SMEs Sector Development Model

The model set up various stages and constraints of SME's growth both developed and developing countries have gone through during growth period. Tanzania as one of the developing country went through various challenges to stabilizing SME's growth as it was narrated in Aikaeli (2007). These include technological challenge, where most of SME's they don't have enough capital to finance purchases of the new technology, result into local and poor production system hence low or poor quality

products. When supplier (SME's) failed to produce quality product will lead into poor demand hence low sales volume and income.

Most of SME's they met the standard and requirement for them to be financed by financial institution. Collateral is the major obstacle to the SME's to secure the requested loan, because most of them they do not own house or other types of collateral which accepted by the financial institutions. In addition, absence of business records and permanent office are among the obstacle between financial institution and SME's.

High transaction cost is among the SME's challenge, where the cost of getting information on preference and quality of goods to export. According to Aikaeli (2007), said, asymmetric market information is among limiting factor to the development of SMEs in Tanzania. In order to meet market demand, you need to search market demand for the given area to know they demand that products at what quality, quantity required and at what price. This lead into production of goods and services with the believe that will meet customer demands because most SME's do not have enough fund to finance research of products in the market.

Similarly, still there are challenges in the development of the sector model such as creation of development model, implementation of the model, poor technological progress for most of small business owners and poor infrastructure, mentioning a few as precisely noted in Kameyama (2001). Therefore, there is a need to improve this, by finding the best way to find market demand, how to solve technological challenge and Capital challenge.

2.3.5 Static Approach Model

Concisely, explaining challenges affecting the development of the sector in relation of the existing policies as well as the constraints that distort growth of SMEs to develop. Under this juncture, we are going to identify and indicate the reasons behind for small business not growing due to some faculties facing these small businesses and risk preventing them to grow and identifying new opportunities. SME sector development reveals that, younger firms are more likely to fail than the older one, 50 percent of firm's cease trading within the first three years. Storey (2000). Most of SME's in urban center has failed due to lack of financial management acumen. The weakness in human resources management, strategic management and administration are all result of weakness of financial management. Financial capability can solve most of these weaknesses by Shafer (2003).

There is slow growth of MSEs in Tanga city council; this can be the result of poor coordination between stakeholders and the existing policies, financial challenges or business knowledge gap. After analysing and making clear discussion about the applicability of the theories, the study is going to address all challenges affecting performance of SMEs in Tanga. These will include domestic market challenge, technology factors, lack entrepreneurial skills, credit policy from financial institutions, infrastructure challenges, age eligibility in accessing microcredit to boost businesses, working capital challenges/ abilities at initial stage of a business, collateral to secure MSEs credit, information/ record challenges, taxation and tariffs challenge and legal challenges. Basing on the static approach of the SME's growth, discussion will also lead and evaluate the way emerging small enterprise may not

progress to the recommended or expected level compared to large existed ones especially from developed countries as stipulated in Storey, (2000).

2.3.6 Life Cycle and Churchill Models

Life cycle and Churchill models both narrate the dynamic approach of the SME's in developed and developing countries where various stages of the sector have been well explained by different scholars Salvador (1998). The models verify the existence of firm development based on the size and maturity of a particular business and growth phases, hence the models emphasize various challenges that can be identified similarly in each stage of the small business enterprises in each country's economy.

Scholar's identification of the models clarifies struggle for existence, survival and success while success narrates profitability and stability of the business which can lead to the maturity of resources in a business. In the existence stage, the scholars prevail and concentrate on client's identification and organizational structure which seems to be flat and business owners tends to prefer strict management where there is direct supervision of the business owner/ Manager.

Survival as another stage or second phases articulated by scholars is where business owners clarify and attain more levels of organizational structure hence management develops and delegate official responsibilities depending to employees' potentialities. However, functionality of the managers under this scenario is highly measured and business develops due to the sense of having more employees with categorized responsibilities in the organization.

In the fourth stage of the business is where crucial issues such as operational, finance and marketing are highly observed due to the fact that the owner of the business determines organizational growth rate and financing of desirable growth for the sake of grading profitability of the business regardless of the intended goals of its establishment.

The final stage is considered to include resource maturity whereas business progress as per owners can be measured to include financial gains from marked profit and benefit of the business, hence the final stage under this scenario include business responsiveness, degree of customer's excellence and entrepreneurial characteristics are established to verify the organizational system of the firm.

Despite of the challenges that can hinder firm development at early stage there is another factor such as managerial concept which can distort the development especially in measuring success or failure in each stage of the growth, hence it has been discussed by another scholar to pave a way for development of MSME's in the region and sensitizing profitability of the business as disclosed hereunder:

2.3.7 Bank and Financial Institutions Capital Approach

Capital is the main problem of SMEs in developing their business, Syarif and Budhiningsih (2006). Access to finance is an important factor for companies and SMEs, allowing them to expand their operations, modernise equipment or move into new undertakings, thereby increasing their competitiveness and helping them to grow. The study under this model discuss about Banks and Financial Institutions behaviour where small business owners affected by capital instability requirement

provided by Banks/Financial Institutions basing on their lending policy, hence things like interest rate and capital channel have been highly noted as a catalyst for loan verification. In many cases, traditional way such as 5C- character, capacity, capital, condition and collateral are still used for making real judgement regarding the different aspects of credit application, Kasmir 2008; Dheeraj 2018. Ahberg and Anderson 2012, conclude that mutual trust also important for making right decision in credit lending by bank.

Loan which cater to the financial needs of the SMEs segment are known as SME loan. Precisely, Banks and financial institutions prefer to lend for a certain period after improvement of their financial; it has been caused by increase of interest rates that stimulate the huge noted cost of financial institutions external funding, which reduces profit capital of the Banks, Obamuyi (2007). Financial institution they don't issue loan to start up new small business while most of SME's need financial assistance such as loan to finance some of their business activities. On the other hand, SME's do not have collateral and business background and business records to secure for the loan requested to the financial institutions. Financial incapability to finance business activities result into failure of most SME's within a short period by Shafer (2003). Financial incapability will lead into failure of SME's to meet market demands, supply hence loose the market share, and return on capital.

2.3.8 Agency Theory and Institutional Behaviours

Agency theory is a principle that used to explain and resolve issues in the relationship between business principals and their agents by Kopp (2019). Agency

theory suggest that firms in growing industries will experience higher agency costs due the fact that equity controlled firms have a tendency to invest sub optimally to expropriate wealth from debt holder, Jordan et al (1998). There is close relationship between agent and producer at the same time there is close relationship between the agent and retail supplier (SMEs). The theory is used to understand the relationships between the agents and principals. This study provides for challenges initiated on ownership, contractual obligations and management style between small, medium and sized enterprises and external providers of financing (Banks and Financial Institutions) where small business risk are measured subject to business structure of a particular firm (Case 1937). It was also provided in Jensen and Meckling (1976) that the clarity of agency theory can be precisely found on the relationship between small business and financial institutions to determine cost and benefit initiated for the sake of maintaining business profitability between the parties in a contractual agreement.

The theory is a backbone of the study that helps to understand various challenges embedded in potential contractual agreement, ownership and agreement between small business and financial institutions in the field of the sector (SME's), because most SME's they don't have the right collateral and also they don't have business daily records which are mostly demanded by financial institutions to secure the requested loan amount. Therefore, there is a need to provide education on the importance of keeping daily records and other legal documents.

2.3.9 Institutions for SME's Growth and Development

Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA) was established to be an important platform which links business/ trade investment services to the markets in the country regarding the products from small, medium and sized enterprises. Unfortunately, its mission seems to be changed from helping and sensitizing small businesses to large, cooperate, industries and recently it has been observed as one of the platform that distorts the growth and development of SMEs especially in Tanga urban where small and sized business owners have to wait until trade fairs occasions so that to hear businesses awareness from Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA).

Basing on the challenges observed from Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA) small business owners decided to merge and joined to Tanzania business community (TBCo) to revamp their small, medium and sized enterprises (SMEs) businesses. The Tanzania Business community was established in 2014 to fulfil or fill the gaps the challenges that were observed from (TCCIA), hence recently it helps registered members of small business owners to register their businesses (Business Licence), resolving business conflicts between Tanzania Revenue Authority (TRA) especially on tax clearance legality. Also Tanzania Business Community (TBCo) helps active members to identify the way they can get sufficient working capital from various financial institutions and SACCOS in Tanzania. On the other hand, the TBCo community still evaluates to negotiate with various Banks in the country to reduce their interest rates on the sense that most of

the Banks and financial institutions tend to charge high interest when small business owners approach them for micro credit to boost their businesses.

Recently Banks and financial institutions charge the following interest rates NMB Microfinance Plc charges 21%, CRDB Bank Plc 24%, FINCA Microfinance Bank 25%, NBC Bank 24% and Amana Banks 22% respectively. The argument and challenges for the huge interest rate seem not to benefit small, medium and sized enterprises since they are not relating to business sales, which stimulate the small business borrowers to manage monthly instalments payment of the loan from the Banks or Financial Institutions. However, the huge interest rates have been distorting most of the businesses to collapse and being closed within a year due to huge amount of money being paid to the Banks as an instalments based on interest rates that are not friendly to the businesses.

2.4 Empirical Literature Review

The Empirical Literature Review under this study is based on the data that collected and previously discussed by other researchers on the same study of small, medium and sized enterprises (SME's) growth and development. The data collected and results of the new study paves a way for conceptualization, which is useful in research gap identification.

2.4.3 Empirical Literature Review worldwide

Generally, SME's are engine that drive economic development in the developed and developing Nations. It paves to 90% of businesses, which in turn brought about job

creations, employment, tax provisions and contributing to Gross Domestic Product (GDP). Mmbengwa et al (2013) recognise SME's businesses worldwide for their potential to create job opportunities and generate wealth in the developing areas.

Study by Zhang, Leeflang (2014) entitled does the importance of value, brand and relationship equity for customer loyalty differ between Eastern and Western cultures? This study investigates whether the link between customer equity drivers (value equity, brand equity and relationship equity) and loyalty intentions is sensitive to the cultural environment. A sample of 1553 Chinese and 1085 Dutch consumers in the banking and supermarket industries reveals that all three customer equity drivers exert a greater impact in Western than in Eastern cultures. This study also shows that Eastern consumers in general have higher loyalty intentions than Western consumers. Thus, the growth of SME's will be negatively or positively influenced by changes in the business environment. They must consider business without boarder in order to be a successful MSE's

The study done by Shafeeck (2003) provides the clarity that in most cases developed and developing countries experience similar challenge like lack of financial management in stabilizing the sector. The study points out the weakness in skills, strategic management, general management and administration that experienced by small business owners in India seem to be identified to other parts of the world regardless of the level of development.

On the other hand, some policies from developed countries like Japan SME's hire more than 78% of the labour force due to level of development reached by the

country that stimulate to advanced technology, skills on packaging, strategic management and identification of proper markets (internal and external) Kameyama (2000). The two major types of innovations that are considered to boosting development of SME's are Technological innovations and Marketing innovations, hence the worldwide perspective of the doctrine narrates the significance of SMEs to the country's economic growth to cover the purposes though it differs in designing/ approaching of the doctrine which lead to acquire better relationship between innovations and organizational performance of the sector. SME's are said to be essential to an economy as they drive sustainable growth, contribute to job creation, and the alleviation of poverty, this being especially true for developing countries (Smit and Watkins 2012).

2.4.4 Empirical Literature Review in Africa

Machingambi (2019) entitles Impact of Microfinance on Small and Medium Enterprises in Zimbabwe: The Case for Masvingo Town. The study sought to assess the impact of Microfinance on Small and Medium Enterprises (SMEs) in Zimbabwe. Data was collected from 105 randomly selected SMEs using the questionnaires. Graphs and Charts were used in data presentations and analysis. The findings of the study highlighted that majority SMEs had access to MFI Loans although only a few of them were able to secure the amount they required in full. The research study further revealed that significant number of SMEs beneficiaries of MFI Loans were effectively utilising the loans for business purposes thus enhancing their growth. Most of the SMEs indicated a positive effect of MFI Loans towards promoting their product quality and range, increase in branch network, improved cash flow levels

and increase in market share. The study recommends that commercial banks and privately owned MFIs must train SMEs on aspects of financial management before availing loans to them. In addition, the government and local authorities (City council) should provide sufficient infrastructural facilities such as permanent work stations, electricity and additional ablution facilities for the SMEs.

Study by Franca (2013) entitled “the Impact of Micro Credit Institutions on the Development of Small and Medium Enterprises in Anambra State”. The study aimed at determining the impact of microcredit institutions in starting up, survival and growth of SMEs as well as the effect collateral requirements in obtaining loans from micro credit institution in Anambra South and North senatorial district of Anambra State. A sample of 450 respondents was selected for the work using the judgmental and systematic random sampling methods. Although a significant relationship was observed to exist between micro credit institutions and SMEs development, the small degree of association that exist suggests that capital (micro credit) is not the only factor that affect SMEs in the study population.

Study by Abdullah (2016) on challenges affecting the performance of SMEs in Nigeria. The study investigated the challenges affecting the performance of SMEs in Nigeria. This paper identifies the challenges affecting the performance of SMEs in Nigeria to include financial constraints, infrastructural problems, management problems, marketing problems, technological problems, corruption problem, lack of skill labour, government unfavourable fiscal policy and policy in consistence’s, inadequate training, socio-cultural problem, strategic planning problem, multiple taxation, and location and business environment problem. However, this study

discovered that the major challenges that affect the performance of SMEs in Nigeria are finance, infrastructure and training among other challenges, which this study adequately focused on. This study suggests that finance, infrastructure and training should be given adequate concentration. Thus, it is recommended that the government should make loan available for SMEs entrepreneurs, interest rate charge should be single digit instead of double digit, and the collateral demanded by the financial institutions before given out any financial assistance should be fewer or the collateral should not be demanded when the project embarked on can serve as the collateral. There is a need for the government to improve the existing infrastructure such as power supply, transportation, communication, water supply and roads in the country. Lastly, the SMEs entrepreneurs should inculcate the habit of training and developing their management and workforce to build a strong capacity for meeting the challenges of time to embrace and take advantage of development.

Conductively, the position of SMEs in Africa is at clicking tense since it provides an important role to the growth of the country's economies especially in Sub Sahara Africa where SME's paves about 95% of all the firms residing in the region. The sector intends to reduce poverty and boosting most of the African countries GDP and provide employment for majority of population (Hatega, 2007). However, their full potential has not yet realized because they face various constraint from the start up to the survival stage and these constraints have not received enough attention by academics (Anderson, and Mzee, 2013). These are change in technology, market strategies, sales strategies and financial capability. There is a need to have an

institution, which will be private, or government owned that will be closely with SMEs sector to find solution of the constraint faced by SMEs.

Practically, in Africa the sector has been experiencing more challenges that deter economic growth and firm's development compared to other parties of the world. Challenges like electric supply, access to financing, poor management, competence and capabilities and political instability as well World Bank (2006) and Fjose et al. (2010). Possessing the necessary skills for starting a new business is crucial for running it and that the access to relevant knowledge is very important for the growth of SMEs (Fumo and Jabbour, 2011). SMEs owner do not have enough knowledge on how to start business, and the face stiff competition from those who copy their products, as they lack innovation. Despite the existing challenges, facing SMEs and irresponsiveness of African Governments to the sector still there is growth, which attracts some investors having direct investment especially from America, China and India (Muriithi, 2017). A country with healthier and better GDP reflects great contribution of SMEs to the national economic (Harris and Gibson, 2006). SMEs are important for economic development, and employ large number of people in Africa.

Without SMEs, many African governments will experience financial and developmental constraints, all which would only worsen living standards of low-income persons often served by the sector (Santrelli and Vivarelli, 2007). SMEs are the source of employment and source of income for about 80% for majority world population (Kamunge, Njeru and Tirimba, 2014).

2.4.5 Empirical Literature Review in Tanzania

Study by Nkwabi and Mboya (2019) entitled A Review of Factors Affecting the Growth of Small and Medium Enterprises (SMEs) in Tanzania. The study aims to assess the factors impeding the growth of SMEs in Tanzania. A mixed-method approach was used in this study, inclusive of content analysis to extract the constraints from the 21 items of literature in Tanzania. A quantitative approach was applied where descriptive statistics were used to determine the frequency and percentage of the factors in order to extract the most significant variables affecting SME growth in Tanzania. The findings reveal that Tanzanian SME growth is mostly impacted by financial constraints, capital constraints, poor technology and tight regulations. Factors such as a lack of business training, capital constraints, a lack of finance, poor infrastructure, a lack of collateral, poor production, poor technologies, tight regulations, corruption, poor market accessibility, the motivation of the business owners, limited access to information, a lack of human competencies and inadequate raw materials were measured.

The study recommends that financial assistance through lowering the interest rates and simplifying the borrowing procedures must be given to SMEs to enable them to avail the necessary finance and capital for their business. Also the government must support SMEs by simplifying the regulations for SMEs such as levying taxes. Business training must be provided to the SMEs by government organisation such as the Small Industries Development Organisation (SIDO) to facilitate business knowledge.

Study by Nyamwihula (2017) entitled “The effects of microfinance loans on performance of Small and Medium Enterprises (SMEs) in Tanzania. A case of NMB borrowers in Kinondoni, Dar es salaam”. The study assessed the effects of Microfinance loans on performance of Small and Medium Enterprises (SMEs) in Tanzania. A cross sectional design applying descriptive research design was adopted. The samples of 106 respondents who are clients of National Microfinance Bank were selected by using simple random sampling. Questionnaires constructed from five Likert scale were used for gathering information pertaining to effects of loan received from NMB. Data were coded in SPSS and thereafter analyzed to generate descriptive and inferential statistics. Results from the study indicate that there was a significant increase in the average monthly gross profit of SMEs after employing loan obtained from NMB over time. Results found no significant relationship between collateral with SME performance in terms of socioeconomic performance. Additionally, results showed strong relationship between Loan size with SME performance and slightly significant relationship between loan processing times with SME performance. Furthermore, there was no relationship found between collateral and SME performance. The study recommends that microfinance institutions should account for the social and economic impact their programs have on their clients. For the case of Micro-loan users, they should be able to utilize their loan facilities to the targeted goal to achieve the organizational goal.

Tanzania as one of the developing country began its major attempt in sensitizing SME's and small industry sector since 1966 through the introduction of National Small Industry Corporation (NSIC) under the National Development Corporation

(NDC). The NSIC was intended to emphasize on small industry cluster particularly on training production workshop in the country though in 1973, the NSIC was taken over by the Small Industries Development Organization (SIDO), which continue to operate, and fulfilling the same intended goals of the Government. Tanzania as one of the developing country went through various challenges to stabilizing SME's growth as it was narrated in Aikaeli (2007). These include technological challenge, where most of SME's they don't have enough capital to finance purchases of the new technology, result into local and poor production system hence low or poor quality products. Olomi (2006) addressed the fact that Banks and Financial Institutions precisely require collateral to secure loan repayment and minimize risk in case of default while in Tanzania most of small business owners do not have assets with the value to qualify as collaterals in the financial institutions; hence, it has been distorting businesses noted to grow and develop.

Previously, some of the researchers did not consider other important assessments on the growth of SME's especially in operational procedures and performance for Microfinance Financial Institutions (MFI) in poverty alleviation, impact of credit granted as per economic levels, genders and educational background Sungusia (2007) and Abdallah (2009). This study intends to examine and make inclusion of these assessments to fill the gap and explaining challenges affecting performance of SME's in Tanga urban Tanzania.

Despite of the challenges and small moving of the Organization in developing SMEs sector in the country since 1966, development partners, donors and various Non-Governmental Organizations over the years decided to influence the regulatory

reform processing. They proposed proper regulatory framework and institutions for the sake of revamping the sector policies and programme in the country. However, the study by Chijoriga, (2002) entitled “The performance and financial sustainability of MFIs in Tanzania”. The study assessed the performance of micro credit institutions. 28 MFIs and 194 MSEs were selected and used as a sample survey in Dar es Salaam, Arusha, Mbeya, Morogoro and Zanzibar. It was found that most of MFIs lacks clear and understandable mission and objectives which lead to the poor performance of Tanzanian micro credit institutions. It precisely narrates the clarity for the development of SMEs sector in Tanzania; hence, the empirical evidence indicates the way SMEs can contribute in the country’s economy and being dynamic in achieving income distribution, poverty eradication and creation of employment in Tanzania. However, in Tanzanian SMEs is defined depending to total number of employees, total investment and sales turnover.

2.5 Research Gap

From studies done in Tanzania and Africa, it becomes evident that most of the studies including: Mboya (2019) Nyamwihula (2017) Chironga (2002) respectively have focused on effect of Microfinance loans on performance of SMEs, factors affecting the growth of SMEs. On the other hand, study by Aikael 2007, focused on how technology may affect performance of SMEs. Apparently, there is limited comprehensive study that has been specifically done regarding the prevailing challenges facing performance of Micro, Small and Medium enterprises (MSMEs) in Tanga City. Thus, the assumption of this study is that the performance of MSMEs would have greater contribution on the development of gross domestic product by

reducing the level of unemployment and promotion of entrepreneurship activity in the country. This study therefore intended to fill the emerging research gap by assessing the prevailing challenges affecting the performance of MSMEs, which is likely to deter its prosperity.

2.6 Conceptual Framework

This part is going to be framed basing on the prevailing challenges limiting successes of SME's in Tanga urban. It intends to examine and explain the prevailing challenges affect performance of MSEs in the region; hence, this part is designated to focussing on the research questions of the study for the sake of indicating the intended goals of the framework. There dependent and independent variables that affect the performance of SME's. These variables such as lack of enough capital, poor technology, unfriendly credit policy, poor business records and poor infrastructure if these taken into consideration and solved SME's will improve in term of production, technology, market base, standard of living, growth of domestic products (GDP), rise in export trade and profit.

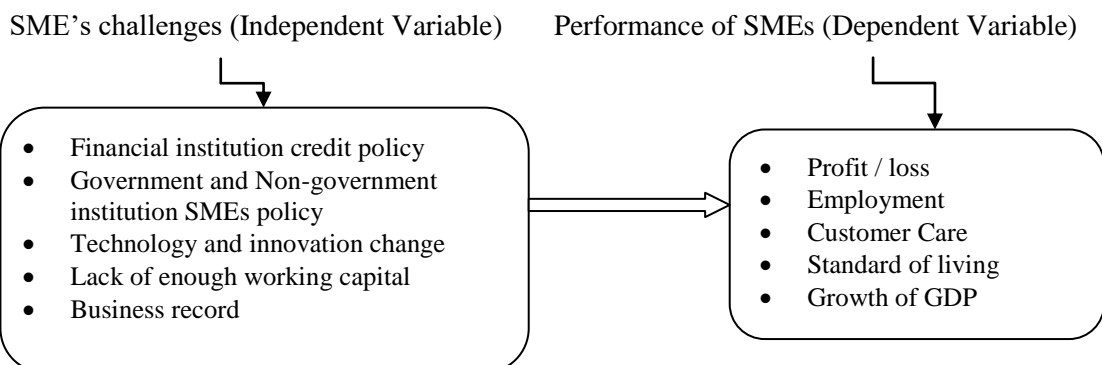


Figure 2.1: Conceptual Framework

2.7 Theoretical Framework

The theoretical framework of this study is liaising, and evaluates the position of financial institutions capital model and channel as well as existence cycle approach the firms subject to their financial structure for proper development of SME's in Tanga urban as well as financial constraints model in the areas. Financial institution credit policy is not favourable to the SME's. Most financial institutions do not issue loan to new small businesses or to start up new small business. Therefore, SME's supposed to finance their business from their capital, which is not enough to cover the available competition and running cost.

Lack of enough working capital is the challenge faced by most SMEs in Tanga urban. They do not have enough funds to finance their business needs such as change in technology, raw materials, marketing and accessing business information. In order to find solution for this they need to borrow money from financial institution or sometime to take products on credit basis, which is, still the challenge to date.

Technology and innovation change, this is among the challenge that SME's are facing. They do not have enough funds to finance change in technology or to employ expert for their businesses. This led to local production and sometime with poor quality. Identification of market demand is a challenge to SME's, they are always interring into production without knowing where to sell at what price and market. They do not search for the demand and supply of the products they want to produce, this sometime lead to low sales volume or loss.

Government and non-government institutions has a great role on the development of MSEs in Tanga urban, most of businessman they don't know rules and procedures to follow while running their business or where there is demands for their products. Most SMEs need some information regarding their business, but they do not know where to find such information between the government and non-government.

Figure 2.1 of the study explains various SMEs challenges and variables that affect performance and development of the sector. To ensure the sector is performing at accepted level pertaining to the intended goals in the country's economy, there is the need to find solution for the mentioned challenge, such as poor institutions framework, advanced technology which lead to poor information, poor business record, and business knowledge gap can help SMEs to grow if they can be taken into consideration.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design, study areas, population of the study, sampling techniques, data collection methods and data analysis techniques. Methodology is the systematic, theoretical analysis of the methods applied to field of study (Ugwuowo, 2016). It offers theoretical underpinning which method, set of methods or best practise which can be applied to a specific case. It comprises the theoretical analysis of the body of methods and principles associated with a branch of knowledge

3.2 Research Design

Research can be described as a systematic and organized effort to investigate a specific problem to provide a solution (Sekaran; 2000). Stokes (2002) narrates that a study has to be well chosen, narrowed and feasible which sets out central aim and easily manageable to be accomplished. The study makes the use of survey research design. Survey research is a method of collecting information by interviewing or administering a questionnaire to sample individuals (Orodho, 2002). It can be used when collecting information about people 's attitudes, opinions, habits or any of the variety of education or social issues like use of social networking sites (Orodho and Kombo, 2002). Thus, the design was successfully used in this study based on its

effectiveness in data collection from a large sampled population with the lower cost. It is also easier to draw conclusions based on the challenges affecting SMEs in Tanga.

The study was principally guided by quantitative and qualitative research approaches. These approaches were used because they were anticipated to provide a complete understanding of the research problem and the researcher was able to use all of the tools of data collection.

Creswell, (2012), argued that, quantitative research approach identifies a research problem based on trends in the field or on the need to explain why something occurs. Therefore, the approach was used in collecting data on related to the contribution of Micro Credit service offered by financial institutions to the development of SMEs. While qualitative approach considers collecting information from the participants in order to understand the phenomenon under the study from the perspectives of those involved in the research (Jacobs and Sorensen, 2010). In this particular study, the approach was employed in establishing the relationships between financial institutions' role and SMEs.

3.3 Areas of the Study

By considering geographical location, transport costs, data collection costs and targeted population is among the reasons to select Tanga City business areas. The study is conducted in Tanga City (Business Areas) from street number fifteen to street number sixteen, Ngamiani market and other areas surrounding Mgandini market area. Majority of the respondents from the study area provided correct and sufficient information, which was useful in data analysis for maintaining the intended

conceptual structures as stipulated in Kothari (2004). The research is aiming to discuss the prevailing challenges affect performance of SMEs in Tanga urban

3.4 Population of the Study

According to Ogula (2005), Population defined as any group of institutions, people or objects that have common characteristics. For the present study, the population from which the researcher drew conclusions comprised of one hundred (100) business owners of those firms as well as service providers especially from financial institutions and microfinance as one of the prevailing challenge for non-performing of SMEs in the region. Their choice was based on the fact that each category is engaged and implicated in the study in different ways.

3.5 Sampling design and Sample Size

3.5.1 Sampling Design

A sampling design is a definite plan for obtaining a sample from a given population (Kothari, 2004). Sampling design refers to the technique or the procedure the researcher adopts for selecting items for the sample from the population or universe. Judgmental sampling was used in this particular study for the sake of acquiring proper information in accordance with the available units at the sized areas subjected to capital available, number of years in business, gender, market status as well as key indicators or marginal growth of the area surveyed. Judgemental sampling design defined as a non-probability sampling technique where the researcher selects units to be sampled based on their knowledge and professional judgment. The technique was also considered to be useful because the selected respondents were able to provide

rich detailed information about the prevailing challenges facing performance of Micro, Small and Medium enterprises (MSMEs).

3.5.2 Sample Size

Sample size refers as the number of items to be selected from the universe to constitute. The size of the sample should neither be excessively large; nor too small. It should be optimum; an optimum sample is one, which fulfils the requirements of efficiency; representativeness; reliability and flexibility (Kothari, 2004). The sample of this study was fifty (50) business owners from the chosen business areas in Tanga urban selected through judgemental or purposive sampling technique for the purpose of data collection.

Table 3.1: Composition of the Sample

SMEs areas	SMEs Owners	Selected sample	Percentage	Sampling design	Tools
Mgandini	40	20	40	Judgmental sampling	Questionnaire
Ngamiania	32	18	36		
15 and 16 th Street	28	12	24		
Total	100	50	100		

3.6 Methods of data Collection

For the sake of obtaining required information, this study used both primary and secondary data in the study. In this study survey method was used to collect primary data from the respondents. Questionnaire survey was administered to fifty (50) entrepreneurs from three SMEs branches. On the other hand, survey method is

regarded as an efficient way of collecting information from a large number of respondents according to the nature of their business.

3.6.1 Secondary Data

Secondary data are information that has been gathered previously for some purpose other than the current research project (Kumekpor, 2002). In this study secondary data obtained from articles in journal (Published document from the internet), books, reports, newspaper as well as magazines.

3.6.2 Primary Data

Primary data are those data treated as original ones, hence the primary data of this research are those data obtained from business owners in Tanga city. Kothari (2004) states that primary data are that information's treated as collected from different methods like interview; in this study primary data was obtained through the use of questionnaire.

3.7 Data Collection Tools

The quantitative model is used for gathering information (primary and secondary data) from the given population. The study use questionnaires in data collection as hereunder explained:

3.7.1 Questionnaire Survey

Questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. They are often

designed for statistical analysis of the responses (Kothari, 2004). According to (Saunders et al, 2007), questionnaire as a method of collecting data is where respondents are asked to respond to the same set of printed questions in a predetermined or order. The questionnaire was filled by 50 respondents from the study area. It allowed collection of large amount of data from suitable population in a highly economical way. Questionnaire method has been used based on its advantages including but not limited to: time and money saving; good for respondents who cannot offer audience to the researcher; it is free from the bias of the interviewee; answers are in respondent's words; respondents have adequate time to give well thought out answers and respondents who are not easily approachable can also be reached conveniently (Kothari, 2004). In this study questionnaire was developed reflecting the research objectives. The questionnaire organized into of two parts; part one was consists of general information of the respondents, part two consists of Micro, Small, and Medium Enterprises. It was self-administered to fifty (50) respondents from MSMEs. The questionnaires distributed to the small business owners getting from the study area. The questionnaires were prepared in English and translated into Kiswahili so as to allow every individual to participate in data collection.

3.8 Reliability and Validity of Data

Reliability and Validity of this study considers the issue of evaluation of reports for the sake of measuring performance as per the data analysed, hence the study concentrate on performance of two or more/ considering different instruments for clarity of data submitted, hence compare all the received details. Validity on the

other hand depicts clarity of methodology and techniques if they are conferred to the objective of the study/ research in discussion.

3.8.1 Reliability of Data

Reliability is the degree to which test consistently measures whatever it measures (Mugenda, 2003). Reliability was established through pre testing method during pilot study. Five business owners from Tanga urban were randomly selected for pilot testing the questionnaires. By considering on how they respond to the question and time used to fill the questionnaire and correctness of their answer in among the used to verify the reliability of the data. Reliability was further maintained by ensuring the use of appropriate sampling techniques, where judgmental or purposive sampling and different methods in data collection mostly questionnaire.

3.8.2 Validity of Data

Validity is defined as the degree to which a test measures what is supposed to measure (Gar, 2002). Validity of the data is important to guarantee the study findings measured accurately by the instruments used. The validity of this study was assured through proper identification of research problem and the use of different research methods of data collection such as questionnaire survey and documentary review as the way of triangulating information. The researcher therefore used multiple techniques in which one instrument complemented the others. In addition to that, prior to the fieldwork, researcher's supervisor who gave his suggestions and recommendations that were accommodated to amend and refine the instruments reviewed the instruments

3.9 Data Analysis

Data analysis is the means of being systematic or logical when making qualitative research of data collected from individuals simultaneously compiled and reviling the expected goal of the study. Data analysis was done in accordance to the research objectives. In this study, data obtained from the use of questionnaires were edited and assigned serial numbers for the purpose of easy identification during the coding process and rechecking of information on the questionnaires during data entering exercises. Thus, computer software Statistical Package for Social Science Software (SPSS) 16th version was successful employed in analysing quantitative data. All relevant information and data addressing a particular research objectives were pulled together, subdivided into logical categories in search of the main themes and in an attempt to quantify the data where necessary.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter provides a general presentation, analysis and discussion of research findings; and provides an interpretation of the findings from respondents on the prevailing challenges affecting performance of SMEs sector in Tanga Urban. The chapter consists of five sections. The first section describes the characteristics of the respondents; next section delineates the impact of existing procedures on accessing micro credit services of financial institutions to the development of SME's in Tanga urban, third section discusses the contribution of government and Non-Government in promoting and boost business growth (SME's) and the fourth section provides a detailed explanation on the outcome of working capital loan to the performance of SMEs. The last section examines the impact of technological change and innovation to the performance and development of SMEs in Tanga urban.

The respondents involved to fill the questionnaires were from various locality such as Ngamiani Market, Street number fifteen and seventeen, and Mgandini market areas hence inclusion of financial institutions and Banks and SACCOS were not neglected for the sake of maintaining broad discussion and correct data which in turn brought about positive results that address issues to fill the gaps of the research once compared with other authors. At least each financial institution involved 6 respondents to address the through questionnaires.

4.2 Presentation of Research Findings

4.2.1 Characteristics of the Respondents

Respondents' characteristics are normally regarded as important factors in assessing the prevailing challenges affecting performance of Micro, Small and Medium Enterprises (SME's) in Tanga urban. A number of demographic characteristics of business owners that had contributions to this study were critically looked upon and their findings presented. Business owners gender, educational background and business experience.

4.2.1.1 Gender of the Respondents

Gender of respondents is an important factor in determining the prevailing challenges affecting the performance of SMEs. In this regards the researcher was interested in finding out the gender of the respondents. The study findings revealed that 31(62%) were males and 19 (38%) were females as indicated in Table 4.1 below. The findings signify that majority of the respondents were male but it was not the intention of the researcher to have more male it happens by chance.

Business experience was also considered as important factor in determining the challenges affecting SMEs. Thus, the respondents were requested to indicate their experience in business. The findings from table 4.1 showed that 31 (62%) of the male respondents surveyed at Mgandini, Ngamiani markets street number fifteen and seventeen surveyed had enough experience in running their small businesses. All the male business owners in the areas have identified to manage the businesses

regardless of the experience they have attained especially those with 4-6 as well as 6 and above years.

However, 19 (38%) of the females are also managed to run their businesses with experience of 1-6 years, hence the degree of business performance between females and males of all the surveyed business markets seems not to be great pertaining to their experience in trade. Basing on the business experience that have identified between male and female running their businesses, it implies that they can manage to borrow money from Banks or financial institutions for the sake of boosting their working capitals because majority of the respondents in this study are in the business for more than 3 years.

The findings from table 4.1 below indicated that majority of the respondents had secondary level of education. However, from the respondents it indicates that 61% of male attended secondary school and 10 (71%) of male have attended college while some of them have primary school level of education.

On the other hand, 9 (29%) of female had secondary level of education, 4 (29%) Of female had university level of education.

Precisely, from the general interpretation of the findings this study came out with the fact that small business owners in the markets surveyed also lack managerial skills especially for business record keeping that would help them to prepare business plan and identification of more potential domestic markets than ever before.

The researcher was also interested to collect information related to age. In this study, respondents were required to indicate their age. Majority of the respondents engaged in SMEs business at Mgandini, Ngamiani and Street number 15 and 16 Markets fall under the age category of 20 to 29 years. It seems business owners of that age are easily accessing micro credit from financial institutions to boost their working capital rather than favouring those people between and above 50. Thus, Banks and financial institutions are not granting loans to borrowers with 75 years of age. For instance, NMB policy and the procedure guiding SMEs do not guarantee and give privileges of loan eligibility for people of that age due to high risk of default.

Table 4.1: Characteristics of the Respondents

Variable	Mgandini Market	Ngamiani Market	Street no 15 & 16	Total	Percentage
Male	11	13	7	31	62
Female	9	5	5	19	38
Total	20	18	12	50	100
Business Experience of the Respondents					
	1-3 years	4-6 years	>6 years	Total	Percentage
Male	13	12	6	31	62
Female	8	6	5	19	38
Total	21	18	11	50	100
Education status of the respondents					
Variable	Primary		Secondary	University	
Male	7 (54%)		14 (61%)	10 (71%)	
Female	6 (46%)		9 (29%)	4 (29%)	
Total	13 (100%)		23 (100)	14 (100%)	
Age of the Respondents					
Variable	Age category				
	18 – 30		31 – 42	42 – 54	
Male	16 (64%)		9 (64%)	7 (63.6%)	
Female	9 (36%)		5 (36%)	4 (36.4%)	
Total	25 (100%)		14 (100%-)	11 (100%)	

Source: Field Data, 2018

4.2.2 Micro Credit Accessibility and Procedures in Tanga Urban

The first question aimed at examining the micro credit accessibility and procedures involved in loan accessibility. The responses categorized into four levels of awareness on financial institutions offered loans to SMEs, aims or intention of loan provided to the SMEs, and procedure on accessing loans.

4.2.3 Respondents Awareness on Financial Institution Providing Loans to SMEs

The respondents were asked whether they are aware about the financial institution provide loans to SMEs or not. The responses categorized into yes or not

Table 4.2: Respondents awareness on financial institution

Responses	Frequency	Percentage
Yes	22	44
No	28	56
Total	50	100

Source: Field data, 2018

The study findings revealed that many 28 (56%) of the respondents were not aware about financial institution offering credit to SMEs' whereas, 22(44%) of the respondents were aware about the financial institution providing credit to SMEs (Table 4.2). This implies that most of SMEs do not have the right knowledge on how they can access loans from the financial institutions and sometime where to find it. Still there is a need for them to be provided with the right information and knowledge on how to work with these financial institutions.

4.2.4 Type of Financial Institution Offer Credit to SMEs

The researcher asked the respondents to mention financial institution provide loan to promote SMEs. Among the financial institution mentioned, include Finca, Brack, SIDO and VETA.

Table 4.3: Type of Financial Institution Offer Loan to SMEs Development

Variable	Frequency	Percentage
Brack	30	33
Finca	15	17
Sido	25	28
Veta	20	22
Total	90	100

Source: Field data, 2018

The findings from Table 4.3 above indicated that SMEs owners obtain loan from different financial institution whereas, 30 (33%) of the respondents reported that they get loan from Brack to run their business, 25 (28%) argued on Sido, 20 (22%) borrow loan from Veta and few 15 (17%) Finca. The observed variation in micro credit institution providing loans to run business to SMEs largely depend on condition and procedures to adhered in each organization.

4.2.5 The aims of Credit or Loans Taken from The Financial Institution

The researcher thought that it is important to explore the intention of the loans taken by the respondents from the financial institution. The respondents were asked to state the aim of loans drawn from Brac, Sido or Finca. The findings indicated that many 29(58%) of the respondents took loans from these financial institution as working

capital. 13 (26%) as housing building and 8 (16%) mainly for agricultural activity (Table 4.4). The implication here is that every person has his or her own intention of taking loans from these financial institutions. The contributing factors could be the nature of business owned by them and current the demand.

Table 4.4: Intention of Credit/Loan from Financial Institution

Variables	Frequency	Percentage
Working capital	29	58
Agricultural activity	8	16
House building	13	26
Total	50	100

Source: Field data, 2018

4.2.6 Loans Meet Expectations among SMEs

The respondents further were requests to state if loans offered by the Micro credit meet their expectations or not. The responses categorized into yes or not.

Table 4.5: Loans Meet Expectations

Variable	Frequency	Percentage
Yes	14	28
No	36	72
Total	50	100

Source: field data, 2018

The findings from table 4.5 revealed that loan provided by the Micro Credit do not meet expectation while 14 (28%) declared that the provided loans meet their expectation. Most of loan disbursed to SMEs is differently from the one requested, mostly below as per their request. The amount received as loan, failed to finance their business ideas and some shift their ideas to the new one.

4.2.7 Procedure in Accessing Micro Credit Service Loans

In respect to the procedures, the respondents were asked to say if procedures involved in accessing micro credit services were good, neutral or poor.

Table 4.6: Procedures in Accessing Micro-Credit Services

Variable	Frequency	Percentage
Good	12	24
Neutral	20	40
Poor	18	36
Total	50	100

Source: Field data, 2018

Table 4.6 present data about procedures in accessing micro credit service. It is clearly observed that 20 (40%) of the respondents argued that the procedures in accessing loan service was neither good nor poor. 18 (36%) commented that the procedures in accessing loans was poor. While 12 (24%) argued that it was good. The implication here is that most of micro credit institutions operate as business and not service institution. To add most Micro credit institution do not visit their customers to know their problem or they don't run meeting with SMEs to advise them on the best way to run their business and afford the loan instalment, they always seen on repayment date when customer (SMEs) failed to fulfil it. In addition, these micro credits consider for loan, those who operate for more than one year and ignore the rest.

4.3 The Role Played by Government in Promoting SME's Awareness in Business

The second research question aimed at examining whether the government play a great role in promoting SMEs awareness in business. The researcher therefore asked

the respondents to state if the government play any significant role in raising awareness in business or not. The responses were categorized into yes or not.

Table 4.7: The Role of Government Institution in Promoting SMEs

Variable	Frequency	Percentage
Yes	22	44
No	28	56
Total	50	100

Source: field data, 2018

The findings from Table 4.7 indicated that 28 (56%) of the respondents reported that the government do not play a great role to enable business owner to find the right information and support from the institutions owned by government. Most of SMEs do not find support from these institutions, such as knowledge and technology on how they can improve their products and where they can find the market for their products. Because these institutions they do offer product packaging services, production and processing services, link between market and supplier of the products and loan services. On the other hand, few 22 (44%) of the respondents acknowledged that the government institution plays a great role in promoting SMEs. This can be associated with education services related to loan access and how it can be used in expanding their business.

4.3.1 Extent to Which Government Play a Great Role in Boosting SMEs

In examining the role played by the government to promote SMEs, the respondents were asked to indicate the extent to which the government play a significant role in boosting their business. The responses classified into three levels of great extent, moderate and less extent.

Table 4.8: Extent to which Government Play a Great Role in Booting SMEs

Variable	Frequency	Percentage
Great extent	8	16
Moderate	16	32
Less extent	26	52
Total	50	100

Source: Field data, 2018

Table 4.8 above present the findings about the extent to which government play significant role in promoting SMEs. The findings revealed that many 26 (52%) of the respondents argued that the government play a role to boost SMEs in less extent, 16 (32%) reported that moderately the government play a role in promoting SMEs, and few 8 (16%) great extent. The implication here is that the government contribution in promoting SMEs in less extent as it failed to provide SMEs with relevant education and training related to the benefits of loans offered by financial institutions.

4.4 The impact of Working Capital Loan Offered by Micro Credit Services to The Performance of SMEs

Most of SMEs do not have enough capital to finance their business activities. This could be the factor attributed to the introduction of micro credit service. Micro credit services have great contribution to the development of small medium entrepreneurship. Therefore, the availability of micro credit institution will cover the group that not financed by banks in Tanga urban. The researcher was thus interested in gathering information about the effect of loans provided by Micro credit services

to the performance of SMEs. The results thus are outlined in three levels including business own, duration of owning the current business, awareness of the financial institution provide loans to SMEs, and the effect of working capital loans.

4.4.1 Business Ownership

Business ownership is considered as necessary condition in determining one's knowledge or understanding about the contribution of micro credit in promoting SMEs development. The findings indicate that almost 50 (100%) of all respondents owned business Table 4.7.

Table 4.9: Respondents Own Business and Their Performance

Responses	Frequency	Percentage
Yes	50	100
No	-	-
Total	50	100
Duration of owning business		
Years	Frequency	Percentage
1-3	21	42
4-6	18	36
>6	11	22
Total	50	100

Source: Field data, 2018

Duration of business own become an important factor in determining contribution of micro credit service offered to the SMEs in developing their business. There is variation duration in business ownership. The findings indicated that many 21 (46%) of the respondents were in the category of 1-3 years' ownership. 18 (36%) of the respondents had 4-6 years of business ownership while few 11 (22%) had six and

above experience in business (Table 4.9). This signifies that most of SMEs do exist in the business for less than six (6) years before shut down.

4.4.2 The Effect of Working Capital Loan in SMEs

The researcher was also interested to acknowledge the cumulative effect of working capital loan offered by micro credit services and its contribution to the SMEs.

Table 4.10: Impact of Working Capital Loan to The Performance of SMEs

Variable	Frequency	Percentage
Increasing average monthly profit	25	26
Growth of sales turnover	20	21
Growth of working capital	35	37
Increase number of employees	15	16
Total	95	100

Source: Field data

The findings from Table 4.10 indicated that 35 (37%) of the respondents reported that loan obtained from micro credit contribute to the growth of working capital, 25(26%) of the respondents argued on increasing average monthly profit, 20 (21%) reported that working capital loans resulted into growth of sales turnover. Few 15 (16%) of the respondents reported that working capital loan increase the number of employees. It signifies that with expansion and improvement of SMEs largely depend of loans offered from micro credit services including Finca, Sido and Brack.

4.5 Impact of Technological Change and Innovation to The Performance and

Development of SMEs

the technological innovations

Technological change and innovation is an important factor for the development of SMEs as it may simplify financial services and enhance supplier and customer interaction. Therefore, the researcher was interested to know if technological change and innovation have any impact to the performance and development of SMEs or not. In this respect, the respondents requested to state clearly if technological change has any impact on SMEs development or not. The findings categorized into yes or not

Table 4.11: Respondents Responses on the Effect of Technological Change

Responses	Frequency	Percentage
Yes	32	64
No	18	36
Total	50	100

Source: Field data

The findings from Tale 4.11 above showed that majority 32(64%) of the respondents commented that technological change and innovation contribute to the development of SMEs while few 18 (36%) disagreed with the statement. The observed high percentage of respondent's responses on the positive effect of technological change and innovation in development of SMEs associated with the perceived advantages such as simplification of financial services, enhancement of interaction with supplier and customers, business competitiveness and effective in evaluating SMEs progress in daily bases activity as shown in Table 4.12 below.

Table 4.12: Perceived advantages of technological change and Innovation in development of SMEs

Variable	Frequency	Percentage
Enhance financial services	35	35.7
Stimulates interaction with supplier and customers	20	20.4
Business competitiveness	15	15.3
Enlarge market	28	28.6
Total	98	100

Source: Field data, 2018

Result from Table 4.12 indicated that 35 (35.7%) argued technological change and innovation improve financial services, 28 (28.6%) technological change result into expansion of market, 20 (20.4%) stimulates interaction with supplier and customers, while few 15(15.3%) of the respondents argued that technological change facilitates business competitiveness.

4.5.1 The Kind of Innovation Technology Used to Enhance the Development of SMEs

Innovation is an important factor in responding to technological challenges to the performance of SMEs. In this regard, the researcher was interested to explore the kind of innovation applied in these firms. So the respondents were requested to identify the kind of technological innovation used to improve their business. The study findings revealed that 38 (40%) of the respondents make the use of mobile phone as an innovation to the development of SMEs, 32 (34%) sugar packaging and 25 (26%) argued on nutritional powder packaging (Table 4.13).

Table 4.13: Types of Innovation Used to Facilitate the Development of SMEs

Variable	Frequency	Percentage
Mobile phone	38	40
Nutritional Powder Packaging	25	26
Sugar packaging	32	34
Total	95	100

Source: Field data, 2018

4.5.2 Factors Affecting Technological Change and Innovation to The Development of SMEs

Researcher investigated the factors that affect technological change and innovation toward the development of SMEs. In respect to this, the respondents were asked to identify the factors, which is likely to deter the development of SMEs. The findings revealed that 37 (36%) of the respondents argued that inadequate fund hinder technological change and innovation, 27 (26%) argued on high costs of innovation, 23 (22%) commented that lack of confidence and skilled personnel prohibit them to adopt technology in running their business. The findings further revealed that few 16 (16%) of the respondents argued on lack or inadequate information related to technological change and innovation affect development of SMEs (Table 4.14).

Table 4.14 Factors Hinder Technological Change and Innovation

Variable	Frequency	Percentage
Inadequate fund	37	36
Lack of confidence and skilled personnel	23	22
High cost of innovation	27	26
Lack of information about the technological change and innovation	16	16
Total	102	100

Source: Field data, 2018

4.5.3 Factors Affecting the Performance of SMEs

This researcher was also interested to find the factors affecting performance of SMEs. The factors were projected to be important in describing the challenges that may prohibit the development of SMEs. Respondents were asked to choose what is applicable to them. The study findings revealed that most of SMEs affected by the Technological innovation, micro credit policy, misallocation of funds, domestic market, limited access to information, lack of financial management as shown in Table 4.15 below.

Table 4.15: Factors Affecting the Performance of SME's

Variable	Frequency	Percentage
Technological innovation	22	18
Micro credit policy	23	19
Misallocation of funds	26	21
Domestic market	17	14
Limited access to information	16	13
Lack of financial management	13	11
Others	6	4
Total	123	100

Source: Field data, 2018

The findings from Table 4.15 above shows that 26 (21%) of the respondents argued on misallocation of fund by small business owners as the major factor affecting the development of SMEs. The intention and plan for the requested loan differ from where the amount is going to be invested. Most of them they use that amount to pay school fees, house repair or sometime diverge from intended business for that loan, 23 (19%) of the respondents reported that Micro credit policy and bureaucracy of financial institutions contributes to the delaying development of SMEs. The long time spent waiting for disbursement, lead to miss some business seasons like school's items such as uniforms, textbooks, school bags. This challenge result into

poor business performance, disturbance to the royal customers and hence lead to poor loan instalments payment.

The study findings also found that 22 (18%) of the respondents reported that technological innovation distort development of SMEs. The technological change is not friendly with the third world countries especially SMEs, they do not have enough fund to finance every change on the technology used on their business. On the other hand, they failed to access loan, or sometime took long time to be issued and with small amount compared with the intended goal. Respondents complained for unfriendly policies of the financial institutions, which lead them to acquire small amount of money than contrary to the requested amounts by the borrowers. This led some of the SMEs customers to shift to other products that satisfy their needs, which result to low sales and hence low profit and some business retardation.

Few 17 (14%) of the respondents argued that local market is a challenge for small business owner in the given field, most of them produces goods with low standards compared to other products from large producers, and sometime with poor quality or packaging. Some small business owner claim that they don't have enough capital and knowledge to satisfy market needs, which lead to lose some of their customers for their products due high selling price or poor quality compared with other products of the same use from large producers.

Beside 16 (13%) of the respondents reported that limited access to information pertaining to loan affect their performance as they are not well informed about the benefit of loans offered by Micro finance enterprises to run their business.

Moreover, 13 (11%) reported that lack of financial management is a challenge for small business owners. This can be associated with long chain in accessing loans from microfinance institution as well as lack of knowledge on how to use loans secured by these institutions. On the other hand, few 5 (4%) of the respondents added corruption, the motivation of the business owners in accessing loan as the challenges that is likely to affect their business.

4.6 Discussion of the Findings

The findings presented in the previous section above were thereafter discussed with the purpose of contextualize the obtained information so as to meet and realize the main objective for this study which was to assess the prevailing challenges affecting performance of Micro, Small and Medium Enterprises (SME's) in Tanga urban. Therefore, the discussion gave out the interpretation of findings in such a scientific manner needed in this research study as follows;

The study findings revealed that majority of the respondents face challenges on accessing loans from financial institution such as banks, Brac, Finca and Sido for developing their business firms. Contrary to this study by Machingambi (2019) on impact of Microfinance on SMEs' in Zimbabwe revealed that, a significance number of SMEs beneficiaries of MFI Loans were effectively utilising the loans for business purposes thus enhancing their growth. Most of the SMEs indicated a positive effect of MFI Loans towards promoting their product quality and range, increase in branch network, improved cash flow levels and increase in market share. On the other hand, Olomi (2006), commented MSEs face difficulties to secure loan from banks and

other financial institution because of the precisely require collateral to secure loan repayment and minimise risk in case of default.

Respondents complained for unfriendly procedures of the financial institutions that lead them to acquire small amount of money contrary to the requested amounts by the borrowers. For instance, most of respondents surveyed complained about initial deposit needed by these institutions in order to access loan, thus argued that small businesses cannot afford to pay such initial deposit though they prefer to rise their working capital. Most of small business owners do not own assets worth to qualify as collaterals in the financial institutions to secure loan. Therefore, most of SMEs failed to fulfil the loan requirement from financial institution and therefore failed to expand their business activities due to lack of enough working capital to finance their business. These result into shut down the business or shift to another small business that requires small capital to start up.

The study findings revealed that majority of the respondents proclaimed that the government have not played effectively their roles in development of SMEs. As from previous finding, there is proposed proper regulatory framework and institutions for the sake of revamping the sector policies and programme in the country Chijoriga (2002). The existence of these challenges is associated with the nature of business service received from the government that varies according to the nature of business established. However, there is positive, impact on some regulations such as time spent and cost on business registration were now reduced but still there is a need to check on policies and regulation that affect directly SMEs on daily activities such as

working capital, technological working tools accessibility, and tax and business environment.

The findings further revealed that government role in promoting and developing SMEs is in less extent. This is because the government is not effective in providing necessary help among SMEs owners to achieve higher sales growth. This and other reason contributes to poor performance of SMEs. On the other hand, few respondents proclaimed that the government play a great role in promoting and developing SMEs largely. This is partly contributed by what the government is trying to do in regulating procedures and conditions on loan accessibility. Similarly Park, et al, (2019), on Government support and small- and medium-sized enterprise (SME) performance: the moderating effects of diagnostic and support services found out that financial resources from the Korean government indeed help Korean SMEs survive, but do not necessarily help them achieve higher annual assets and sales growth. However, when government-based diagnostic and support services are combined with public loan financing, they prove to be effective in enhancing the Korean SMEs' annual assets and sales growth.

Improper use of working capital is another prevailing challenge that is affecting development and growth of the SMEs sector in Tanga urban. As from previous, Fjose et al (2010), challenges like poor management, competence and capability still exist. Business management is among the vital challenge to SME's. Most of SME's they have been using business loan received for family matters and to start new business contrary to the intended business goals. However, the respondents strongly agree on the challenge of proper use of working capital, thus if there is proper, use of

working capital to SMEs business owners can strongly help them to develop the sector as they are expected. It has been confirmed by the respondents surveyed that some of the borrowers failed to manage payment of their instalments based on the loan given because of misallocation of the fund disbursed since they are not being revisited by Banks or financial institutions officials till when they notify that clients falling in arrears of either 30 or 60 days and alarming.

The study findings further revealed that working capital loan offered by micro credit loan facilitate the increase of working capital and increasing average monthly profit, sales turnover and increase number of employee to save their customers. This is linked to the growth and expansion of SMEs. Similarly the study by Monge (2016) on impact of Microcredit in the performance of Small and Medium Scale Enterprises (SMEs) in Temeke Municipality Dar es salaam Tanzania revealed that majority of the SMEs acknowledge positive contributions of MFIs loans towards promoting their market share, financial credibility, number of employment, sales revenue, net profits, and decreased liabilities.

The study findings revealed that, technological change and innovation play a significant role to the development of SMEs. This can be associated with the perceived usefulness of the said technology such as enhancement of financial services to make transaction and enlarge market using mobile phone.

Next technological change stimulates interaction with supplier and customer. The use of mobile phone for example makes it possible to communicate with supplier and

customer. At the same time, the owners of SMEs use mobile phone in money transfer and request when needed or required.

On the other hand, the study findings revealed that inadequate fund, lack of confidence and skilled personal as well as lack of information about technology prohibited them from the use of technological devices like computer, tablets. Similarly study by Mugogol (2020) on Barriers to SME innovation for performance: evidence from Zimbabwe revealed that economic factors like lack of finance and high cost of innovation are major factors restrain SME's innovation. SME technological innovation obstacles ranked, lack of finance, lack of skilled personnel, inadequate R&D, lack of cooperation, size of enterprise and organizational culture are impeding industry level technological innovation in this order as internal factors, also that correlation has significant association between enterprise innovation performance and barriers to technological innovation except for lack of cooperation for small and medium enterprises.

The study findings also indicated that, there are numerous challenges that affect the development of SMEs. The challenges raised by the respondents were technological innovation domestic market, misallocation of funds which is likely to distort the performance of small sized enterprises. Similarly, study by Abdullah (2016) on the challenges affecting performance of SMEs in Nigeria discovered that the major challenges that affect the performance of SMEs in Nigeria are finance, infrastructure and training. To add study by Nkwahi and Mboya (2019) on the review factors affecting the growth of SMEs in Tanzania indicate that Tanzanian SME growth is

mostly impacted by financial constraints, capital constraints, poor technology and tight regulations. Thus, full potential of SME's has not yet realised due to the fact that they face the various constraint from the start up to the survival stage and these constraints have not received enough attention, Anderson and Mzee (2013). It has been confirmed that most of SMEs used to trade the same way and same products as previous years' against the market demand. However, the findings further revealed that partly micro finance assists MSEs to boost their firms. Yet these organizations require more capital in running their daily activities.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study designated to determine on the performance of Small, Medium sized Enterprises in Tanga urban, and hence it intends to identify prevailing challenges

affecting the sector in the region. This chapter precisely addresses the summary of the research findings, conclusion and recommendation of the study.

5.2 Summary of the Main Findings

The main purpose of this study was to assess the prevailing challenges facing performance of Micro, Small and Medium enterprises (MSMEs) in Tanga City. Four research objectives guided the process of data collection and analysis

5.2.1 Procedures on Accessing Micro Credit Service

The first specific objective of this particular study aimed to identify the procedures on accessing micro credit service of financial institution to the development of SMEs. The findings revealed that the procedure of accessing loan for the development of SMEs were neither good nor poor. Probably this is because the provided amount of money failed to sustain their business.

5.2.2 The Role Played by The Government

The second objectives examine the role played by the government in promoting awareness in business. The findings indicate that the government do not play a great role in promoting awareness on loans offered from financial institution. This suggests that the government do not take much time to support SMEs to have clear understanding about the importance of micro credit and the role played by this institution to promote trading activities. On the other hand, this can be associated with procedures of accessing credit.

5.2.3 Outcome of Working Capital Loan from Micro Credit Financial Institutions

The third specific objective aimed to identify the outcome of working capital or loan to the performance of SMEs'. The findings indicate that majority of the respondents took loan from the micro credit institution to support them in conducting their business smoothly. Loans obtained from micro credit used into different purpose such as agricultural activities, building houses and working capital though it does not suffice their need. This is linked with difficult condition imposed by the financial institution and low ability of repayment though instalment. On the other hand, working capital loan obtained from micro credit financial institution positively contribute to the increase of working capital and increase in average monthly profit since they use them to purchase more items.

5.2.4 The Effect of Technological Change and Innovation to The Development of SMEs

The fourth objective intends to examine the cumulative effect of technological change and innovation to the development of SMES. Technological change and innovation play a significant role to the development of SMES. The findings indicated that with the innovation of technological change the owners of small business were able to expand market and establish interaction between supplier and customers and increase competitiveness in business. On the other hand, the respondents identified mobile phone, sugar packaging and nutritional packaging as predominant innovative technology employed by the business owners despite its low

quality. However, almost all respondents claimed that lack of information pertaining to technological innovation; financial instability and inadequate skilled personnel deter the use of technology to the development of SMEs.

5.3 Implications of the Findings

Based on the research findings the following are the implications of the findings.

5.3.1 Implication of The Findings to Policy Makers

The findings on the prevailing challenges facing performance of Micro, Small and Medium enterprises (MSMEs) in Tanga City revealed a critical challenge that affect the progress of SMSEs. The study findings of this particular study are paramount for policy makers in defining realistic objectives for SMEs’.

5.3.2 Implication of the Finding to the SMEs

The findings of this study act as catalyst to SMEs to develop SMEs tool that differentiate between business that have potential to grow and concrete. On the other hand, SMEs’ owners will be able to set strategies that could enable them to get loans from micro credit financial institutions like Finca, Brac, and Saccos for the sake of running their business smoothly. On the other hand, the study findings will enable them to be knowledgeable about financial institution offering credit and the underlying procedures.

5.3.3 Implication of the Finding to The Knowledge and to The Society

The study findings are important to equip the society with knowledge of micro credit financial institution and the required condition that can be used to access loan to be invested in their business.

5.4 Conclusion

The findings reflected in the four research questions by the researcher reveal that majority of respondents face difficulties in obtaining loans from micro credit financial institutions and even the amount of money drawn from these institutions do not meet their expectations. The contributing factors could be unfriendly procedures, lack of enough information concerning technological change and market demand and supply or lack of knowledge and awareness concerning micro credit service and its role played in promoting SMEs'. The study findings also indicate that the government do not play a significant role in promoting SMEs awareness in business. This would have been solved if special attention could be given by both parties, thus the Government of the United Republic of Tanzania through the responsible ministries and other stakeholders in the region.

5.5 Recommendations of the Study

Based on the research findings and conclusions drawn in the preceding section, the following recommendations are made:

5.5.1 Recommendation for Action

- i. The government of Tanzania through the Ministry Trade and Investment should provide regular seminars to SMEs owners on the importance of micro credit service firms in promoting their business.
- ii. The government should assist SMEs' in understanding the underlying procedures that could be used in accessing loans from the micro credit institutions.
- iii. The government is obliged to inform SMEs' on the micro credit policy and procedure changes taking place.

5.5.2 Recommendation for Policy

There is a need of reviewing the existing policy and procedures of loan offered by micro credit and other financial institution to attract SMEs' to take loan for the sake of boosting their business.

5.6 Limitations of the Study

The study only covered SMEs in Tanga urban where businessperson across all market areas where considered. The respondent particularly from the selected streets in Tanga delayed in responding to the questionnaire because of their daily scheduled activities and were not free to respond because most of them were so busy serving customer. Therefore, this research encountered some sort of bottlenecks, which was about to affect the collection and interpretation of findings as well as its presentation hence conclusion. However, researcher did the best to deal with all the raised limitations. Some of those limitations were as follows:

The time allocated for this study was accompanied with other university programs, social and employment life programs which sometimes made the work to be difficult to be accomplished effectively and efficiently. Therefore, researcher decided to use a little free time that had got in evening hours when they are nearly to close their shops so that this study is well done.

During the process of collecting data for this study some of the respondents were not ready to provide cooperation during the study believing that the collected data is mainly for tax and other government usage. Researcher tried much to convince them that they can contribute and give their responses about the study in a very positive way. Following the friendly ways of convincing participants, researcher managed to collect all the intended information.

5.7 Suggested area for Further Study

- i) This study was confined to the prevailing challenges affecting the performance of SMEs' in Tanga city. There is a need to conduct investigation on the impact of technological innovation toward SMEs.
- ii) This study focused on only three streets in Tanga Urban. Similar studies should be conducted in other region with reasonable samples to make a comparative analysis of other regions for a meaningful generalization.
- iii) There is a need to have an investigation on the contribution of micro credit service toward SMEs'.

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APPENDICES

APPENDIX 1

Questionnaire for SMEs

Dear participants,

The aim of this research is to assess prevailing challenges facing performance of Micro, Small and Medium enterprises (MSMEs) in Tanga City. You are among those chosen to participate in this study. The researcher thus, kindly requests you for your sincere input and your willingness to support this work. The researcher believes that you will find the questionnaires clear and look forward to receiving your responses. All information from you will only be used for the purpose of this study and will be treated confidential.

Thank you very much for participating in this research.

Part I: General Information.

Tick the correct answer

Gender:

- a) Female
- b) Male

Age:

- a) 18 - 30
- b) 31 – 50
- c) 51 – And above.

Education Background

- a) Primary Education
- b) Secondary Education
- c) University/ College Education
- d) Non formal Schooling.

Part II: Micro, Small and Medium Enterprise performance and credit information offered by Financial Institutions in Tanga urban.

1. Do you possess a small business in Tanga region?
 - a) YES
 - b) NO
2. If your answer is YES for how long have you own the business?
 - a) – 6 Months
 - b) – 2 Years
 - c) – 3 Years
 - d) – 4 Years
 - e) – 5 Years
3. Are you aware that financial institutions provide micro credit service for small businesses?

a) YES

b) NO

4. If the answer is YES, what types of micro credit service do you understand?

a)

b)

c)

d)

5. Have you ever given a loan from Financial Institutions?

a) Yes

b) No

6. What was the intention of your loan?

a) Working capital for your business

b) Agricultural Activity

c) Higher Learning Education Loan

d) House building

7. Are the loans granted by financial institutions were used accordingly to meet your working capital expectation?

8. How do you assess the existing procedures of accessing micro – credit service of Financial Institutions?

- a) Neutral
- b) Good
- c) Very Good
- d) Excellent

9. In your opinion does Tanga urban has a concisely, friendly and defined institutions designed to support small businesses?

- a) Yes
- b) No

10. If the answer is YES, what Institutions do you know?

- a)
- b)
- c)
- d)

11. Is it right to say that technological change and innovation had any effect on the development of SMEs?

- a) Yes
- b) No

12. What types of innovation technology commonly used in your firms? Tick what is relevant in your case

- a) Mobile phone
- b) Sugar packaging
- c) Nutritional packaging

13. What are the perceived usefulness of technological change and innovation to develop SMEs? Tick what is applicable in your case

- a) Enhance financial services
- b) Enlarge market
- c) Stimulate interaction with supplier
- d) Business competition

14. The following are the factors that hinder the use of technological change and innovation to the development of SMEs. Please tick what is relevant in your case

- a) Inadequate fund
- b) Lack of confidence and skilled personnel
- c) High cost of innovation
- d) Lack of information regarding to technological use

e) Others specify.....

15. What are the factors affecting performance of SMEs? Please tick what is applicable in your case

- a) Technological innovation
- b) Micro credit policy
- c) Misallocation of funds
- d) Domestic market
- e) Limited access to information
- f) Lack of financial management
- g) Others.....

Part III: The role played by the Government institutions in promoting business awareness

16. Are you aware of the Government institutions, which were formulated to boost small business in Tanga urban?

- a) Yes
- b) No

17. Is the Government institution play a significant role in boosting small business in Tanga urban? Yes/No

18. If yes to what extent

- a) Great extent
- b) Moderate
- c) Less extent

19. Are you aware of the availability of SIDO, VETA and TCCIA office's in Tanga town?

a) Yes

b) No

20. Are you aware of the contribution of Government institutions to the growth of small business in Tanga urban? Yes/No

Thank you for your participation