STRATEGIES FOR ENHANCING THE GROWTH OF SMALL AND MEDIUM ENTERPRISES (SMES) IN THE AGROPROCESSING INDUSTRY IN TANZANIA: THE CASE OF FOOD PROCESSING SECTOR

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A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE OPEN UNIVERSITY OF TANZANIA

2013

CERTIFICATION

The undersigned certifies that she has read and hereby recommends for acceptance by the Open University of Tanzania a dissertation titled: Strategies for Enhancing the Growth of Small and Medium Enterprises in the Agro processing Industry in Tanzania, in fulfillment of the requirements for the award of the degree of Master of Business Administration of the Open University of Tanzania

…….

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Supervisor

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DECLARATION

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

Signature ……

Date: …….

DEDICATION

This study is dedicated to my parents the late Prof. Chrysant Kamuzora and Mrs. Generosa Kamuzora, who devoted most of their time encouraging me to pursue higher learning education so as to get more opportunities in life.

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ABSTRACT

The objective of the study was to identify factors that influence the growth of Small and Medium Enterprises (SMEs) in the agro-processing industry (food processing) of Tanzania. The target population for the study was SMEs in the agro- food processing sector. Purposive sampling was used to get the sample for both the survey and the interviews in order to include a desired and representative sample. The sample comprised of 22 SMEs in the agro-processing sector, managers from SIDO and Tanzania Private Sector Foundation. Qualitative and quantitative primary data were collected using in-depth interviews and questionnaires. Quantitative data analysis used descriptive statistical procedures involving cross-tabulation and frequency distribution. Data from in-depth interview were analysed qualitatively. The findings indicate that the major challenges facing the agro-food processing SMEs are scarcity of financing, inconsistence of government projects and programmes to support the development of the agro-processing enterprises; low level of entrepreneurships and management training of the SME owners; lack of technical guidance and counseling; technological gap; uncertain and costly power supply; and poor attention on marketing of products. In view of the observations made during this study, the following strategies are recommended to enhance growth of these agro-processing SMEs: set up special Agro-Processing Development Fund; skills development of the owners and managers in food processing and business management; marketing of products so as to establish reliable and sustainable markets for their products; providing continuous guidance and counseling to these SMEs and dissemination of information about successful enterprises so as to encourage potential enterpreneurs in the food processing sector.

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ABBREVIATIONS AND ACRONYMS

GDP	Gross Domestic Product
ILO	International Labour Organization
SIDO	Small Industries Development Organization
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Scientists
MSMEs	Micro, Small and Medium Enterprises
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
URT	United Republic of Tanzania

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

The development of Small and Medium Enterprises (SMEs) is important because of their pivotal role for economic development. The SME sector is important for the creation of employment, facilitation of broad based development and the distribution of incomes. The SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services. There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover.

There is no consensus of SMEs definition as various countries have different definition depending on the phase of economic development and their prevailing social conditions. In this, various indexes are used by member economies to define the term such as number of employees, invested capital, total amount of assets, sales volume (turnover) and production capability (Mhazo et al, 2003).

Pass et al (2000) define Small and Medium Enterprises (SMEs) as companies that

(i) have annual turnover of less than £ 11.2 million;

(ii) have gross assets of under £ 5.6 million; and

(iii) not more than 250 employees

The criteria above cannot be adequately used to define SMEs in Tanzania.

In the context of Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalised undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million (SME Development Policy, 2002).

The Tanzanian government defines SMEs according to sector, employment size and capital investment in machinery. Accordingly SMEs are defined as micro, small and medium-size enterprises in non-farm activities including manufacturing, mining, commerce and services. A micro-enterprise is one with fewer than five employees, a small enterprise with 5-49 employees, a medium enterprise with 50-99 employees and a large enterprise with more than 100 employees (see Table 1.1). Capital investments range from less than Tshs 5 million to over Tshs 800 milion.

Table 1.1: Micro, Small and Medium Enterprises Definition in Tanzania

Category	Employees	Capital Investment in Machinery (Tshs)
Micro enterprise	1-4 employees	up to 5 million
Small enterprises	5-49 employees	5-200 million
Medium enterprises	50-99 employees	200-800 million
Large enterprises	100+ employees	over 800 million

Source: URT SME Development Policy, 2003

An enterprise is another name for a business but it includes the idea of being bold, adventurous and taking risks (Ngowi & Milanzi, 2006). A person who sets up an enterprise is not afraid to try something new and is often referred to as an entrepreneur.

i) SME Statistical Data

The Haki Kazi study (2005) revealed that the SME sector in Tanzania accounts for about a third of GDP. There ar about 1.7 million SMEs businesses. These employ about 20% of the work force. The sector has a huge potential for creating employment and generating income which is equitably distributed.

ii) SME Policy in Tanzania

Tanzania issued a SME Development Policy in 2002. According to the United Republic of Tanzania (URT, 2002) the policy mission is;

> *"To stimulate development and growth of SME activities through improved infrastructure enhanced service provision and creation of conducive legal and institutional framework so as to achieve competitiveness".*

From the Policy Mission, it is clear that the areas of policy focus in the efforts to make SMEs competitive are improvement of infrastructure, enhancement of service provision and creation of conducive legal and institutional framework.

The SME Development Policy was designed to address the constraints that SMEs face and tap into the full potential of the SME sector. This policy will serve as a guideline for all stakeholders to stimulate the establishment of new SMEs and to build the competitiveness of existing ones. The expected outcome is that SMEs will make a significantly increased contribution to economic development in Tanzania. The success of this policy depends mostly on the cooperation of all stakeholders (URT, 2002).

iii) SME Opportunities and Challenges

There are two levels of constraints facing MSMEs in Tanzania, those acting as barriers to general operations and those impeding growth (Stevenson and St-Onge, 2005). The UNDP, ILO and UNIDO (2002) report concluded with a list of factors impeding the development of informal MSMEs:

i. the low level of education of the entrepreneurs;
ii. the lack of managerial, marketing and production skills;
iii. the use of rudimentary technology;
iv. the low-skilled work-base;
v. lack of access to credit;
vi. the tiny purchasing power of their consumers/ clients;
vii. regulatory constraints stemming from the difficulties of obtaining legal status.

Despite limitations for SMEs to access the export market, there are a number of promising opportunities for the SMEs access to export market. These include some sectors and commodities that carry high capacity to create jobs and incomes, economic growth and poverty reduction. These sectors include agriculture in general and agro-processing and commercial farming in particular (spices, horticulture and floriculture, rice, livestock, fruits, kidney beans, cashew nuts, fish); mining, tourism, industry and metals and social sectors related to enterprise development including education, judiciary, labour and health. Initiatives and activities that aim at developing these sectors therefore, should be supported (Ogutu et al, 2006).

Small and Medium Enterprises (SMEs) all over in the world are known to play a major role in social economy development. This is apparently the case of Tanzania, where SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas. The growth of SMEs in Tanzania can be considered as a vital instrument for poverty alleviation and ensure rapid industrialization. This sector gets negligible support from government, private institutions and international donor agencies. However, the rate of development of SME is not up to the expectation (Morrissey, 2000).

In Tanzania, the full potential of the SME sector has yet to be tapped due to the existence of a number of constraints hampering the development of the sector. They include: unfavourable legal and regulatory framework, undeveloped infrastructure, poor business development services, limited access of SMEs to finance, ineffective and poorly coordinated institutional support framework etc (SME Development Policy, 2002).

For socio-economic development of any country, a strong Industrial base is desirable. The natural resources need to be developed and utilized both as input to industrial production and as direct products for the social well being of the citizenry (Mhazo et al, 2003).

Since Tanzania's Independence in 1961, industrialization has been recognized as the critical factor to the economic transformation of the country. SME on the other hand, received relatively low direct Government investment, and was left to the initiatives of the private entrepreneur (Morrissey, 2000). It has been stated that small and

medium enterprises (SMEs) now constitute about more than 75% in the country. However, in contrast to the situation in industrialized and some developing economies, the contribution of SMEs to the Tanzanian economy, in terms of output, exports and employment, is relatively low (Morrissey, 2000).

The Government of Tanzania (GOT) established the Small Industries Development Organization (SIDO). The objective of SIDO was to create and sustain entrepreneurial base through the promotion and support to the development of SMEs by providing them with business development services and specific financial services on demand. Services provided to SMEs by SIDO include technology development, business development, marketing and information; and financial services. According to Mbilinyi and Shundi (1999), the achievements of SIDO to date include: the establishment of the National Entrepreneurship Development Fund in 1994; continued provision of extension and credit services; and carrying out feasibility studies. As for its weaknesses, they include: lack of funds to match the demand; the fund is not sustainable; and most recipients have come from urban areas.

Agro processing based small and medium enterprises have been recognized as one of the most important contributors for the economic development of many countries. Small-scale agro processing activities represent a potential source of livelihood for many poor people in Sub-Saharan Africa. The overall potential of agro-processing is huge as it can (Mhazo et al, 2011):

i. Increase the value of crops of poor farmers and thus yield higher returns;

ii. Expand marketing opportunities;

iii. Improve livelihoods of people;

iv. Extend shelf-life of commodities;

v. Improve palatability of commodities;

vi. Enhance food security;

vii. Overcome seasonality and perishability constraints; and

viii. Empower women who are often involved in agro-processing.

In today's Tanzania, industries, particularly small and medium–sized agro-processing industries, operate under various conditions and constraints, which stand on the way to the achievement of organisational goals. They include, for example, high costs, shortage of materials, shortage of funds and inability to recruit competent staff. Due to its size, the individual firm neither has control over input factor costs or the prices at which it sells its output with the result that inefficient and high cost firms are forced out of business. This makes cost saving devices essential for economic survival (Morrissey, 2000).

Agro-processing activities can contribute to sustainable livelihoods through improved incomes, employment, food availability, nutrition and social and cultural well-being from a limited area of land (Simalenga, 1996; Proctor et al., 2000; Azama-Ali, undated). Vibrant agro-industrial activities can expand the markets for primary agricultural products, add value by vertically integrating primary production and food processing systems and minimize post harvest losses. In addition such activities would reduce seasonality of consumption of a range processed foods,

increase the viability, profitability and sustainability of production systems through their impact on increasing farm incomes, rural employment and foreign exchange earnings, while reducing marketing risks (Lambert, 2001).

iv) SME Policy on Agro Processing

The Tanzania government has recognized that it needs to facilitate the development of the agro- processing industry in its SME Development Policy. The SME Development Policy states that the Government will facilitate the establishment of manufacturing enterprises so as to add value to agro products (URT, 2002).

In Sub Saharan Africa, it is estimated that 60% of the labour force find part of its work in small-scale agro processing enterprises and the majority are women (ITDG, 2005). The greatest potential growth in small-scale agro-industries is in fruit and vegetable processing as many horticultural producers experience problems in marketing of fresh produce such as lack of readily available marketing information and lack of market integration, lack of data on supply and demand trends and prices, reliance on spot or road-side markets, transport constraints and spoilage (Mhazo et al., 2003, Boyd et. al, 1997).

However, studies have shown that a number of factors may constrain the ability of small and medium scale agro-based enterprises to effectively manufacture and market processed food products.

At SMEs level, limited access to credit (Chakwera, 1996); lack of appropriate technologies (McPherson, 1996; Mugova, 1996); lack of technological capability;

the unreliable supply of raw materials (Mosha, 1983); lack of management skills (Odunfa, 1995); poor product quality control (Jaffee, 1993); and poor markets, amongst other things, have constrained the development of small-scale agro processing industries. These problems apply to many developing countries and are particularly applicable to Tanzania.

This study focuses on the strategies for enhancing the growth of small and medium enterprises in the agro-processing industry in Tanzania specifically the food processing sector. It intends to establish the opportunities and challenges of SMEs in the agro-processing sector and propose strategies for enhancing growth of these SMEs with emphasis on the small and medium-scale enterprises required to effectively manufacture and market processed food products. The main areas of interest included profile of the SMEs, opportunities and challenges of the Agro – processing SMEs and the role played by support institutions.

1.3 Statement of the Problem

Most SMEs studies done in Tanzania have not focused on agro-processing while the backbone of the county economy depends on agriculture. Studies that have delved in agro processing, majority have concentrated on constraints facing agro processing SMEs, for instance an inconsistent and insufficient supply of raw materials, Inappropriate or obsolete processing and ancillary equipment, poorly trained personnel and a lack of qualified food technologists, inappropriate packaging materials and high packaging cost and weak or non-existent market development Lambert (2001). This is a research gap which this study will investigate by taking the

case of food processing SMEs in the agro-processing industry in Dar es Salaam. This study will provide insight of the present challenges that limit growth and opportunities that should be utilised by agro-processing SMEs in Dar es Salaam. It would also outline strategies that will aid SMEs to effectively manufacture and market processed food products.

Food processing activities have grown in importance to meet new consumer demands especially with the increase in urban migration. Tanzanian entrepreneurs have a long established role in this subsector, but the potential for their advancement in production and sales is impeded. UNIDO (1999) noted that enterprises seldom grow beyond the level of family ventures. Lambert (2001) also noted that being mindful of the pitfalls and obstacles to agro-industrial development, it may thus be instructive to re-examine some of the problems and constraints which have continued to plague this sector.

1.4 Overall Objective

The main objective of this study is to identify factors that influence the growth of SMEs in the agro-processing industry of Tanzania and propose strategies to bring about growth.

1.4.1 Specific Objectives

Specific research objectives are:

a) To establish the profile of SMEs in the agro-processing industry.
b) To identify factors in form of challenges for growth of SMEs in the agro-processing industry.

c) To identify factors in form of opportunities for growth of SMEs in the agro-processing industry.

d) To propose strategies for enhancing growth of SMEs in the agro-processing industry.

1.5 Research Questions

The main research question that guided this study is; what factors can influence the growth of small and medium enterprises in the agro-processing industry in Tanzania?

The following specific research questions guided this study:

1) What is the profile of SMEs in agro-processing industry in Tanzania?
2) What are the challenges for growth of SMEs in agro-processing in Tanzania?
3) What are the opportunities for growth of SMEs in agro-processing in Tanzania?
4) What are the strategies that can enhance the growth of SMEs in the agro-processing industry in Tanzania?

1.6 Significance of the Study

The significance of this study on factors affecting the growth of agro-processing SMEs in Tanzania lies in the attempt to document the factors that are truly critical to development of agro-processing SMEs which have not been appreciated, recognized or factored into the various incentive schemes and in the management of the SMEs. Therefore, this study will examine factors critical to SMEs growth and performance

which have been overlooked and will contribute to knowledge and enhance practices in the management of SMEs in Tanzania.

In addition, this research will equip both policy makers and SME managers with knowledge on the strengths and weaknesses of various strategies and practices in the management of SMEs. This will make it easier for both Government and SME managers to combine the best management practices with appropriate mix of policies and incentives to achieve the objectives set for the agro-processing SMEs sector.

1.7 Study Scope

This study was confined to SMEs operating in Dar es Salaam particularly in agro-processing sector. For the purpose of this study, samples of representative SMEs in agro-processing sector in Dar es Salaam were surveyed for their business conditions, experience, constraints and expectations.

1.8 Layout of the Report

This research report comprises five chapters which includes Introduction as chapter one, Literature Review as chapter two, Research Methodology as chapter three, Findings and discussion as chapter four and finally Conclusions and Recommendations as chapter five.

Chapter one of this report describes the background of the problem, building the statement of the problem, research objectives and questions which lays the foundation for the whole study. This investigates the strategies for enhancing the

growth of Small and Medium Enterprises in the Agro-Processing Industries in Tanzania. Chapter two provides a review of literatures on issues related to agro-processing industry. The chapter also outlines issues related to the growth and performance of SMEs according to different authors' views. Chapter three presents the research approach that was employed in this study. It covers the research design, area of study, population, sample and sampling techniques, data collection methods and data analysis. Chapter four presents the study findings and provides discussions on those findings. It is the core of this study as it answers the study questions. Chapter five provides a conclusion of the study and recommendations of what should be done to enhance the growth of agro-processing SMEs in Tanzania as in response to the findings obtained.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter discuses and presents the theoretical and empirical presentation of issues related to agro processing industry in past written documents. The first part covers the theoretical review on the growth and performance of small and medium enterprises in the world, Africa and Tanzania in particular. The second part covers the empirical and practical review of the growth and performance of the SMEs and covers the findings of which related studies had in the past. In this chapter also the conceptual framework which shows the path of the study is also portrayed.

2.2 Definition of Key Concepts

2.2.1 Agro-Processing Industry

A common and traditional definition of agro processing industry refers to the subset of manufacturing that processes raw materials and intermediate products derived from the agricultural sector. Agro processing industry thus means transforming products originating from agriculture, forestry and fisheries (FAO, 1997).

Indeed, a very large part of agricultural production undergoes some degree of transformation between harvesting and final use. The industries that use agricultural, fishery and forest products as raw materials comprise a very varied group. They range from simple preservation (such as sun drying) and operations closely related to harvesting to the production, by modern, capital-intensive methods, of such articles as textiles, pulp and paper (FAO, 1997).

The food industries are much more homogeneous and are easier to classify than the non-food industries since their products all have the same end use. Most preservation techniques, for example, are basically similar over a whole range of perishable food products, whether they be fruit, vegetables, milk, meat or fish. In fact, the processing of the more perishable food products is to a large extent for the purpose of preservation (FAO, 1997).

Non-food industries, in contrast to the food industries, have a wide variety of end uses. Almost all non-food agricultural products require a high degree of processing. Much more markedly than with the food industries, there is usually a definite sequence of operations, leading through various intermediate products before reaching the final product. Because of the value added at each of these successive stages of processing, the proportion of the total cost represented by the original raw material diminishes steadily. A further feature of the non-food industries is that many of them now increasingly use synthetics and other artificial substitutes (especially fibres) in combination with natural raw materials (FAO, 1997).

FAO (1997) classify agro processing industry is in upstream and downstream industries. Upstream industries are engaged in the initial processing of agricultural commodities. Examples are rice and flour milling, leather tanning, cotton ginning, oil pressing, saw milling and fish canning. Downstream industries undertake further manufacturing operations on intermediate products made from agricultural materials. Examples are bread, biscuit and noodle making, textile spinning and weaving; paper production; clothing and footwear manufacturing; and rubber manufactures.

Agro-processing activities comprise two major categories; primary and secondary operations. Primary processing operations involve activities such as crop drying, shelling/threshing, cleaning, grading, and packaging. These activities are mainly carried out at the farm and only transform the commodity into a slightly different form prior to storage, marketing or further processing. Secondary processing operations entail increasing nutritional or market value of the commodity and the physical form or appearance of the commodity is often totally changed from the original. Some examples of secondary processing are milling grain into flour, grinding groundnuts into peanut butter, pressing oil out of vegetable seeds, pressing juice out of fruit, making cheese out of milk and manufacturing of mince meat. Depending on type of commodity, equipment needed for primary processing is completely different from that used in secondary processing or major adjustments/modifications need to be done to suit either (Mhazo et al, 2011).

Agro processing can be defined as set of techno economic activities carried out for preservation and treatment of agricultural produce and to make it useful as food, feed, fibre, fuel or manufacturing objects . Therefore, the span of the agro-processing industry covers all operations from the phase of harvest to the phase where the material reaches the end users in the desired form, packaging, quantity, quality and price (NIIR Board).

Agro-processing industries by definition process materials of agricultural origin. Materials of agriculture may be of plant origin or can also include materials of animal origin. Similarly, processing may refer to primary processing only or it may Include secondary^ and tertiary^ processing as well. Therefore, from its narrowest to its broadest

definition, the coverage of 'agro-processing industries' ranges from primary processing of materials of plant origin to all kinds of processing of materials of plant and animal origin (Sarkar & Karan, 2005).

Agro-industry processes materials of plant or animal origin by transformation and preservation through altering physical and chemical characteristics and packaging. It has manifold contribution to economic development. It transforms raw material into finished products for consumption; constitutes a significant proportion of the developing countries' manufacturing production and exports and develops food system that provides the nutrients critical for the well-being of the expanding population (Sarkar & Karan, 2005). According to the International Standard Industrial Classification (ISIC), agro-industry consists of: i) food and beverages; ii) tobacco products; iii) paper and wood products; iv) textiles, footwear and apparel; v) leather products; and vi) rubber products.

This study will examine agro-processing carried out for preservation and treatment of agricultural produce and to make it useful as food and beverages.

The agri-food sector can be seen as comprising: (i) products for subsistence and local markets (basically root crops); (ii) staples for urban domestic markets predominantly cereals); (iii) traditional export commodities (coffee, cocoa, tea, nuts, cotton); (iv) components of animal protein diet (dairy products, oils and animal feed) and different meat chains (red meat, pigs, poultry) for both domestic and export markets; (v) fresh or non-traditional products (fruits, horticulture, flowers, seafood/aquiculture); and (vi) differentiated traditional exports (fair trade, organics, origin products), which are now oriented also to domestic markets (Wilkinson and Rocha, 2009).

i) Importance of the Agro-Processing Sector

There continues to be the recognition that agro-industrial development, even at the small and cottage industry levels, is critically important to the expansion and diversification of the agricultural sector. Agro-industrial development could make a significant contribution to the transformation of agriculture and, by extension, rural and national development. Vibrant agro-industrial activities can expand the markets for primary agricultural products, add value by vertically integrating primary production and food processing systems and minimize post harvest losses. In addition such activities would reduce seasonality of consumption of a range processed foods, increase the viability, profitability and sustainability of production systems through their impact on increasing farm incomes, rural employment and foreign exchange earnings, while reducing marketing risks (Lambert, 2001).

Agro-industry provides capital and services to farmers (e.g seeds and equipment, training, production and market information) promotes entrepreneurship, raises demand for agricultural products and connects farmers with markets through the handling, processing, marketing and distribution of agricultural products. As a result, productivity and quality of agricultural production farm returns, economic stability for rural households, food security and innovation throughout the value chain can be enhanced. Efficient agro-industry can therefore spur agricultural growth and accompanied by a strong link with smallholders reduce rural poverty (United Nations Commission, 2008).

However, with few exceptions, the agro-industrial sector remains rudimentary, underdeveloped and largely without significant institutional, technical and financial

support. Thus being mindful of the pitfalls and obstacles to agro-industrial development, it may thus be instructive to re-examine some of the problems and constraints which have continued to plague this sector (Lambert, 2001).

2.2.2 Food Processing

Food processing can be understood as post-harvest activities that add value to agricultural products prior to marketing (Wilkinson.J, 2004). In addition to the primary processing of food ingredients, it includes, therefore, final food production on the one hand and the preparation and packaging of fresh products, especially horticulture and fish (Wilkinson. J, 2004). Food products are classified into primary and value added products based on the value addition (NMCC India, 2009). Primary processed products include cleaning, grading, sorting and packaging. The products manufactured generally act as inputs for value added products. Value added products involve use of processing techniques like blending, high temperature heating and boiling, chilling etc, where the use of technology is significant (NMCC India, 2009):

<table>
<tr><td></td><td colspan="2">Primary Processed Products</td><td>Value Added Products</td></tr>
<tr><td rowspan="4">Agriculture</td><td colspan="2">Milled grains, spices</td><td rowspan="3">Beverages, ready to eat/cook/drink products, bakery products, processed dry fruits</td></tr>
<tr><td colspan="2">Fruits and vegetables</td></tr>
<tr><td colspan="2">Tea and coffee</td></tr>
<tr><td colspan="2">Sugar</td><td>Confectionery</td></tr>
<tr><td></td><td colspan="3">Edible oil (depending on processing level)</td></tr>
<tr><td rowspan="2">Livestock</td><td>Milk</td><td colspan="2">UHT milk, milk powder, yoghurt, ice cream</td></tr>
<tr><td>Eggs, Meat</td><td colspan="2">Egg powder, packed meat</td></tr>
<tr><td>Fisheries</td><td colspan="3">Processed aquatic food (depending on processing level)</td></tr>
</table>

ii) Food Processing in Tanzania

The economy of Tanzania is highly dependent on agriculture. Staple food crops include maize, rice, pulses, cassava, sorghum, millet, sweet potatoes and bananas (Tiisekwa et al, 2005). A wide variety of fruit, both tropical and temperate, as well as vegetables are also produced. Fruit produced includes mangoes, oranges, pineapples, passion fruit, avocados, papayas, guavas, peaches, plums, pears, apples and strawberries. The varieties of vegetables produced include potatoes, tomatoes, peas, cabbages, carrots, peppers, onions and mushrooms.

Most of the food crops, fruit and vegetables mentioned above are consumed in their primary condition without being processed due to lack of effective processing and preservation technologies as well as inadequate post-harvest storage resulting in high food crop wastage (Tiisekwa et al, 2005). These crop losses are mainly post-harvest losses occurring on farm and in transportation. These high losses are indicative of lack of good transport as well as appropriate food-processing and storage facilities. According to Tiisekwa et al, 2005 the food-processing industry in Tanzania is in its infancy even by the standards of the developing countries. However the industry employs between 12 and 31.5 per cent of the labour force, both rural and urban.

Most food-processing firms are located in urban areas especially in Dar es Salaam, where 51.5 per cent of them are found and in other major towns like Arusha city (Tiisekwa et al, 2005). According to Tiisekwa et al (2005), out of the range of processed food products in the food-processing industry, the dominant commodity-based categories of processed food products are water (13.33%), fruit (11.11%),

baking (11.11%), and milling (9.9). The remaining categories occupy a share of between 1% and 9% in the industry include fresh vegetables, vegetable oils, brewing, wine, fish and sea food. Other categories are salt, milk, meat, tea, coffee and distilleries.

With regard to levels of investment in the food-processing industry, it is generally low. For example, the level of investment in diary processing ranges from USD 60,000 to 2 million only with a production capacity ranging from 4,500 to 120,000 litres per day (Tiisekwa et al, 2005). Despite the prevailing small production capacity, it is not fully utilised. The problem of capacity under-utilization is related to some of the constraints faced by the food-processing industry mentioned below.

iii) Constraints Faced by Food Processing SMEs

Constraints faced by small-scale and micro food processors include poor quality of equipment; low processing skills; little publicity; limited market due to lack of habit of consuming processed fruit and vegetable products and inadequate packaging materials (Tiisekwa et al, 2005).

According to Tiisekwa et al (2005) constraints faced by the food processing industry in Tanzania include: inconsistent and inadequate supplies; lack of quality raw materials; lack of strong preference by consumers; lack of capital and undynamic market. Other constraints are: high production costs and taxes; poor transport infrastructure; absence of cold chains; lack of power and potable water as well as high tariffs for power and water.

iv) The Role of Microenterprises in Development

Focusing on and supporting microenterprises can be justified because they have the potential to generate output, employment and income as well as being central to innovation (Kantor, 2000). More specifically, micro and small enterprises can have vital development functions in the countries of the South. According to Levitsky (1993) these development functions include:

i) to help generate employment by using more labour in relation to capital invested;
ii) to act as seedbeds for entrepreneurial talent;
iii) to operate in less populated rural areas with limited markets and poor infrastructure;
iv) to be able to start up with very limited resources;
v) to provide "hands-on" training facilities for people with varying levels of education in both management and technical skills;
vi) to supply both low-cost items for the poor and, in certain circumstances, high cost quality products for the rich and for export; and
vii) to enable them to weather recession, material shortage and market changes because of their flexibility.

According to URT (2003), other functions of micro and small enterprises are:

i) to contribute to equitable distribution of income and
ii) to add value to agro products

2.2.3 Growth of Small and Medium Enterprises

The term ''growth'' means increase in size or an improvement in quality as a result

of a process of development, in which an interacting series of internal changes leads to increase in size accompanied by changes in the characteristics of the growing object (Penrose, 1959).

Qualitative growth can occur through changes in or sophistication of the firm. For example, a firm that changes from being owner-operated to owner-directed can be considered to have grown substantially organizationally. Quantitative growth has to do with changes that are quantifiable, such as workforce size, sales revenue, profitability, investment, product mix (Olomi, 2009).

Because of the potential benefits to society of growing businesses, there has been a lot of interest in the question as to why firms which face roughly the same kind of external circumstances experience different rates of growth. This interest is even more pronounced in many Sub-Saharan countries, where there are extremely few medium-sized enterprises, which has led to concerns about ways of filling the ‘’missing middle’’. Support or search for growth requires a good understanding of what generates it (Olomi, 2009).

Unfortunately, empirical studies of these specific push and pull factors are limited with results offering little predictive ability (Krueger, *et al.,* 2000) and logically, displacement may cause other behaviors than self-employment. Schmitt-Degenhardt et al, 2002 puts forward four important arguments that can explain why a small enterprise will remain small and not pursue a growth strategy, once a certain minimum size has been reached:

i) the basic business strategy aims from the very beginning to capture a

geographically clearly delimited market niche;

ii) the owner-manager values the disadvantages and risks of growth higher than the advantages and new opportunities;

iii) the owner-manager chooses voluntarily to keep his business small because of a limited achievement, motivation or because of special personal reasons; and

iv) in the special case of developing countries a large part of small enterprises are informal; growth beyond a certain size requires formalization that is often a complex and cost-intensive process.

Schmitt-Degenhardt et al discussed those four arguments in detail:

a) The Locally Oriented SME

Many SMEs in the industrialized world as well as in emerging markets and developing countries pursue an explicit or implicit strategy that implies a clear limitation to growth. The typical case is an SME that offers standardised products and services on a local or regional market, e.g. SMEs in the retail or restaurant sector, bakeries as well as services like hair-cutting or car repair. In the great majority of these cases the business strategy chosen by the owner-manager of the SME was from the very beginning to occupy a local or regional market niche large enough to satisfy the own income expectations and to guarantee the maintenance or re-emplacement of buildings, machinery etc.

Within this type of locally oriented SMEs and under given market structures there is a natural top to the business size. Growth beyond this level would mean a radical

change in the basic strategy of the SME and the set of (explicit or implicit) objectives of its owner. It implies a fundamental re-organisation of the companies' structure in all areas (production, marketing, logistics). Generally spoken, further growth of an SME cannot be expected once the "optimum level" that corresponds to the specific local conditions has been reached. There are exceptions, however, that have to be considered as thus:

i) In some cases locally oriented SMEs in traditional sectors have been transformed into large companies, most frequently by external growth, e.g. through the acquisition of similar SMEs in other local markets or through the establishment of franchising systems.

ii) When the basic market conditions suffer a rapid change SMEs may be confronted with the choice of "grow or die". A typical case for this "induced growth" is the German brewing industry: When the beer market was transformed from basically local relations to a national distribution system, many small breweries passed through a rapid growth process, often related with a change in the owner-structure or the acquisition by a large competitor.

We can resume that in industrialised as well as in developing countries we find a relevant segment of SMEs for which growth should not be expected. Their orientation on a stable company size is not contrary to the logic of a market economy but reflects a rationale strategy of locally oriented firms. They will invest, re-organise and contract advisory services whenever they consider this necessary or helpful for their goal of maintaining their market position.

b) "Arrested Development"

Some empirical studies (Hanks et al 1993, Davidsson 1989) indicate that even firms that do *not* correspond to the above mentioned group of locally oriented SMEs may not grow, merely because the owner-manager chooses to maintain the company size limited ("arrested development"). Empirical evidence (e.g. Roper 1999) shows that there is no direct link between small business' growth and profitability. Once a viable scale of operation has been reached, there may even be a trade-off between further growth and the rate of return. With profit-maximisation being the driving force of decision making the owner or manager will decide in these cases to rather maintain business size small and profits high.

Business owners may also value the foreseeable disadvantages and risks of growth higher than the advantages and chances. This is in line with psychological observations that people tend to overvalue the potential of failure *(Plous 1993, p.98),* which translates in this context to failure associated with growth. They tend to be "risk averse" when gains are at stake *(Plous 1993, p.70),* thus avoiding investments required for the business growth when this affects the profits the company is still making.

c) "The "Life-Style Firm"

Once an SME has reached a size that permits the owner an attractive income there may arise a trade-off between his or her quality of life and further business growth. Expansion means permanently tackling new challenges, decision making and risk taking. Therefore, it might be preferable for the owner-manager to maintain the business small and to play in an already known field. There has to be a strong

intrinsic “achievement motivation”, a personal will to expand the business, make more money and lead an ever larger organisation *(e.g. Davidsson 1989).*

There are further reasons for maintaining the business small though the market and external conditions might be appropriate. Many business-owners do not want to share strategic decisions with business partners or even subordinates. They prefer the autonomy of being the leader of a small business to the advantages of being the general manager of a larger entity. This type of entity is labelled the “life-style firm” *(McMahon 2000, Hanks et al. 1993, Hay and Kamshad 1994).*

d) Informality and Formality

In developing countries a large part of SMEs, especially informal micro-enterprises, is not growth-oriented: Frequently being established due to a lack of job-opportunities in the formal sector the main business goal is the reproduction of the entrepreneur and his or her family. In most cases the entity may grow up to the limits of available workforce within the family group and the market-limits set by informal sale channels. This aggravates the above mentioned low inclination towards risk-taking. Thus, besides the known critical external factors that hamper the growth prospects of micro-enterprises such as lack of access to training, credit and other business services, there are also very relevant factors in the person of the micro entrepreneur and his or her business and growth objectives. As there is only a part of all enterprises interested to contract Business Development Services *(Schmitt-Degenhardt 2002)* one can safely assume that there will be a large proportion of micro-entrepreneurs who do not wish to grow with their business but who will prefer e.g. a formal job when they get access to it. For this and other self induced and

external reasons the growth potential of many informal SME is low.

Some studies describe factors thought to influence SMEs growth. The main factors that influence on growth of SMEs are strong need of achievement, availability of financial capital Zhou and Wit (2009); behaviour, personality, attitude (Storey, 1994), their capabilities, including education and training that create higher expectations in some industry sectors (Henry et al., 2005), and their social capital which influences access to resources (Brush et al., 2004). Secondly, Storey (1994) also identified previous management experience, family history, functional skills and relevant business sectors knowledge as the major determinants for SMEs growth.

While the aforementioned determinants generally help firm growth, there are also factors that inhibit firms growth (Davidsson, 1989). These factors are considered as growth barriers. Most of the SMEs are more like face problem when they enter into the business and also when they are growing compare to the large business. Commonly addressed barriers for small businesses include institutional barriers and financial barriers (Zhou and Wit, 2009). Institutional barriers are mainly discussed with the focus on firms' interaction with government, including legalization, taxation, and government support amongst others. Davidsson and Henreksson (2002) studied from both theoretically and empirically and strongly argue that certain institutions intentionally discriminate against the growth of SMEs which in turn act as a growth barrier. It is not difficult to imagine that SMEs would have a tough period when they face unfavourable tax system, discriminatory regulations and complicated laws (Shah Alam et al, 2011).

2.2.4 The Profile of Growth-Oriented Women Entrepreneurs in Tanzania

The ILO (2003) study found that women who expand their firms have a different profile from others. Most started as micro-enterprises but were very committed to the development of their businesses from the beginning. The majority had completed at least secondary education, had previous employment experience or previously owned a business, were married to men with relatively high levels of education and professional, managerial or entrepreneurial jobs, and had access to financial resources and networks. The majority had attended management and entrepreneurship training courses and/or technical training and often participated in trade fairs. The majority plan to expand their enterprises and demonstrate growth aspirations.

2.3 Framework to Support SME Growth

The economic performance of SMEs can be fostered or hampered by many different factors. Some are internal to the enterprises, while others belong to the economic and social environment in which they operate. Some are generic to all SMEs while others are sector specific. Some can be directly targeted through government intervention, while others are more effectively promoted through market channels.

This report cannot fully capture all the dimensions, but it puts forward a strategic framework depicting the main elements, levels of analysis and links that are important for SME development in Tanzania. Since the report is particularly concerned with enhancing growth of Agro-processing SMEs, one needs to open the .black box. in order to understand the sort of requisites and internal processes that

lead to technological upgrading and building of marketing capability in firms. The internal elements and their links with external factors are captured in Figure 1.1.

i) Internal Factors

The framework distinguishes between factors that are internal and external to the enterprises. The large circle in the centre of the diagram captures the key internal requisites and processes that might lead to increased output and innovation in enterprises. These inputs are often called .technological capabilities, and they are defined as the knowledge, skills and efforts required for firms to bring about an indigenous process of technological development. This can occur by increasing efficiency in production activities (production capabilities), for instance through quality controls, production scheduling and preventive maintenance. A more advanced technological development is making major improvements to established technologies, or creating new ones (innovation capabilities).

Such capability acquisition cannot be taken for granted. It often requires purposeful and cumulative efforts aimed at assimilating and modifying existing technologies, adapting them to local conditions. This is especially the case in developing countries since major innovations are still concentrated in technologically advanced countries. The effectiveness of these integral efforts that lead to in-firm technological learning is assumed to depend on two main factors. First, the educational background and prior working experience of the founder/manager; and second, the skills and working conditions (including remuneration levels, job security, etc.) of the workforce, with the former affecting the latter.

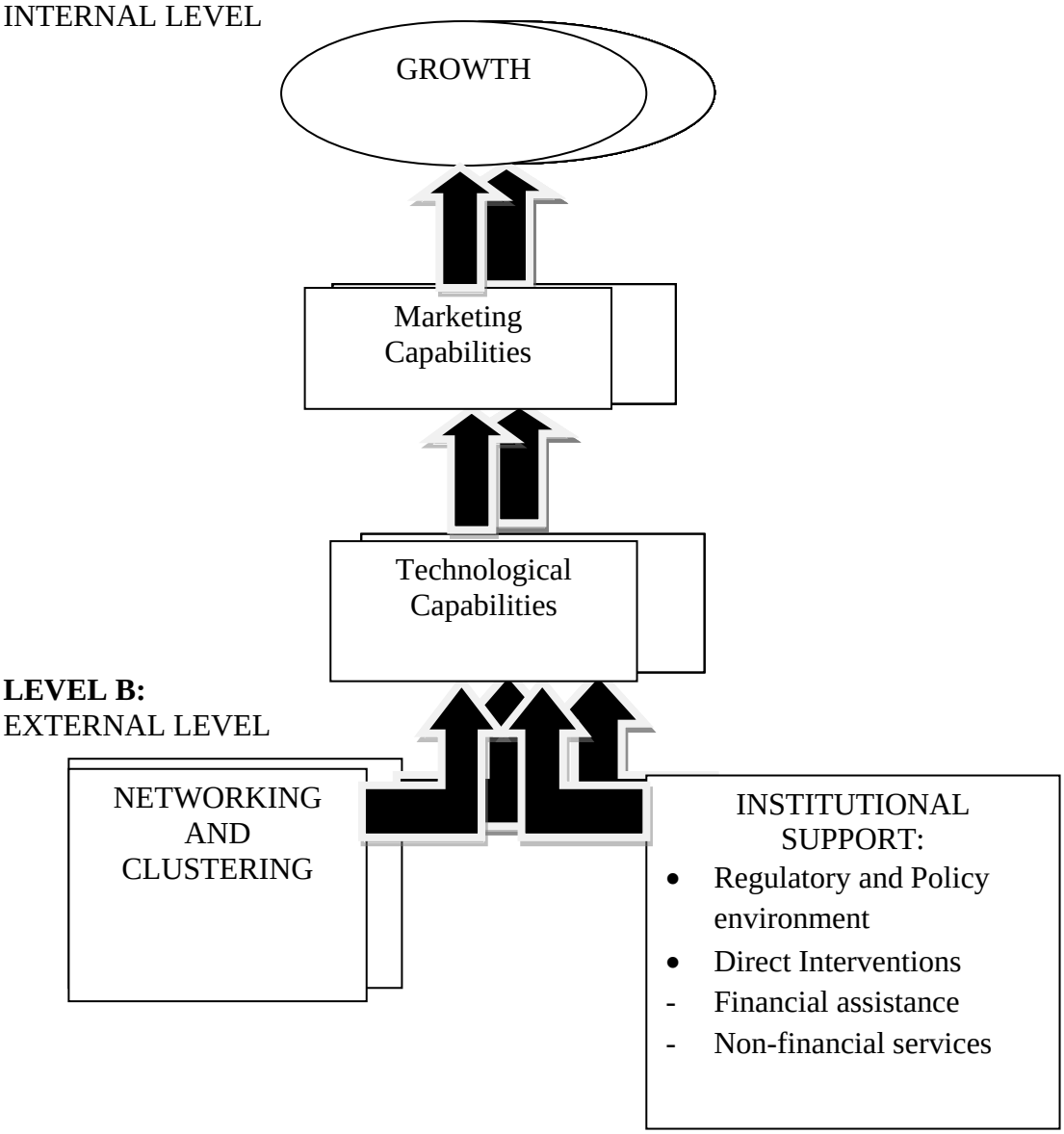

Figure 1.1: Conceptual Framework to Support SME Growth

Source: Adapted from Albaladejo and Romijn (2000)

Marketing capabilities are required to make the product available and attractive to the buyer. They include activities concerned with establishing a marketing channel from the factory to the buyer (direct sales or intermediaries), organising the logistics (related to mode and speed of transport), promotion (advertising, branding) and after

sales service. These activities have received less attention from researchers and policy makers than those concerned with improving products and production processes. The neglect of marketing has, however, begun to be rectified (Lall 1991, Humphrey & Schmitz 2000). There is now a clear recognition that breaking into distant markets, especially export markets, is a discontinuous step. This is most clearly expressed by Roberts and Tybout (1995), who suggest that the critical barriers to entering export markets are the high cost of gathering information on foreign markets, establishing marketing channels and defining products suitable for the new market.

ii) External Factors

The importance of building up internal technological and marketing capabilities to compete with more original, fashionable and quality products is widely acknowledged. Building up those capabilities requires efforts and investment within firms. However, this is a very costly and risky process especially when SMEs are left on their own. This situation is even tougher in developing countries, where the regulatory and policy environment often constrains SMEs in attracting the capital required for subsequent technological learning.

Clusters and networks constitute the immediate external context in which SMEs operate. The benefits of clustering are widely acknowledged: the spatial and sectoral concentration of firms generates externalities, favours inter-firm cooperation and constitutes a niche for effective policy support. Clustering can be particularly significant in poor countries because it facilitates growth in small and riskable steps. Small amounts of capital, skills and entrepreneurial talent can be made to count. It

was emphasised, however, that clusters only experience industrial growth where effective trade networks connect them to sizeable markets and where trust sustains inter-firm relations.

Over last few decades, research on SMEs development has concentrated in various disciplines, such as economics, strategy, psychology, network and innovation. Nevertheless, research on small firm growth is still limited (Davidsson& Wiklund, 2000; Wiklund, Patzelt & Shepherd, 2009; Zhou & Wit, 2009). According to Zhou and Wit (2009) the existing literature is highly fragmented. For example, Begley & Boyd (1987) focused on the behaviour of the entrepreneurs, Smallbone et al. (1995) and Constantinides (2004) concentrated on strategy of growth; whereas Audretsch et al. (2004) focused on the relation between growth and firm size. To our understanding, none of them has exclusively focused on the determinants and barriers of growth of firm in the food industry (Shah Alam et al, 2011).

2.3.1 Conceptualizing and Analyzing Growth of SMEs in the Agro-Processing Industry

The concept of growth of agro-processing SMEs refers to the capacity of the enterprises to increase the presence of their products in the local and international markets. Growing through learning and innovation may result in the enterprises getting a big market share and competing with imported products. Growth depends on the quality of support available from intermediary institutions for training, technological services, financial institutions, e.t.c and efficiency of factor markets (skills, technology, finance, raw materials).

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The Chapter introduces a research approach that was employed in this study. It contains subsections of research design, area of study, population, sample and sampling techniques, data collection methods, data collection instruments and data analysis methods.

3.2 Research Types

3.2.1. Categories

Kothari (2004) describes that there are two types of research. Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity. Qualitative research, on the other hand, is concerned with qualitative phenomenon, i.e., phenomena relating to or involving quality or kind. This is to say a research can be qualitative or quantitative. Qualitative research is a form of research that involves description, for example, describing and analyzing the culture and behavior of humans and groups from the point of those being studied. On the other hand, quantitative research relies on the principles of verifiability. This approach is mainly applicable in scientific studies, which focus on measurements i.e. the assignment of numerical events according to rules. The numbers are applied, for example sex: male or female (Ghosh, 1982).

Conceptual vs. Empirical Researches: Conceptual research is a type of research which aims at generating new ideas and concepts where as empirical research is related to some abstract idea(s) or theory (Kothari, 2004). Empirical research is

generally used by philosophers and thinkers to develop new concepts or to reinterpret existing ones. It is data-based research, coming up with conclusions which are capable of being verified by observation or experiment (Best, 1986) it is sometimes called experimental research. In such a research it is necessary to get at facts firsthand, at their source, and actively to go about doing certain things to stimulate the production of desired information. The researcher must first provide himself with a working hypothesis or guess as to the probable results. He then works to get enough facts (data) to prove or disprove his hypothesis (Kothari 2004).

i) Descriptive Research

Is the type of research which aims at the state of affairs or issues as they exist at present so it includes surveys and fact-finding enquiries of different kinds.

ii) Analytical Research

It is the type of research which utilizes the data available and analyzes them in order to make a critical evaluation out of them.

3.2.2 Research Type Adopted

Research type adopted in this study is a descriptive research as the study involved fact finding in order to determine the potential for growth of Agro-processing SMEs. It described data and characteristics about the agro-processing SMEs.

3.3 Research Design

Kothari (2004) defines research design as an arrangement of conditions for collection of and analysis of data in a manner that aim to combine relevance with the

research purpose. It is the conceptual structure with which research is conducted. It constitutes the blue print for the collection, measurement and analysis of data.

In this study, a case study design was used so as to answer the research questions which were aimed at answering the certain research objective.

3.4 Data Gathering

Data gathered enables the researcher to respond to the research questions formulated in this study which aims at meeting the objectives identified in this study.

3.5 Sampling and Sampling Techniques

Sampling technique is a definite plan for obtaining sample from a given population. Kothari (2004) refers to sampling technique as a procedure that the researcher would adopt to select items for the sample. Sampling technique lay down the number of items to be included in the sample.

3.5.1 Sampling Designs

Sample design is a definite plan for obtaining a sample from a given population (Kothari, 2004). It refers to the techniques or the procedure adopted in selecting the items for the sample. Sample design may as well lay down the number of items to be included in the sample (that is the size of the sample). In selecting the sample, consideration will be put in the information contents of the sample selected. Most sampling methods aim to give every number of the population the same probability of being included in the sample.

Sampling design is divided into two major areas; that is probability and non-probability- designs. Probability sampling is divided into simple random sampling, stratified random sampling and cluster random sampling whereby no-probability sampling is divided into quota sampling, convenience sampling and purposive sampling. It is important for the researcher to understand the applicability, advantages and disadvantages of each in order to come up with a sound conclusion and recommendations.

3.5.2 Sampling Technique Adopted

In this study the sampling procedure was purposive sampling based on one stage, where respondents were chosen through a random sampling technique. Also convenience sampling wa used to draw the representative data because many of the food processing SMEs operating in Dar es Salaam were found at the Sabasaba grounda during the trade fair. Therefore it was convenient to get the sample during that time.

3.6 Area of Study

The study was conducted in Dar es Salaam region. The choice of this area was based on the fact that Dar es Salaam is the industrial and commercial capital of Tanzania (URT, 2003). Other reasons include time limitation, funds and accessibility of data in the country.

3.7 Study Population

A target population is a researcher's population of interests to which she or he would like the results of the research to be generalized. In particular, the target population

for this study comprised of the agro-processing SMEs in the study area.

The conclusions that can be drawn from the sample depend critically on both the population sampled and the procedures used for generating the sample (Sharp *et al.,* 2004). The targeted population was respondents comprising of SME owners or managers in Dar es Salaam as well as support institutions like Ministry of Industry, Trade and Marketing; Tanzania Private Sector Foundation and Small Industries Development Organization (SIDO).

3.8 Data Collection Methods and Instruments

3.8.1 Concept of Data Collection

Data can be collected as Primary data or Secondary data. Primary data includes data which are directly collected from the field using tools like questionnaires and interviews. Again secondary data are those data which are collected from past written document on related topics. The most desirable approach with regards to the collection of appropriate technique for data collection depends on the nature of a particular problem and on time and resources available along with the desired degree of accuracy. Now the following are some data collection methods.

i) Questionnaires

A questionnaire is a document consisting of specific questions intended for certain targeted interviewees. Questionnaires in this study were formulated in such a way that interviewees were to give information without fear and bias. A questionnaire consisting of both open and closed ended questions was prepared by the researcher and administered to the SMEs that are carrying out agro-processing activities. Also,

other two methods were used and these include; interviews and documentary review.

ii) Interview

Interview is the method of collecting data in which according to Cohen (2001), an interview is regarded as an interchange of views between two or more people on a topic of mutual interest. It is a research instrument for data collection that involves a collection of data through verbal interaction between the interviewee and the interviewer. In this research structured interviews were conducted in the SMEs support institutions.

The researcher conducted interviews in order to generate information about support given to agro-processing SMEs. Such interviews were used because they constitute flexible research strategy. The researcher was taking notes during the interviews.

The researcher personally conducted all the interviews for two reasons. First, it was to ensure accuracy and consistency of the data collected, and secondly the size of the sample was small, a factor that made the task manageable.

iii) Documentary Review

The researcher reviewed documents including different publications on SMEs and agro-processing industry. The method was chosen by the researcher because data from documents augmented evidences from data collected via the questionnaires and interviews.

3.9 Reliability and Validity of Data

Pattern (1998) describes validity as a mechanism that ensures that the process implemented to collect data has collected the intended data successfully. Validity

refers to extent to which an empirical measure adequately reflects the real meaning of the subject under investigation. To ensure the data acquired was valid in this study, the following steps were taken. Self-administered questionnaires were given to respondents who got assured of their anonymity and confidentiality. The data collection method was submitted to the supervisor who proposed some adjustment to be done.

An extensive literature review, interview and self- administered questionnaire surveys were conducted The above steps ensured that the multiple sources of data collection such as literature, interviews and questionnaire were conducted under conditions and in an environment acceptable to the respondents and therefore ensured that the process and findings was truth worthy and valid.

3.10 Data Analysis and Report Writing

Data from questionnaires was analyzed using Statistical Package for Social Sciences (SPSS) computer program and Microsoft Excel; that involved determining frequencies of responses whereby numbers was converted into percentages in order to make sense. Interviews and reviewed documents was analyzed using content analysis whereby the researcher coded, categorized, compared and made conclusions of the data. The findings were reported by using cross- tabulations and charts.

3.11 Summary

This chapter has presented research types, research design, information collected as well as sampling techniques used in the research. The data collected were

fundamentally obtained from Agro-processing SMEs as well as support institutions and the criteria for sampling focused on the adequacy of responses to be given by the chosen sample.

CHAPTER FOUR

4.0 STUDY FINDINGS AND ANALYSIS

4.1 Introduction

This section presents the analysis and discussion of the findings of the study. The presentation is organized according to the research objectives and questions and the emerging issues. The chapter is organized as follows: (i) profile of SMEs in the agro-processing industry, (ii) opportunities and challenges for growth of SMEs in the agro processing industry, (iii) strategies for enhancing growth of agro processing SMEs and (iv) chapter summary.

4.2 Profile of SMEs in the Agro-Processing Industry

Consistent with the research objectives (see 1.4.1) one of the research questions of the study was: What is the profile of the SMEs in the agro processing industry in Tanzania? In order to answer this question, data were collected using a questionnaire (see appendix).

The variables covered include ownership of the enterprise, education level of the owners, number of employees, sales performance and products. These variables are analysed and discussed in the following subsections.

4.2.1 Ownership of the Enterprise

The analysis revealed that respondents in terms of ownership of the enterprises is that 17 out of 22 enterprises are sole proprietors and 4 are partnerships with one failing to indicate the type of ownership as shown in Table 4.1 and Figure 4.1.

Table 4.1: Aggregated Ownership of the Enterprises

Category of Enterprise	Ownership	Value	Category Total
Micro	Cooperative	0	15
	Group	0	
	Partnership	3	
	Proprietor	12	
Small	Cooperative	0	6
	Group	0	
	Partnership	1	
	Proprietor	5	
Medium	Cooperative	0	0
	Group	0	
	Partnership	0	
	Proprietor	0	
Large	Cooperative	0	0
	Group	0	
	Partnership	0	
	Proprietor	0	
Grand Total			21

Source: Field study, 2012

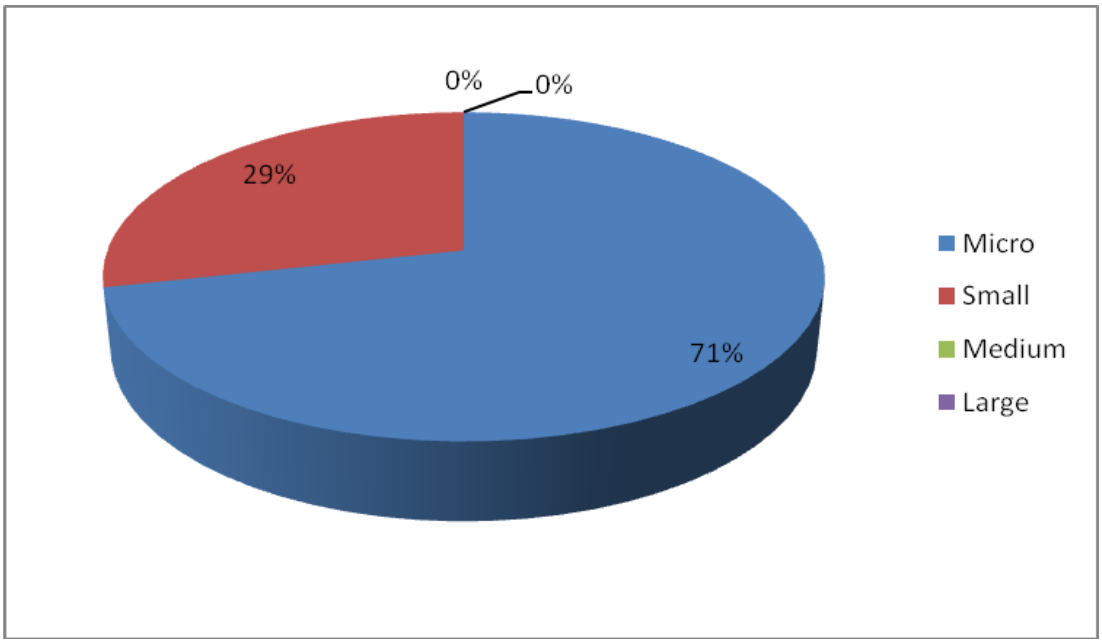

Figure 4.1: Percentages of Aggregated Ownership of the Enterprises

Source: Field study, 2012

Table 4.2: Ownership of the Enterprises

	Ownership of enterprise				
Category	Cooperative	Group	Partnership	Proprietor	Total
Value	0	0	4	17	21

Out of the respondents from the sample drawn as shown in Figure 4.2; 81% are sole proprietors while 19% are partnerships. From the sample there were neither groups nor cooperatives.

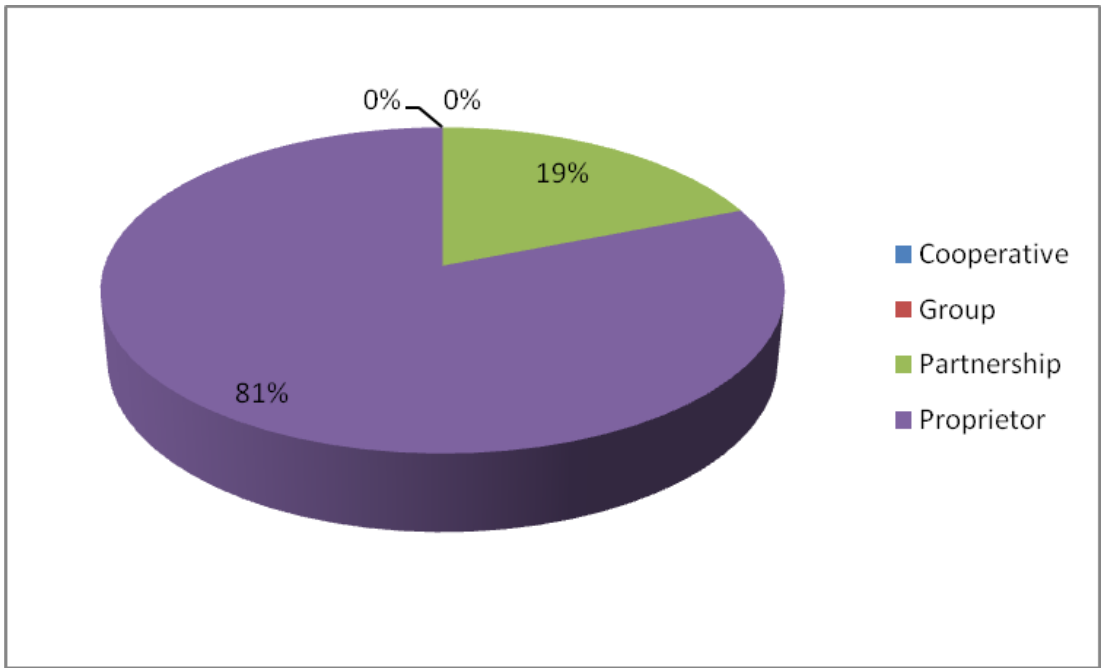

Figure 4.2: Percentages of Ownership of the Enterprises

Source: Field study, 2012

4.2.2 Education Level of the Owners

The study revealed that, 46% of the SME owners have secondary education qualification, 27% have primary education, 18% have a bachelor's degree and 9% have diplomas (Table 4.2, Figure 4.3). Values for the percentages in the pie chart are elaborated in Table 4.3.

Table 4.3: Education Qualifications of the Owners

	Qualification of the owner(s)					
Category	Bachelor	Diploma	C	SE	PE	Total
Male	1	1	0	0	0	**2**
Female	3	1	0	10	6	**20**
Total	**4**	**2**	**0**	**10**	**6**	**22**

Source: Field study, 2012

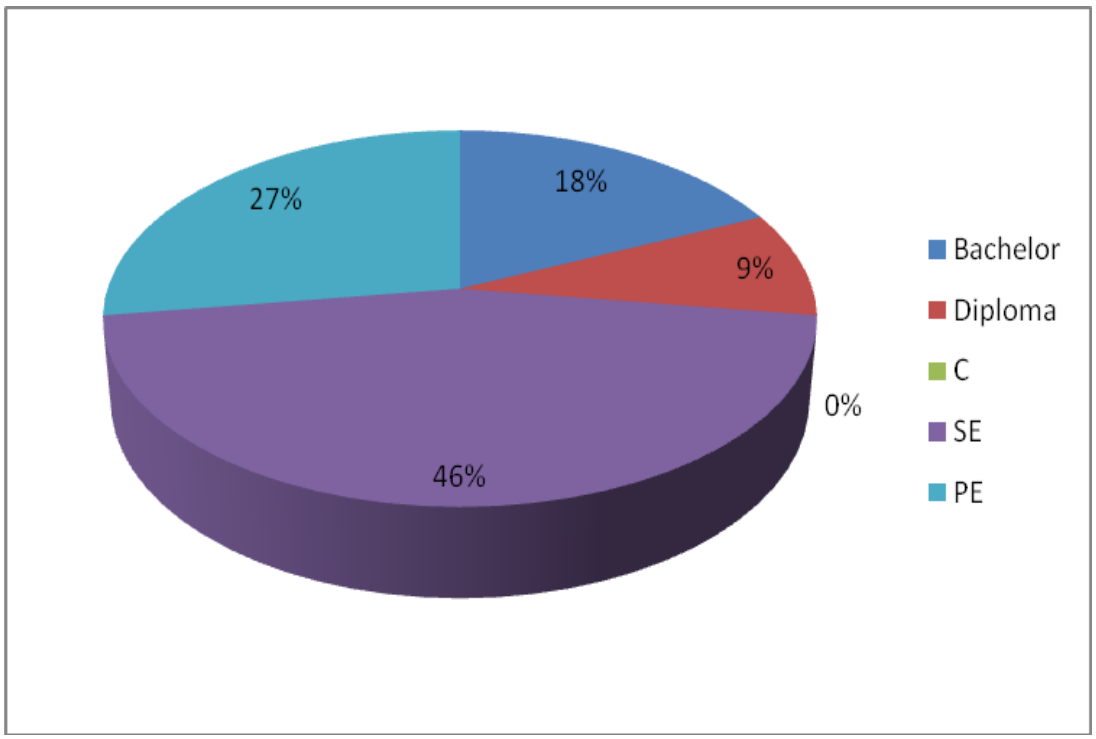

Figure 4.3: Percentages of Education Qualifications of the Owners

Source: Field study, 2012

4.2.3 Number of Employees of the Enterprises

The analysis shows that the number of employees in the agro-processing SMEs ranges from 2 to 40 employees. The descriptive statistics are shown in Table 4.4 based on data in Table 4.3 and 14.

Table 4.4: Number of Employees

Category of SME	Employee Range	Frequency
Micro	1 – 4	15
Small	5 – 49	7
Medium	50 – 99	0
Large	100+	0
Total		22

Source: Field study, 2012

Table 4.5: Number of Employees Descriptive Statistics

	N	Minimum	Maximum	Mean
Number of employees	22	2	40	6.50
Valid N (listwise)	22			

Source: Field study, 2012

4.2.4 Sales Performance (Revenues)

Only 20 persons out of the 22 respondents answered the question about their monthly revenue from selling agro-processing products. The analysis shows that the monthly revenues of the enterprises range from Tsh. 100,000 to Tshs. 2,000,000. The descriptive statistics are shown in Table 4.7 based on data in Table 4.5 and 15.

Table 4.6: SMEs Monthly Revenue

ANNUAL SALES VOLUME (TSHS) – X	FREQUENCY
$X \leq 3{,}000{,}000$	5
$3{,}000{,}000 \leq X \leq 7{,}000{,}000$	1
$7{,}000{,}000 \leq X \leq 14{,}000{,}000$	6
$14{,}000{,}000 \leq X \leq 20{,}000{,}000$	4
$X \geq 20{,}000{,}000$	4
Total	20

Source: Field study, 2012

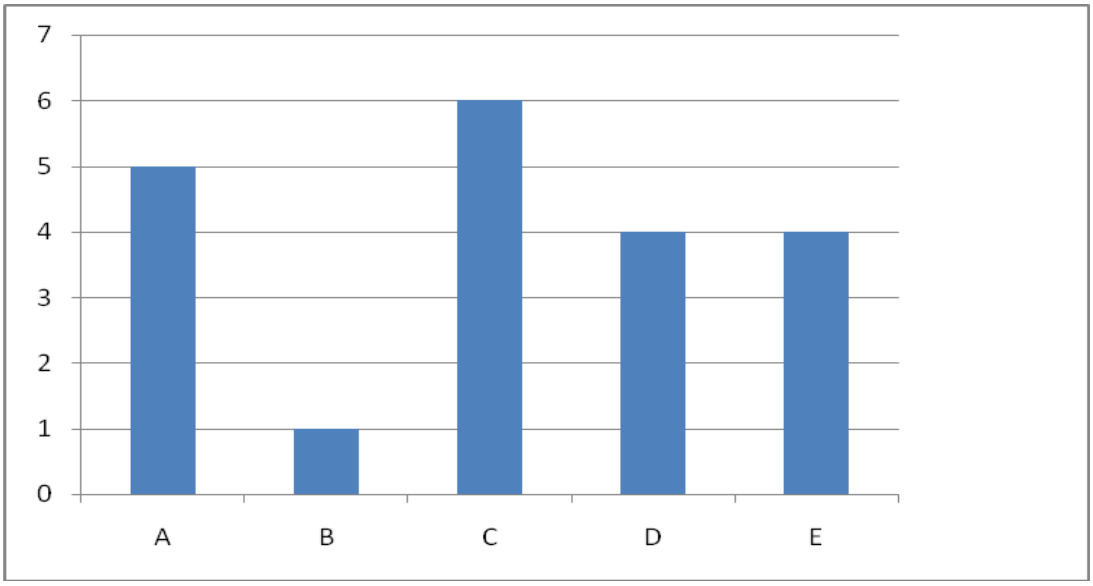

Figure 4.4: SMEs Tally based on Monthly Revenues in Tanzanian Shillings

Source: Field study, 2012

A - $X \leq 3{,}000{,}000$

B - $3{,}000{,}000 \leq X \leq 7{,}000{,}000$

C - $3{,}000{,}000 \leq X \leq 7{,}000{,}000$

D - $14{,}000{,}000 \leq X \leq 20{,}000{,}000$

E - $X \geq 20{,}000{,}000$

Table 4.7: SMEs' Monthly Revenues Descriptive Statistics

	N	Range	Minimum	Maximum	Mean
Monthly revenue	20	1900000	100000	2000000	1036363.64
Valid N (listwise)	20				

Source: Field study, 2012

4.2.5 Products

Table 4.7 shows that the major products produced by the agro-processing SMEs are nutritious flour, peanut butter, pickles and wine. Minor products are crisps, dried fruits and vegetables.

Table 4.8: SMEs Major Products

S/n	Nature of Products	Frequency
1	Wine	5
2	Peanut butter	4
3	Sunflower cooking oil	3
4	Nutritious flour (maize, baobab, millet, soya, cassava, banana)	11
5	Spices	6
6	Dried fruits and vegetables	3
7	Pickles and Sauces	8
8	Sausages	2
9	Cashew nuts	1
10	Chips/ Crisps (Potato, Cassava, Banana)	5
11	Fruit jams	3
12	Soya drink	3
13	baobab oil	1

Source: Field study, 2012

4.2.6 Discussion

Based on Table 4.7 the major product of the food processing SMEs is nutritious flour, sauces and pickles. The products that are not widely produces are from fruits, vegetables and meat processing. This may be due to the complex process of preserving fruit and meat which can easily go rotten in high temperatures.

4.3 Opportunities and Challenges for Growth of SMEs in the Agro Processing Industry

Another research question sought to find out the opportunities and challenges for growth of SMEs in the Agro- Processing industry. Data on opportunities and challenges were collected by using a structured questionnaire where the respondents were required to show the biggest opportunities and challenges on a scale of 1 – 5

(1-very low, 2-low, 3-medium, 4- high and 5- very high).

4.3.1 Challenges

Challenges that are facing the SMEs were assessed in terms of those related to negative increase in capital, demand for their products and those related to expansion of the enterprises.

Table 4.9: Assessment of Factors that Negatively Affect the Increase in Capital of SMEs

Challenge	1	2	3	4	5	Total	Weighted Average Score
Inconsistent supply of raw materials	12	0	0	1	2	15	1.7
Insufficient Supply of Raw Materials	14	2	1	2	0	19	1.5
Seasonality of Crops	14	0	3	1	2	20	1.9
poor quality of raw materials supplied	13	1	2	2	1	19	1.8
high losses during transport from farm to factory	15	0	0	1	0	16	1.2
inappropriate or obsolete processing and ancillary equipment	3	0	6	9	1	19	3.3
insufficient processing equipment	3	1	2	8	4	18	3.5
poorly trained personnel	4	2	1	0	0	7	1.6
lack of qualified food technologists	17	0	0	0	0	17	1.0
inappropriate packaging materials	1	0	4	4	7	16	4.0
High Packaging Costs	1	0	2	7	7	17	4.1
TOTAL	97	6	21	35	24	183	
PERCENT	53.0	3.3	11.5	19.1	13.1	100	

Source: Field study, 2012

4.3.2 Discussion

In order to find out the challenges faced by agro processing SMEs they were asked to rate the factors that highly affect their increase in capital. Supply of raw materials in terms of inconsistent, insufficient supply as well as poor quality of raw materials supplied was a very low effect on the increase in capital of the SMEs. Seasonality of crops and high losses during transport from farm to factory also had a low effect on the increase in capital of the enterprises.

The analysis shows that the major challenges faced by the agro processing SMEs are inappropriate or obsolete processing and ancillary equipment; and insufficient processing equipment. Other major challenges are inappropriate packaging materials and high packaging costs as seen in Table 4.8 and Figures 4.5 and 4.6.

The findings are consistent with Tiisekwa et al (2005) who identified the challenges faced by small-scale and micro food processors to include poor quality of equipment, lack of quality raw materials, inadequate packaging materials, poor transport infrastructure and absence of cold chains.

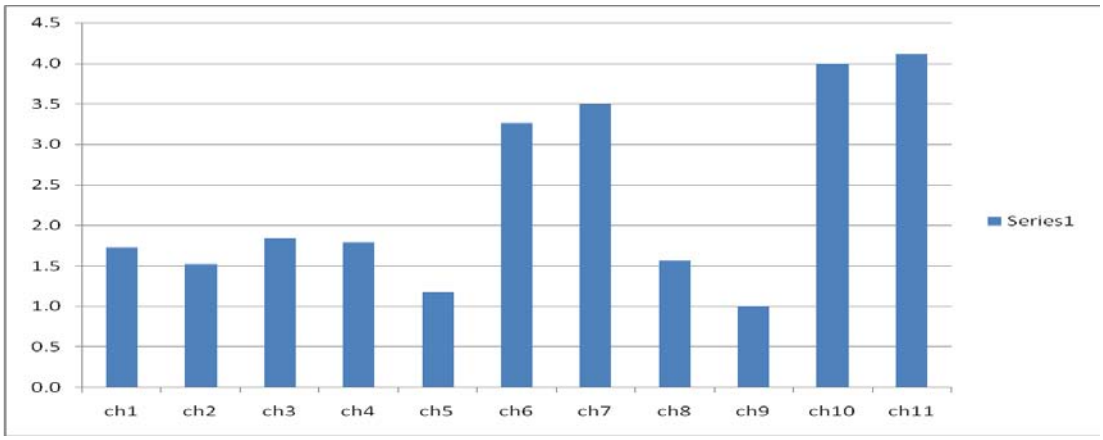

Figure 4.5: Assessment of Factors that Negatively Affect the Increase in Capital of SMEs

Source: Field study, 2012

ch1- Inconsistent supply of raw materials

ch2- Insufficient Supply of Raw Materials

ch3- seasonality of crops

ch4 - poor quality of raw materials supplied

ch5- high losses during transport from farm to factory

ch6- inappropriate or obsolete processing and ancillary equipment

ch7- insufficient processing equipment

ch8- poorly trained personnel

ch9- lack of qualified food technologists

ch10- inappropriate packaging materials

ch11- high packaging costs

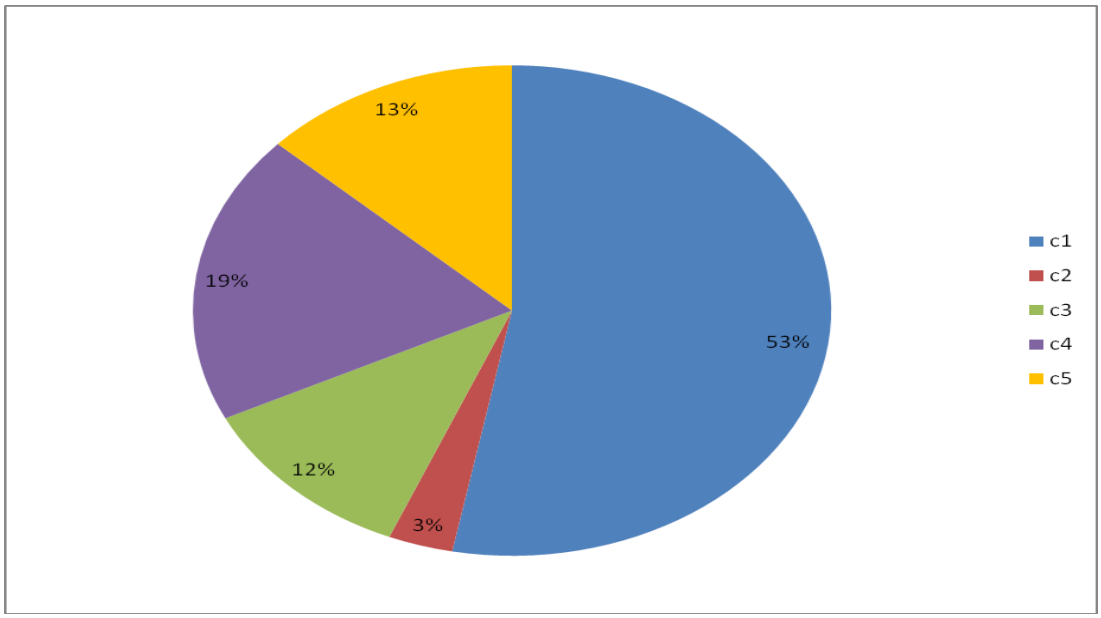

Figure 4.6: Assessment of Factors that Negatively Affect the Increase in Capital of SMEs

Source: Field study, 2012

c1-very low, c2-low, c3-medium, c4-high, c5-very high

Another question that was asked to the SMEs in order to find out the challenges they are facing was factors which they think affect negatively the demand for their products indicating their importance with a score of 1 for low importance and a score of 5 indicating very important factor. Their responses and analysis are shown in Table 4.9.

Table 4.10: Assessment of Factors that Negatively Affect the Demand for Products

Challenge	1	2	3	4	5	Total	Weighted Average Score
lack of market information	0	1	4	10	5	20	4.0
high competition with imported products	1	0	1	17	3	22	4.0
little knowledge of consumer education and market research	1	0	2	14	5	22	4.0
low capacity of production	3	0	3	2	0	8	2.5
price of your product compared to competitors	16	1	1	4	0	22	1.7
quality of product	18	1	0	0	0	19	1.1
distribution networks not wide	1	0	3	12	6	22	4.0
TOTAL	40	3	14	59	19	135	
PERCENT	29.6	2.2	10.4	43.7	14.1	100	

Source: Field study, 2012

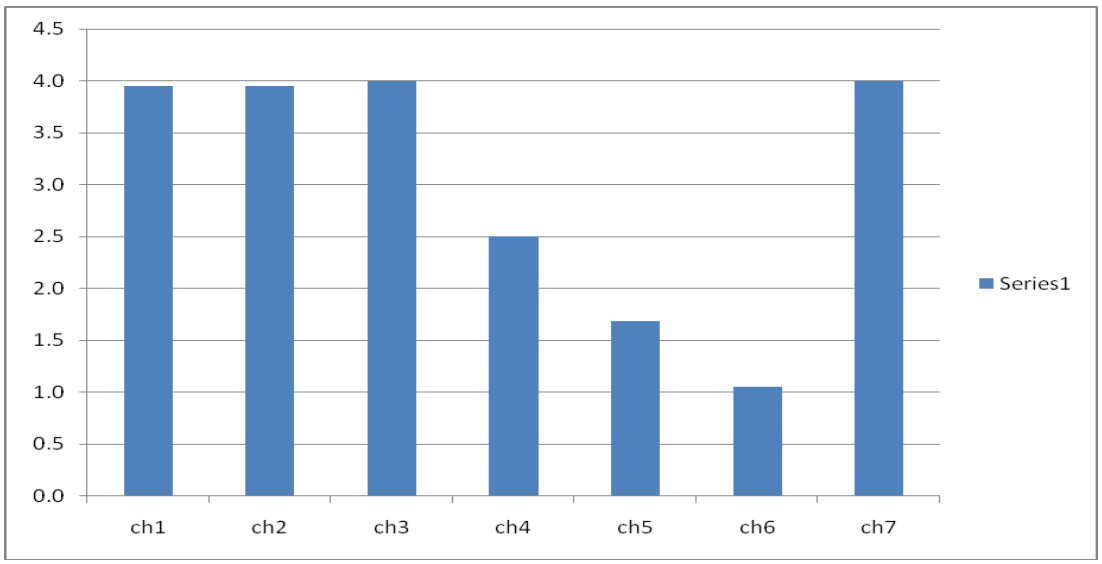

Figure 4.7: Assessment of Factors that Negatively Affect the Demand for Products

Source: Field study, 2012

ch1- lack of market information

ch2- high competition with imported products

ch3- little knowledge of consumer education and market research

ch4- low capacity of production

ch5- price of product compared to competitors

ch6- quality of product

ch7- distribution networks not wide

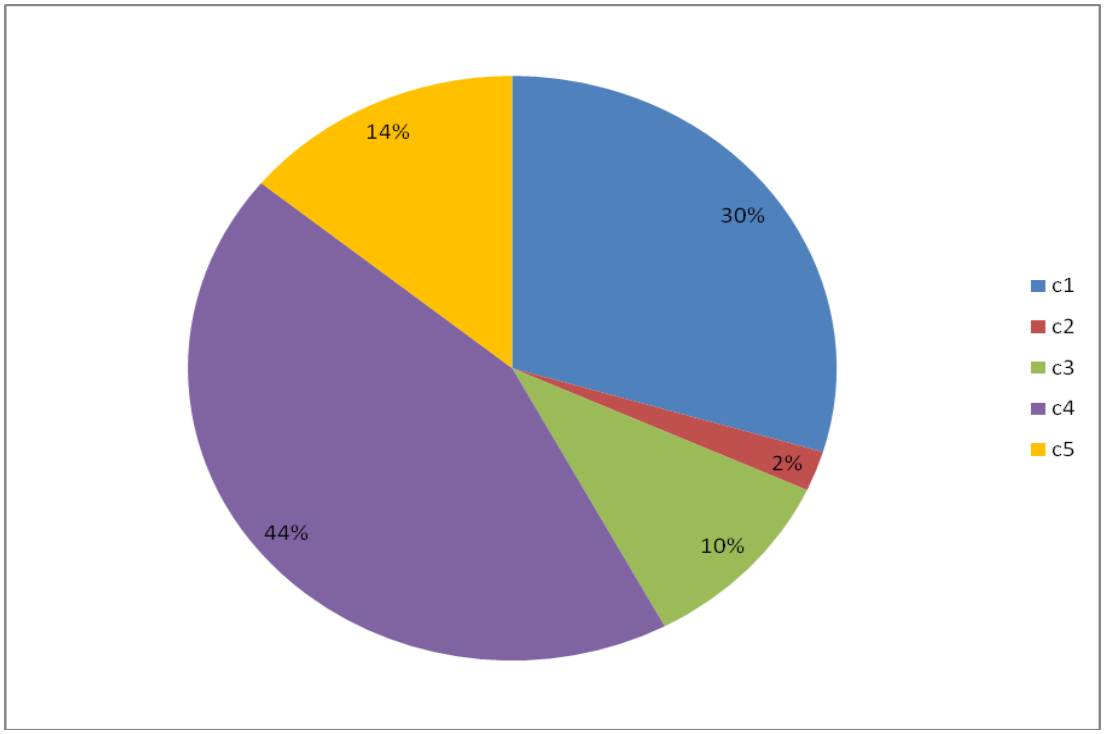

Figure 4.8: Assessment of Factors that Negatively Affect the Demand for Products

Source: Field study, 2012

c1-very low, c2-low, c3-medium, c4-high, c5-very high

The respondents identified lack of market information, high competition with imported products, little knowledge of consumer education and market research; and distribution networks not being wide as factors that highly affect the demand for their products. This is shown in Figures 4.7 and 4.8. The analysis shows that the respondents think that low capacity of production, price of your product compared to competitors, quality of product had little effect to the demand of their products (Figure 4.7).

According to Tiisekwa et al (2005) constraints faced by food processing SMEs are low processing skills, little publicity, limited market due to lack of habit of consuming processed fruit and vegetable products, lack of capital and undynamic market. The constraints noted by Tiisekwa et al are consistent with the research findings. Also Mhazo et al (2003) noted that small scale agro-industries experience problems in marketing of fresh produce such as lack of readily available marketing information and lack of market integration, lack of data on supply and demand trends and prices, reliance on spot or road-side markets, transport constraints and spoilage. Lambert (2001) also identified weak or non-existent market development, lack of technical support for the agro-industrial sector and absence of good management of the processing facility once commercialized.

However the greatest challenge for the agro-processing SMEs is markets because the supermarkets and shops in the country are filled with imported food products. Therefore products of Tanzanian food processors have high competition with imported products. Hence the one of strategies to support growth of the agro-

processing SMEs should be related to access to big local market share. Another question that was asked to the SMEs to find out the challenges to grow was what barriers affect the expansion of operations of agro-processing enterprises. Table 4.10 presents the respondents responses.

Table 4.11: Assessment of Barriers that Affect the Expansion of Operations of Agro-Processing Enterprises

Challenge	1	2	3	4	5	Total	Weighted Average Score
scarcity of financing	0	0	2	11	7	20	4.3
inconsistence of government projects and programmes to support the development of the agro-processing enterprises	0	2	0	14	2	18	3.9
low level of entrepreneurships and management training of the large majority of persons engaged in agro-processing	2	0	3	15	0	20	3.6
lack of technical guidance and counselling	1	1	3	5	9	19	4.1
technological gap	1	0	3	10	3	17	3.8
power supply inadequate, uncertain and costly	8	5	3	0	0	16	1.7
poor attention on advertisement and publicity of the products	1	1	3	11	6	22	3.9
TOTAL	13	9	17	66	27	132	
PERCENT	9.8	6.8	12.9	50	20.5	100	

Source: Field study, 2012

Figure 4.9 shows the factors that highly affect the growth of the SMEs as scarcity of financing, inconsistence of government projects and programmes to support the development of the agro-processing enterprises; low level of entrepreneurships and

management training of the large majority of persons engaged in agro-processing, ; lack of technical guidance and counseling; technological gap; power supply inadequate, uncertain and costly; and poor attention on advertisement and publicity of the products.

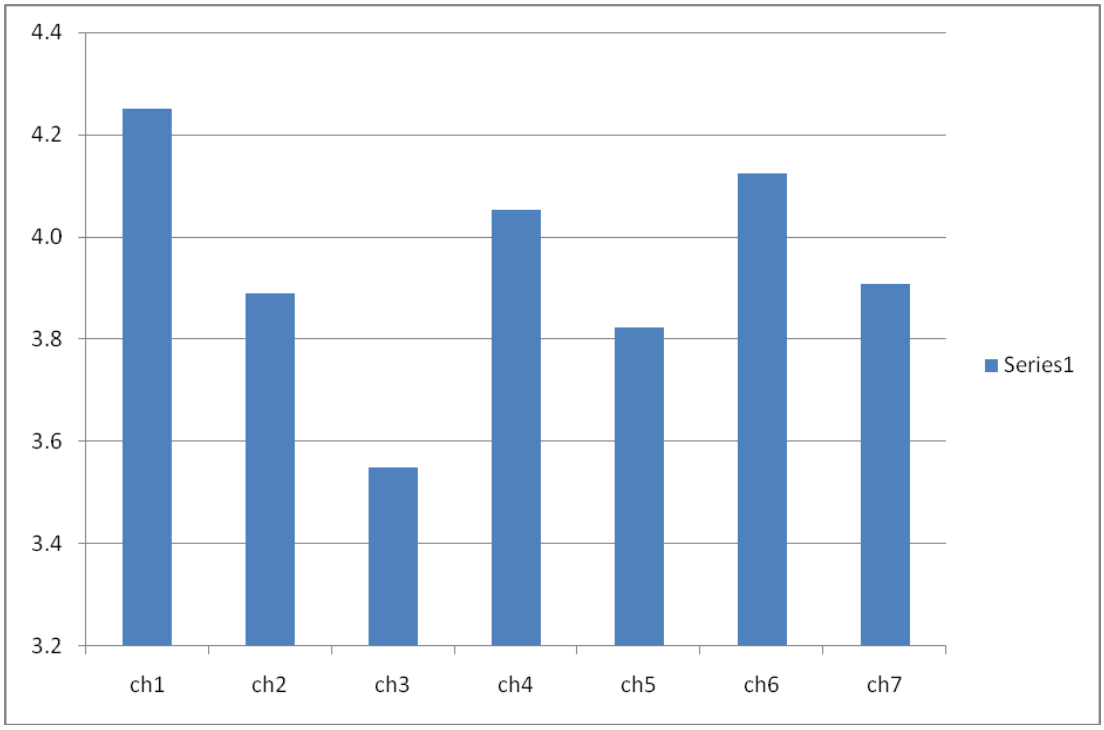

Figure 4.9: Assessment of Barriers that Affect the Expansion of Operations of Agro-Processing Enterprises

Source: Field study, 2012

ch1- scarcity of financing

ch2- inconsistence of government projects and programmes to support the development of the agro-processing enterprises

ch3- low level of entrepreneurships and management training of the large majority of persons engaged in agro-processing

ch4- lack of technical guidance and counselling

ch5- technological gap

ch6- power supply inadequate, uncertain and costly

ch7- poor attention on advertisement and publicity of the products

As seen in Figure 4.10, 56% of the respondents indicated that there are high barrier to the expansion of operations of the agro-processing enterprises.

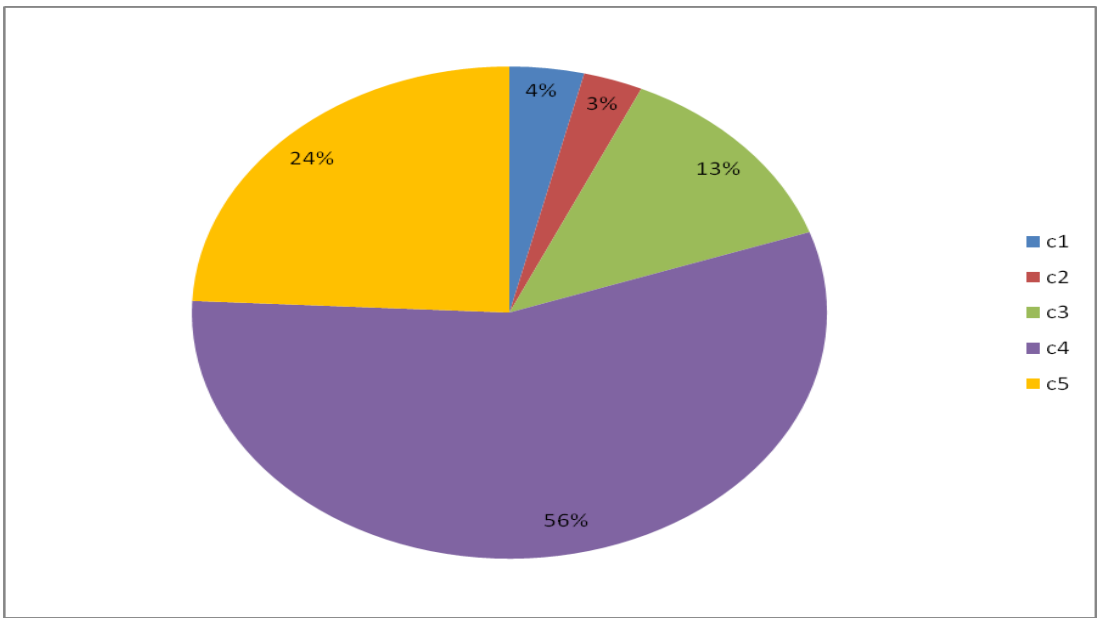

Figure 4.10: Assessment of Barriers that Affect the Expansion of Operations of Agro-Processing Enterprises

Source: Field study, 2012

c1-very low, c2-low, c3-medium, c4-high, c5-very high

The findings from this study indicate that the Agro-processing SMEs are facing challenges which affect their growth and hence diminish their ability to contribute effectively to sustainable development. The most important variables affecting the growth of the Agro-processing SMEs are scarcity of financing; research and technology and technical support; advertisement and publicity of the product as well as power supply. These issues are discussed in this chapter based on the field findings in this study.

a) Research and Technology and Technical Support for Agro-Industrial Development

The process of making jams, pickles, sauces, nutritious flour and crisps is well established in Tanzania. However the technology utilized in the small scale processing sector has remained relatively static and traditional. Thus in many respects other crucial constraints to the development of the agro-processing sector are the lack of proper utilization of research and technology, a lack of trained personnel, inadequate technical and managerial and marketing support. Both the state and the private agro-processing sector have not invested in the development of the most effective research, nor have they readily embraced and adopted the most appropriate and current technology.

These problems are even more serious in the case of small farmers since they generally do not have the financial resources or credit facilities at their disposal to invest in new processes, human resource, management or technological innovation. Furthermore, food science and technology is the foundation discipline for research and development in the food industry. Thus professional development in this area must be seen as the cornerstone in any agro-industrial/food processing development programme. This reality must be seriously addressed in agricultural and agro-industrial development policies at the national level.

b) Shortage of Financing

Another serious constraint to the development of a viable agro-processing sector is the scarcity of financing. Financial barriers represent lack of financial resources. Becchetti & Trovato, (2002), Pissarides, (1998), Riding & Haines, (1998) have been

argued that credit constraints, lack of external debt, and equity capital are the main obstacles to the growth of SMEs. Evidence suggests that banks are more conservative when they provide loans to SMEs. According to Stiglitz and Weiss (1981) SMEs are more likely to be charged relatively high interest rates and asked for high collateral and loan guarantees. There is a general recognition of the importance and potential role of the small farmers and agro-processors in the development of agriculture and agro-processing industry. What however has not been adequately recognized is the need to vertically integrate these sectors, so that the primary producer has a direct financial interest in the viability of the sector.

Regrettably however, while financing for such a venture might be available through banks and other financial institutions, it may not always be accessible on account of the collateral requirements. One possible solution to this constraint may involve Government intervention by considering guarantees in order to encourage banks to offer lower interest rates to farmers involved in such agro-processing ventures. A second Government option is that of an equity partner or direct shareholder in financially viable agro-processing ventures. The fundamental interest here is that of a facilitator with Government divesting its shares over time.

Another attractive alternative for farmers and agro-processors is the possibility of sourcing financing from their credit unions, such as SACCOS that offer better rates than banks, or the credit unions themselves become partners in such a venture. The credit union could then provide financial and other critical management services as deemed necessary for the viability and success of the enterprise. From this type of

arrangement, it would become impossible to either marginalize or ignore the contribution of the agricultural and agro-processing sectors when formulating national policies and programmes. This arrangement would insure that both sectors would be fully incorporated in the mainstream of economic planning and development.

c) Advertisement and Publicity of the Product

The low level of entrepreneurship and management training of is another major challenge the large majority of persons engaged in agro-processing enterprises. Generally most of these operators have had little or no formal training in the technical aspects of the operations and less in small business organization, marketing and management. On the contrary, in the most critical area of marketing, domestic products have had to compete with a wide range of imported products in the domestic market.

Agro-processors are aware that their products need to be competitive in all aspects with imported products. The lack of consumer education and market research has also contributed to the slow pace of development of the industry. There has always been the tendency to treat local consumers as a captive market with little or no investment into consumer education and market promotion of locally processed products. Similarly, very little resources are spent on investigations and promotions on the export markets, regional or extra-regional. As a result little attention is given to the importance of such factors as standards, quality control, packaging and product presentation.

d) Power Supply Inadequate, Uncertain and Costly

The adequacy of electric power supply is a big problem for the SMEs. Because the availability of power from TANESCO has been on rationing basis for the past 5 years or so, the SMEs have resorted to the use of generators in their production. With the rising cost of diesel and petroleum the respondents say that it is very costly on them.

4.3.2 Opportunities in the Agro-Processing Industry

Table 4.12: Assessment of Opportunities in the Agro-processing industry

Opportunity	1	2	3	4	5	Total	Weighted Average Score
large, under-utilized arable land, suitable for a wide variety of crops	0	0	3	11	5	19	4.1
still very limited value addition to crops through grading, better packaging, labelling, processing and marketing	0	0	3	10	8	21	4.2
massive untapped potentials for processing of agricultural crops	0	0	4	8	10	22	4.3
wide range of seasonal exotic fruits, spices, grains and seeds which can produce very high quality flours, oils, juices and wines	0	0	5	10	4	19	3.9
good local as well as international market, if the right qualities and quantities are produced of agricultural products	0	0	3	11	6	20	4.2
government policies that support the development of agro-processing industry	0	6	11	2	0	18	2.8
easy access to finance from financial institutions	0	0	0	2	17	19	4.9
TOTAL	0	6	29	54	50	139	
PERCENT	0	4.3	20.9	38.8	36.0	100	

Source: Field study, 2012

op1- large, under-utilized arable land, suitable for a wide variety of crops

op2- still very limited value addition to crops through grading, better packaging, labelling, processing and marketing

op3- massive untapped potentials for processing of agricultural crops

op4- wide range of seasonal exotic fruits, spices, grains and seeds which can produce very high quality flours, oils, juices and wines

op5- good local as well as international market, if the right qualities and quantities are produced of agricultural products

op6- government policies that support the development of agro-processing industry

op7- easy access to finance from financial institutions

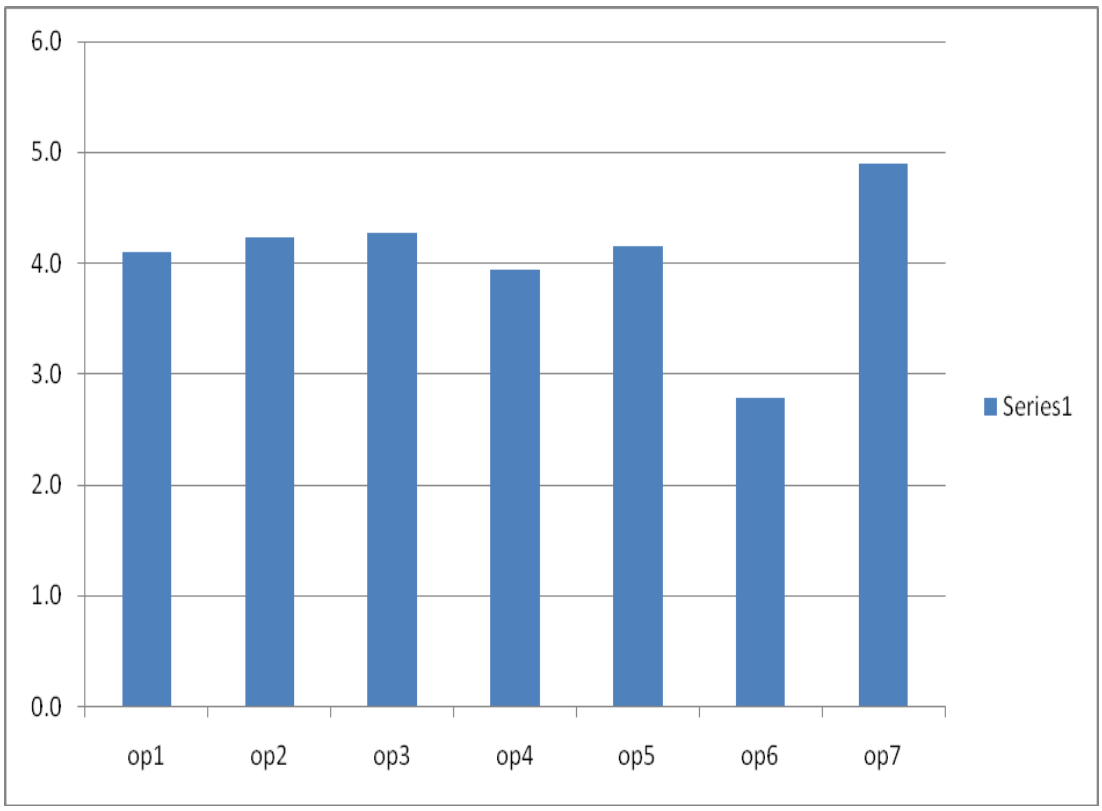

Figure 4.11: Assessment of Opportunities in the Agro-processing industry

Source: Field study, 2012

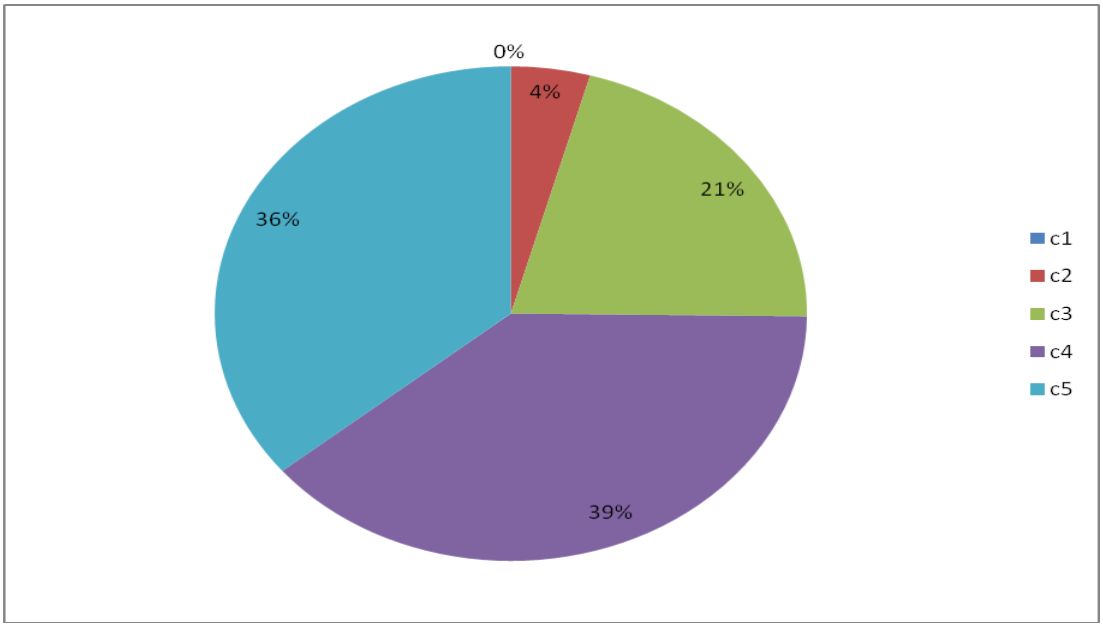

Figure 4.12: Assessment of Opportunities in the Agro-processing industry

Source: Field study, 2012

c1-limited, c2-few, c3-fair, c4-many, c5-abundant

4.3.3 Discussion

When asked about the opportunities seen in the agro-processing industries, Table 4.11 and Figure 4.11 indicated that many respondents responded that they see many opportunities of large, under-utilized arable land, suitable for a wide variety of crops; still very limited value addition to crops through grading, better packaging, labeling, processing and marketing; massive untapped potentials for processing of agricultural crops; and wide range of seasonal exotic fruits, spices, grains and seeds which can produce very high quality flours, oils, juices and wines; good local as well as international market, if the right qualities and quantities are produced of agricultural products. However they see few opportunities of government policies and programmes that support the development of agro-processing industry and easy

access to finance from financial institutions.

Based on Figure 4.12 about 36% of the respondents indicated that there are abundant opportunities in the agro-processing industry, about 39% felt that there were many opportunities while 4% of the respondents indicated that there were few opportunities.

The findings of this study are consistent with those of Mhazo et al (2003) and Olomi (2006). Olomi (2006) acknowledged that there is still very limited value addition after crops are harvested or natural resources are extracted from the land or water. Opportunities abound for adding value to crops, fish, timber and other products through grading, better packaging, labelling, processing and marketing (Olomi, 2006). According to Mhazo et al. (2003) the greatest potential growth in small-scale agro-industries is in fruit and vegetable processing.

4.4 Strategies for Enhancing Growth of Agro Processing SMEs

The final research question sought to find out the strategies for enhancing the growth of SMEs in the Agro-Processing industry. At the end of the interviews via the questionnaires interviewees were given an opportunity to freely describe what needs to be done to to enhance the growth of the SMEs in the agro processing industry. Their answers were directed to what the SMEs themselves, the Government and the support institutions can do support their growth.

Their responses were that the SMEs need to get more training in order to improve management skills and food processing techniques. Also they said that they needed

to increase consistency in production and market their products. The responses on what the Government need to do were that the Government should reduce taxes to SMEs, facilitate access to affordable finance (small interest rates), provide informantion about markets and support technological development. The respondents said that other support institutions like commercial banks should provide loans with affordable interest rates and institutions like TBS and TFDA should reduce beuracracies in getting approval of products and reduce the costs of quality checking so that SMEs can afford to get their products certified.

4.5 Discussion of Findings

Agro-processing SMEs must produce high-quality and consistent products that meet the demands and specifications of the end consumer at market related prices. Moreover the SMEs must have good management skills that will ensure the enterprise runs as efficiently as possible. Strategies for enhancing the growth of the SMEs in the agro-processing industry should be aimed at ensuring adequate financing of the enterprises; skills development and establishing a reliable and sustainable market for their products.

i) Set up Special Agro-Processing Development Fund:

Access to financial resources is one of the major requirements to develop successful agro-processing SMEs in the country. Improved access would help develop better products, disseminate new technical skills/ knowledge and improve management techniques. Financial resources should be offered at a reduced price, which would help small entrepreneurs invest in the development of their products. Without these

resources it is difficult to pursue such innovations.

Financial resources are required not only for the financing of working capital requirements, but also for start up capital. Financial institutions should provide financial products such as 'venture capital' which would favourably provide resources to innovate products and produce high quality products.

ii) Skills Development

It is important for the agro-processing SMEs managers and owners to have sound business knowledge. This would ensure that the enterprises could take advantage of opportunities and successfully manage their cashflows and marketing campains. Also they need specialised skills in food processing so as to be able to produce high quality products that can compete with imported products. The government in collaboration with the SME sector plays a fundamental role in this regard, that is, it drives the cumulative self-reinforcing process of skills development by investing increasing tax revenues in the education and vocational school systems. There is need to strengthen coordination between the education and the production system.

iii) Marketing of Products

The exploitation of market potentials is the key to success for any enterprise that aims to increase its sales and achieve a sustainable competitive advantage. Accordingly market demand can be considered a key driving force for the emergence of a competitive agro-processing industry in Tanzania. Market research in order to determine market characteristics, including customer needs, tastes and distribution methods is fundamental. On the one hand, enterprises could aim at

exploiting new domestic markets that are currently emerging. On the other hand, enterprises could also consider cross-border expansion, targeting attractive existing markets in the neighbouring and regional countries. The Tanzanian market for processed food products offers plenty of opportunities. This is evidenced by many brands of imported food products on the shelves of our supermarkets and shops. Tanzanian agro-processing SMEs should produce high quality products to meet the existing national and regional markets.

iv) Disseminate the Information of Successful Enterprises

New and potential enterprises are often constrained by a lack of access to adequate information on successful enterprises, possible means of overcoming vaarious challenges, or factors contributing to the success of these enterprises. Such information should be disseminated through different channels including print and electronic media, information services and NGOs. This information could encourage potential entrepreneurs to understant markets, production techniques and marketing mechanisms, thereby preparing them to take on new challenges.

v) Summary

The above findings suggest that ownership of the agro processing SMEs is mainly sole proprietorship, employing between 2 to 40 persons and making a monthly revenue of between Tshs 100,000 and Tsh. 2,000,000. Major products produced by these SMEs are nutritious flour, peanut butter, pickles, wines and cooking oil. Very few are engaged in processing of fruits and vegetables considering the availability of a wide range of fruits and vegetables in Tanzania and the limited processing of fruits

and vegetable products; as most processed vegetables and fruits found on shops and supermarket shelfs are imported.

It seems that the challenges that the agro processing SMEs are facing is scarcity of financing to expand their operations. Another reason could be the technological gap in the machines needed to produce products of the similar standards with imported products, hence it is difficult for their products to compete with food products imported outside of Tanzania. Yet, another reason could be the complicated procedures of getting the quality certification by Tanzania Food and Drugs Authority (TFDA) and Tanzania Bureau of Standards (TBS). The implicaton is that Government interventions like SIDO development programmes should devise strategies for enabling the agro processing SMEs to grow.

CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusions and recommendations of the study. It is organized as follows: (i) summary of findings, (ii) implication of the results, (iii) conclusion, (iii) recommendations, (iv) limitations of the study and (v) areas for further research.

5.2 Summary of Findings

This research study has looked at the situation of the agro-processing SMEs so as to establish their profile. The study has identified the challenges facing these SMEs and the opportunities available to them so as to propose strategies that can enhance the growth of the agro-processing SMEs. The findings indicated that the profile of SMEs in the agro-processing industry is as follows: ownership is mainly that of sole proprietorship and have been in existence for more than 3 years. These SMEs employ between 2 to 40 persons and generate monthly revenues of up to 2 million Tanzanian shillings. The main products produced by these enterprises are nutritious flour, peanut butter, pickles, wines and cooking oil.

The major challenges faced by the agro-processing SMEs were scarcity of financing, inconsistence of government projects and programmes to support the development of the agro-processing enterprises; low level of entrepreneurships and management training of the large majority of persons engaged in agro-processing; lack of technical guidance and counseling; technological gap; power supply inadequate, uncertain and costly; and poor attention on advertisement and publicity of the

products.

Opportunities available for the agro-processing SMEs were large, under-utilized arable land, suitable for a wide variety of crops; still very limited value addition to crops through grading, better packaging, labeling, processing and marketing; massive untapped potentials for processing of agricultural crops; and wide range of seasonal exotic fruits, spices, grains and seeds which can produce very high quality flours, oils, juices and wines; good local as well as international market, if the right qualities and quantities are produced of agricultural products.

5.3 Implication of the Results

Based on SMEs profile, challenges are big, which means only one owner could not have the appropriate capacity to address. This is where collective efforts to mitigate them are paramount. By doing so, opportunities that exist would be properly utilized and therefore improve population livelihood.

5.4 Conclusion

In conclusion, We remain convinced that the potential for a viable, profitable and sustainable agro-processing sector in Tanzania is tremendous. There are success stories in other countries. These successes should be closely studied and relevant methods and approaches adopted.

5.5 Recommendations

In view of the observations of made during this study, the following strategies are recommended to enhance growth of these agro-processing SMEs:

(i) The SME owners should get advanced training in order to improve management skills and food processing techniques,

(ii) The SMEs should increase consistency in production and marketing of their products,

(iii) The Government should facilitate access to affordable finance and provide informantion about markets,

(iv) The Government should also support technological development,

(v) Institutions like TFDA and TBS should reduce beuracracies in getting approval of products and provide continuous guidance and councelling to these SMEs so that they can maintain high quality products.

5.6 Limitations of the Study

Among problems faced was that the literature available did not provide information that is directly related to the objectives of the study. In some cases the kind of information that was being sought was not found in the available and reviewed literature. Some of the reviewed literature was old (in this case, more than five years) and the situation on the ground might have changed since they were published. This necessarily leads to gaps in knowledge that can best be filled by practical field research.

Though purposive sampling technique and a questionnaire helped a lot to effectively gather data from the field, was difficult to get all the respondents to fill in the questionnaires as some were not available and some did not know how to respond to some questions.

5.7 Areas for Further Research

This study was able to establish the profile of agri-food processing SMEs, challenges they face and opportunities in the agri-food processing sector that have not been explored and proposed strategies that can help their growth. However the agro-processing sector is wide and further research is needed in areas of tobacco products; paper and wood products; textiles, footwear and apparel; leather products; and rubber products.

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APPENDICES

Appendix A: Questionnaire for Agro-processing SMEs

Research Project: The Strategies for Enhancing the Growth of Small and Medium Enterprises (SMES) in the Agro-processing Industry in Tanzania

Objectives of the Research:

1) To establish the profile of SMEs in the agro-processing industry.
2) To identify opportunities and challenges for growth of SMEs in the agro-processing industry.
3) To propose strategies for enhancing growth of SMEs in the agro-processing industry.

Dear Sir/Madam

The research being undertaken concerns the Strategies for enhancing the growth of small and medium enterprises in the agro-processing industry in Tanzania. It aims to propose strategies that will help agro-processing SMEs to achieve sustainable growth.

We kindly request your views by completing the questionnaire as accurately and frankly as possible. Your answers will only be used for the purpose of the research. We appreciate your taking the time to complete this questionnaire.

PART I

Profile of the SMEs

1. SME's particulars

(a) Name of the enterprise: ……...……

(b) Date of establishment: …….…..……..

(c) Physical location: ……...……..

(d) District: ……

(e) Postal address: ……

(f) Telephone number: …….…….

(g) Occupation of respondent: …….……..

(h) Name (optional): …….…….

(i) Position in the enterprise (tick as appropriate):

[ ] Owner

[ ] Manager

[ ] Employee

(j) Ownership of the enterprise

[ ] Sole proprietor

[ ] Partnership

[ ] Group

[ ] Cooperative

(k) Gender of owner(s)

[ ] Male

[ ] Female

(l) Qualification of the owner(s)

[ ] Primary education

[ ] Secondary Education

[ ] Certificate

[ ] Bachelor degree or equivalent

[ ] Other. Please specify

……..

(m) Are you satisfied with the way your enterprise is running?

[ ] Yes

[ ] No

If no give reasons

……...……..……

……..……

……..……

……..……

(n) Number of employees ……..

2. Source of Funding

(i) What is the source of the starting capital?

[ ] Personal funds

[ ] Bank loan

[ ] Loan from a friend/ relative

[ ] Donor/ NGO funding

[ ] Other (please explain) ……

3. Production

(i) What is your enterprise's major product(s)?

……..……

(ii) What is the production capacity (e.g kg/day, litres/week)?

…….

(iii) On average, what is your monthly revenue?

……

(iv) Do you pack your products

[ ] Yes

[ ] No

(v) If no, why?

[ ] My products do not require packaging

[ ] Packaging materials are not available

[ ] Packaging materials are expensive

[ ] Whether you pack or not, products are sold

[ ] Other (explain)

…….

4. Marketing

(i) Who are the end users of your product? (Tick one or more)

[ ] General public

[ ] Schools

[ ] Hospitals

[ ] Other (Please mention them) ……

(ii) Is there a good demand for your product?

[ ] Yes

[ ] No

(iii) If Yes, how do you know that there is demand for your product?

……

.....

.....

.....

(iv) If no, why do you think that is the case? (tick one or more)

[ ] Lack of publicity

[ ] Many competitors

[ ] Other (please explain)

.....

.....

.....

.....

.....

PART II

Opportunities and challenges for growth of SMEs in the agro-processing industry

1. Score the following factors which you think negatively affect the increase in capital by your enterprise by indicating their effect, with a score of 1 indicating low effect and a score of 5 indicating high effect.

Factor	Level of importance				
	1	2	3	4	5
An inconsistent supply of raw material					
An insufficient supply of raw material					
Seasonality of crops					
Poor quality of raw material supply					
High losses during transport from farm to factory					
Inappropriate or obsolete processing and ancillary equipment					
Insufficient processing equipment					
Poorly trained personnel					
A lack of qualified food technologists					
Inappropriate packaging materials					
High packaging cost					

2. Score the following factors which you think affect negatively the demand for your products indicating their importance with a score of 1 for low importance and a score of 5 indicating very important factor

Factor	Level of importance				
	1	2	3	4	5
Lack of market information					
High competition with imported products					
Little knowledge of consumer education and market research					
Low capacity of production					
Price of your product compared to competitors					
Quality of product					
Distribution networks not wide					

3. Score the barriers that you think negatively affect the expansion of operations of agro-processing enterprises like yours indicating 1 for very low barrier and a score of 5 for very high barrier.

Factor	**Level of importance**				
	1	2	3	4	5
Scarcity of financing					
Inconsistence of Government projects and programmes to support the development of the agro-processing enterprises					
Low level of entrepeneurship and management training of the large majority of persons engaged in agro-processing					
Lack of technical guidance and counseling					
Technological gap					
Power supply inadequate, uncertain and costly					
Poor attention on advertisement and publicity of the products					

4. What opportunities do you see in the agro-processing industry? Score 1 for few opportunities and a score of 5 for many opportunities.

Factor	Level of importance				
	1	2	3	4	5
Large, under-utilized arable land, suitable for a wide variety of crops					
Still very limited value addition to crops through grading, better packaging, labelling, processing and marketing					
Massive untapped potentials for processing of agricultural crops					
Wide range of seasonal exotic fruits, spices, grains and seeds which can produce very high quality flours, oils, juices and wines.					
Good local as well as international market, if the right qualities and quantities are produced of agricultural products (like vanilla, paprika, oil seeds, exotic fruits juices, wines and spices)					
Government policies that support the development of the agro-processing industry					
Easy access to finance from financial institutions					

PART III

Strategies for growth of the agro-processing enterprises

What needs to be done to support the growth of agro-processing SMEs?

(a) By the owners/managers of the SMEs

……

……

.....

.....

.....

.....

.....

(b) By the Government

……

……

.....

.....

.....

(c) By other support institutions like TPSF, TCCIA, TBS, commercial banks etc

……

……

.....

.....

.....

Interview Questions for Support Institutions

Research Project: The Strategies for Enhancing the Growth of Small and Medium Enterprises (SMES) in the Agro-processing Industry in Tanzania

Objectives of the Research:

4) To establish the profile of SMEs in the agro-processing industry.
5) To identify opportunities and challenges for growth of SMEs in the agro-processing industry.
6) To propose strategies for enhancing growth of SMEs in the agro-processing industry.

Dear Sir/Madam

The research being undertaken concerns the Strategies for enhancing the growth of small and medium enterprises in the agro-processing industry in Tanzania. It aims to propose strategies that will help agro-processing SMEs to achieve sustainable growth.

We kindly request your views by answering the questions as accurately and frankly as possible. Your answers will only be used for the purpose of the research.

1. Name of institution

   ……

2. Position/ Designation

   ……

3. What is the role played by this institution in supporting SME development?

4. What opportunities do you see for the agro-processing SMEs?
5. What do you consider to be the obstacles for growth of SMEs, particularly the agro-processing SMEs?
6. What strategy is your institution implementing that is supporting the growth of agro-processing SMEs?

Appendix B: Tables

Table 14: Number of Employees

Sn	Name of enterprise	Number of employees
1	A.A. Pharmaceuticals	12
2	Adetadie Food Processing	2
3	Apecha busuness and consult limited	6
4	Aprifetius Food Products	15
5	Benmat Enterprises	4
6	Bimafro Traders	2
7	Daniel's Agri Farm	3
8	Gombo Product	3
9	Happy Food Company	2
10	Jumabeha Food Product	2
11	Kishenga Enterprises	40
12	Lugonzibwa Foods	3
13	Lujasa Import and Export Agent	2
14	Mam Cashewnut Revolution	3
15	Matzingo Enterprises	5
16	Mkombi Catering and Food Product	3
17	Morieno Traders	11
18	Niebe Investment	4
19	pice and Heritage Centre	10
20	REM C	4
21	S B FOODS AND MILLERS	4
22	Zetty Food and Beverage	3

Source: Field study, 2012

Table 15: SMEs Monthly Revenue

S/n	Name of enterprise	Monthly revenue
1	Adetadie Food Processing	1,400,000
2	Apecha business and consult limited	1,700,000
3	Aprifetius Food Products	800,000
4	Benmat Enterprises	1,000,000
5	Bimafro Traders	800,000
6	Daniel's Agri Farm	2,000,000
7	Gombo Product	400,000
8	Happy Food Company	1,200,000
9	Kishenga Enterprises	2,000,000
10	Lugonzibwa Foods	800,000
11	Lujasa Import and Export Agent	2,500,000
12	Mam Cashewnut Revolution	900,000
13	Matzingo Enterprises	1,500,000
14	Zetty Food and Beverage	1,600,000
15	Mkombi Catering and Food Products	900,000
16	Spice and Heritage Centre	100,000
17	Mkombi Catering and Food Product	900,000
18	Niebe Investment	1,600,000
19	Spice and Heritage Centre	200,000
20	S B FOODS AND MILLERS	2,000,000

Source: Field study, 2012