



Vocational Graduates' Challenges in Setting up and Operating SMEs in the Tanzanian Environment

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Abstract: This study investigated the challenges faced by Vocational Education and Training (VET) graduates in establishing and operating Small and Medium-sized Enterprises (SMEs) in Tanzania. The study used a qualitative approach with a cross-sectional design to capture data at a single point in time, allowing for an in-depth analysis of participants' perceptions and experiences. The study targeted a population of 220 SME owners. Using the Yamane formula, 222 participants were sampled, including 130 SME owners and 15 Entrepreneurship Education Coordinators selected purposefully for Key Informant Interviews and FGDs. Data was analyzed using content analysis, identifying themes aligned with the study's research questions. The study concludes that VET graduates are faced with significant challenges that impact their business sustainability. These challenges include inadequate government policy support for enhancing SMEs performance, limited access to financing, insufficient managerial skills, gaps in access to information and knowledge, complex regulatory requirements and limited innovation skills. Key recommendations include that the Government of Tanzania should simplify regulatory procedures and strengthen policies to provide targeted support for SMEs.

Keyword: VET; VET graduates; challenges; SMEs; SMEs challenges.

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Introduction

Youth unemployment presents a global challenge, impacting both developing and developed countries alike (AfDB, 2014). In Tanzania, unemployment is particularly pronounced (ILO, 2023; Techno Serve, 2021). The influx of graduates, including those from Vocational Education and Training (VET) programs, into the Tanzanian labor market has surged,

outpacing the available employment opportunities in both formal and informal sectors (Nandonde & Liana, 2013). Consequently, many young individuals increasingly turn to self-employment and the informal sector for employment (Muhanga & Urassa, 2015; African Center for Economic Transformation, 2016).

Globally, youth unemployment rates are on the rise, with Africa experiencing a notable increase (Galal, 2021; ILO, 2022). Many graduates face a lack of formal wage-paying positions, leading them to embrace self-employment and entrepreneurship as viable alternatives. The informal sector has become a primary avenue for accommodating this growing workforce (Muhanga & Urassa, 2015).

While Tanzania's unemployment rate saw a decrease, with the number of unemployed individuals dropping from 18,092 in 2022 to 15,852 in 2023 (NBS, 2018), global unemployment surged in 2020 due to the COVID-19 pandemic. By 2024, the estimated number of unemployed youth aged 15 to 24 worldwide reached approximately 67.7 million (World Bank, 2024). Despite this trend, a substantial percentage of graduates still struggle to secure employment or lack adequate preparation, for the labor market. Therefore, educational institutions must prioritize not only imparting theoretical knowledge but also fostering practical skills relevant to the job market. Integrating entrepreneurial education and cultivating soft skills can better equip graduates for self-employment and engagement with Small and Medium Enterprises (SMEs) (Nkirina, 2010; EUVETA, 2014). In addition, developing new policies and programs supporting SME growth can also assist in generating additional employment opportunities for youths as well (URT, 2003).

The Government of Tanzania (GoT) has made several efforts to address youth unemployment and has recognized the significant role the private sector plays in economic growth through SMEs, including employment generation. Data suggests that about a third of the Gross Domestic Product (GDP) originates from the SME sector (URT, 2003). Since then, several policies and programs have been implemented to strengthen and expand the role of the private sector in economic development. At the national level, Tanzania Development Vision 2025 and the National Strategy for Growth and Poverty Reduction (NSGPR) were established, emphasizing the significance of the private sector as the engine for economic growth in Tanzania (URT, 2003). Moreover, various policies aimed at creating a conducive business environment, enhancing infrastructure and investing in growth sectors have been established (URT, 2013), some of which have been focusing on implementing entrepreneurship training programs in educational institutions.

These interventions are pivotal for economic advancement, providing individuals with opportunities to establish viable businesses (EUVETA, 2014). Furthermore, collaborations between the GoT, private sector and educational institutions are encouraged to align curricula with industry needs and enhance graduate employability. Regular assessment of educational programs, policy interventions and employment initiatives is essential for informed decision-making, which will then ensure that graduates produced in education institutions are meeting the demand for labour market. Such a holistic approach is paramount for effectively tackling youth unemployment in Tanzania.

Despite the significant role SMEs play in fostering economic growth and the existence of various programs, the outcomes of these efforts have generally yielded poor results, with only a few of them scaling up. That is, most of SMEs have remained at the micro level and have encountered various challenges (Kinunda-Rutashobya & Olomi, 1999; Olomi, 2001). Therefore, despite these studies, whereby some of them are outdated, still remains a notable gap in research focusing specifically on the challenges encountered by SMEs within the Vocational Education and Training (VET) system, particularly those established and operated by VET graduates.

Recent research in South Africa, such as the study by Alrabeei and Kasi (2019), has primarily concentrated on the wide array of challenges faced by established SMEs, including limited access to finance and regulatory complexities. Meanwhile, some investigations have delved into more localized issues. For instance, Madzimure and Tau (2021) explored obstacles faced by SMEs in Metsimaholo Municipality, Free State. Other studies have examined the behavior of individuals as a source of challenges, including employees (Youssef & Luthans, 2007; Závadský et al., 2020) and owners (Kijkasiwat, 2021). Yanes-Estévez et al. (2018) analyzed the strategic behavior of SMEs, identifying three key problem areas: entrepreneurial, technological and administrative. Moreover, unlike problem-focused studies, Rubio and Aragón (2009) investigated the success factors contributing to SME growth while Andalib and Halim (2019) highlighted internal challenges, such as managerial inexperience, lack of innovation, and employee rights while identifying external challenges related to regulatory licenses and taxation.

In contrast, researches in Tanzania, which specifically examined unique challenges faced by VET graduate-owned SMEs are few. These SMEs do encounter similar broad issues but are also faced with additional challenges related to their recent transition from education to entrepreneurship. These include difficulties in accessing finance (Beck & Cull, 2014; Kanu, 2018), lack of access to current technology (Luna *et al.*, 2018), lack of entrepreneurial and business management skills despite having technical training (Ndiaye *et al.*, 2018), struggles with navigating regulatory environments and low access to business networks (Yassine, *et al.*, 2016)

This study therefore sought to explore the challenges faced by Vocational Education and Training (VET) graduates as they start and manage their SMEs in Tanzania. Specifically, the study sought to explore the multifaceted challenges these individuals encounter and their implications for both entrepreneurship development and the broader labour market context. By comprehensively exploring and analysing these challenges, this study intended to contribute to the existing literature on the best way to address them.

Empirical Literature Review

The role of Small and Medium Enterprises (SMEs) in economic growth is widely recognized and extensively studied. Empirical studies provide valuable insights into the conceptualization and operational dynamics of SMEs, highlighting their substantial contributions to national and global economies. These studies underscore the importance of SMEs in fostering innovation, generating employment and driving economic resilience. The review synthesizes key findings and perspectives on the impact of SMEs on economic development.

SMEs Conceptualization

The definition of SMEs lacks universal acceptance and standardization. There is no globally accepted definition of SMEs (Omar *et al.*, 2009; Hooi, 2006). According to Garikai (2011), SMEs are defined by the number of workers employed, capital employed and sales turnover. Thus, SMEs are categorized by the number of employees and/or the value of their assets. The definition of an SME varies depending on who is defining it and the location of the definition. Therefore, different countries use different criteria and their classifications are influenced by economic development levels, industry specifics and policy

objectives. For example, in Canada, SMEs refer to businesses with fewer than 500 employees. In Germany, an SME has a limit of 250 employees while in Belgium, the limit is 100 employees.

In New Zealand, a small business has 19 employees or fewer. In the US, a small business refers to those with fewer than 100 employees while a medium-sized business refers to those with fewer than 500 employees. In China, SMEs have been defined using various criteria, such as number of people employed, volume of sales or output and value of assets (Zheng *et al.*, 2009; Cunningham & Rowley, 2007). In the European Union (EU), a business with fewer than 250 employees is classified as medium-sized; a business with fewer than 50 employees is classified as small and a business with fewer than 10 employees is considered a micro business. As a result, the characterization of SMEs can significantly differ from one country to another. Quantitative criteria, such as the number of employees, sales revenues and assets, are commonly used, alongside qualitative definitions (Storey, 1994; USAID, 1993).

In Tanzania, SMEs encompass micro, small and medium-sized enterprises in non-farming sectors (URT, 2003). Classification in Tanzania relies on the number of employees and capital invested in machinery. Specifically, micro-enterprises have fewer than five employees, small firms employ 5 to 49 people and medium-sized enterprises employ 50 to 99 individuals. Enterprises with 100 or more employees are considered large (USAID, 1993).

The Role of SMEs in Economic Development

The presence of small and medium-sized enterprises (SMEs) in any country significantly contributes to its economic development. Evidence from various countries underscores the pivotal role SMEs play in fostering economic development. For instance, SMEs represent more than 90 percent of businesses and contribute to over 50 percent of employment worldwide (World Bank, 2021). In the Netherlands, SMEs account for 98.8% of all private sector companies, contribute 31.6% to the Gross Domestic Product (GDP), and employ 55% of the total workforce (Economic Institute for Medium and Small Enterprises, 1999b; Indarti & Langenberg, 2004).

In the United States, SMEs play a significant role in creating jobs, driving innovation and contributing to the GDP (Advocacy, (2019)). Similarly, in Germany, SMEs are vital to the economy, fueling export growth and offering employment opportunities

(Destatis (2017). In developing countries like India, SMEs play a crucial role in reducing poverty, providing livelihoods for millions of people and contributing to inclusive economic growth (Mari, (2021). In Rwanda SMEs account for 98% of all businesses and employ almost all of the private sector (Mutandwa and Tubanambazi (2015). In South Africa, SMEs employ 68% of the population, with varying degrees of success in achieving full capacity and growth (Mutandwa and Tubanambazi (2015).

In some countries, such as Kenya, SMEs have also been regarded as the power source of economic growth and for fostering equitable development (Muriithi, 2017; Okewu, 2015). They play a very important role in the economic development of every nation worldwide (Gamage et al., 2019; Lee, 2016) as they are generally the largest employers (ADA, 2016). Surprisingly, SMEs contribute 99% of businesses in both developing and developed countries (Fjose et al., 2010) and act as tools used for generating local and foreign revenue.

Many sources recognize the SME sector as a major contributor to the economy and gross domestic product. They achieve this by creating significant employment opportunities, fostering innovation and ultimately helping to alleviate poverty through the promotion of entrepreneurial activities (Sitharam & Hoque, 2016; Beck & Demirguc-Kunt, 2006). Additionally, SMEs are pivotal to most economies as they make substantial contributions to economic growth and prosperity (Frimpong, 2013). They play a crucial role in driving economies from a developing stage to high growth and industrialization (Njanike, 2019).

Similarly, these businesses can help transform any country by redistributing the productive assets among those who were previously disadvantaged (Sitharam & Hoque, 2016). Therefore, governments worldwide are focused on developing the SME sector to promote economic growth (Olawale & Garwe, 2010). In emerging economies like Brazil, SMEs are acknowledged as crucial drivers of innovation, entrepreneurship and regional development (OECD, 2020). According to a survey by the Asian Development Bank (ADB) covering 14 economies across the five AfDB regions, SMEs and microenterprises collectively represent over 90% of all enterprises in each country (AfDB, 2014).

In Tanzania, SMEs make up over 95% of businesses. These SMEs are responsible for generating 60% to 70% of employment and contribute significantly to the country's GDP, accounting for about 27-35% of it (Petraakis & Kostis, 2012). The SMEs are crucial for creating jobs, since, /the majority of employment opportunities in Tanzania are created from them. . Additionally, SMEs promote innovation and competition in the market. The GoT has shifted from economic control to facilitation, encouraging active participation of the private sector in driving economic growth. Evidence from various countries emphasizes the essential role SMEs play in stimulating economic development, creating jobs, fostering innovation, and promoting inclusive growth.

Theoretical Underpinnings

This study is grounded in Human Capital Theory (HCT), which posits that Human Capital comprising knowledge, skills and attitudes acquired through education and training significantly influences individual productivity and consequently, economic growth. According to Schultz (1961), human capital is akin to physical capital in its potential to generate income, emphasizing the importance of educational investment in developing skills and knowledge. Despite criticisms from scholars like Lee, *et al.*, (2012); Thurow (1975) and Spence (1973), who argue that HCT oversimplifies the relationship between education and productivity by neglecting other critical variables, the theory remains pivotal in understanding how education and training enhance individual and organizational outcomes (Fitzsimons, 1999; Fugar et al., 2013).

Human Capital Theory underscores the relevance of entrepreneurship training provided by VET institutions. This training equips graduates with entrepreneurial competencies necessary for establishing and managing SMEs in the labor market. By focusing on imparting these competencies, VET institutions enhance graduates' ability to compete effectively and succeed in business ventures. In the context of this study, entrepreneurship training addresses the challenges encountered by VET graduates operating SMEs in the Tanzanian labor market by strengthening their human capital.

Specifically, VET graduates often face challenges, such as insufficient business insight, limited access to financial resources and inadequate market knowledge. These challenges can hinder SME

growth and sustainability. However, through targeted entrepreneurship training, VET institutions can mitigate these challenges by equipping graduates with practical skills in business planning, financial management, marketing strategies, and problem-solving. This not only enhances the graduates' ability to navigate the complexities of SME operation but also improves their overall business performance and competitiveness.

Furthermore, by investing in entrepreneurship training aligned with Human Capital Theory principles, VET institutions contribute to the broader economic growth agenda. Enhanced SME performance driven by skilled and knowledgeable entrepreneurs leads to increased productivity, job creation and economic development in Tanzania. Thus, the application of Human Capital Theory underscores the transformative role of education and training in empowering VET graduates to overcome challenges and thrive as entrepreneurs in the Tanzanian SMEs sectors.

Methodology

Design

The study employed the cross-sectional design, which allowed data to be collected at a single point in time. This design was well-suited to the study as it provided a comprehensive view of individual perceptions of various events or phenomena as they naturally occur. Additionally, it enabled the researchers to examine multiple characteristics or variables and measure outcomes simultaneously, making efficient use of limited resources for data collection (Setia, 2016).

Population and Sampling

The study was conducted across the regions of Dar es Salaam, Dodoma, Manyara, Arusha and Mwanza, purposefully selected due to their emerging status as commercial hubs and their active entrepreneurial landscapes. These regions' dynamic business environments aligned closely with the study's theme and objectives (Kushwaha *et al.*, 2021). To ensure unbiased representation, a simple random sampling method was employed to select 222 VET graduates out of 500, all of whom were working in SMEs within the Design, Sewing and Clothing Technology (DSCT) and Food Production (FP) sectors (Saunders *et al.*, 2012; Bernard, 2013). DSCT and FP SMEs were chosen as they attract a considerable number of VET graduates and present feasible entrepreneurial opportunities, typically requiring relatively low startup capital, making them accessible for

graduates with limited financial resources and practical for establishing sustainable businesses. In addition, a purposive sampling technique was applied to select a sample size of 15 key informant interviewees from the population of 15 entrepreneurship coordinators. Selected entrepreneurship coordinators in these regions were also purposefully chosen for key interviews. Yamane's formula (1973) was used to estimate the sample size with a 95% confidence level and a 0.005 sampling error, as illustrated in Equation 1.

Determination of VET graduates Sample Size

Yamane's formula for calculating sample size is

$$n = N + 1 + N \cdot e^2$$

Where by:

n= Sample size

N= 500

e= Margin error (0.05)

$$n = 500/1+500(0.0025) = 222$$

Instruments

The study employed Focus Group Discussions (FGDs) with SMEs owned by VET graduates, conducting one FGD in each of the selected regions. Both Glesne (2006) and Berg and Latin, (2008) note that FGDs are effective for gathering extensive information from diverse participants. Each FGD included six Vocational Education and Training (VET) graduates, all with a minimum of five years of experience in operating SMEs in the labor market. Additionally, 15 Key Informant Interviews (KIIs) were conducted with Entrepreneurship Coordinators, with three interviews held in each of the five regions. One advantage of using both KIIs and FGDs is that they foster a deeper familiarity and understanding among stakeholders (Yin, 2011). These methods were strategically implemented to provide essential data for the research.

Validity and Reliability

Ensuring validity and reliability is essential for the credibility and accuracy of research findings. To achieve this, the researchers carefully designed the FGD and KII guides based on established literature and expert input, thereby ensuring strong content validity. Before implementing these guides with VET graduates in the study regions, a pilot study took place in Morogoro Region with vocational graduates involved in Design, Sewing and Clothing Technology and Food Production. This pilot study assessed the clarity and relevance of the instruments, leading to

necessary revisions and improvements to enhance their effectiveness.

Statistical Treatment of Data

Data analysis involved coding, editing, classification and tabulation of the data. The data gathered from the FGDs and KIIs was coded and organized based on the research questions. The analysis took place thematically.

Ethical Consideration

The study followed ethical guidelines by obtaining informed consent from each participants. Before data collection, participants were thoroughly briefed on the study's objectives, procedures, potential risks, and benefits. They were informed about their voluntary participation, confidentiality, and their right to withdraw at any time without consequences. Each participant signed a consent form to indicate their willingness to participate.

Results and Discussion

This section presents the results of the study, beginning with the demographics of the respondents in Table 1, then moving into revealing challenges and potential solutions.

Demographics of the Respondents

The study involved 220 participants, with an equal split between men and women. However, only 145 participants (65.9%) actively took part in interviews and Focus Group Discussions (FGDs). Among these respondents, 108 (74.5%) were females while 37 (25.5%) were males, indicating a higher representation of women in the Food Production (FP) and Design Sewing and Cloth Technology (DSCT) trades.

Table 1 shows that 80 respondents (55.2%) were aged between 18 and 25 years, 44 respondents (30.3%) were between 26 and 35 years, 20 respondents (13.8%) were between 36 and 45 years and only one respondent (0.7%) was aged between 46 and 55 years. Previous quantitative studies indicate that age and experience significantly influence the performance of SMEs. The findings suggest that respondents in the younger age groups specifically those aged 18 to 25 years (55.2%) and 26 to 35 years (30.3%) are more effective in entrepreneurial activities related to FP and DSCT. This highlights that younger entrepreneurs, who are economically active and increasingly oriented toward entrepreneurship education (Malebana, 2012), benefit from prior work experience, which positively contributes to the success of their SMEs (Ahinful et al., 2021; Eze et al., 2021).

Table 1: Demographic Information for Gender, Age and Level of Education (n=145)

Factors	n	%
Gender		
Female	108	74.5
Male	37	25.5
Total	145	100.00
Age of SME owners		
18-25 years	80	55.2
26-35 years	44	30.3
36-45 years	20	13.8
46-55 years	1	0.7
Total	145	100.00
Level of Education of SMEs owners		
NVA Level II	9	6.2
NVA Level III	136	93.8
Total	145	100.00

Regarding educational background, 9 respondents (6.2%) held a National Technical Award Level II (NTA Level II) qualification while the majority, 136 respondents (93.8%) possessed a National Technical Award Level III (NTA Level III) qualification. This indicates that most respondents had attained at least a basic level of training, with a significant

number achieving NTA Level III. Respondents with Level III qualifications also demonstrate superior performance in their entrepreneurial activities. Furthermore, Bensalah and Tinaztepe (2021) found that the education level of owners and managers has a positive impact on business performance,

reinforcing the importance of educational qualifications in enhancing SME success.

Analysis and Discussion

The section analyzes and discusses the challenges faced by VET graduates in Tanzania when establishing and managing SMEs. The reported challenges go along with potential solutions as suggested by the respondents.

The study established various challenges encountered by VET graduates who operate SMEs in the labor market. The established challenges are indicated below:

Limited Policy Support

Among the identified challenges was limited government policy support for SMEs enhancement.

The study revealed lack of government support in assisting SMEs among. Specifically, 66.6% of the entrepreneurship coordinators (10 out of 15) acknowledged that VET graduates encountered inadequate government support for SME development. This information was gathered during interview sessions, where one of the respondents reported:

As coordinators for Entrepreneurship Education and Training (EET) in Mwanza, we observed challenges faced by recent VET graduates and aspiring SME entrepreneurs. Despite the vital role of SMEs, lack of government policy support hinders their growth and limits their economic contributions. We urge policymakers to recognize the potential of SMEs and implement supportive measures. It is crucial for the government to provide the necessary assistance to empower SMEs, benefiting both the community and the country's economy" (Interview, Mwanza, September 2021).

Similarly, in FGDs with VET graduates in Arusha, participants reported that inadequate government policy support hinders the growth of SMEs and entrepreneurial activities. They noted a disconnection between government policies and actual challenges that aspiring entrepreneurs' encounter when starting and expanding businesses. One of the respondents during the FGD reported:

Despite the recognized importance of VET graduates in economic growth, there is lack of government support for them to

start SMEs. This affects areas like finance, market access and regulations. Participants called for policymakers to engage with grassroots stakeholders to co-create solutions, emphasizing the need for genuine collaboration to unlock potential of SMEs and promote inclusive economic development (FGDs, Arusha, March, 2022).

The study's results align with previous research by Kumarasinghe (2017), Battistella et al. (2018) and Tran (2015), which noted that new SMEs, including those established by VET graduates, often face government obstacles like complex regulations and financial constraints. The study recommended that to support these SMEs, the government should simplify administrative procedures, improve access to credit and foster a more business-friendly environment. These actions are vital for unlocking the full potential of SMEs and promoting inclusive economic growth, essential for societal progress.

Limited Access to Finance

The study found that VET SMEs are faced with significant challenges related to limited access to finance. Among the entrepreneurship coordinators surveyed, 93.3% (14 out of 15) admitted that VET graduates encountered difficulties in securing finance. A coordinators from Dar es Salaam reported, " VET graduates specializing in DSCT face substantial financial barriers, hindering their ability to secure equipment, raw materials and marketing resources, thus restricting their growth and competitiveness" (Interview, Dar es Salaam, September 2021).

During the focus group discussion, participants from the FP sector confirmed further that financial barriers impede their operations and growth in the following words: "Despite high demand for local food products, securing funds for equipment, production expansion and daily operations remains difficult, limiting our competitiveness. Therefore, enhancing access to finance for FP SMEs is crucial for economic growth and job creation" (FGD, Dar es Salaam, September 2021).

Most SMEs in developing nations often face similar challenges as indicated by Andalib and Ridzuan Darun (2018) and Battistella et al. (2018) who found that limited access to finance is a common issue. A study by Zin and Ibrahim (2020) emphasized the importance of financial resources to ensure performance and success of SMEs. Other studies

indicated that access to financial resources significantly influences SME performance (Xin et al., 2023; Zarrouk et al., 2020). Other studies had it that adequate financial resources improve the SME performance (Muneer et al., 2017).

Several studies highlighted the challenges faced by small and medium-sized enterprises (SMEs) globally. Ravi (2019) and Bunagan and Sison (2018) reported issues such like inadequate funding and difficult lending processes. Taiwo and Agwu (2016) and Lamb et al. (2019) reported that while SMEs are important for economic growth and job creation, they often struggle with financial planning and access to funding. Smit and Watkins (2012) conducted a study in South Africa and found that SMEs face complex financing problems due to difficulty in communicating effectively with bankers. Additionally, Sanyal et al. (2020) concluded that external factors, such as financial availability, market access and business environment pose significant challenges for SMEs.

These findings show that VET graduate-established SMEs faced significant challenges due to limited access to finance, which hindered their potential to contribute to economic development. Access to finance is essential for driving growth, innovation and sustainability in SMEs. Ensuring that SMEs have sufficient funding is crucial for them to realize their full potential and significantly impact economic growth.

Limited Managerial skills

The findings brought to light a significant issue faced by SMEs in Manyara Region. Shortage of management skills among SME owners was reported during the interview sessions with entrepreneurship coordinators. Particularly, 87% (13 out of 15) of these coordinators acknowledged insufficient management skills among SME owners as a challenge. One of the coordinators shared a particular experience while sharing her feelings on what has to be done, as stated below:

As entrepreneurship coordinators, we have noted concerns from DSCT graduates in Manyara Region about their lack of management skills. While these graduates excel in technical areas, they often lack diverse management skills crucial for business success, which hinders their growth and competitiveness. Addressing this shortage through targeted training and support is essential. Nurturing talent

and fostering management expertise will unlock the full potential of VET graduates, thereby promoting the growth of the DSCT sector (Interview, Manyara, April 2022)

In the FGD, a participant from the FP sector added, "As a VET graduate and entrepreneur in the FP SME sector, I have faced the challenge of limited managerial skills. Despite having technical knowledge, success also requires management expertise. Lack of skilled personnel hampers production optimization and market responsiveness" (FGD, Manyara, April 2022).

The findings are supported by previous research findings, highlighting a consistent global concern regarding lack of management skills among SME owners. For instance, Battistella et al. (2018) identified the issue as a significant hurdle in Italy. Similarly, Andalib and Ridzuan Darun (2018) reported that deficient managerial skills among SME owners and managers are a widespread problem. Bunagan and Sison (2018) similarly indicated that human resources pose a significant barrier to SME growth in Bahrain, aligning with Hasan and Almubarak's (2016) assertion that inability of human resources to effectively operate SMEs is a major challenge. Other studies confirmed that adequate human capital drives the digitization of SMEs, leading to increased performance and sustainable success (Lang et al., 2022). This underscores the critical role of human capital in the success of SMEs.

Limited Information and Knowledge

The study found that numerous SME owners in Mwanza encountered difficulties due to information and knowledge gaps. This was noted during focus group discussions with DSCT and FP participants. One participant expressed the following during a discussion session:

As VET graduates in the Mwanza Region, we are encountering significant challenges in accessing essential knowledge and resources needed for our business. Strengthening information-sharing networks and enhancing access to relevant training and support services tailored to our needs is critical in overcoming these challenges and fostering business growth (FGD, Mwanza, September 2021).

The study findings are supported by Alrabeei (2014), who argued that SMEs with a reliable source of

information and market database are more likely to succeed. Previous studies, such as that of Rothwell and Beesley (1989), had it that inability of SMEs to access information is a major obstacle to their growth and development in Africa. In addition, Goedhuys and Sleuwaegen's (2000) study suggested that among 230 Ghanaian SMEs, high transaction costs and inadequate knowledge in financial markets diverted resources away from SMEs to larger enterprises. These findings confirm that lack of proper channels for sharing knowledge may cause VET-owned SMEs to miss out on valuable networking, collaboration and mentorship opportunities, which are crucial for their growth and success.

Regulatory Complexities

The majority of SME owners expressed dissatisfaction with regulatory complexities arising from policies, laws, taxes and regulations. For example, during a FGD session, a participant commented:

Regulatory complexities are a significant challenge for SMEs like ours. Complying with legal requirements, tax obligations and industry regulations diverts resources from business growth and innovation. Simplifying regulatory processes and offering targeted support to VET graduates is essential in fostering a conducive business environment" (FGD, Arusha, October 2021).

These findings are consistent with a study conducted by Kanu (2018), who revealed that excessive and inflexible laws, taxes and regulations negatively affect the performance of African SMEs. Kanu further stated that complex laws and regulations can discourage SME entrepreneurs from starting or registering a business. This aligns with Andalib and Ridzuan Darun (2018), who revealed that regulatory licenses and taxes, if not adequately planned, can hinder the growth and development SMEs.

Limited Innovation Skills among

The study findings revealed limited innovation skills among owners of SMEs in the VET sector as a challenge. One participant from Manyara highlighted this significant challenge: "We lack innovation and managerial skills, which hinder our

ability to remain competitive. To empower VET graduates in SMEs and contribute to the local economy, targeted training, mentorship and access to resources are essential (FGDs, Manyara, April, 2022). These findings confirm deficiencies in innovation skills among VET SME owners.

The findings align with those by Mikalef and Krogstie (2020), Farsi and Toghraee (2014) and Saastamoinen et al. (2018), reported the critical role of creativity and innovation in business development. The authors revealed that while innovation skills are crucial for small businesses to enhance their industry performance, absence of innovation skills hinders SMEs from performing well. Kaufman (2013) and Fatoki (2014), in addition, posited that lack of innovation skills in SMEs operations is akin to lack of vision regarding when and how to grow. Andalib and Halim (2019) similarly concluded that shortage of innovation skills impedes SMEs performance.

Limited Entrepreneurial Competencies

The study revealed that limited entrepreneurial competencies due to digital divide was a challenge. One of the respondents reported,

Many of VET graduates' owned SMEs lack entrepreneurial skills needed to manage and grow businesses effectively. This is due to limited access to digital tools, information and training. Bridging this gap requires tailored support programs, including entrepreneurship education, mentorship and initiatives to enhance digital literacy and access to resources (Interview, Dar es Salaam October, 2021).

Focus Group Discussions with VET graduates who own SMEs revealed that many of the entrepreneurs lacked knowledge and necessary to effectively navigate and leverage digital technologies. The gap in digital proficiency significantly hampered their ability to innovate, optimize operations and compete in the modern market. One participant from Manyara Region confessed: "We face substantial challenges in developing the innovation skills necessary to drive our businesses forward. Enhancing our ability to innovate is essential for staying competitive and ensuring sustainable growth in the market" (FGD, Manyara, September 2021).

These findings of are consistent with prior research by Hassim et al. (2011) and Khandker (2014), which

highlighted challenges emanating from shortage of skilled manpower and technology for SME developments to function properly. Similarly, Kumarasinghe (2017) identified lack of technology among SME owners in Sri Lanka as a hindrance to their growth. Conversely, the findings align with previous research that reported challenges posed by shortage of skilled manpower and technology.

Conclusion and Recommendations

Conclusions

The study concludes that VET graduates establishing and managing SMEs in Food Production and Design, Sewing and Cloth Technology in Tanzania face significant challenges that impact their business sustainability. These challenges include inadequate government policy support for enhancing SMEs, limited access to financing, insufficient managerial skills, gaps in access to information and knowledge, complex regulatory requirements and limited innovation skills. Furthermore, limited entrepreneurial competencies, worsened by the digital divide, restricted the graduates' abilities to establish and sustain successful SMEs within the Tanzania's labor market. Addressing these barriers through targeted policy support, capacity building and improved digital accessibility will be crucial in empowering VET graduates to thrive and contribute meaningfully to Tanzania's economic landscape.

Recommendations

The study recommends that the Government of Tanzania should simplify regulatory procedures and strengthen policies to provide targeted support for SMEs. This may include reducing bureaucratic hurdles, easing compliance requirements and establishing SME-friendly policies to encourage business sustainability and growth. The government should introduce and expand financial support programs to improve access to credit for VET graduate-owned SMEs. Options like microfinance, grants and subsidies could be explored to reduce financial barriers and promote business development.

VET institutions should provide specialized training and mentorship programs to equip VET graduates with essential management skills. Emphasis on competencies in business management, strategic planning and operational efficiency can bridge management skill gaps, supporting the effective operation and sustainability of these SMEs. VET institutions should implement initiatives that enhance digital literacy and access to digital tools

for SMEs led by VET graduates. Finally, VET graduates are encouraged to actively pursue training opportunities in digital technologies to stay competitive and innovate within their businesses. These targeted efforts will enhance the skills and resources needed for VET graduate-owned SMEs to thrive in Tanzania's evolving labor market.

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