

Factors Affecting the Performance of Rural Small and Medium Enterprises (SMEs) A Case Study of Tanzania

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Abstract: The study was conducted in Tanzania to the four regions from January to March 2018 to investigate the factors hindering the performance of rural SMEs in Tanzania. The study employed the case study design whereby descriptive and exploratory data were captured by the study. The sample size of the study was 338 respondents who were obtained through random and purposive sampling techniques. Qualitative and quantitative data were collected through questionnaires, in-depth interview, focus group discussions, and documentary review. The study revealed that rural SMEs are influenced by the number of factors such as; access to finance, access to the market, business skills, business location, legal framework, political factors, infrastructures, tax regimes, social factors and entrepreneurs' characteristics. However, in order to address the factors hindering the growth of rural SMEs in Tanzania, deliberate efforts should be done by SMEs and the government. The SMEs should recruit competent personnel, put more emphasis on the importance of business skills rather than believing in traditional beliefs. Moreover, SMEs should conduct baseline surveys before locating the business. The Government should establish a special campaign to motivate financial institutions to open-up a special window for rural SMEs, introduce a campaign that will offer appropriate entrepreneurship training, build reliable infrastructures in rural areas, accommodate entrepreneur's skills in teaching curriculum starting from primary to university education. TRA in collaboration with the Local Government Authorities are advised to harmonize the tax system. Further researches can be conducted on factors hindering women to join into the SMEs in rural areas.

Keywords: Factors, SMEs, MSMEs, Performance, Challenges, entrepreneurs, economic growth, poverty alienation and Tanzania.

1.0 INTRODUCTION

Small Medium Enterprises (SME) it refers to micro, small and medium enterprises other people termed as MSMEs, it is a non-farming activities mainly manufacturing, mining, commerce and services. In Tanzanian context SMEs includes micro enterprises which occupy a large proportion of enterprises. Worldwide, there is no consensus about the definition of SMEs; different countries have their own definitions. The definition of SMEs is depending on the value of asset employed in the business, the number of people employed in a particular business and the volume of annual turnover. According to Sitharam and Hoque (2016), the definition of SMEs is depending on the economic status of the country. In Tanzanian context micro enterprises are those engaging up to 4 people, in most cases involve family members or employing capital amounting up to TZS 5 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from TZS 5 million to TZS 200 million. Medium enterprises employ between 50 and 99 people or use capital investment from TZS 200 million to TZS 800 million, URT (2002).

In the 1990s, small businesses became one of the mainstays of the economy in the UK and USA. Arguably, one of the reasons for this is the increasing number of employees who were laid off from the larger corporations in the 1980s and early 1990s and who subsequently joined the small business workforce (Alnaloui and Karami 2003). Secondly, there has been an increasing trend in large firms to outsource some of their activities smaller organizations, a process by which has been facilitated to some extent by the growth of the internet. Thirdly, the relative stability of the economies of the UK and

USA since the early 1990s has encouraged more entrepreneurial activities. Fourthly, the emergence of new economies around the world has accelerated global development which has encouraged more entrepreneurial activity in the UK (Alnaloui and Karami 2003) small and medium scale enterprises are increasingly becoming economic factors in the struggle for development throughout most of Africa.

Tanzania started to recognize the importance of small businesses since 1966 when it established a National Small Industries Corporation (NSIC) under the National Development Corporation (NDC) to promote the small industries corporation sector. Thereafter, the Small Industries Development Organization (SIDO) was established in 1973 by the Act of Parliament No. 28/1973. SIDO is a parastatal organization, its main objective is to plan, coordinate, promote and offer every form of services to small industries. SIDO is entrusted in spearheading the development of Small and Medium Enterprises (SMEs) in the country SIDO-Corporate Strategic Plan (2014/2015 - 2016/2017). In addition to that, the Government of Tanzania in recognizing the contribution of SMEs had formulated the SMEs development policy (2002). Some of the ideal issues for SMEs establishment in Tanzania are caused by the persistent increase of unemployment, staff retirement and retrenchment, poverty issues, globalization that brings in opportunities as well threats, financial incentives such as SACCOS as well Government step out in doing business due to either management of financial constraints, for instance, the death of the Region Trading Company (RTC). The persistence of an increase of the recognition and establishment of small and medium enterprises (SMEs) is because of the fact that the establishment of SMEs all over

the world and in particular Tanzania can be easily in terms of capital, technology, management and even utilities compared to larger enterprises. SMEs can be easily be established in rural and can be easily owned by minority groups, SMEs policy (2002). SMEs are often considered to be a key source of productivity, growth, and job creation and, hence, their performance and the environment, in which they perform, are seen as an important factor for economic development. Though the empirical evidence to support this view is not always clear, in most developing countries SMEs, in fact, account for the majority of firms and a large share of employment Matambalya, (2001).

The contribution of SMEs in the development of country's economy is inevitable, it is contributing to the Gross Domestic Product (GDP), by the creation of the employment opportunity, generation of income, reduction in poverty levels and promotion of entrepreneurship activity apart from that, it is adding value to local resources SMEs policy (2002). The role of SMEs is unquestioned as many of researches and reports from reputable organizations such as the World Bank, IMF and other volunteers have revealed the importance of SMEs. GEM (2017) revealed that the contribution of SMEs differs from one country to another. SMEs play vital importance contribution to the GDP of the various countries for example, in Lebanon the SMEs is contributing 99% of the GDP, Egypt 80%, Estonia 75%, Bulgaria 66%, China 58% and Somalia 19%. In Tanzania, the SMEs is estimated to contribute 20% - 30% of the GDP, and it is estimated that more than 5 million people are involved in the SMEs of which 98% is microenterprises while 2% accounts for small and medium enterprises. Tanzania is estimated to has 700, 000 new entrants in every year, of which the sector is estimated to employ more than 90%, while the remaining less than 10% is being employed by the public and formal sectors UNIDO (2007). According to the World Bank, the population of Tanzania is estimated to be 57 million in 2017 of which 38 million equivalent to the total population 67% lives in rural areas. The business environment in rural areas is not conducive compared to the urban areas; as in rural areas the model of infrastructure is poor compared to urban. Several studies revealed that the main distributors of goods and services in rural areas are from the rural SMEs as the government has left in conducting business activities after the collapse of RTC and many of large firms they do not like to invest in rural areas because of the many challenges in rural areas, hence the existence of rural SMEs in rural areas is inevitable.

1.1 Statement of the problem

The government of United Republic of Tanzania (URT) has made a lot of effort in ensuring that the SMEs are performing well, such as; the formulation of Tanzania Development Vision 2025, the Sustainable Industrial Development Policy - SIDP (1996 - 2020) the National Micro Finance Policy, the Minerals Policy of Tanzania, Gender and Women Development Policy, the Cooperative Development Policy, the National Energy Policy and the

National Environmental Policy and Rural Development Strategy. The main purpose of the policies is to create conducive environment that robust private sector to participate in the agenda of economic growth. Furthermore, the government has undertaken various measures to ensure that the SMEs are operating their activities in a real manner such as the; maintaining macro-economic stability; review of the tax regime and simplification of licensing procedures as many of studies recommended that the procedures of establishing business in Sub-Saharan African countries are too much complicated as there is so many bureaucratic. These have been done to reduce if not eliminating the highlighted challenged facing SMEs such as; unfavourable legal and regulatory framework, undeveloped infrastructure, poor business development services, limited access of SMEs to finance, ineffective and poorly coordinated institutional support framework.

Despite these efforts made by the government of the United Republic of Tanzania yet, the sector is not performing well as it was expected, many of the literature showed that 60 % of SMEs collapse few months after its commencement. The sector estimated to contribute only 30% to the Tanzanian GDP compared to Egypt and Lebanon whereby the sector is contributing 80% and 99% of the GDP respectively. Researches on the factors affecting SMEs over the world by different researchers with different dimensions and methodologies had been carried out and different of a number of constraints that are hampering the development of the sector have been revealed and a lot of recommendations had been issued, but yet the situation is still worse. However, this may not be directly generalized to the rural SMEs in Tanzania as the structure of industry, culture and norms in rural Tanzania may differ from urban areas. Thus, similar studies should be extended to rural areas to help generalize the findings. It is, therefore, this study is clearly focuses on the factors hindering SMEs in rural areas. Rural areas have been selected by the researchers because factors affecting the SMEs worldwide are not similar but it is depending on the location of the particular SMEs. Generally, rural SMEs are confronted with unique challenges. Therefore, the need for research on the factor affecting rural SMEs in Tanzania is inevitable. The objective of the study is to find out factors hindering the performance of SMEs in rural setting a case study of four regions (Coastal, Dodoma, Kigoma and Tanga) in Tanzania.

1.2 Significance of the study

The findings of the research will provide information to entrepreneurs about the factors hindering rural SMEs, thus the findings of this study will provide clear guidance on the way firms can confront against the factors hindering their performance. In the body of knowledge, this study is significant due to the fact that it adds the literature over the challenges faced by rural SMEs which is mostly lacking in Tanzania.

2.0 Literature Review

2.1 Small Medium Enterprises (SMEs)

The term SMEs 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. In the context of Tanzania and for this research purpose SMEs range from micro to medium and the definition is based on the only two factors; numbers of people employed and capital employed as shown in the table below:

Figure 2:1: ranges of SMEs from micro to large enterprises

S/n	Category	Number of employees	Capital employed
1	Microenterprise	1-4	Up to 5 mil
2	Small enterprise	5-49	Above 5 mil to 200 mil
3	Medium enterprise	50-99	Above 200 mil to 800 mil
4	Large enterprise	100+	Above 800 mil.

In the 1950s and 1960s, small firms were written off as out-of-date forms of the economic activity. By the late 1970s and 1980s up to date, they were hailed as a new saviour of ailing over the world economies and now the SMEs were recognized as the key fuller employment Stokes (2002)

2.2 SMEs performance

SMEs performance is usually measured as financial and nonfinancial performance measures. The financial performance comprises of financial efficiency measures such as return on investment and returns on equity, and profit measures such as return on sales and net profit margin Li, Huang, and Tsai, (2009). Non-financial measures include customer satisfaction. Some of the nonfinancial measures are end performance measures such as market share and share growth, while some of them may serve as leading indicators of the end-result financial performance.

2.3. Factors affect SMEs

Even though the sector is contributing to the economic growth but the growth rate is not satisfactory as the sector is affected by a number of factors that are hindering the performance of the SMEs. The factors which affect SME may be categorized into two parties such as micro and macro environment factors Stokes (2002). Micro factors are also termed as internal factors, internal factors are factors that are within the control of the enterprise's management while macro factor is called external factors, and are those factors that are out of the control of the enterprises.

2.3.1 Infrastructure

Access to public physical infrastructure services includes water, electricity, serviceable roads, telecommunication, telephones, electronic media and postal services which are

all crucial for business start-up, development and growth Rogerson (1999) Clover & Darroch, (2005) and Ahwireng-Obeng & Piaray (1999). Limited access to public infrastructure services is a major constraint to SME survival and growth as it limits operations and restricts access to markets and raw materials Saqib (2014), Akuru and Okoro (2014) Luiz (2002) Tustin (2002), Rogerson (1999). The lack of adequate facilities means that firms would have to bear the cost of obtaining such services. Infrastructure can influence the performance of SMEs positively or negatively, good infrastructure, enhance positive impacts to the SMEs performance while poor infrastructure attributes a negative impact on the performance of SMEs.

2.3.2 Legal framework

The appropriate legal framework facilitates the nourishment of SMEs while a poor legal framework impairs the performance of SMEs. Despite various interventions aimed at improving the business environment in Tanzania, the legal and regulatory framework is bureaucratic, costly and centralized. These characteristics of the legal and regulatory environment affect all sizes of businesses adversely. Apart from that, the institutions supporting the SME sector are weak, fragmented, uncoordinated and concentrated in urban areas SMEs policy (2002). Although the government has put in place a number of Industrial Support Organizations, including the Small Industries Development Organization (SIDO), these institutions are ill-equipped in terms of equipment, personnel and operational funds, and therefore, unable to discharge their mandated responsibilities.

2.3.3 Tax regime

One of the key factors inhibiting the SME development is taxation Robertson et al, (2000). If the tax rates are high they reduce the profit incentive drastically Ahwireng-Obeng & Piaray (1999). The complexity of the tax system further raises the cost of doing business, as many SMEs do not have the capacity to administer tax return, many are ignorant of tax matters, because of that matter, and they need to consult experts for a fee which is considered to be high in order to meet these legal requirements Luiz (2002). Various tax regimes in less developed countries are unfavourable for SMEs development.

2.3.4 Business Skills

Business skills are the skills needed to manage business operations such as; strategic management, financial knowledge, inventory control, Management competence, management experience, Technical skill, strategies, innovation, creativity, the ability to learn, problem-solving, ability to make proper decisions and other important issues. Many studies have proven that business skill is among of factor that can make the nourishment of SMEs Analoui and Karami (2003). Studies revealed the lack of adequate business skills of many of SMEs is attributed by the low level of education of the owners and employees of SMEs. In addition that researchers on the factors hindering the performance of SMEs reported that most of SME's they do not keep books of accounts and if they keep it, it lacks some

important features hence many SMEs have failed to manage working capital, the failure of the working capital management has caused to the bankruptcy of many firms within the five years after its commencement Rafuse (1996).

2.3.5 Access to Finance

Small and medium-sized enterprises (SMEs) represent over 99% of businesses so it is very crucial to support their growth and innovation. However, one of the most important issues facing SMEs is their difficulty accessing finance, European Commission (2014-2020). Based on the World Bank Enterprise Survey database covering 119 developing countries, Wang (2016) found that 'access to finance' is the most significant obstacle that hinders the growth of SMEs. Xie et al. (2013) argued that financial capital is one of the resources required by a firm to start, operate or grow. Access to capital refers to the ability to access money to run a business. Majority SMEs do not have access to finance and credit, especially from financial institutions, because of the lending conditions given to them such as collateral for the loan items of immovable assets. SMEs do not have such kind of collateral due to their small capital, Roseline Muthini (2015). In order to address the problem of access to finance many governments over the world have made reforms in the financial sector by the liberalization of the financial sector. This has led to the establishment of a number of banks, including the Micro Finance Institutions. Microfinance Institutions (MFIs) are the financial services established for the specific target to enable the community, particularly SMEs and poor people to access loans having a lack of access to conventional banking and related services Danga et al, (2019). MFIs provide loans to the people without demanding the security of asset what matters is the implementable plan that shows how the loan repayments will be affected Cherotich, (2015)

2.3.6. Market Effort

Creative entrepreneurs find ways to market their business effectively to their target customers without breaking the bank. One technique many SMEs, owners find particularly valuable is listening to their customers. Asking for their suggestion and paying attention to what they say can give a small company an edge over much larger competitors. Choosing a market segment with potential market growth is a factor influencing the success of SMEs Shane & Venkatarman, (2000). A poor market selection, for instance, one with many market imperfections, too much market heterogeneity and/or a limited market size with poor growth prospects, can negatively affect the entrepreneurship process Viviers et al, (2001), Strydom & Tustin (2003), Ligthelm & Cant (2002). Therefore, having access to pools of knowledge regarding opportunities, in particular markets would have a positive impact on entrepreneurship Nasser et al, (2003). Market demand for the SME's products is a major factor influencing the success of an SME Kangasharju (2000). Low or insufficient or unsteady demand for products/services remains the primary challenge limiting SME growth Luiz (2002) Nieman (2006) Viviers et al (2001) Ligthelm & Cant

(2002). Generally, inadequate access to profitable markets inhibits entrepreneurship Clover & Darroch (2005).

2.3.7 Social Factors/ Culture

The social factors are considered as the shared values, beliefs and norms of society and are an important contextual factor affecting entrepreneurs in a given community, ethnic group, region or country and generating differences across national and regional boundaries Pretorius & van Vuuren, (2003). Levels of entrepreneurial activity in a country are affected by cultural norms GEM (2002), Ligthelm & Cant (2002), Lee et al (2006). National cultures that emphasize achievement and social recognition of all forms of entrepreneurial success are more conducive to entrepreneurship McClelland (1961), Thomas & Mueller (2000) Jennings (1994) Nasser et al, (2003) Rwigema & Venter (2004) Rujirawanich, P., Addison R., Smallman, C., (2011). Communities with low entrepreneurial culture may discourage entrepreneurs, who fear social pressure and being ostracized Ligthelm & Cant (2002) Dreisler et al (2003).

2.3.8 Political Factors

In developing nations, the political climate and legal requirements of doing business in a country can be a possible enhancer or a major stumbling block to the development of entrepreneurship Political factors define the legal and regulatory parameters within which firms must operate. Political factors include; Macroeconomic policies, legislation, frameworks, regulations and laws that can facilitate or hinder entrepreneurship development, Clover & Darroch, (2005), Dockel & Ligthelm, (2005). Some of the government regulatory laws are considered a threat to the SME sector Viviers et al (2001), Clover & Darroch (2005). Also, the reliability of the judiciary is very important for entrepreneurial development, as it can provide legal protection against the infringement of intellectual property rights, enforce contractual obligations between parties, implement competition laws, as well as administer company law Ahwireng-Obeng & Piaray (1999).

2.3.9 Location

For any business, choosing the right location is partly a science. Too often, entrepreneurs select their locations without adequate research and investigation. Some beginning owners choose a particular location just because they noticed a vacant building. But the location question is much too critical to leave to chance. Geographic location has its implications for access to markets and other resources like finance, skilled labour, subcontractors; infrastructure, distribution and transportation and other facilities Tustin (2001) Dahlqvist et al (2000) Berry et al (2002). SME success also depends on neighbourhood appearance and continued/maintained future business operations in that location Tustin (2001) Strydom & Tustin (2003) and GEM (2017).

2.3.10 Entrepreneurs' Characteristics

There are several characteristics that an entrepreneur should hold, many of the SMEs have failed because of the lack of characteristics of successful entrepreneurs to the SMEs,

owners such as; self-motivated, Flexibility and innovation, Risk-takers, Proactive leader, Previous experience, Technical knowledge, Hard workers, Self-starters, Personal financial resources Analoui and Karami (2003).

Conceptual framework of the factors hindering the performance of SMEs



3. Research Methodology

3.1 Study Area

The study was conducted in Tanzania to the four regions includes Coastal, Dodoma, Kigoma and Tanga to the twenty-six districts namely; Rufiji, Mkuranga, Kisarawe, Bagamoyo, Kibaha, Mafia, Kongwa, Mpwapwa, Chamwino, Bahi, Kondo, Chemba, Uvinza, Kigoma, Buhigwe, Kasulu, Kibondo, Kakonko, Lushoto, Bumbuli, Korogwe, Handeni, Muheza, Mkinga, Kilindi, and Pangani in 2018 from January to March 2018. The four regions were selected because it is among of regions bear rural characteristics and it has also the big number of rural SMEs. In additional to that the researchers are well familiar with the four regions, as they have been working with the four regions during implementation of different projects. Regardless of the fundamental roles it plays, yet the SMEs growth and its sustainability are hampered by many factors which made the researchers to choose it as the study area.

3.2 Research Design

The research adopted a case study design whereby descriptive and exploratory data were captured by the study. Hence, both qualitative and quantitative data were collected. The research was designed to allow triangulation by using multi-methods of data collection.

3.3 Sampling techniques and Sample size

The random and purposive sampling techniques were employed by the study. According to Dooley (2001), random sampling is one of the best methods for assuring that all elements in the sample have an equal chance of being chosen. The purposive sampling procedure was adopted to select seventy-eight (78) staff from District Council headquarters who participated in in-depth interviews, including the one (1) District Executive Directors (DED's), one (1) Trade officer, one (1) District Planning Officer.

Twenty-six (26) Districts were selected randomly of which each District was represented by ten (10) SMEs whereby the simple random sampling procedure was also applied and each SMEs was presented by one respondent, i.e. (26 Districts*10 SMEs = 260 respondents) . The study involved the sample size of 338 respondents whereby 260 were SMEs respondents and 78 were staff from District Council headquarters. The SMEs targeted were traders of fruits and vegetables, small shops, internet cafes, restaurants and boutique, peddlers, hawkers ranging from micro to medium enterprises.

3.4. Data Types and Sources

The research collected both qualitative and quantitative information. Both primary and secondary data were collected. In primary data, the researchers intended to know the current situation and perceptions of the people who were interviewed by using in-depth interviews, questionnaires and focus group discussion to make follow up the interview. For secondary data, the researchers intended to get both the findings of other researchers and District SMEs database. The primary data helped to get answers to specific questions that are designed to capture specific issues from respondents, especially those issues that could not be obtained from the secondary information. While the secondary data helped to reduce costs and time of doing the research by utilizing the information already collected.

3.4.1 Questionnaire

Questionnaires are widely used in collecting structured information for different purposes. A total of 260 questionnaires was administered to people working in the selected SMEs. Questionnaires were very useful in drawing accurate information from the respondents in a logical sequence. Questionnaires were developed to capture information about the ages, type of business and challenges faced the SMEs at rural areas. The questionnaire is one of the most widely used survey data collection methods. In this study, both closed and open questions were used so as to get a standardized response from respondents.

3.4.2 In-depth interviews

The in-depth interviews were conducted with LGA officials including District Executive Director, Trade Officer, and District Planning Officer. This helped the researcher to get a picture of important contextual issues.

3.4.2 Focus Group Discussion

Finally, there were some follow-up interviews through Focus Group Discussion (FGD) to all SMEs to get clarification on some findings. For these, a semi-structured interview approach was applied.

3.4.3 Documentary review

The secondary data were collected District Council SMEs database.

3.5. Data Analysis Plan

Data collected were categorized and coded according to a predetermined coding scheme. An effort was made to code the data at the point of collection to simplify work during the analysis stage. Descriptive data were coded after data

collection since it is difficult to do so before due to the diversity of possible responses (Saunders et al 2003). The data were then entered into the Microsoft excel statistical data analysis software. Processed data and results were summarized and presented using appropriate statistical tables.

3.6 Reliability and Validity of Measurements

Reliability means consistency and stability of an observed scored from a measurement scale. Reliability occurs when the obtained score is free from random error (Saunders, et. al., 2009). It is ensured by having a pilot- testing and an interviewer-administered questionnaire to guide the interview rather than the “drop and collect later” approach (Kothari, 2009). The study had observed, the question as also has used an interview administered method.

Validity is concerned with whether the findings are really about what they appear to be about (Saunders, et. al., 2009). Meaning that, the aspect interviewed is the one supposed to be interviewed and respondent interviewed is the one proposed to be interviewed of which the questions and respondents is the one who included in the study respectively. The people who are interviewed are the real practitioners of SMEs as the study had interviewed the staff of the respective SMEs and other key government staffs. The researchers employed a descriptive case study design in order to gain a rich understanding of the context of the research, developing skills in evaluating data and synthesizing ideas. It also helped the researchers to produce an accurate representation of the target population.

4.0 Results and Discussion

4.1 Number of Districts and SMEs involved in the study

The study involved twenty-six (26) Districts of four regions, of which a total number of three hundred and fifty-one (338) respondents were interviewed. The study revealed that eighty –one (78) respondents (23.1%) were drawn from District headquarters whereby it involved the District Executive Director, District Planning officer and Trade officer while two hundred and sixty (260) respondents equivalents to 76.9% were drawn from the two hundred and seventy SMEs selected as indicated in Table 4.1a and 4.1b below:

Table 4.1a: Number of districts and SMEs involved in the study

Name of Districts	Frequency of SMEs	Percentage (%)
Rufiji	10	2.95
Mkuranga	10	2.95
kisarawe	10	2.95
Kibaha	10	2.95
Bagamoyo	10	2.95
Mafia	10	2.95
Chamwino	10	2.95
Kongwa	10	2.95

Mpwapwa	10	2.95
Bahi	10	2.95
Chemba	10	2.95
Kondoa	10	2.95
Unviza	10	2.95
Kigoma	10	2.95
Buhigwe	10	2.95
Kasulu	10	2.95
Kibondo	10	2.95
Kakonko	10	2.95
Lushoto	10	2.95
Bumbuli	10	2.95
Korowge	10	2.95
Kilindi	10	2.95
Handeni	10	2.95
Muheza	10	2.95
Mkinga	10	2.95
Pangani	10	2.95
Total	260	76.9

Table 4.1b: Number of government officials interviewed

Name of cadres	Frequency of SMEs	Percentage (%)
District Executive Director	26	7.69
District Planning Officer	26	7.69
Trade Officer	26	7.69
Total	78	23.1

The study shows that each district was represented by ten (10) SMEs of which each SME was represented by one respondent. Government officials were involved in the study due to the fact that most of them are the custodian of essential documents that were used in this study and they are responsible for registration of SMEs in their area of jurisdictions.

4.2 Profile of the Respondents

The study involved 338 respondents out of that 280 (82.8%) were males while 51 (17.2%) were female as illustrated in Table 4.2 below:

Table 4.2: Respondents by Gender

Category (Gender)	Frequency	Percentage (%)
Males	280	82.8
Females	58	17.2
Total	338	100

The study revealed that 58 respondents equivalent to 17.2% were females of which 34 females were government officials, while twenty-four (24) respondents equivalent to 9.2% were female involving in rural SMEs activities. The study found that the involvement of women in rural SMEs is

very low compared to the males. During the discussion, the researchers observed that even the majority of the females involved in the SMEs activities, many of them were just a mere SMEs staff not the owners of the SMEs. This confirms that more than 90% of the SMEs are owned by males while females just owned less than 10%. The low motivation for the females to own SMEs is attributed by the historical traditional culture that undermines females to own business. Some of the respondents argued that many of the men in the rural areas do not allow their wives to engage in business activities because of love affairs, some men fear to allow their wives to do business because they believe that their wives can become prostitutes once engaged in business activities particularly restaurants.

4.3 Age of the Respondents

The distribution of responses based on age group is shown in Table 4.3. The figure revealed that the majority of the respondents (49.3%) and 45.4% were within the age of 21-40 and 41-60 years, respectively, 3.8% were within the category of above 60 years while 1.5% were within the category of below 20 years.

Table 4.3: Age group distribution of respondents

Category (Age)	Frequency	Percentage (%)
Below 20	4	1.5
21-40	128	49.3
41-60	118	45.4
Above 60	10	3.8
Total	260	100

This implies that the majority of SMEs are owned by the people aged between 21 to 60 years. The low number of people engaged in SMEs activities at the age of below twenty years is attributed by the factor that at that age majority of youth are still at school while the low number of the people engaged in SMEs activities at the age of above 60 years is attributed by the fact that many people at this age are elders who have no energy to do business and according to the Tanzania life expectancy most of the people at that age are already passed away as the life expectancy of the country is below sixty years.

4.4 Education background

The distribution of responses based on the educational background is shown in Table 4.4. The study showed that 221 of respondents equivalent to 85.5% completed standard seven, 24 respondents equivalent to 9.2% hold form four educations, 6 respondents equivalent to 2.3% hold form six certificate, 7 respondents equivalent to 2.7% completed diploma while 2 respondents equivalent to 0.8% hold bachelor degree.

Table 4.4: Education background

Education Background	Frequency	Percentage (%)
Standard Seven	221	85.0
O-level	24	9.2
A-level	6	2.3
Diploma	7	2.7
Bachelor Degree	2	0.8
Total	260	100

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O-level	24	9.2
A-level	6	2.3
Diploma	7	2.7
Bachelor Degree	2	0.8
Total	260	100

The study opened an eye that most of SMEs activities are conducted by the standard seven leavers particularly in rural areas. Respondents have claimed that many of the SMEs activities are done by the people who only completed standard seven because they do not have any other alternative of being employed, hence the last option is to engage in the SMEs activities as the capital required is affordable. Others have argued that most of form four leavers and above, do not engage in the SMEs with the perception that the SMEs activities are for non-educated people. Researchers have noticed that there is a bad notion to many people, as the thought that people are going to school for the purpose of being employed in a government office or large companies instead of self-employed. One respondent holds the diploma education, claimed that by the time when he started his business some of the family members wondered and claimed him why he is doing business while he has a good education. Others have claimed that maybe the guy has failed thus why now he is trying to open a business.

4.5 Factors influencing to start a business

The distribution of responses based on factors influence to start the business is shown in Table 4.5. The study revealed that 144 of respondents equivalent to 43.9% started business because of other factors, 103 respondents equivalent to 39.6% started business because of the availability of capital, 37 respondents equivalent to 14.2% because of friends and family member advice, 4 respondents equivalent to 1.5% started business because of the availability of good government regulations while 2 respondents equivalent to 0.8% started business because of the retirement reasons.

Table 4.5: Education background

Factors influence to start a business	Frequency	Percentage (%)
Availability of funds	103	39.6
Friends advices	37	14.2
Retirement	2	0.8
Favourable Government rules and regulations	4	1.5
Others (if any)	114	43.9
Total	260	100

The study revealed that the majority of the respondents influenced to start a business because of the other factors rather than availability of funds, friends' advice, retirement and favourable government regulations. During the group the discussion, many of the respondents confessed that the main factors influenced them to start a business is the inborn factors and the poverty level of their family. One respondent

has argued that he induced to start a business because his parents were very poor and one of his parents is disabled. Others, they said they cannot live without doing business because they love business activities. The very interest factor was revealed at Uvinza and Mkinga Districts whereby many of the respondents have argued that they induced to start business in order to provide basic services to the surrounded society as in their respective areas there is no SMEs that sale basic needs. In the case of funds availability many they said, they started a business because no one can start the business without capital.

4.6 Type of business

The distribution of responses based on the type of business is shown in Table 4.6. The study revealed that 134 of business are retail shops, equivalent to 51.5%, 89 are restaurants equivalent to 34.3%, 30 are wholesale equivalent to 11.5%, 2 Manufacturing (Powdering) equivalent to 0.8%, and 5 are other business such as; Woman Saloon, Barber Shop and Secretarial Bureau equivalent to 1.9%.

Table 4.6 Type of business

Types of business	Frequency	Percentage (%)
Retail shop	134	51.5
Restaurants/café	89	34.3
Wholesale shop	30	11.5
Others (Woman Saloon, Barber Shop and Secretarial Bureau)	5	1.9
Manufacturing (Powdering)	2	.8
Total	260	100

During the group discussion, it was revealed that many of the SMEs, owners induced to open retail shops and restaurants because the capital required to start the business is affordable compared to the other forms of business. In addition to that have argued that it is easy to manage such kind of business, as normally it sold basic goods consumed by the respective society like sugar, salt, cooking oil, maize flour, rice, matchbox, hardware goods and other necessary goods. Other factors induced them to open retail shops and restaurant/café is the availability of customers in the rural areas. Most of the people in rural areas buy their daily needs in smaller quantities compared to urban areas.

4.7 Years of business operation

The distribution of responses based on the lifetime of the business is shown in Table 4.7. The study revealed that 127 of SMEs are in operation below five years, equivalent to 48.8%, 110 are in operation between five years and ten years equivalent to 42.3%, 17 have a lifetime between eleven and fifteen years equivalent to 6.5%, 3 are in between sixteen and twenty years equivalent to 1.2%, while 3 are in operation above twenty years equivalent to 1.2%.

Table 4.7 Years of business operation

A lifetime of the business

	Frequency	Percentage (%)
Below 5 years	127	48.8
5-10 years	110	42.3
11-15 years	17	6.5
16-20 years	3	1.2
Above 20 years	3	1.2
Total	260	100

The survey response reflects that majority (48.8%) of the SMEs have been in business for below five years while 42.3% of the SMEs have been in operation between five years and ten years. Majority of Tanzanian rural SMEs remain in the embryonic and baby business phases, which is less than ten years since startup of business. The study had realized that many of the SMEs collapsed during the first five years after its commencement. Others argued that many people operate SMEs business just for the temporality purpose when are waiting for another important issue such as employment and agriculture activities. Based on this statement from respondents the researchers realized that many people undermined SMEs activities. This has experienced in many districts whereby various SMEs is operated on seasonal basis. SMEs activities in many of the districts were not considered as the permanent activities as people just opened the business when they are not busy with their regular economic activities such as farming, hunting and finishing.

4.8 Categories of SMEs

The distribution of respondents based on the category of SMEs revealed that 256 of SMEs are micro-enterprises, equivalent to 98.5%, while 4 of SMEs are small enterprises equivalent to 1.5% as indicated in Table 4.8.

Table 4.8 Categories of SMEs

Category	Frequency	Percentage (%)
Microenterprise	256	98.5
Small enterprise	4	1.5
Medium enterprise	0	0
Large enterprise	0	0
Total	260	100

The study concurs with the study conducted by UNIDO, 2007 indicated that more than 98.5% of SMEs belongs to the microenterprises while the remaining two percent (1.5%) belongs to the small SMEs categories. During the discussion, the researchers revealed that many of entrepreneurs have opted to carry out SMEs because it is easy to start and to operate microenterprises rather than other categories of SMEs as micro enterprises require the lowest amount of capital compared to other categories of SMEs. Other respondents have argued that the legal procedures to

establish microenterprise is simple compared to other forms of SMEs, thus why people are more interested in the microenterprises than other categories. In addition to that others have claimed that the number of employees required for microenterprises is affordable. In the case of the number of employees, researchers noticed that the majority of SMEs have no specific separate employee employed in the business as many of them are supervised by the owner of the SMEs themselves or their family members such as; wives, children, relatives and even house caretakers.

4.9. Factors affecting rural SMEs

4.9.1 Access to finance

Table 4.9.1 showed that 338 respondents equivalent to 100% agreed that access to finance is a major factor hindering the performance of rural SMEs.

Table 4.9.1 Access to finance

Does access to finance affect SMEs	Frequency	Percentage (%)
Yes	338	100
No	0	0
Total	338	100

The study revealed that the main factors hindering the rural SMEs is the limited access to the finance as respondents have argued that rural SMEs has limited access to finance due to the following factors: the sector is perceived as a high risk, inability of the SME operators to fulfill the collateral requirements as most of banking institutions before lending money to someone they need collateral such as immovable assets, most banks do not operate SMEs financing window, many of the banks operate in limited geographical areas majority of commercial banks are at urban areas leaving rural areas with no banking services, inexperience of bank staff in the issues related to microfinance; lack of a guarantee scheme to back up banks financing SMEs; high cost of screening and administering small loans spread over big areas and inability of borrowers to prepare and present applications that meet bank's requirements such as financial statement, and the low number of microfinance institutions in rural areas. Researchers noticed that many of the districts at rural areas have no financial institutions such as SACCOS, and if they are available they do not perform as it was expected. Apart from that, also respondents highlighted the high-interest rates charged by the financial institutions is also hindering the rural SMEs to access the financial credit. One respondent claimed that most of the financial institutions are not for the purpose of supporting SMEs but they are there for exploiting them thus why they charge high interest rates.

4.9.2 Business location

Table 4.9.2 showed that 243 respondents equivalent to 93.5% agreed that business location is a major factor hindering the performance of rural SMEs while 17 respondents equivalent to 6.5% disagreed that the business location is hindering the performance of SMEs

Table 4.9.2 Business location

Does business location affect SMEs	Frequency	Percentage (%)
Yes	243	93.5
No	17	6.5
Total	260	100

For those who said yes have argued that unseen unsold meaning that business location is the determinant factor that affects the business performance. If the business is located in an area which is unreachable by customers obviously its sales will be low compared to the business located in the accessible area. Generally, many have argued that for any business, choosing the right location is partly a science and is advised that, entrepreneurs should not locate business without adequate research and investigation about the business location. One respondent said that "Do not locate a business just because you noticed a vacant building". One interesting argument was noticed at Lushoto District whereby one SMEs' owner had located its shop at his dwelling place where it is very far from other people households, the guy opened the business at his house just because in his home there is vacant room. It had taken him just two months to close the business because of the lack of the customers attributed by the poor location of the business. For those who disagree have said that business location does not add any value to the success of SMEs what matter is the advertisements by informing people what kind of goods and services are sold as well as its quality and another important issue such as price, quantity and credit policy. Others have said that the location of the business is depending on the nature of business some business need to be located in the areas whereby have overcrowded other need to be located at the area where there is less congestion.

4.9.3 Business skills

Business skills are very important aspect in the performance of SMEs it includes the ability to execute required responsibilities according to the condition imposed. Table 4.9.3 showed that 258 respondents equivalent to 99.2% confessed that business skills is among of the factors hindering the performance of rural SMEs while the remaining 2 respondents equivalent to 0.8 % said that the business skills do not affect SMEs.

Table 4.9.3 Business skills

Do business skills affect SMEs?	Frequency	Percentage (%)
Yes	258	99.2
No	2	0.8
Total	260	100

During the discussion, respondents argued that SMEs managed by the people who have no business skills is at the risk of being closed because people with no business skills regularly fear to make decisions and when they make decisions is unpredictable. One respondent has claimed that

his friend in five years ago has started a business, but the business had collapsed in the first three years after the commencement because of the lack of business skills. Others have mentioned that many of SMEs lack accounting skills thus why most of SMEs do not keep accounting records. Respondents had claimed that an absence of accounting records is affecting the SMEs when required to make loan processing. The lack of proper accounting records is very dangerous for the business as it will be very difficult to determine the performance of the business includes the poor management of working capital. The researchers have noticed that even though SMEs operators in Tanzania appreciate the importance of business skills, there is no initiative from them to ensure that they bridge the gap of knowledge. This has evidenced by the very few numbers of SMEs interested looking for business skills. For those who are interested in business skills have claimed that the quality of training provided by existing business training institutions is unattractive and the costs involved have tended to be unaffordable.

4.9.4 Access to the market

Table 4.9.4 showed that 208 respondents equivalent to 80% acknowledged that Access to the market is among of the factors hindering the performance of rural SMEs while the remaining 52 respondents equivalent to 20% disagreed with the hypothesis indicating that access to the market is affecting rural SMEs performance.

Table 4.9.4 Access to the market

Does access to the market affect SMEs	Frequency	Percentage (%)
Yes	208	80
No	52	20
Total	260	100

During discussion, it was revealed that many SMEs are not performed well because of the limited access to the market attributed by; stiff competition among SMEs, a low number of population attributed by scatters of household, poor infrastructures, low number manufacturing industries, poor quality of products, poor packaging, inadequate marketing skills.

4.9.5 Infrastructures

Table 4.9.5 showed that 219 respondents equivalent to 84.2% accepted that infrastructures are among the factors hindering the performance of rural SMEs while the remainder 41 respondents equivalent to 15.8% disagreed with the hypothesis indicating that infrastructures are affecting rural SMEs performance.

Table 4.9.5 Infrastructures

Does Infrastructures Affect SMEs	Frequency	Percentage (%)
Yes	219	84.2
No	41	15.8
Total	260	100

Many of the respondents confirmed that rural SMEs do not have the access to the infrastructures such as roads, cold rooms, warehouses, power, water and communication affects adversely the development of the SMEs. Others argued that even where there is good infrastructures the supply is unreliable and costly. The one interest discussion has raised when some of the members claimed that, because of poor roads and means of transport many of SMEs took even more than two days when stockpile and more worse in rain season, where it took them even one week or more. The poor infrastructures had caused many of the SMEs to close their businesses, particularly for those SMEs owned by women as many of the women have surrounded by double responsibilities. Also, the issue of power and water supply has been mentioned as the factor hindering the performance of SMEs. Many of SMEs do not operate in the night because of darkness and others are not operating fully as many of the owners are busy looking for water especially for the SMEs owned by women.

4.9.6 Legal framework

Table 4.9.6 showed that 203 respondents equivalent to 78.1% believed that Legal framework is among the factors hindering the performance of rural SMEs while 57 respondents equivalent to 21.9% disagreed that the Legal framework is affecting rural SMEs performance.

Table 4.9.6 Legal framework

Does Legal framework Affect SMEs?	Frequency	Percentage (%)
Yes	203	78.1
No	57	21.9
Total	260	100

During the discussion, many respondents argued that the legal framework does not provide a conducive environment to the rural SMEs due to weak, fragmented, and uncoordinated SMEs. Moreover, most of the SMEs are concentrated in urban areas. Researchers have realized that even though the government has taken some initiatives to establish the development programmes aimed at supporting the SMEs, most of the programmes are ineffective because of the lack of equipment, personnel and operational funds, and therefore, unable to discharge their mandated responsibilities.

4.9.7 Tax regime

Table 4.9.7 showed that 260 of respondents' equivalent to 94.2% understood that tax regime is among the factors hindering the performance of rural SMEs while 15 respondents equivalent to 5.8% disagreed that tax regime is affecting rural SMEs performance.

Table 4.9.7: Tax regime

Does tax regime affect SMEs	Frequency	Percentage (%)
Yes	245	94.2
No	15	5.8

Total	260	100
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During the discussion with respondents, the researchers noticed that the tax regime in Tanzania is unfavourable for SMEs development. Many of the respondents have claimed that the tax system in the country is too complicated, too many, too high and are collected by various authorities including the Tanzania Revenue Authority and the Local Government Authorities. Others argued that many of the entrepreneurs do not know tax matters. In order to comply with the law, they are required to consult a professional tax firm of which the fees they charge is very high. One respondent said that even though the payments of taxation for the businesses is necessity for national economic development, but the present tax regime impose a major burden to rural SMEs.

4.9.8 Social factors

Table 4.9.8 showed that 197 of respondents’ equivalent to 75.8% believed that social factors are among the factors hindering the performance of rural SMEs while 63 respondents equivalent to 24.2% disagreed that social factors are affecting rural SMEs performance.

Table 4.9.8 Social factors

Do social factors affect SMEs	Frequency	Percentage (%)
Yes	197	75.8
No	63	24.2
Total	260	100

During the discussion, culture has also been noticed that is the determinant factor that affects rural SMEs. The researchers noticed that many owners of SMEs at in rural areas yet believe in the traditional belief that can enable them to conduct business in a soft way. One of the interesting stories during the survey is the case from Uvinza District whereby one of the owners of SMEs believed that if you want to succeed in business you are not required to start your business on Tuesday. The issue of religion also noticed by the researchers as one of the social factors that affects rural SMEs performance. For example, at Rufiji District people do not buy food from some of the restaurants by doubting that, maybe the owners of the restaurants are selling alcohol and pork beef. Furthermore, to some extent, the researchers noticed that the issue of tribes and clans are yet affecting the rural SMEs as some customers buy goods and services from the shop/restaurants which are owned by his/her tribe/clan fellow.

4.9.9 Political factors

Table 4.9.9 showed that 247 of respondents’ equivalent to 95% understood that Political factors are among the factors hindering the performance of rural SMEs while 13 respondents equivalent to 5% disagreed that Political factors are affecting rural SMEs performance.

Table 4.9.9 Political factors

Do Political factors Affect	Frequency	Percentage
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SMEs		(%)
Yes	247	95
No	13	5
Total	260	100

The researchers noticed that political factors are affecting the rural SMEs as many respondents said that politicians are always issuing different directives which are hampering the SMEs performance. Others claimed that Tanzania’s judiciary system is considered to be not to the side of SMEs as yet no law enacted to govern the operation of SMEs, thus why regularly politicians, TRA and senior government officers are continuous to issue directives that hamper the wellbeing of SMEs. For example, one respondent said that “recently District Commission (DC) has directed all SMEs to hold a business identification card which is issued at the cost of SMEs”.

4.9.10 Entrepreneur’s Characteristics

Table 4.9.10 showed that 260 of respondents equivalent to 100% said “yes” revealed that Entrepreneur’s Characteristics is among the factors hindering the performance of rural SMEs.

Table 4.9.10 Entrepreneur’s Characteristics

Do an Entrepreneur’s Characteristics Affect SMEs	Frequency	Percentage (%)
Yes	260	100
No	0	0
Total	260	100

All respondents involved in this study confessed that the entrepreneur’s characteristics are affecting the SMEs performance, by arguing that for SMEs whereby their owners are lacking entrepreneur’s characteristics their businesses have collapsed during the first two years after the commencement and others even on the first six months after the commencement. The majority of entrepreneurs/respondents interviewed lack entrepreneurs’ characteristics something which hinders the performance of SMEs. Throughout the discussion respondents argued that many of people opened business simply not because they possess entrepreneurs’ characteristics, it is because of the other factors such as poverty alienation, friend’s advice and lack of employment opportunities.

5.0 Conclusion and Recommendations

5.1 Conclusion

In conclusion, it should be recognized that the performance of SMEs depends on various factors such as; business skills, access to finance, access to the market, business location, legal framework, social factors, infrastructure, political factors, tax regime, and entrepreneur’s characteristics. The success and performance largely depend on how SMEs are able to cope with these factors and how policymakers and implementing organs understand these realities. Otherwise, SMEs will continue to open up businesses and close up after

a short period with no attainment of expected objectives of contributing to the GDP as well as the poverty alienation. The general result of this study revealed that the poor performance of rural SMEs is attributed by the poor participation of both internal and external SMEs stakeholders in addressing challenges facing the SMEs.

5.2 Recommendations

However, in order to address the factors that hinder the growth of rural SMEs in Tanzania, there should be deliberate efforts to both the government and SMEs themselves. SMEs should be keen to recruit competent personnel, especially in key managerial positions and should encourage professionalism in their day-to-day activities. Moreover, there is a need to establish a special campaign to motivate financial institutions to open a special window for rural SMEs and give them some tax incentives that will enable them to offer loans at the low-interest rate.

The Tanzanian government should introduce a campaign that will offer appropriate entrepreneurship training, and where possible, SIDO should have competent people who will follow-up the progress of rural SMEs. The SMEs' owners are requested to put more emphasis on the importance of business skills rather than believing in traditional beliefs. Both government and community are asked to construct and maintain infrastructures in rural areas. The government through the ministry responsible for education is requested to accommodate the entrepreneur's skills in teaching curriculum starting from the primary level education to the university level. The TRA in collaboration with the government, particularly Local Government Authorities is advised to harmonize the tax system. Further researches can be conducted on what are the factors hindering women to establish SMEs and what are the factors hindering women owned SMEs in rural areas.

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