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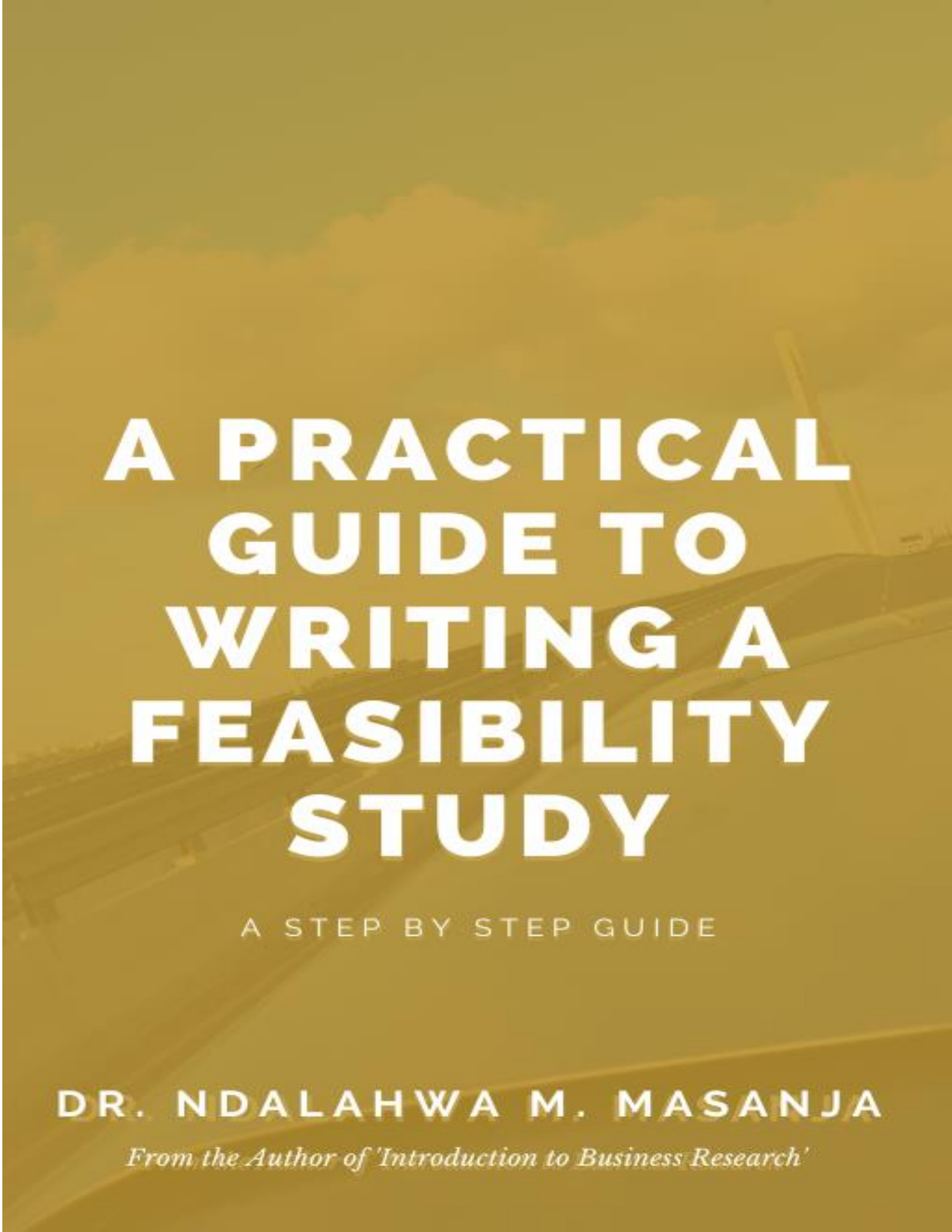
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# **A PRACTICAL GUIDE TO WRITING A FEASIBILITY STUDY**

A STEP BY STEP GUIDE

**DR. NDALAHWA M. MASANJA**

*From the Author of 'Introduction to Business Research'*

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## **PREFACE**

Everyone wants to open and operate a successful business or project. This is the sole intention of any project developer or entrepreneur. However, these are confronted with a serious reality. This reality is that not all business or projects are viable or feasible. In other words, these projects or business are faced by the difficult issue of long-term sustainability. This is the critical challenge or question confronting all business or projects. In this case, it is important to conduct a feasibility study to determine the viability or sustainability of the project in the future. A feasibility study provides a blueprint to determine feasibility of a business endeavor or a planned project.

A feasibility study is a systematic plan and analysis of the sustainability of a project taking into consideration factors such as marketing, production or technical issues, organizational and management aspects and financial implications. In other words, a feasibility study is the evaluation and assessment of a proposed project or business. This is an important endeavor before any further action can be taken. On the other hand, it influences the decision or course of action to be taken by an investor, financier or management of an organization.

There are several benefits of conducting a feasibility study. One of the major benefits is that a feasibility study identifies the merits and demerits of a project. In reality, it provides a cost-benefit analysis of undertaking a specific activity, project or business. Therefore, someone can make an informed decision about a specific activity or project. At the same time, a feasibility study also minimizes risks by taking actions without understanding and comprehending their financial, legal or reputational ramifications to an organization or a business. For this reason, a feasibility study provides a comprehensive understanding about a project or plan. Furthermore, a feasibility study identifies potential challenges and problems while executing the plan or project. Moreover, a feasibility study takes into consideration all relevant factors to be considered in the implementation of the project or plan.

Given the significance of a feasibility study in decision making and implementation of the project, many people, especially potential investors, financiers or even management, lack the practical knowledge of a feasibility study. In this regard, it becomes difficult to write a feasibility study which will provide a roadmap for a particular project. Based on this notion, this book sets out to address those practical challenges in preparing a feasibility study. The purpose of the book is to provide a practical guide to write a feasibility study to determine the viability of a specific project. Specifically, this book will provide the description of every important section in a feasibility study with vivid illustrations.

## ABOUT THE AUTHOR

Dr. Ndalahwa M. Masanja is a lecturer of Management and Accounting at the University of Arusha. He has been teaching at several higher education institutions including Jomo Kenyatta University of Agriculture and Technology (JKUAT Arusha Campus), Training Center for Development Cooperation (MS-TCDC), and Institute of Accountancy (IAA) in Arusha and Dar-es-salaam. He has been teaching undergraduate and graduate programs at those institutions. He has been supervising graduate students pursuing the dissertation or thesis research.

He worked initially as an Accountant in a secondary school and then as a Business Manager of a company located in Arusha. He has worked in the United States of America (USA) as an Accountant and working in different capacities in a printing press, publishing house, logistic company and the food industry like Pizza hut Michigan. The diverse working environment provides substantial experience about human resources in relation to their jobs. In this case, the author is able to provide a diverse perspective of human resource management.

He holds a Bachelor of Business Administration (BBA) in Accounting and Management and a Master of Business Administration (MBA) in Accounting from the University of Eastern Africa Baraton (UEAB) in Kenya. Furthermore, He has a doctoral degree (PhD) from Andrews University in United States of America (USA). At the same time, he has attended multiple seminars and workshops in research, education and business administration. The author's formal and informal training provides a deep insight about human resource management in academics as well as in the industry.

He is the author of several books and papers in accounting, management, research and education. Some of his books include *Introduction to Business Research*, *A practical guide to dissertation and thesis writing*, *Essentials in higher education administration* and a *Job Evaluation for workbook* for students pursuing human resource management. In addition, He is the founding editor of *the International Journal of Innovation in Education and Business* (IJIEB) a bi-annual peer review journal publishing innovative articles in business and education.

He has been serving in the administrative and governing boards of institutions in secondary school and higher learning institutions. He undertakes consultancy in a diverse range of industries including health, education and research. His wealth of experience has a significant contribution to the completions of this book.

**ACKNOWLEDGEMENTS**

First and foremost, I would like to extend my appreciation toward my family especially my wife for the unwavering support toward the completion of this book. She has been instrumental toward the success of this endeavor.

During the process of writing the book, the author sought advice and counsel from experts in the business world and in various sectors. There has been numerous feedback and constructive criticism from various experts. My gratitude and appreciation goes to everyone who provided their advice and feedback for this book.

I extend my gratitude to all businesses and entrepreneurs who contributed toward the final preparation of this book.

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

This section provides the historical background of the project or business. It provides a brief but comprehensive description of the product or services in the feasibility study. In addition, this section provides the main characteristics of the project. This involves the reason to write the project, the necessary prerequisites and the possible results for the completion of the project.

The main purpose of the background of the study focuses on providing a general idea or overview about the study. The background has to provide the main prerequisite of the study. This process involves a clear and focused background of the project. The following are the key information to include in the background of the study.

1. Primary focus of the project. This involves what the project is planning to tackle or address.
2. A list of important prerequisites and main reasons to initiate the feasibility study
3. An ordinary description of how to conduct the feasibility study.
4. A brief explanation of the possible desired outcome of the project.

In general, the background of the feasibility study is a simple and brief statement about the project. It provides the rationale to conduct the study. At the same time, the background provides the underlying problems that need to be addressed.

## Illustration of the Background of the Feasibility Study

The subject of business incubation has been a prominent and ongoing subject under discussion. The introduction can be traced in the 1950 and has gained traction in the last decade (Mckenzie, 2017). This practice has been focusing on improving the skills in business especially entrepreneurship and starting small business especially start-ups. At the same time, it has also been gaining traction in the manufacturing sector where by appropriate training is provided to ensure the effective and efficient production of goods and services.

The whole process of business incubation involved providing a safe and nurturing space for small entrepreneurs and potential entrepreneurs to start and operate their business. This involves providing entrepreneurial knowledge, skills, expertise and possible experiences in different areas confronting entrepreneurs. In addition to this, the expertise and experience provided will help these potential entrepreneurs to navigate the unknown treacherous environment of entrepreneurial activities (Monista, 2019).

In developed countries, business incubators have been the norm for any small size business endeavor. Specifically, Silicon Valley in San-Francisco in USA has been an epicenter for start-up business activities. This involves providing financial assistance and expertise in starting and operating the business (Cirdonom 2018). Other areas are following trend like London, Tel-aviv and other global cities who have been promoting business incubators.

From an African point of view, South Africa, Nigeria and Kenya have been leading the way on business incubators (Ozolo, 2020). Other countries like Rwanda have made significant strides to create a

knowledge based economy (Nkurunzinja, 2019). In this case, Tanzania has been lagging behind. For this matter, this is a feasibility study to determine the viability to open a business incubator in Tanzania.

## **1.2 Statement of the Problem**

This section explains the underlying problem or challenges that have prompted the feasibility study. Specifically, problem requires explaining or describing the underlying reality of the problem. At the same time, the problem includes the negative consequences of the underlying problems or challenge. It is also appropriate to provide authoritative references, sources and statistics to substantiate the underlying problem. Ultimately, this explanation should draw the necessity and importance of solving the problem.

### **Illustration of Writing the Statement of the Problem**

The rising concern of business survival is a subject of great concern in Tanzania. Recently, we have seen the business initiatives and a lot of funds dedicated for those projects or activities. However, there are limited success stories of these businesses. Most of these businesses are plagued by inadequate knowhow and experience in conducting a business. Given these challenges and problems, these issues normally threaten the survival of small and medium sized businesses in Tanzania.

Recent statistics indicate that one in ten businesses survive in the current business environment in Tanzania (Masinda, 2018). Further data provided by the Tanzanian Bureau of Statistics indicate that most of the businesses fail between 3<sup>rd</sup> and 6<sup>th</sup> month from inception (Masanja, 2020). Moreover, reports from SMEs in Tanzania reveal that the majority of the entrepreneurs lack the basic skills required to

successfully operate their business and therefore realized the full potential of the business.

Based on various sources and statistics above which indicate a clear lack of appropriate knowledge and experience of business in Tanzania, this study intends to determine the viability of starting a business incubator to groom small and medium business owners and operators in Arusha.

### **1.3 Objectives of the Study**

The objectives states what the researcher intends to achieve or accomplish in the feasibility study. These objectives can be categorized as general objectives and specific objectives. The general objective is the main purpose or goal of the feasibility study.

The specific objectives are short-term and mostly narrow in nature. They are formulated to achieve the general objective of the feasibility study. Specifically, the specific objectives might be financial, marketing, operational or production, management or organizational goals. All these objectives have the sole purpose to achieve the overall goal or general objective of determining the viability of a certain project or business.

On the process to developing objectives, it ensures that the following must be integrated in the formulation of objectives in a feasibility study.

1. The objectives should be specific. The objectives should be precise to what they intend to achieve.
2. The objective should be measurable. The objectives should be quantifiable

3. The objectives should be achievable. Any objective should be attainable.
4. The objectives should be realistic. It is imperative to set objectives which reflect the reality.
5. The objectives should be time specific. In other words, these objectives can be attained at a specific period of time.

### **Financial objectives**

Financial objectives are goals or targets of a feasibility study that can be described in monetary terms. This means that financial objectives affect the financial income, assets, liabilities, equity and cash flow of the feasibility study. In other words, the goals have a direct or indirect effect on the financial statements including income statement, balance sheet and cash flow statement of the feasibility study. The following are few examples of the most common forms of financial objectives in feasibility study.

1. Increase in revenue or revenue growth.
2. Increase in profits or profit margins which can be illustrated by the difference between revenue and cost.
3. Decrease the cost of goods sold or manufactured, a strategy to maximize gross profits which will translate into higher net profits.
4. Decrease the overhead cost that are indirectly attributed to profitability and sustainability of the feasibility study.

### **Illustration of financial objectives**

The following are the financial objectives of this feasibility study

1. To determine the capital requirements for starting a business incubator in Arusha, Tanzania

2. To determine the sources of financing for the business incubator located in Arusha, Tanzania.
3. To identify the critical financial assumptions for the development of the pro-forma financial statements
4. To prepare projected financial statements for the business incubator located in Arusha, Tanzania.

### **Marketing Objectives**

Marketing objectives are goals or targets set by a project to promote its products or services to certain customers or stakeholders in a given period of time. In other words, marketing objective provides the promotional or advertisement strategy to attain the project or feasibility study objectives. It leads to awareness and provides information about the project or feasibility study.

### **Illustration of the Marketing Objectives**

The following are the marketing objectives of this feasibility study

1. To determine the marketing demand and supply of the business incubators in Arusha, Tanzania
2. To formulate a marketing mix (Price, Product, Promotion and Distribution) that will make the business incubator competitive in Arusha, Tanzania.
3. To develop a marketing strategy to increase activities in the business incubator
4. To identify a niche in the market for the business incubator located in Arusha, Tanzania.

## **Operational or Production Objectives**

Operational or production objective refers to goals or targets to execution or implementation of the main purpose of the feasibility study. It refers to targets on the daily execution of the project or feasibility study. In addition, it focuses on the producing goods or services in a specific project.

### **Illustration about the Operational and Production Objectives**

The following are the operational and production objectives of this feasibility study.

1. To determine the type of business incubator to be initiated in Arusha, Tanzania.
2. To identify the appropriate and adequate equipment and facilities for the business incubator in Arusha, Tanzania.
3. To locate a strategic area that small and medium entrepreneurs can access the business incubator in Arusha, Tanzania.
4. To formulate the operational process of the business incubator in Arusha, Tanzania.
5. To identify operational and legal requirements to operate a business incubator in Arusha, Tanzania.

## **Management or Organizational Objectives**

Management or organizational objectives provides targets about the mission and vision of the feasibility study. These objectives provide the direction of the project and therefore they are critical for the success of the project. Furthermore, these objectives state the form of business, organizational structure and management of human resources during the execution of the feasibility study.

## Illustration of Management or Organizational Objectives

The following are the management or organizational objectives of the feasibility study

1. To determine the type and form of business that will enhance the growth of small and medium size entrepreneurs in Arusha, Tanzania.
2. To determine the most appropriate form of set up of the business incubator in Arusha, Tanzania.
3. To identify the duties and responsibilities to be accomplished at the business incubator located in Arusha
4. To determine competitive remuneration packages for employees at the business incubator in Arusha, Tanzania.

### 1.4 Significance of the Study

The significance of the study provides the benefits of the study to different parties and stakeholders. In other words, the significance provides an explanation on how the study will be advantageous to various beneficiaries especially the society. The following issues are important in writing the significance of the study.

1. The significance of the study provides the contribution of the problem or broad problem in education and knowledge in general.
2. The significance of the study will illuminate the contribution to the current literature.
3. The significance of the study states who will benefit from the feasibility study. This includes who will benefit from the study and what they hope to benefit from the feasibility study.

### **Illustration of the Significance of the study**

This section clearly provides the benefits of this study to different stakeholders. The following are the benefits accrued from this feasibility study.

Firstly, the implementation of the proposed project will nurture small and medium size entrepreneurs in their business activities. Small business need guidance and training about operating and expanding their business operations. This training is instrumental and critical toward promoting small business in Tanzania especially in Arusha.

Secondly, this study will be important for researchers to gain knowledge and understanding in starting a business incubator in Arusha, Tanzania. Specifically, the feasibility will contribute to the body of knowledge and to broaden the perspective of business incubators.

Third and lastly, this study will help the government and local authorities to understand the necessity of business incubator as a tool to foster small and medium size business growth in Tanzania and specifically in Arusha.

### **1.5 Scope and Limitation of the Study**

This section provides the coverage and the boundaries of the feasibility study. It refers to the parameters and the areas the feasibility study will explore and investigate. This includes the location to conduct the investigation and the time framework to complete the feasibility study. Moreover, the scope and limitation provides the type of information to be included in the study. At the same time, the limitations might include the constraints beyond the ability of the researchers which might jeopardize the execution of the feasibility study.

## **Illustration of the Scope and Limitation of the Study**

This feasibility study is expected to be conducted in Arusha, Tanzania. This study will cover one city and six districts which are located in Arusha region. The city is Arusha City and other districts are Arusha rural district (Arumeru), Karatu, Longido, Meru, Monduli and Ngorongoro.

Specifically, small and medium size entrepreneurs will be involved in this study. The feasibility study will be conducted in six months. This study will begin in January 2020 and it is expected to be completed by 30<sup>th</sup> June 2020.

Some the anticipated constraints include the reluctance of the small and medium entrepreneurs to participate in the study due to negative attitude toward the research process. At the same time, time might be another constraint due to the large geographical location of the region of Arusha. However, the chief investigator is expected to provide adequate information to the research participants to dissolve their reluctance to participate in the study. Furthermore, the feasibility study will involve other research assistants to administer the questionnaire to the vast geographical area of Arusha region. This will help the researcher to meet the dateline and therefore complete the study in the stipulated time.

### **1.6 Methodology**

The methodology provides the specific procedures or techniques applied to collect and analyze the data of the study. This methodology permits the reader to critically analyze the authenticity of the research results or findings. To authenticate the research results involves

determining the validity and reliability of the survey or questionnaire, methods of collecting data and the analysis and interpretation of the study.

This section provides sources of data used in the study. This includes the use of primary and secondary data. The methodology includes the research design, sampling procedures, and treatment of data.

## **Illustration of the Methodology**

### **Sources of Data**

The sources of data were both primary and secondary data.

### **Primary Data**

The primary data was collected using

1. A survey or questionnaire was the main instrument for data collection for the study. The questionnaire was validated by 5 experts in academia and 5 professionals in business. The recommendations from those experts were incorporated in the survey. At the same time, the data collected from the expert will determine the content validity using content validity index. Furthermore, construct validity will be determined using factorial analysis.
2. Observation will be applied to determine the viability of opening a business incubator. Observation method will be unstructured. In unstructured is conducted in an open and free manner without any preconceived or predetermined variables or objectives to achieve in the study. This method is beneficial due to the fact that

observation provides direct access to the research participants and provides flexibility in the data collection process.

### **Secondary Data**

The following secondary data source will be used as a strategy to collect adequate data for the feasibility study.

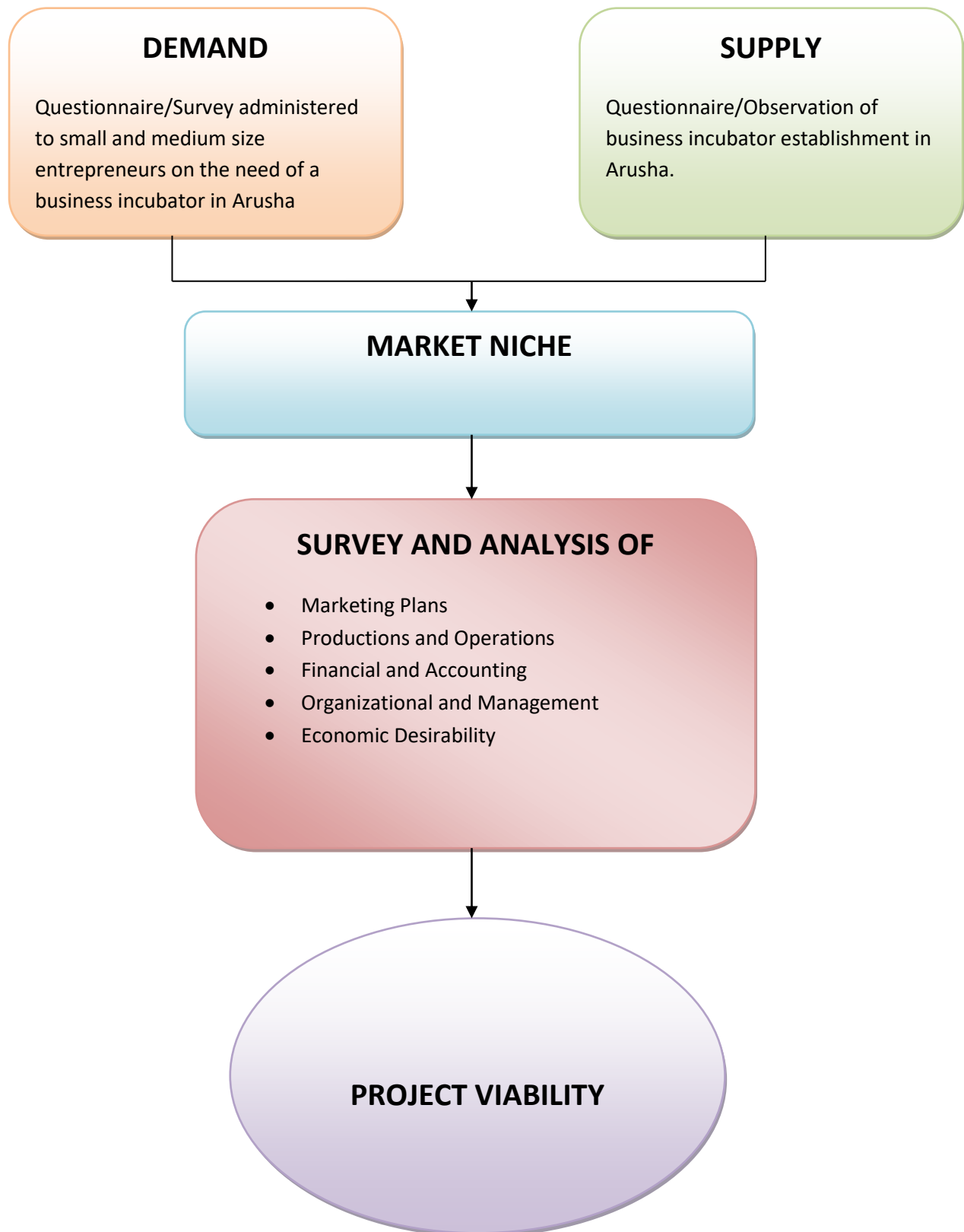
1. Collect survey from the Tanzania Bureau of statistics about small and medium sized business.
2. Records from the chamber of commerce about small and medium sized business located in Arusha.
3. Journal articles and publications about business incubators promoting small and medium sized business globally and locally in Tanzania.
4. Legislation and local policies supporting small and medium sized business via the nurturing of business incubators.

### **Research Design and Framework**

The research approach will be quantitative and the research design will be descriptive and exploratory in nature. The descriptive research design will be used to describe the different characteristics and attributes of the small and medium sized entrepreneurs in Arusha. At the same time, exploratory design will be used to examine the need and demand of small and medium sized entrepreneurs in relation to knowledge and expertise in establishing a sustainable business plan and model.

The research frame provides the illustration of the research design to be applied in the feasibility study. Specifically, it provides the detailed step by step procedures to conduct the research.

Figure 1



## Sampling Procedure

The study managed to acquire appropriate data from the Chairman of the Association for small and medium size business in Arusha. There are a total of 48321 small and medium businesses located in Arusha. Due to the large number of the targeted small and medium businesses, the study applied the sampling formula to determine the sample size of small and medium entrepreneurs who will participate in this feasibility study. According to Masanja (2018) the sampling formula is provided below.

$$n = \frac{N}{(1+Ne^2)}$$

$$n = \frac{48321}{(1+48321(0.05^2))} = 396.7 = 397 \text{ entrepreneurs}$$

Where n = sample size

N = number of population

e = Margin of error

The study applied the 5% margin of error and an estimated sample size of 397 small and medium size business entrepreneurs located in Arusha.

## Treatment of Data

The data collected from the questionnaire administered to small and medium size entrepreneurs were checked and cleaned. Data cleaning involves the process of modifying data to remove irrelevance and inaccurate information. Specifically, this activity involves identifying incorrect, irrelevant, and incomplete answers from the filled

questionnaires and replacing or removing those responses from the data coded. The whole process of data cleaning improves the efficiency of the results for data analysis and therefore improves the data quality.

The following are some of the financial ratios and capital budget techniques that are applied to analyze and evaluate the financial viability and sustainability of the feasibility study.

### Internal Rate of Return (IRR)

The internal rate of return is a method applied in capital budgeting to determine the profitability of proposed project or feasibility study. The internal rate of return relies on a discount rate that takes into consideration the net present value (NPV) of all cash flow from a proposed project to be equal to zero. The formula for internal rate of return is provided below

$$0 = NPV = \sum_{T=1}^T \frac{C_t}{(1+IRR)^t} - C_0$$

where:

$C_t$ =Net cash inflow during the period t

$C_0$ =Total initial investment costs

IRR=the internal rate of return

t=the number of time periods

### Payback Period in Years

The payback period is the amount of time it takes to gain back the original cost of a specific investment. The best case scenario of a payback period is the least amount of time and therefore the investment is desirable and attractive for investment purposes.

$$\text{Payback Period} = \frac{\text{Initial Investment}}{\text{Annual Cash Flow}}$$

### Net Present Value (NPV)

The net present value is the difference between the present value of cash inflows and outflows in a specific period of time. It is normally applicable in capital budgeting and investment planning to determine the profitability of a proposed project of investment in the future.

$$\text{NPV} = \sum_{T=1}^n \frac{\text{CF}_t}{(1+i)^t} - C_0$$

Where:

$\text{CF}_t$  = Net cash inflow-outflows during a single period t

i = Discount rate or return that could be earned in  
an alternative investment

t = Number of timer periods

A positive Net present value shows that the projected earnings generated by the project or investment in real currency (e.g. Tanzania

Shillings) surpass the projected cost in real currency. In other words, an investment with a positive NPV will be profitable and desirable to invest while a negative NPV will be a loss and therefore undesirable for investment purposes. Based on this concept, an investment with a positive NPV should be considered for investment.

### **Profit Margin**

Profit margin refers to common profitability ratios which indicate the proportion of each sales shilling earners as new income or alternatively the profitability based on sales. It is an indicator to determine a project or business endeavor is making money. In other words, it represents the percentage of sales that have been translated into profits.

$$\text{Profit Margin} = \frac{\text{Net Income}}{\text{Sales}}$$

### **Review of Related Literature**

Business incubator is an integral part in any business development. Most businesses have realized the importance business incubators in the growth and sustainability of business and entrepreneurial activities around the world. This has lead to the rise of the number of business incubators in different regions around the world. Specifically, the issue of business incubators is a topic of discussion in the business arena today.

In order to gain a broad and deep understanding of business incubator, it is imperative to define and explain the concept. In particular, business incubator refers to an organization established to promote the expansion and growth of entrepreneurial activities through an application of business support resources and services that include financial, social, moral, and physical support that creates sustainable business activities. These programs are normally supported by private

companies and government entities such as NGO, colleges and local authorities.

On the issue of the main purpose of business incubators, it is a space to create an ecosystem for thriving and sustainable business. Specifically, the purpose of business incubators is to establish and expand small business by providing critical and essential support through financial and technical services. In addition, business incubators provide a working space at low rates or even for free. Furthermore, business incubators provide technical and financial advice for developing a successful business. This advice extends to legal advice to open and operate a business entity will all necessary documents. Moreover, the business incubators provide marketing and promotional advice so small and medium sized business and strategically advertises their business by creating a market niche.

The time of business incubation varies depending on the nature of the business. This is due to the fact that some businesses require a lot of time in the establishing the necessary requirements while some business require minimum time (Moritz, 2019). Normally on average, business incubation takes two years where by these business share resources such as internet, telephone, production equipment and other resources in effort to minimize the start-up and operational costs for a small or medium sized business endeavor.

## **Marketing**

### **Demand**

Based on the statistics provided by Chamber of commerce in Tanzania, the results indicate that there is a growing of small and medium size business in Tanzania. Specifically, there are 54 new business opened every month in Arusha. These businesses offer a variety of services in different sectors which have an instrumental impact on the economic output of Tanzania.

However, these businesses are crippled with lack of adequate knowledge, skills, expertise and experience in operating successful

business activities in their locality. At the same time, these businesses lack the financial and technical resources to ensure their sustainability in the long-run. For this reason, the statistics support this notion and indicate that every 10 business registered, only 3 would survive and grow to become big and sustainable business (Rapont, 2020).

Further data analysis reveals that there is lack of business incubator to nurture small and medium size business in Arusha. These business incubators provide instrumental guidance to open and operate successful businesses which contribute to the economy of a particular locality and the nation at large. In this case, there is a demand for business incubators in Arusha to provide appropriate financial and technical resources to start and grow small and medium sized businesses.

### **Management and Organizations**

The management and organization of small and medium sized business is normally a daunting task for most of the entrepreneurs. This involves navigating the legal requirements to open a small or medium business. More so, the financial and technical hurdles required to open a sustainable business. In this case, a business incubator can provide appropriate and adequate guideline to navigate these treacherous business environments. In this case, a business incubator will offer the following services to new and existing entrepreneurs

1. The business incubator will assist in the planning of the business. These planning activities include turning an initial concept or idea into a viable business plan for implementation.
2. The business incubator will help in launching the business. This process involves translating the business plan into reality. In other words, register and filling for a new business with all necessary legal document required by law.
3. The business incubator will assist in the management of the business. This involves providing financial and technical advice wherever possible. At the same time, monitoring the daily

operations for the business to ensure its survival and success in the long-run.

4. The business incubators will help the growth of the business. These activities include securing new funding, locations and potential customers to increase the market share of the business. This is an integral part of any small or medium sized business in Arusha.

### **Form of Business**

The first challenging task for any small or medium sized business is to determine the form of business. This is because of tax purposes and legal obligation to operate as a business entity. Normally, there are three forms of business which are a sole proprietorship, partnerships, and a corporation or a company.

This business incubator will registered as a corporation. A corporation is an organization formed by a group of two or more people and operates as a single or legal entity. This means that the business incubator will be separate and distinct from its owners. In this sense, a corporation will have the rights and responsibilities that individual hold including entering binding contracts, loans and other legal binding obligations. One the most essential characteristic of a corporation is limited liability. Limited liability implies that the shareholders enjoy the profits through the dividends and stock value increment. However, the stakeholders are not personally liable for the company debts. Moreover, it is a not always that corporations are meant for profits. Sometimes the purpose of the corporation is for social entrepreneurial purposes whereby benefits are for the welfare of members or a particular community. This

is the best form of business since it is possible to raise funds as a legal entity to fund and support small and medium sized business.

### **Financing**

It is mutually understood in developed and developing countries that small and medium size businesses have limited access to financing. These financial constraints limit the operations and expansion of these businesses. In Tanzania, 16% of small and medium size business gain access to loans and funding from financial institutions (Mashimba, 2018). At the same time, those few business who have access to loans and funding are subjected to a long bureaucratic process that tend to discourages small and medium entrepreneurs. The lack of funding has a detrimental effect to the survival and growth of the business.

The difficult in small and medium financing is the lack of a formalized setting to track the business. It is relatively difficult to enforce loan payments when the entrepreneurs can evade paying their outstanding loans. In this setting, financial institutions are required to develop stringent loan policies which are difficult for small and medium businesses to meet. For instance, small and medium size businesses should have a registered title of a property to qualify for a loan. This makes it extremely difficult to acquire a loan to expand a business.

Although there are organizations which have bridged the gap by providing short-term loans to small and medium business in Tanzania, most of the organizations are considered loan sharks. The interest is relatively high to a point where it is difficult to payback the loans incurred by small and medium sized business. Based on these difficulties, it is essential to develop a business incubator which will provide legal advice for small and medium sized business to secure

funding to operate and expand their businesses. In addition to this, the business incubator will identify potential funding. But at the same time the business incubator will provide short-term funding to small and medium size business located in Arusha.

## **Technical/Production**

### **Cost of Operation/Maintenance**

The entrepreneurs from small and medium sized business must apply for admission in the program. The admission criteria vary depending on the nature of the business. However, the main criteria depend on the business idea and the implementation of the business plan.

Business incubators provide entrepreneurs with office space and administrative services for business ideas in the initial stages. These services are associated with the cost of operations of the business incubator. The cost of operations can vary depending on the services offered by the business incubator.

## **Definition of Terms**

This is a list of main or common words used in the feasibility study. The definitions of terms provide the operational definition of the main and common words or terms used in the study. The definition provides an explanation and understanding of how these terms or words are applied in the feasibility study.

## **Illustration of Definition of Terms**

**Business Incubator** is a legal entity that assists and provide services to small and medium sized businesses or entrepreneurs on how to start, manage and expand their businesses.

**Medium-Sized Enterprises** is a legal entity with 50 to 99 employees.

**Micro-Sized Enterprises** is a legal entity with fewer than 5 employees.

**Small-Sized Enterprises** is a legal entity with 5 to 49 employees.

**Small and Medium Sized Enterprises or Business (SMEs)** are defined as micro, small and medium size enterprises that include manufacturing, commerce and services excluding direct farming activities.