Factors Affecting Small & Medium Enterprises (SMEs) Start-up and Growth in Tanzania

Wineaster Anderson
University of Dar es Salaam
Dar es Salaam, Tanzania
wineaster@yahoo.com

Abstract: *This study analyzes factors that are affecting the start-up and growth of SMEs in Tanzania. The interviews involved the institutions providing business support services to SMEs and a total of 150 randomly selected SMEs from the country's commercial city of Dar es Salaam. The study examined seven factors, which were categorized into three broad groups: business environment (political, legal and regulatory environment & socio-economic environment); institutional support (resources and finance; management and know-how & appropriate infrastructure & technology) and individual attributes and knowledge (entrepreneurial tendencies & innovation, vision and exposure to external knowledge). The context description for qualitative data and the multiple linear regressions show that factors range from inborn individual attributes to complex relationships between often changing business environments. The competitive activities and location, inadequate finance, human and social resources, and technical and management skills play a crucial role in the start-up. Also the regulatory framework leads to excessively complex registration and licensing requirements. Inadequate technology and physical infrastructure have resulted in a shortage of premises and even the few premises available are well beyond the financial ability of most SMEs. Unreliable electricity negatively affects their growth. The study provides managerial and policy implications.*

Keywords: Small and Medium Enterprises, Start-up, Growth, Tanzania

Introduction

Small and medium enterprises (SMEs) have dominated the private sector which plays an important role in the economies of both developing and developed countries. Enterprises range in size from micro to very large. Economies throughout the world have started focusing more and more on small and medium-scale enterprises. This is mainly because attempts to promote economic progress by establishing large industries have usually failed to improve the lives of the majority of the communities, particularly in the developing countries (Anderson, 2011; White Paper on International Development, 2000). The recent global economic downturn has witnessed many of the world's largest companies continuing to engage in massive downsizing, dramatically cutting the number of employees regardless of their retirement age. This has in many ways created another population of entrepreneurs, who enter the private sector with a

wealth of skills and long experience of business management. For example, large companies in the USA shed about 214,000 jobs and during the same period of time small businesses created 1,625,000 jobs (Scarborough, 2011). According to Kauffman Foundation (2008), in the USA alone entrepreneurs launch 550,000 businesses each month.

Due to the globalization of trade, efforts made by the private sector in many developing countries have led to the emergence of the SME sector and to being a significant component of economic development and the creation of employment (Richardson *et al.*, 2004). Sub-Saharan African countries have witnessed a major reform of their public enterprises, with governments adopting the small enterprise model for economic development. These enterprises are now key players in creating employment, alleviating poverty and empowering women (Kaijage and Mwaipopo, 2004).

For example, SMEs in Zambia employ nearly 55 per cent of the working population (Richardson *et al.*, 2004). According to Vala (2009), in Mozambique, 98.6 per cent of enterprises are smaller enterprises employing 46.9 per cent of the country's workforce. In Tanzania, the sector employs between 3 and 4 million people, accounting for 20 to 30 per cent of the total labour force and contributing between 35 and 45 per cent of the country's gross domestic product (Anderson, 2011). Because of the importance of SMEs, the country has, since the 1980s, made efforts to foster their development so that they can trade smoothly, both locally and internationally, and to address the challenges they face in terms of marketing, management, infrastructure, technology and regulations. These efforts include facilitating credit facilities and exploring markets for their products. Naturally, SMEs have found a home in developing countries, mainly because they can be easily established since their requirements in terms of capital, technology, management and even utilities are not as demanding as for large enterprises. However, their full potential has not yet been realized due to the fact that they face various constraints from the start-up stage to the survival stage and these constraints have not received enough attention by academics (Anderson, and Mzee, 2013). That information gap triggered this study.

The purpose of this study is to analyze the influences on the start-up and growth of SMEs through analyzing the influence of individual attributes and assets (i.e. innovation, vision, exposure to knowledge, commitment to growth and entrepreneurial tendencies) and the business environment and institutional support (i.e. financial and non-financial services) on SMEs' start-up and growth. The findings are expected to be relevant in many developing countries because there is some uniformity in the business models in their economies. For example, the study results will inform policy makers about what standard approaches and basic management practices for establishing policies are needed to guide the start-up and growth of enterprises. The study is expected to provide input to the institutions supporting SMEs in various ways for them to create relevant links and to enable them to fully comprehend the needs of SMEs. To achieve these objectives, the next section covers the literature review, the third section covers the research methodology, and the findings section follows before the study's conclusion.

Literature Review

SMEs Definition
In reality, what constitutes a small or medium-sized enterprise is still debatable as numerous definitions exist, each one valid in its own context (Anderson, 2011). The definitions, in most cases, vary from country to country and between different sources of enterprise statistics. The differences in defining the term are sometimes attributed to different levels of development between countries. For example, businesses considered SMEs in the UK are those with less than 200 employees, at most 500 employees in the USA and a maximum of 100 employees according to the OECD (MacGregor and Vrazalic, 2008; Mukhtar, 1998). The definition of micro, small and medium enterprises in the Tanzanian context is given by the United Republic of Tanzania (URT) Ministry of Industry and Trade (2003), in its SMEs Development policy (see Table 1). The SMEs in the Tanzanian context cover non-farm economic activities - mainly manufacturing, mining, commerce and services. The commonly used measures in all definitions are number of employees, capital invested, total assets, sales volume and production capability (Anderson, 2011).

Table 1: Categories of SMEs in Tanzania

Category	Number of Employees	Capital Investment (TShs)
Micro enterprise	1-4	Up to 5 million
Small enterprise	5-49	5 to 200 million
Medium enterprise	50-99	200 to 800 million
Large enterprise	100+	Over 800 million

(Source: URT Ministry of Industry and Trade (2003); 1 US$ is equivalent to Tanzanian shillings 2150 in 2015)

Theoretical framework
Considerable debate exists in the SMEs and entrepreneurship literature (Wawire and Nafukho, 2010; Nichter and Goldmark, 2005; Temtime and Pansiri, 2004; Mead and Liedholm, 1998) on what really influence the business startup and growth. However, the theoretical perspective underpinning the analysis of the factors influencing SME start-up and growth is taken from three different schools of thoughts. The organization life cycle perspective which considers growth as a natural phenomenon in the development of the enterprise (Sexton and Smilor, 1997; Carland *et al.*, 1984) is the first. The second perspective considers commitment to growth, entrepreneurial tendencies and the nature of the business environment as the major influences on business start-up and growth (Zimmerer and Scarborough, 2005; Shane *et al.*, 2003; Papadaki and Chami, 2002). The third perspective considers that enterprise start-up and/or growth are the consequences of strategic choice, competitive advantage of the enterprise, innovation and exposure to external knowledge (Benzing *et al.*, 2009; Porter, 2008; Schumpeter, 1934).

However, given the nature of emerging economies where the natural phenomenon in the development of the enterprise has been very difficult to prove, this study has chosen to focus on the individual attributes and assets (such as commitment to growth and entrepreneurial

tendencies, innovation, exposure to knowledge) as well as the business environment and institutional support (including financial and non-financial services) as the factors influencing SME start-up and growth.

Individual Attributes and Knowledge

Individual attributes and assets in this context constitute commitment to growth and entrepreneurial tendencies as well as exposure to knowledge and new ideas. In principle, growth is the very essence of entrepreneurship and actually what primarily distinguishes a small business owner from an entrepreneur is *commitment to growth* (Sexton and Smilor, 1997; Carland et. al., 1984). Entrepreneurs always seek to grow to increase profitability which is their main reward, while most small business owners consider money as the primary reason for starting new enterprises (Amit *et. al.*, 2001).

As also echoed by Benzing *et al.* (2009), most SME owners are driven more by income rewards than intrinsic rewards while entrepreneurial tendencies, such as the need for achievement, locus of control, and desire for independence, passion and drive influence the business start-up and subsequent growth. Usually an entrepreneur begins with recognizing an opportunity, developing an idea for seizing that opportunity and developing a product or service, to assembling both human and financial resources (Shane *et al.*, 2003). Thus, in the theories of entrepreneurial choice, a firm's growth is an indication of *continued entrepreneurship* (Davidson, 1991). Davidson notes that economic theories take the *willingness* to grow a business for granted, by assuming profit maximization. Thus, Davidson argues that growth is a choice of the owner-manager and that profit maximization is only one of the possible motives for growing the business. According to Schoar (2008), there are two types of SME owners, namely, subsistence and transformational entrepreneurs. Subsistence entrepreneurs run small businesses which do not expand while transformational entrepreneurs achieve rapid business growth.

Access to new brains, ideas and knowledge also affect the business births, closures and expansion according to Mead and Liedholm (1998) who examined the magnitude and determinants of enterprise births, closures and expansion in the five countries of Botswana, Kenya, Malawi, Swaziland, and Zimbabwe). Their study shows that retail SMEs have a greater chance of failing at the initial stages before they grow than other types of businesses due to the fact that it takes time for the business owner to learn how to operate a new business with new characteristics; SMEs which have more employees had a greater chance of surviving than those which remained static, as different employees always bring new brains, ideas and knowledge; SMEs which started small have a greater chance of surviving than those that started large; and female-owned enterprises have less chance of surviving than those owned by males.

Zimmerer and Scarborough (2005) on the other hand put the influences on enterprise start-up and growth into two categories, external factors and internal factors. External factors comprise the political, legal, socio-cultural and economic environment over which SMEs have no control. Internal factors are those over which SMEs have control. Zimmerer and Scarborough (2005) describe the internal shortfalls as "mistakes" or "weaknesses" of the entrepreneur, which include

management mistakes, lack of experience, poor financial control, weak marketing efforts, failure to develop a strategic plan, uncontrolled growth, poor location, improper inventory control, incorrect pricing and inability to make the "entrepreneurial transition".

Education on entrepreneurship has significant implications for SME start-up and growth as long-term relationships with social networks emphasize the importance of "social collateral" in accessing finance. Among the factors which motivate somebody to start an enterprise are innovation, vision, independence and educational background. According to De Clercq and Arenius (2006), individuals' varying possession of knowledge, as well as their varying exposure to external knowledge, has an impact on the decision to pursue an entrepreneurial career. The author believes that possessing the necessary skills for starting a new business is crucial for increasing the likelihood of starting and running it and that access to relevant knowledge is very important for the start-up and growth of SMEs. This was also revealed by Fumo and Jabbour (2011)'s study on the barriers facing SMEs in Mozambique. The study found that many SME owners do not know how to start a new enterprise, and they face stiff competition from those who copy their products, as they lack innovation.

Business environment
As it has been mentioned before, in most cases the enterprise start-up and growth are affected by external factors or what is referred as 'business environment' such as political, legal, socio-cultural and economic environment over which SMEs have no control (Zimmerer and Scarborough, 2005). The business environment can create opportunities or threats for the success or failure of SMEs. This has received significant attention in the literature (Nichter and Goldmark, 2005; Djankov *et al.*, 2004; Mitchell, 2003; Parker *et al.*, 1995). The business environment of a country is a crucial determinant of the prosperity and growth of firms and the economy in general. Various indicators are applied when measuring the business environment such as Global Competitiveness Index of the World Economic Forum, The Doing Business Ranking of the World Bank and The Economic Freedom Index of the Heritage Foundation.

The *Global Competitiveness Index of the World Economic Forum* considers competitiveness as the set of institutions, policies and factors that determine the level of productivity of a country. It comprises institutions, infrastructure, education, health, innovation and the efficiency of goods, labour and financial markets (World Economic Forum, 2012). *The Doing Business Ranking of the World Bank* focuses on small and medium-sized companies and areas of business regulation relating to the life cycle of a hypothetical company, ranging from start-up and expansion to operation and insolvency. The measurement considers variables such as property rights, access to credit, investor protection, administrative burden and flexibility in hiring (The World Bank Group, 2011). *The Economic Freedom Index of the Heritage Foundation* measures the degree to which individuals are free to work, produce, consume and invest in any way they please. It basically comprises 10 economic freedoms that are grouped into four broad categories with equal weight: rule of law, limited government, regulatory efficiency and open markets (Heritage Foundation, 2012).

However, SMEs and entrepreneurs in most developing and emerging countries continue complaining of the unfavorable business environment. Factors such as legal and institutional frameworks, tax laws, bureaucracy and financial difficulties affect the firms' startup and growth. That is one of the main reasons why Nichter and Goldmark (2005) believe that developing-country entrepreneurs have to be twice as creative as their counterparts in wealthier nations if they are to overcome obstacles, such as dysfunctional legal and financial systems, distorted markets and unequal access to resources. As evidence, Parker *et al.* (1995) did a study in five African countries, and concluded that between 61 and 96 per cent of SMEs in Ghana, Mali and Tanzania rated taxes as one of the problems hindering businesses. Also Bagachwa (1993) found that most micro and small enterprises find government regulations and the bureaucratic maze a severe hindrance to their progress in Tanzania. Overall, small-scale entrepreneurs saw no significant changes in the current tax policies and bureaucratic maze compared with the pre-reform period. Nkya (2003) found that many firms complained of the multiplicity of taxes, duties and other fees that enterprises are required to pay to government institutions in Tanzania.

Mitchell (2003) concluded that regulations and higher taxes are the most problematic policy areas for SMEs in South Africa while Fumo *et al.* (2011) identified barriers facing SMEs in Mozambique as corruption, taxes, bureaucracy and lack of information on government support services for micro and small businesses in the country. Nafukho and Muiya (2010) found that only 5 per cent of the sampled women-owned SMEs regard commercial banks as a source of funding. Of them, 95 per cent do not borrow from banks due to the lack of collateral, the high interest rate charged and fear. Micro-finance institutions appeared to be playing an insignificant role in funding women-owned SMEs, as they require the borrowers to provide immovable collateral and charge abnormally high interest rates, while most businesses lack insurance cover and most borrowers fear being prosecuted in the event of default and their personal property being sold. Obamuyi (2010) found that only 51 per cent of those who applied for a loan successfully got one in Ondo State in Nigeria, and the rest (i.e. 49 per cent) failed due to the lack of collateral like houses or land.

Other factors influencing a firm's performance included high interest rates, lack of collateral and too much bureaucracy. The study also found that SMEs that received a loan performed better than those that did not. However, the study could not establish the reason(s) why many owners fear to borrow, or suggest approaches that could be used by financial institutions to encourage firm owners to apply for loans. Again lack of collateral required by financial institutions is a critical obstacle in business startup and growth. Ageba and Amha (2006) found out that most entrepreneurs in Ethiopia failed to get loans from banks due to the lack of collateral. Although micro-finance institutions are believed to be a good source of loans, most entrepreneurs complain that the loans provided are inadequate and the repayment period is limited to one year.

Based on the literature review, this study proposes the influences on the start-up and growth of micro and small enterprises in the conceptual framework presented in Figure 1. First and foremost, the owner-managers need to be creative and innovative with a clear vision and knowledge of the venture to be pursued and its anticipated results. Such qualities should be

cultivated in combination with the commitment to grow and entrepreneurial tendencies. The nature of the business environment surrounding the enterprise combined with the quantity and quality of institutional support available for it would play a crucial role in ensuring the success of enterprise start-up and growth. The growth of SMEs can be measured quantitatively and qualitatively. The qualitative growth of an enterprise can be achieved through the subjective attributes of the enterprise, such as improving the quality of the output, portraying a positive image or changing from an owner-operated to owner-directed enterprise. The quantitative perspective is also considered, shown by changes observed in the measurable indicators, such as an increase in the number of employees, sales revenue, profitability or product mix.
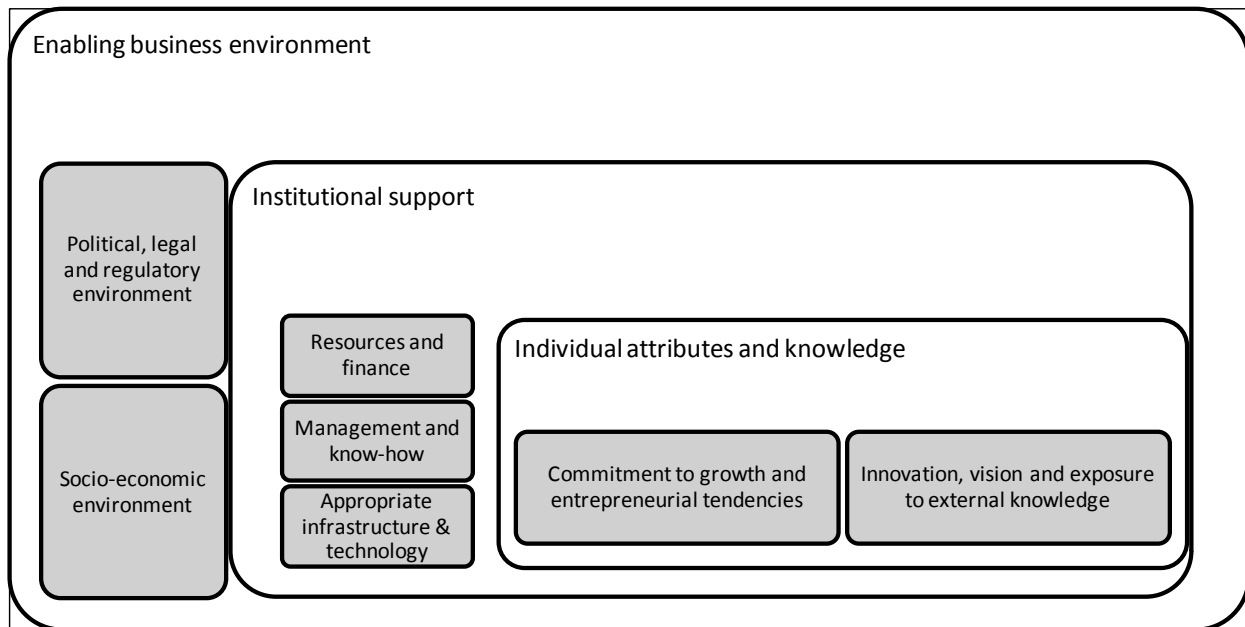

Figure 1: Factors affecting the SMEs start-up and growth
(Source: variables identified from literature review)

To conclude, the theoretical underpinning of the study guides us to research question "what are the factors affecting the start-up and growth of small and medium enterprises (SMEs) in Tanzania?"

In that line, the study focuses on how do individual attributes/assets and the business environment influence the SMEs' start-up and growth in emerging economies. The hypotheses derived can test the relationship between the SMEs start-up and growth (as dependent variables) and the independent variables, including business environment (political, legal and regulatory environment & socio-economic environment); institutional support (resources and finance; management and know-how & appropriate infrastructure & technology) and individual attributes and knowledge (entrepreneurial tendencies & innovation, vision and exposure to external knowledge). To this end, the research methodology which covers data collection techniques, the study area and the methods of data analysis follows accordingly.

Methodology

Administratively, Tanzania has 31 regions (26 on the Mainland, including Dar es Salaam). Micro, small and medium enterprises, which are estimated to contribute 30-35% of the country's GDP, constitute more than 1 million businesses engaging 3-4 million people, that is, 20 - 30% of the labour force (Anderson, 2011). The city of Dar es Salaam was chosen as the study area due to its long history with respect to SMEs in east and central Africa. Dar es Salaam is Tanzania's commercial capital where entrepreneurship and SMEs, especially itinerant trading, were evident even during the colonial period (Anderson, 2011). Kashangaki (2005) established that there are approximately 2.7 million enterprises in the country, of which about 60% are located in urban areas. Dar es Salaam is the third fastest growing city in Africa (ninth fastest in the world). The city enjoys a strategic location as it is the country's major international and local gateway and it serves as a hub for trade with the five neighbouring countries of Malawi, Rwanda, Burundi, Uganda, the Democratic Republic of Congo and Zambia. Moreover, Dar es Salaam accounts for 10 per cent of the total Tanzania Mainland population (URT National Bureau of Statistics and Office of Chief Government Statistician, 2013).

This study covered SMEs involved in the service, trading and manufacturing sectors. 150 SMEs were randomly drawn from identified quotas in addition to interviews with institutions providing business services to SMEs in the country. Apart for SMEs, other stakeholders involved include the National Microfinance Bank (NMB), Dar es Salaam Community Bank and other Non-Governmental Financial Organizations like Promotion of Rural Initiative and Development Enterprises Limited, Foundation for International Community Assistance, Sero Lease and Finance Limited and Women Advancement Trust (WAT). These were selected because many SME owners complain about financial obstacles and regulations imposed by some of the institutions. Thus, the study sought to establish stakeholders' opinions of SMEs' financial challenges.

A questionnaire capturing data on individual attributes and the business environment in which the enterprise operates was handed to respondents and retrieved after being completed. For the analysis, the qualitative means of context description was mainly used. In addition, multiple linear regression analysis was employed to test how the specific independent variables of business environment, infrastructure, access to financial resources and knowledge predict the start-up and growth of SMEs, which is the dependent variable. Multiple regression analysis tested the existence of correlation among the variables. Thus it was used to create a model equation which was used to predict the start-up and growth of SMEs depending on the independent variables in a given equation:

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4$

Where:

   a, b_1, b_2, b_3, b_4 *are constants*
   X_1 *is the business environment*

> X_2 *is access to working capital or financial resources*
> X_3 *is the infrastructure*
> X_4 *is exposure to external knowledge*
> *Y is the start-up and growth of SMEs*

Furthermore, the study deployed Analysis of Variance (ANOVA) to test the mean score difference between the factors identified as influences on the start-up and growth of SMEs, which are business environment, knowledge, infrastructure and working capital or financial resources. The intention was to test whether the differences in score among the variables are significant or not in influencing the start-up and growth of SMEs in Tanzania.

Findings

Characteristics of the respondents

The study involved 150 SMEs from the three municipal councils in Dar es Salaam of Kinondoni, Ilala and Temeke. At the municipal level, locations were selected using quota sampling. In Kinondoni, 48 SMEs, which accounted for 32 per cent of the total sample, were involved, covering enterprises operating in Mwenge, Tegeta, Kinondoni, Ubungo, Manzese, Magomeni, Kimara and Msasani. In Temeke the study involved 50 enterprises operating in Tandika, Temeke Wailes, Keko, TAZARA, Mbagala Kuu and Mtongani. Also in Ilala, the study interviewed 52 enterprises operating in Kariakoo, Buguruni, Karume, Upanga, City Centre, Kivukoni and Kigamboni (Table 2).

Nowadays people with different educational backgrounds are engaged in the SME sector for various reasons. Some are fully employed by SMEs. More specifically, some are employed in the public sector or in private companies but still run their enterprises as a source of additional income to supplement their monthly salaries. Others are still self-employed due to limited employment opportunities. Most of the respondents have had ordinary level secondary education, followed by those who have had tertiary education. Moreover, the majority of the respondents were male. While the survey in Ilala found that the majority of SMEs are owned by males, in the other two districts the ownership distribution of SMEs between the genders is almost equal. The study findings also show that most of the businesses operate as sole proprietorships.

Table 2 Characteristics of the SME – respondents

Characteristics	Percentage
Business location	
Kinondoni	32.0
Temeke	33.3
Ilala	34.7
Education level	
Primary education	14.0

Vocational education	4.0
Ordinary secondary education	33.3
Advanced secondary education	5.3
Diploma	14.0
Bachelor Degree	25.3
Master's degree	4.0
Gender	
Male	54.7
Female	45.3
SMEs ownership status	
Sole proprietorship	88.0
Partnership	9.3
Family	2.7
Nature of business	
Trading	54.0
Service provision	26.7
Manufacturing	19.3
Number of employees	
1-4	82.0
5-49	26.0
50-99	2.0
Size of startup capital	
Up to 5 million	75.0
5 to 200 million	24.7
200 to 800 million	0.3
Sources of Financing	
Grant and loan from friends and relatives	12.0
Loan from banks	22.7
Loan from non-governmental and microfinance institutions	34.0
Own savings	33.3

This study covered three economic sectors, namely: manufacturing, trading and service providers Of the SMEs surveyed, 54 per cent were involved in trading, which concurs with Olomi (2009)'s study on African entrepreneurship and small business development, while 19.3 per cent were involved in the manufacturing sector, such as welding, carpentry, tailoring, embroidery and Batik design, food processing, and making cleaning chemicals and soap. The study considered the size of the enterprises in terms of number of employees, the capital invested to start the business and the amount of capital. The respondents were asked when they started their enterprises, the amount invested to start them up, and the number of employees they started with. The study found that 84 per cent of the enterprises were at the micro level as they started with 1 to 4 employees and 26 per cent were small as they started with 5 to 50 employees. On average the enterprises had 3 employees. Looking at the start-up capital of the businesses, the study

found that the highest amount of start-up capital was TZS 80,000,000.00 (exchange rate was US$1= 2150 Tanzania Shillings in 2015).

SMEs startup capital is obtained from various sources, including loans from microfinance institutions. Most respondent SMEs obtained their loans from micro-credit organizations such as SACCOS, FINCA, PRIDE, VICOBA and DUNDULIZA. Simply put, non-governmental financial institutions were cited to be the most reliable source of capital for starting up or growing a businesses or boosting the capital of existing businesses. However, according to the respondents, although the NGOs do not have such strict and long borrowing procedures as commercial banks, they have higher interest rates and a short repayment period. Those who obtained their capital through a loan from a bank comprised only 22.67 per cent, showing that banks have complex procedures that have to be complied with in order to get loans. Own savings came second as the source of capital. Most businessmen and women were frightened to borrow from banks for fear of losing their property taken as collateral if they fail to repay the loan. Thus, a good number of people (12 per cent of the respondents) prefer to borrow money from friends and relatives. Noticeably, the borrowers were unsure whether they could spend the loan on the intended cause, as the majority commented that they use some of the loaned money to deal with personal problems, which actually does not add value to their business.

Factors influencing the start-up and growth of SMEs
The owner managers started their business for a number of reasons, the major one being 'lack of employment opportunities elsewhere'. Most of them decided to start SMEs out of necessity and for survival, while others did so to improve their standard of living, which included those who do two jobs, as they are employed while at the same time running their own enterprises. The slight growth in the number of SMEs is due to those who entered the field because of their need to achieve. Figure 2 summarizes the reasons for starting a business.
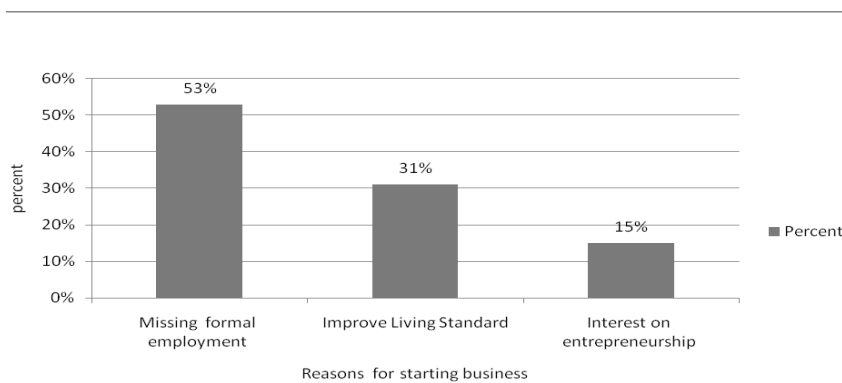

Figure 2. Reasons for starting a Business

The study has revealed factors influencing the start-up and growth of SMEs which include individual attributes and assets (i.e. innovation, vision, exposure to knowledge, commitment to

growth, entrepreneurial tendencies and demographic characteristics) the business environment (i.e. relationship with local authorities, bureaucracy of government authorities, awareness of the country's SME Policy, multiple levies and/or taxes, stiff competition from imported products and local and multinational corporations, level of corruption and institutional support (i.e. financial and non-financial services). The reliability test was carried out on these variables to test their internal consistency or reliability. A measuring instrument is said to be reliable if it provides consistent results (Kothari, 2007). Thus, Cronbach's α (alpha) was employed to measure the reliability of the sample of respondents. The accepted coefficient to carry out further analysis should range between 0.7 and 1.0. The results from the survey show that the variables are reliable for further analysis. Table 3 shows the coefficients of the variables.

Table 3 Cronbach Alpha coefficients

Variable	Coefficient
Business environment	0.82
Infrastructure	0.78
Financial and non-financial services	0.85
Individual attributes and assets	0.87

Business environment
When it comes to the role of regulatory and institutional frameworks in promoting the start-up and growth of SMEs, some vivid examples have been recorded. While some initiatives have been very successful others have failed to meet the intended objectives. The establishment of SIDO in 1973 is one of the government initiatives to develop the small industry sector in the country. Its activities include industrial estates, technology development and transfer, training and production centres and hire purchase schemes for buying equipment. These programmes are supported by the government and development partners such as the World Bank, The Netherlands, India and Hungary. The implementation of SIDO's corporate strategic plan 2005/06-2007/08 aims to stimulate and support increased SME involvement, facilitate the formalization of businesses, promote improvement in their products and operational capacity and increase their chances of survival and success. It will also promote more economic activities, an increase in incomes and the creation of jobs, stimulate growth and contribute to an improvement in people's well-being. Apart from SIDO, various institutions have been established to support enterprise development in Tanzania. They include the Tanzania Industrial Research Development Organization (TIRDO) which supports the utilization of local raw materials, the Centre for Agricultural Mechanization Rural Technology (CAMARTEC), which is involved in promoting appropriate technology for rural development, the Tanzania Engineering and Manufacturing Design Organization (TEMDO), which is responsible for machine design, the Tanzania Bureau of Standards (TBS) mandated to promote standards, the Tanzania Trade Development Authority (TANTRADE) which is instrumental for the promotion of exports mainly through trade fairs, and the University of Dar es Salaam Technology Development and

Transfer Centre (TDTC), which is active in developing prototypes and promoting their commercialization.

Through the Ministry of Industry and Trade, the government developed the SME Policy in 2003, in recognition of the role played by micro and small enterprises in the economic growth of the country. The Policy focused on three areas, namely, the creation of an enabling business environment, the development of financial and non-financial services and putting in place supportive institutional infrastructure (United Republic of Tanzania Ministry of Industry and Trade, 2003). If these factors are absent, it may constrain SMEs or influence their start-up and growth if they exist. Likewise, a number of initiatives have been taken to set up funding mechanisms and schemes to address poverty through promoting SMEs in the country. Such funds include the National Entrepreneurship Development Fund (NEDF), Youth Development Fund (YDF) which is managed by the Ministry of Labour, Youth Development and Sports and the Women Development Fund (WDF) that is managed by the Ministry of Community Development, Gender and Children. Other programmes have been established by development partners jointly with the government, including the Small Entrepreneurs Loan Facility (SELF), National Income Generating Programme (NIGP), Presidential Trust Fund (PTF) and Community Development Trust Fund. Another initiative for this purpose has been the establishment of the National Micro-Finance Bank (NMB), designed to cater specifically for micro enterprises.

The MKURABITA (2007) programme was put in place to enable SMEs to formalize their land ownership through registration and having title deeds. Unfortunately, the programme did not work as about 90 per cent of the people asked about it knew little about it. The PTF, popularly known by Tanzanians as *"Mabilioni ya Kikwete"*, was established in 2006 with the object of supporting the informal sector with funds administered through CRDB banks throughout the country. Unfortunately, due to poor administration, the fund did not reach the intended sector (Kweka and Fox, 2011).

Education is very important as far as entrepreneurship is concerned. Knowledge fosters creativity, curiosity, open-mindedness and interpersonal skills, which are of more value to business (Olomi, 2009). Many scholars agree that people with informal education have been very successful in the SME sector, showing that education is very important in business. The introduction of entrepreneurship education in public and private institutions in Tanzania, from tertiary to university level, is one of the government's efforts to impart the needed entrepreneurial knowledge to graduates and business practitioners. The Vocational Education and Training Act of 1994 provide the framework for the vocational training system in Tanzania. This Act led to the formation of the Vocational Education Training Authority (VETA) which has over 630 centres throughout the country offering training in more than 34 different fields. In 2001, the University of Dar es Salaam established the Entrepreneurship Centre to provide consultancy and training in entrepreneurship and SME-related courses. The National Microfinance Policy was created (2002) to increase access to financial services by SMEs and improve microfinance services for all entrepreneurs with a well-defined business strategy. With the existence of this policy, a good number of micro credit institutions were established,

including PRIDE, FINCA, VICOBA and VIBINDO. Some lending companies charge as much as 40 to 100 per cent interest rate per year along with short repayment periods (Kweka and Fox, 2011).

Development partners and business associations provide capacity building, advocacy and financial support for the formulation and implementation of policies and programmes. The support of development partners is demonstrated by the Danish International Development Assistance (DANIDA) Guarantee fund under Tanzanian banks such as CRDB, which aims to provide SMEs with credit and facilitate their international trade. The government of The Netherlands in collaboration with the UNDP helps genuine small and medium enterprises in Tanzania to achieve better results through the establishment of special funds for that purpose. The Management Committee of the fund initially selected SMEs in horticulture and handicrafts to be pioneer beneficiaries (also see Anderson, 2011).

The respondents were asked how they perceive the business environment as one of the constraints that hamper the start-up and growth of SMEs. Six attributes were used to assess this variable: relationship with local authorities; bureaucracy of government authorities; awareness of the country's SME Policy; multiple levies and/or taxes; stiff competition from imported products and local and multinational corporations; and level of corruption. The findings revealed that multiple levies and taxes affect start-up and growth due to the high mean score of 3.9597, although there is a large variation in perception as its standard deviation is high. Corruption came second with a mean score of 3.6846, as enterprise owners believe that if they want to quicken the registration process or simplify formalize the business, giving a monetary bribe to the responsible officials is the easiest solution. With respect to the enabling environment, bureaucracy in the local government authorities or offices came third as it scored a mean of 3.5973. Also the degree of the influence of liaison between the parties involved was tested. It was revealed that the relationship between business actors and local government authorities was not given much consideration as it was the least important attribute. About 48 per cent of the respondent SMEs considered their relationship with local government authorities to be very poor. This was serious as regards tax collectors and licensing sections. Table 4 gives a summary of the mean score of each attribute used for assessing the effect of the business environment.

Table 4 Mean score for the Business Environment

Variable	Mean	Standard deviation
Relationship with local authorities	2.3221	1.20958
Bureaucracy of government authorities	3.5973	1.07753
Awareness of SME Policy of 2003	2.8993	1.30356
Multiple levies/taxes	3.9597	1.01262
Imported goods/services and competition from multinationals hinders local SMEs	3.4966	1.36374
Corruption is the easiest way to develop the business	3.6846	1.06598

The study found out that 19.9 per cent lacked prime space for their operations, 15 per cent lacked space for doing business and 22 per cent commented on the poor infrastructure, especially during the rainy season or hot season. It was also noted that the shortage of prime and general space was blamed on the municipal authorities, which emphasized that space is allocated to traders with a large amount of capital only. Also MSE owners believed that corruption is a major problem, citing the example of the Machinga complex being allocated to business politicians instead of the intended marginalized groups. While 51 per cent of the respondents said that the rate of corruption is high, 19 per cent said it is very high. The attributes of this variable contribute to affecting the business environment for the SMEs.

To conclude, the business environment that limits the growth of this sector includes the high cost of complying with business regulations, the limited or lack of a business formalization system, insecurity, local authorities' overlapping regulations, and the complicated businesses taxation regime among others. An unfavourable business environment, the cost of starting a business, complying with business regulations, and the lack of finance and markets impose barriers to the growth of these enterprises. They are among the reasons why firms prefer to operate not only informally but also small with limited efforts to let it grow.

Access to working Capital or Financial resources
Several attributes were used to assess how start-up capital can affect business. Financial institutions are not helpful as they require a huge amount of collateral and have the highest mean score of 4.2400. This is an indication that SME owners are unable to secure loans from banks due to complex procedures; otherwise they could be a major source of capital for SMEs.

Non-governmental financial organizations seem to be the solution for those who failed to secure capital from other sources and this is evidenced by the mean score of 4.1000 with a small standard deviation. The attribute which seemed to make no contribution to capital was the possibility of starting a business, even without capital, because what matters is having a good business idea. This might be due to lack of knowledge and awareness of information about the institutions which fund anyone who has a good business idea, such as a proposed business plan. Table 5 summarizes the mean scores for the attributes used to assess the capital/financial variable.

Table 5 Mean score for Capital

Variable	Mean	Std. Deviation
Money is the only motivation for starting a business	3.8933	1.0753
Relatives and friends are the major source of capital	3.0933	1.3725
Non-Governmental Organization are helpful but have high interest rates and short repayment period	4.1000	0.9950
Financial institutions are unhelpful due to their requirement of a huge amount of collateral	4.2400	1.0277
You can start a business even if you don't have money as what matters is having a business idea	2.6000	1.5283
If bank loans are used effectively, as some use the money for personal needs	3.8133	0.8544

The findings also revealed that 81 per cent of the respondents agreed that money motivated them to start the business. Regarding non-governmental microfinance organizations being helpful, although offering loans at high interest rates and short repayment periods, 85 per cent of the respondents agreed, and 86 per cent also agreed that banks are not much of a support to SMEs due to complex procedures, as they require someone who wants loan to have a huge amount of collateral, such as land with title deeds, a house built on a surveyed plot or a car with comprehensive insurance. The study also found that some SMEs started their business using capital obtained from relatives and friends, which were agreed with by 54 per cent agreed.

Infrastructure

Infrastructure is another serious constraint for micro and small enterprises, as the lack of a reliable and permanent building for doing business has led some enterprises to be mobile, operating along the roads, or in densely populated areas. The rent of premises, especially in prime areas, had the highest mean score of 4.5067, an indication that rent is a serious problem. The second attribute under this variable is unreliable electricity, lack of a warehouse and poor roads, with a mean score of 4.2600. The third attribute was about the preference of SMEs operating in an unauthorized prime area with access to many customers that is better than the government planned areas, with a mean score of 4.0800. The contribution of business clusters to the growth of the business was the least as it scored a mean of 3.3867. Table 6 summarizes the mean score for the attributes used to assess the infrastructure variable.

Table 6 Mean score for infrastructure

Variable	Mean	Std deviation
Municipal council failed to provide areas for business	3.9200	0.99340
Inadequate technology leads to poor services/goods produced or delivered	3.7133	1.13123
The rent for business premises is very high, especially in a prime area	4.5067	0.78361
Unauthorized prime area with access to many customers is better than the government planned areas	4.0800	0.99340
Lack of electricity and warehouse, poor roads and communication tools is a problem for enterprises	4.2600	0.93715
Well-planned business clusters are good for the growth of your business	3.3867	1.42267

Noticeably, 96 per cent of the interviewed SMEs registered their concern that the rent for premises is very high, especially those located in prime areas. Likewise, 86 per cent of the respondents cited the lack of electricity and a warehouse and poor roads as the major problems for businesses. The major complaint is that unreliable electricity in the country was negatively affecting their operations to the extent that businesses which need this 99.9 per cent of the time, like salons, welding and manufacturing, and bars, suffered great loss. The furniture industry had similar concerns when it comes to infrastructure as 48.2 per cent of the enterprises rated poor infrastructure and the furniture industry cluster as the major problem affecting the growth and survival of their businesses.

Access to relevant Knowledge
In this study, the apprentice approach has highest mean score of 4.4400, although it has a high standard deviation. People tend to start similar businesses that are related to what they were doing during previous employment. Once people leave their former employment and decide to become entrepreneurs, they tend to open a similar business as they utilize the experience they have gained. Entrepreneurship knowledge and managerial skills were regarded as essential for the success of the business, with a mean score of 4.2667 and a small standard deviation, which shows that there was little difference in the perception of knowledge. Ethnicity or family background was not seen to determine the success or failure of a business due to the low mean score of 2.900 with a large standard deviation. Table 7 gives a summary of the mean scores for the attributes used to assess the knowledge variable.

Table 7 Mean score for Knowledge

Variable	Mean	Standard deviation
Entrepreneurship knowledge is essential for the success of the enterprise.	4.2667	.56363
Lack of managerial and leadership skills greatly affect the performance of the enterprises	4.2267	.74317
Apprentice approach made me start similar enterprises or related ones	4.4400	2.50497
Knowing how to create social networking is very important for enhancing human capital	4.1000	.92504
Whether ethnicity determines the success/failure of a business	2.9000	1.40350

Some 95 per cent of the respondents agreed that entrepreneurship skills are very important for the growth of businesses, while 87 per cent agreed that managerial skills and leadership are also important for the success of businesses. 43 per cent of the respondents disagreed with the statement that ethnicity or family background determines the success of a business.

Correlation between the influences on start-up and growth and business status
An analysis to test the correlation between the influences on SMEs' start-up and growth and the overall status of the business was conducted. The results show that the variables assumed to influence start-up and growth are highly correlated with the overall status of the business. Their correlation coefficients are significant due to the significance values ($x < 0.05$). Table 8 shows the correlation coefficients.

Table 8 Correlation coefficients between the influences and business status

Variable	Pearson coefficient of correlation	Significance (2-tailed)
Business environment	0.89	0.000
Capital	0.88	0.000
Business infrastructure	0.47	0.050
Knowledge	0.66	0.002

The identified influences can also be used to predict the start-up and growth of a business. The multiple regression analysis results show that business environment, capital, infrastructure and knowledge have a significant effect on the start-up and growth of SMEs given the significance values of all the variables (i.e. $X < 0.05$). These variables are good predictors of the status of MSEs in terms of start-up and growth. Table 9 shows the coefficients from regression analysis

Table 9 Regression Analysis coefficients

Model	Un-standardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	2.871	.534		5.379	.000
Business environment	.143	.102	.127	1.401	.000
Capital	.475	.080	.282	3.436	.001
Infrastructure	.143	.102	.127	1.401	.000
Knowledge	.275	.080	.282	3.436	.001

a is a Dependent Variable: Overall status of the business.

Multiple regression analysis was used to create an equation to be used for predicting the start-up and growth of SMEs depending on the following factors;

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4$

Where;

a, b_1, b_2, b_3, b_4 *are constants*
X_1 *is the business environment*
X_2 *is the capital/finance*
X_3 *is the infrastructure*
X_4 *is the knowledge*
Y *is the start-up and growth of SMEs*

The equation for predicting the start-up and growth of SMEs is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4$$

(Y)Predicted start-up & growth of SMEs = (0.143) business environment + (0.475) capital + (0.143) infrastructure + (0.275) knowledge + (2.871).

The R value from the regression analysis is 0.912. The determination coefficient of correlation R from the analysis is therefore 0.912. The R Square value is 0.832, which means that the start-up and growth of SMEs is determined by a probability of 83.2 per cent of the variation in the factors influencing the start-up and growth of SMEs.

Confirmation of the Conceptual Framework
From the correlation analysis, it was found that the Pearson coefficient of the correlation between capital and the overall status of the business (start-up and growth of SMEs) is 0.88, with a significance value of 0.000, which means that the hypothesis has been accepted, and so capital has a positive impact on the start-up and growth of SMEs. From the correlation analysis, it was found that the Pearson coefficient of the correlation between the entrepreneur's knowledge and the overall status of the business is 0.66, with a significance value of 0.002, which means that the hypothesis has been accepted, and so the entrepreneur's knowledge has a positive impact on the

start-up and growth of SMEs. The hypotheses were tested based on this assertion. Table 10 summarizes the results.

Table 10 Comparison of means between districts regarding the factors

District		Business Environment	Capital / Finance	Business infrastructure	Knowledge
Kinondoni	Mean	3.6354	3.7153	4.1528	4.1167
	N	48	48	48	48
	Std. Deviation	.53335	.47634	.40070	.96565
Temeke	Mean	3.3700	3.6400	4.0900	4.0040
	N	50	50	50	50
	Std. Deviation	.55969	.45095	.61924	.46684
Ilala	Mean	2.9904	3.5224	3.7083	3.8500
	N	52	52	52	52
	Std. Deviation	.48777	.47832	.79341	.48648
Total	Mean	3.3233	3.6233	3.9778	3.9867
	N	150	150	150	150
	Std. Deviation	.58735	.47236	.65700	.67741

The findings show that the hypotheses have been accepted ($X \leq 5\%$). From the correlation analysis, it was found that the Pearson coefficient of the correlation between the business environment and the overall status of the business (start-up and growth of SMEs) is 0.89, with a significance value of 0.000, which means that the hypothesis has been accepted, and so a conductive business environment positively influences the start-up and growth of SMEs From the correlation analysis, it was found that the Pearson coefficient of the correlation between infrastructure and the overall status of the business (start-up and growth of SMEs) is 0.47, with a significance value of 0.050, which means that the hypothesis has been accepted, and so infrastructure has a positive impact on the start-up and growth of SMEs.

Conclusion and Implications

The purpose of this study was to analyze the influences on the start-up and growth of small and medium enterprises (SMEs) in the emerging economies. Specifically, the study analyzes the influence of individual attributes and assets (i.e. innovation, vision, exposure to knowledge, commitment to growth and entrepreneurial tendencies), the business environment and institutional support (i.e. financial and non-financial services) on the SMEs' start-up and growth.

Some of the influences on enterprise start-up and growth are found along a continuum from inborn individual attributes to complex cultural, political and economic relationships in an often

changing business environment at national, regional and local level. This study analyzes the influence of individual attributes and assets (i.e. innovation, vision, exposure to knowledge, commitment to growth and entrepreneurial tendencies), the business environment and institutional support (i.e. financial and non-financial services) on the SMEs' start-up and growth. The study results suggest that the owner-managers need to be creative and innovative, with clear vision and knowledge of the venture to be pursued in order to achieve the start-up ambitions. Such qualities should be cultivated in a combination of commitment to grow and entrepreneurial tendencies (i.e. flexibility, leadership, hard work, problem-solving ability, persuasive powers, independence, calculated risk-taking, need for achievement and belief in controlling one's destiny). This is in-line with the Zimmerer and Scarborough (2005)'s conclusion that management mistakes, lack of experience, poor financial control, weak marketing efforts, failure to develop a strategic plan, uncontrolled growth, poor location, improper inventory control, incorrect pricing and inability to make the "entrepreneurial transition" have a negative impact on the firm's growth and vice versa.

If a business were to grow, a favorable business environment surrounding it needs to be in place as well as the quantity and quality of the institutional support available for it. When it comes to the role of regulatory and institutional frameworks in promoting the start-up and growth of SMEs, some vivid examples have been recorded. While some initiatives have been very successful others have failed to meet the intended objectives. Some of the initiatives include the establishment of SIDO which is supposed to develop the small industry sector in the country; TIRDO which supports the utilization of local raw materials; the CAMARTEC which is involved in promoting appropriate technology for rural development; the TEMDO which is responsible for machine design, the TBS which promote standards; the TANTRADE which is instrumental for the promotion of exports. The lack of transparency in their operations and unawareness among the SMEs about either their existence or their roles can be some of the challenges. While some initiatives have remained underfunded, others have remained inactive even when development partners have injected resources for capacity building (also see Kweka and Fox, 2011). Unfortunately, the loans are not effectively spent on business purposes because some funds are misallocated to other purposes which do not add value to the business. As a result, many SMEs do not survive for long and find themselves in trouble with lending institutions. Furthermore, competitive activities, inadequate financial, human and social resources, and insufficient technical and management skills continue to play a crucial role in business start-up and growth.

The respondents were asked how they perceive the business environment as one of the constraints that hamper the start-up and growth of SMEs. The top three were ranked by respondents as: multiple levies and taxes; corruption during registration stage and charging taxes; and bureaucracy in the local government authorities or offices. These challenges hampering the start-up and growth of SMEs have received backing from Jagero and Kushoka (2011) who analyzed the challenges facing women micro entrepreneurs emanating from government activities. Also MSE owners believed that corruption is a major problem, citing the example of the Machinga complex being allocated to politicians instead of the intended marginalized groups.

Although the 2003 SME Policy advocates the provision of an enabling environment, there are still problems due to bureaucracy and poor administration. Regardless of how good a producer's product or service is, if she or he cannot get to the market then all their efforts are wasted. Access to markets is therefore crucial for any business and more so for SMEs.

Working capital was one of the major concerns of SMEs' start-up and growth. In Tanzania, most micro and small businesses are owner-financed. The start-up and operating capital come mainly from the pocket of the owner(s) of a particular enterprise. Non-governmental financial organizations seem to be the solution for those who failed to secure capital from other sources which implies that the majority feel the same about the helpfulness of these organizations regardless of the high interest rate and short repayment period.

Infrastructure is critical for enhancing the competitiveness of SMEs and creating an enabling business environment for business growth and development. Inadequate business premises and business clusters provided by the government featured as one of serious problems facing the start-up and growth of SMEs. The efforts to provide business areas for SMEs to operate in have been overwhelmed by the rapid increase in the number of SMEs in large cities like Dar es Salaam. Furthermore, effective technology utilization, appropriate applications, and individually tailored solutions can create cross-sector opportunities, and so technology can play a substantial role in SMEs' development. The potential impact of technology on an enterprise's efficiency and productivity explains why its adoption and utilization presumably has strong linkages with its competitiveness. However, most SMEs fail to adopt appropriate technology in their operations, the major explanation being not knowing how to apply it.

Knowledge is essential for business as it can apply information on new business ideas and markets for goods and services. Unfortunately, there is still a lack of effective business incubators and resource centers for transferring technology. Education as a means of consolidating knowledge and experience is very important for the start-up and growth of SMEs, ranging from entrepreneurship knowledge to managerial soft skills. The lack of creativity and innovative among owner-managers, with clear vision and knowledge of the venture to be pursued in order to achieve the start-up ambitions was evident. As a result, most firms remain small with no clear path to growth. The innovative qualities should be cultivated in a combination of commitment to grow and entrepreneurial tendencies (i.e. flexibility, leadership, hard work, problem-solving ability, persuasive powers, independence, calculated risk-taking, need for achievement and belief in controlling one's destiny).

Also the country's legal and regulatory framework leads to excessively complex registration and licensing requirements, which negatively affect SMEs' operations. The unreliable and overpriced supply of necessary utilities such as electricity, water and gas in Tanzania, as in many other developing countries in Sub-Sahara Africa, does not help SMEs. Inadequate technology and physical infrastructure in growing cities has resulted in a shortage of premises and even the few premises that are available are well beyond the financial means of most SMEs as the rents are so

high. In view of that, SMEs turn themselves into 'informal' mobile enterprises, known as 'machinga' (*street venders or roadside sellers*), selling their wares alongside traffic jams.

The institutions entrusted with facilitating economic growth should put in place an enabling business environment that provides access to markets and reduces policy-induced bias against SMEs. Specifically, the government should promote product innovation and delivery mechanisms and build institutional capacity, including facilitating the acquisition and dissemination of knowledge and soft skills that are crucial for the operation, management, and nurturing of new business ideas as well as the survival of businesses. The fact is that if an enabling environment were created to enable SMEs to prosper, this would eventually lead to economic growth. This would be possible through reforming the tax rates, which are currently too high, and removing the duplication of taxes, as enterprises are taxed by various authorities under the same government. The government should ensure that the administration of legal and business registration is transparent, as that will enable many SMEs to formalize their businesses, with the result that the government's revenue will go up through the increased number of taxpayers.

Furthermore, small micro-credit organizations which provide financial services need to be followed up as they charge extremely high interest rates, sometimes unnecessarily to cater for their inefficiency. Any available information aimed at supporting SMEs should be more widely disseminated, which is not happening at the moment. It was established that the majority of SME owners have no idea that institutional support for their businesses exists. Local authorities should set up business infrastructure, which is well planned, with all the amenities and facilities, including reliable power or electricity, easy access and security. Political interests should not interfere with projects and programmes intended to help micro and small enterprises. The government should also intervene and regulate fluctuating rents for business premises and if possible subsidize some of the costs incurred by businesses starting up.

Research institutions should research and advise SMEs on how best to apply for loans for intended purposes, including the change in the mindset of MSE owners that perceive loans as a way of lining their pockets and improving their status. If lending institutions are willing to support SMEs, they should revisit their interest rates and make SMEs aware of the packages and products they offer. They should also study the nature of SMEs' businesses, give advice and training, and treat each SME individually. Financial institutions should build the capacity of SMEs and everyone involved with them should put the existing SME policy into practice.

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