



The Role of Venture Capital Finance to Floriculture Business Performance in Arusha, Tanzania

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Abstract

This paper researched on the provision of finance to Agribusiness in rural-urban in developing economies to support business start-up and growth, enhance access to finance, market and technical management support. The study analyzed the relationships between floriculture business and financiers and explored on business ownerships and financial packages that cater for useful finance for start-up, expansion and settled performance. Analysis of these relations enabled us to study critical shortage of finance and limitations to access finance as experienced in investments perceived with high potential returns, attractive product and high product marketability in rural and urban areas. On the other hand the study of relationships between lenders and borrowers in agri-sector has triggered search for sustainable financing model, effective management and development of Agribusiness as opposed to supply-driven finance, short-termism, collateral-based financing approaches in agriculture and small business sectors. Business undertaking in Agriculture sector is still perceived by banking and other traditional financial institutions as high risk investment, high uncertainty of returns, and high production risks, too dependent on climate and weather effects. This has left away investments with high potential return and greater contribution to economic development with dismal finances. Thus this research identified venture finance method could be deployed to reduce investor perceived uncertainty, raise supply of finance and credit to agribusiness.

Keywords: *Venture Capital; Finance Decisions; Floriculture; Business Performance*

1. Introduction

Literatures on agri-lending have highlighted the challenges of providing finance to farmers operating small businesses. However, micro-finance institutions have overcome some obstacles of finance supply, but their supply of loans and credits are mainly used for micro-scale and social needs and not used as capital to acquire farm equipment and inputs. Therefore, better access or supply of finances and to credits should be translated into productive investments, not for consumptive purpose.

Banks and financial institutions in developing economies mostly focus on provision of multipurpose and short-term funds to small farmers and agri-business. However, these conventional financial institutions are yet to provide noticeable finances for startups, growth and development of Agri-businesses in competitive market environment. This study will explore exiting financing approaches to envisage best fit financing mechanism, which positively influence start up stage, expansion and growth and enable agri-businesses to operate their business successfully. The best fit financing approach should address the challenges of supply driven financing, short-termism on credit supply and shortage of long term finance

Information Communication technology (ICT) is being deployed to change inherent challenges of access to finance worldwide. This has become an attractive phenomenon in agriculture due to traditional concentration of location of financial institutions in major cities leaving out rural and agri centers with limited access to financial services. Thus ICT and its mobile devices are attracting more and more agri business players and small farmers like Floriculture business operators to financial services. Current growing uses of mobile financial services among famers in developing economies like Tanzania are based on a credit supply approach that cannot outmaneuver the aforementioned traditional financial challenges.

Aforementioned challenges in agri lending institutions, traditional banking and financial products made available to agriculture sector and the dismal impact of ICT to agriculture sector has constrain flow of finance to agribusiness, for startup, growth and expansion. This systemic financing problem to agriculture sector has led to dismal result of trade investments and returns in particular from agri business. On the other hand it is interesting to note that venture capital financiers deploy financing approaches that turned and leverage trade and investment projects that are perceived as high risk to lucrative and high potential returns projects that attract both traditional and hybrid finances.

Tanzania is one of the most countries with fertile land in African region, which is endowed with climate advantage for cultivation of flowers, but still what is being produced is quite less compared to other countries. (EUROSTAT, 2007). This situation poses the following question: Why is floriculture farming in Tanzania is not growing to exploit high potential returns? This question attempt to mirror the Ministry of Agriculture Plan 2022/23 to deploy financial reform on agri financing in order to raise horticulture revenue from Tsh. 13 billion to Tsh. 700 billion by 2023. (Mistry of Agriculture, National Agriculture budget 2022/23).

This study explored new financing approach to facilitate floriculture business to access to finances for start-up, growth, and development in sustainable fashion. Thus, the integration of principles of agribusiness, financial management and capital investment decisions to conduct successful business in agriculture sectors was important area of research enquiry.

1.1 Research Problem

Agriculture has achieved commercial importance and is increasingly changing from subsistence farming, import oriented to export oriented, supply driven technology to demand driven technology. Agriculture has been on top of development agenda in recent days in Tanzania. This development agenda is in parallel with World Bank's conviction that agricultural development is the most viable tool to achieve the first millennium development goal of reducing extreme poverty and hunger in the region (World Bank, 2007). Floriculture is one of the sectors in Agriculture industry through which Tanzania boosted Gross Domestic Products (GDP). Tanzania engage in floriculture due to the high demand of flowers for luxurious product in the developed countries in Europe (Getu, 2009). Given the demand for flowers base-luxurious products in the globe and specifically in the developed countries, floriculture was seen as an economic remedy for many developing countries with favorable geographic conditions (Frank and Cruz, 2001). However the level of financial investment made in flower industry is still considered small due to weak financial sector.

Financial sector in developing economies like Tanzania are more saturated by commercial banks and credit institutions providing short term finances to borrowers. This sector is mainly based on supply-lending, proximity to city locations, adequate tangible collateral assets to back up finance supply of loan and credit. This situation precipitated condition of turning way from business perceived with higher financial risks, business operating in rural areas, businesses with less or no assets for collateral lending and agri- business in agriculture sector. Agri businesses are more affected since they are perceived with grater uncertainties and inherently weakness aforementioned.

In spite of these inherent weaknesses, there are high potential returns in agriculture businesses. This potential high returns have attracted to Agriculture sector special group of financial investors from local and international financial markets to agri business in particular floriculture business in Arusha region, Tanzania.

Since liberalization of financial sector in 1990s to date, the numbers of banks and financial institutions in Tanzania have been raising. For instance the number of banks has risen from 8 to 54 between 1990 to 2012 respectively. (BOT, Annual review reports 2021). With exception of Credit guarantee scheme from Bank of Tanzania, loans totaling Tshs 43 billion extended to floriculture industry, there was no substantive evidence showed that banks and financial institutions contributed to the supply of finances to floriculture business in Tanzania. On the other hand financial market reports showed similar or traditional financial products were served agri business sector between year 2010 and 2022 however this finances did not focused on actual cultivation and production of floriculture. This has evidenced limited variety or innovative financial products made available such as equity, debt, quasi-debt and venture finances were meager or not made available in the financial sector for horticulture business.

Relatively, there were few financial institutions extended finances to agriculture sector for production and marketing. There is no evidence of the extent BOT requirement to all banks to maintain 10% of total loan portfolio has influenced the supply finance and services available to Agribusinesses engaged in actual cultivation of flowers. Most financial institutions extended their credits to businesses engaging in supply of farm inputs and equipment leaving away business engaging in actual farming, production or plantations

Thus, a research Question to this study was *What is the more effective financing method to floriculture businesses for sustainable growth and development?*

Specifically:

- *What is the impact of venture capital financing to floriculture business performance?*
- *What is the significance of venture capital financing to start and grow of floriculture business?*
- *What is the role of venture capital financing to floriculture business to access finance?*

We researched on the provision of finance to floriculture business to achieve a sustainable growth, enhance access to finance, change ability to manage and operate their business at different stages and attract external finances from traditional and international financial centers through IPO and foreign direct investment DFIs agents.

1.2 Hypothesis/Objectives/Research Questions

Research Objectives

The research aimed to find out an effective financial relationship(s) between lenders and floriculture businesses in the process to access finances and credits and or use of use external finance. Also the study examined the nature and extent of non-financial services associated with any financial package made available to floriculture-businesses. In order to achieve this, the study examined factors

that influence the supply of various forms of capital, credit and other finances to floriculture business. Also the study analyzed factors that influence the floriculture businesses' decision to use external credit and finance to resolve financial shortage and exploited their potential growth and long term opportunities.

1.2.1 Specific Research Objectives

The study aimed to achieve the following objectives;

- a) To identify the factors that influence floriculture business operators in deciding on external finances and the extent to which these factors influence their financing decisions.
- b) To identify the factors that influence financial lenders in deciding the financial investment and the extent to which these factors attract financial investment to floriculture businesses.
- c) To determine the best method to provide both financial and business development services so as to help agri-businesses grow and thrive.

1.2.2 Research Questions

In order to achieve the stated objectives the following questions were addressed in the questionnaires sent to floriculture business operators working at small scale and medium size businesses:

- a) What factors that influence floriculture business in their decision to choose capital financing method?
- b) What evaluation criteria influence lenders (capital owners) to invest in floriculture business?
- c) To what extent venture capital finances influenced agribusiness turnover, and return on investment of floriculture businesses

1.2.3 Research Motivation, Justification and Significance

1.2.3.1 Research Motivation and Justification

- a) There are some financial institutions, which have excess liquidity and excess risk aversion with short-term credit focus while agriculture sector lack investment funds.
- b) Ongoing reforms in agri financing sector has manifested high risk appetite of domestic and international lenders in agriculture sectors.
- c) Increased access of agri business to financial services in rural and urban areas has contributed to business growth, and country economic development but financing activities are still skewed to limited innovative financing methods
- d) Massive inflow of foreign direct investments (FDs) paralleled with increase in supply of private equity capital to developing economies have raised a concern to agri-business operators to focus on long term growth perspectives. (World Bank, 2000)
- e) Search for practical recommendations that Floriculture business operators to effectively utilize relevant finance in an efficient manner to reduce sustainable and long term capital shortage.
- f) A need to understand new approaches of financial intermediaries, lenders and borrowers in order to provide capital finances to business operating in high potential return but perceived as higher risk in developing economies like Tanzania.

1.2.3.2 Significance of This Study

- 1) To furtherance review and reform of financial sector system, methods approaches mobilize additional finances to agricultural sector in particular horticulture.
- 2) Adopting a proper financing strategy (financial inclusion to famers operating in high potential business perceived as high risk operation by lenders) lowers agency risk in projects in developing economies, attracting more capital finance and credit to Floriculture business operators.

- 3) The research findings has provided an assessment of the rationality of Floriculture business operators ' decisions relating to financing theory and find out if a gap exists between theory and practice regarding the impact of financing and investment decisions
- 4) Research findings explained the extent to which financing method influenced start up and sustainable growth of Small Agribusiness Enterprises in developing economies.

1.2.3.3 Definition of Important Terminologies

- a. Agri- business transaction means transaction which involve either a product, a commodity or a service and encompasses items such as productive resources (feed, seed, fertilizers, equipment, energy and machinery) and agricultural commodities, facilitative services e.g. credit, insurance marketing, storage, processing, transportation, packing and distribution.
- b. Agri business system means system with forward and backward linkages consisting of four major sectors: agricultural input, agricultural production, agro processing,” and agricultural marketing and distribution sector. These four sectors act as interrelated parts of a system in which the success of each sector depends, to a large extent, on the proper functioning of the other sectors
- c. Venture Capital (VC) means financing contracts that attract VCFs and investees to open monitoring and renegotiation where the contract contains certain rights and obligations¹. (Hisrich et all 2000; Scarborough, 1991).
- d. VC investee is a firm that has a demand for external finance to meet its start up or growth objectives. (Bagari, 1992; Sagari, 1991).
- e. A venture capital firm (VCF) is any financial institutions that provides funds to an Investee. These financiers include individuals, partnership, and incorporated venture capital companies, industrial and financial corporations.
- f. Agency principal relationship. Agency risk is defined as the degree of uncertainty that either investee management or the VCF will pursue in his or her own self-interest rather than comply with requirements of the VC contract (Fiet, 1995).
- g. Small and Medium Agribusiness Enterprises or floriculture business operators). For the purpose of this study Floriculture business operators were conceptually classified and categorized as venture capital investees with Small and Medium Agribusiness Enterprises status.
- h. The terms/phrase- efficient, effective and comprehensive financing method/approach was as used in this research are synonymously and mean well organized and justifiable capital financing.

Financial innovation as used in this research means financial contract where the two parties (investee and VCF are subject to open and continuous monitoring. Areas or factor which are subject to monitoring include capital amount, terms of investment, dividend policy, composition of board of directors, reporting requirements, right of co-sale, warranties, approvals, appointment of an auditor, major asset purchase, significant variation of plans and employment contracts.

2: Literature Review

2.1 Theoretical Literature Review

2.1.1 Role of Agriculture to Economic Development

Agricultural sector plays a strategic role in the process of economic development of a country. It has already made a significant contribution to the economic prosperity of advanced countries and its role in less developed countries is vital. In country where per capita real income is low, emphasis is being laid on agriculture and other primary industries. “Increase in agricultural production and the rise in the per-capita income of the rural community, together with the industrialization and urbanization, lead to an increased demand in industrial production”(Dr. Bright Singh, 2010).

The history of England is clear evidence that Agricultural Revolution preceded the Industrial Revolution. In U.S.A., also agricultural development has helped the process of their industrialization. In developing economies industrial and agricultural developments are not alternatives but are complementary and are mutually supporting with respect to both inputs and outputs.” In Tanzania we have adopted several strategy including Kilimo Kwanza, Siasa ni Kilimo and Kilimo ni Afya to develop agriculture. In Tanzania, Agriculture makes its contribution to economic development in several ways, including the following,

- (i) Earning valuable foreign exchange through exports of agricultural products
- (ii) Providing food and raw material to non-agricultural sectors of the economy
- (iii) Creating demand for goods produced in non-agricultural sectors
- (iv) Providing investable surplus in the form of savings to be invested in non-agricultural sector
- (v) Employing uneducated, backward and unskilled labour

Agriculture has achieved commercial importance and is increasingly changing from subsistence farming, import commercial farming oriented to export oriented, supply driven technology to demand driven technology. Agriculture has been on top of recent development agenda in Tanzania National Development Strategic Plan 2020/30 in parallel with World Bank’s conviction that agricultural development is the most viable tool to achieve the first millennium development goal of reducing extreme poverty in the region (World Bank, 2007)

2.1.2 Contribution of Horticulture to Agriculture Sector.

Traditionally the main purpose of agriculture in Tanzania is the provision of food to country. The significance of commercial importance of agriculture is rising due to many factors including climate changes, advance economic development which turned floriculture based product luxurious goods and dependencies of developed and developing economies. Cash crop such as coffee, rubber and sisal were traditionally identified as commercial crops. However, Horticulture is now one of agri- subsectors strongly associated with commercial significant to developing economies given advanced development in Europe, Asia and USA. Horticulture activities include Olericulture - the production of vegetables, fruticulture- the production of fruits and nuts, viticulture- the production of grapes for winemaking and floriculture- the production of flowering and ornamental plants.

Getu (2009) defines floriculture as “a discipline of horticulture concerned with the cultivation of flowering and ornamental plants for gardens and for the floral industry.” Floriculture, as an industry, comprises both production and marketing of different varieties of flower and related plants. Van Uffelen (2005) defined floriculture as cultivation and marketing of a wide variety of plants and planning materials including parental products like cut flowers, foliage, potted plants, garden plants, nursery stock (trees), flowering leafy, annuals, perennials, flower bulbs and tubers (Van Uffelen, 2005). In this respect, floriculture is inclusive of both flowers and other ornamental trees that can be used to decorate house or office compounds. Floriculture is part of horticulture that is concerned with commercial production, marketing, and sale of bedding plants, cut flowers, potted flowering plants, foliage plants, flower arrangements, and noncommercial home gardening (Getu, 2009). Tanzania exports not only cut flowers, but also chrysanthemums and other material for potted plants. In this paper, floriculture is treated as production and export of cut flowers. The consideration here is that most of the floriculture products in Tanzania are flowers, especially cut roses.

Given the demand for luxurious good in the globe and specifically in the developed countries, floriculture was seen as an economic remedy for many developing countries with favorable geographic conditions (Frank and Cruz, 2001). However, the level of financial investment made in flower industry is still considered small. Most of the flowers grown in Tanzania and Africa are exported to European Union (EU). Flowers export leading countries from developing global with their export percentage %

contribution include Kenya (38%) Zimbabwe (5%), Uganda (3%), South Africa (2%), Zambia (2%), Ethiopia (1%) and Tanzania (1%) (EUROSTAT, 2007)

2.1.1.2 The Significance of Agri business in small and medium Enterprise (SMES) Sector

Most policy makers, planners and academia in developing countries acknowledged that the future of their countries competitive and economic growth depend on the private sector in which the Small and Medium Enterprises play a major role (Rutashobya, 2007). The majority of new jobs and future products are becoming the output of flexible and innovative forces of small scale business. In order to service the growth and competition, countries' economies have to focus on the steady innovation and upgrading process of Small scale enterprises and their output.

About 70 percent of people in sub-Saharan African rely on the small enterprises for their livelihood. (Rutashobya, 1995; Massawe, 2000). Tanzanian floriculture industry provides jobs for more than 20,000 people using an approximately an area of over two hundreds of hectares. Annually floriculture business brings the country an estimated income between US \$ 33 to US \$60 million dollars (Donatha E Maswe, 2015; The Citizen Newspapers, 2022).

The fact that Floriculture business operation can usually be established rapidly and put into operation to produce quick returns, a conventional finance to Floriculture business remains out fashioned (Hisrich R. et, al; 2000). It follows that most of SMEs in Tanzania constitute Agribusinesses. Floriculture has emerged as one of the sectors in Agriculture through which Tanzania can boost their Gross Domestic Products (GDP). Tanzania engage in floriculture due to the high demand of flowers in the developed countries in Europe. This point is well argued by Getu (2009), noting that "flowers are luxurious products with high social value and not used for food" The Floriculture business operators contribute to employment growth through utilizing labor intensive technologies to reveal an immediate impact on employment generation (Kitine, 2020). Floriculture business export contribute to increased national incomes, saving and the encouragement of business ownership and management at enterprise level.

2.1.1.3 Flowers Farmers' Association in Tanzania

Tanzania Horticultural Association (TAHA) is a country's flower growers association which coordinates the activity of companies engaged in floriculture business. The major industrial center and exotic center of growing and exporting flowers in Tanzania is Arusha.

The development of floriculture industry in Tanzania has been noticed in the recent ten years. Tanzania has a lot of potential when it comes to flower cultivation and export. Tanzania is located close to the equator region, with perfect climate to grow flowers. Favorable conditions of the hilly area (Arusha and Moshi) attracted the attention of companies that grow planting materials. Also the favorable labor costs are very interesting to produce high quality flowers for lower costs. Kenya is already one of the biggest flower export companies in the world, producing high quality roses and other flowers. The export numbers of the country have been growing, this shows that Tanzania is struggling to hard to become an important player in the floriculture sector.

2.1.1.4 Floriculture business in Tanzania

Floriculture Companies Operating in Tanzania

Floriculture business in Tanzania involved cultivation of euphorbia and amimajus flower species for export to Europe since 1980 (Sutton and Olomi, 2012). Greenhouses farming of rose flowers in Tanzania was initially carried by two foreign companies of Flowers and Kiliflora (Nyambo and Verschoor, 2005). Later another 5 companies were involved in floriculture industry in Tanzania by 2012

as summarized below (i) Kiliflora (ii) Tanzania Flowers (iii) Kombe or Tengeru Flowers (iv). Hortanzia (v) Horticulture Farms (vi) Mount Meru Flowers and (vii) La Fleur d"Afrique, Viii) Shira flowers, ix) Allua Flowers, x) Zanziflora, xi) Finlays, Xii) Falmingo and xiii) Arusha booms Ltd. Most of these flower companies are owned by foreigners or Tanzanian and foreigners.

2.1.14 Flower Exports in Tanzania

Currently, the Netherlands imports about 90% of Tanzania flowers (Rikken, 2011). There is a growing local demand for cut flowers in major cities and towns of Dar es Salaam, Arusha, Mwanza and Moshi. The fact that that Tanzania has favorable climatic and soil conditions for growing flower, still the productive capacity of the sector is largely underutilized due to various constraints like financial, management and marketing. The Table below shows an industry trend analysis of flower exports, growth and value of cut flowers since year 2014 to 2020. Raise and fall of flowers production levels were influenced by various factors including specific country horticulture policy, air transportation, cluster farming and financial constraint on interest on loans charges to small indigenous out growers. (Donatha E. Maswe, 2015); Theodosy Msogoya and Amon P Maerere, (2006).

Table 1: Industry Analysis of cut flowers.

Year 200	Export Growth	Cut flowers in Tons	Cut Flower Exports In \$
2004		3,513	8,321
2005	(23)	2,759	9,262
2006	(24)	2,109	7,791
2007	12	2,464	8,812
2008	12	2,754	13,425
2009	9	3,008	14,073
2010	(10)	2,700	23,322
2011	20	3,227	20,281
2012		3,634	33,633

Flower growing and marketing in Tanzania is logistically related with Kenya -neighboring country. Around 80% of all produced flowers by Tanzania local firm are transported to Nairobi, Kenya and from there exported to Europe and the United States. Around 20% of the flowers from Tanzania are transported by passenger flights departing from the international airport in Arusha (Kilimanjaro) while the rest is transported by cargo planes. From all flowers to Europe, about 90% all flowers supplied from Tanzania to Europe find their destination to the main floriculture global hub of Holland, Netherlands (Rikken, 2011; *ibid*). The Netherlands is the center of production for the European floral market, as well as a major international supplier to other continents. The flower auction at Aalsmeer, Holland is the largest flower market in the world since 1970.

2.1.2 Theory on Financing Decisions

Financing decisions are about firm's capital structure designed to raise funds for the business start-up operation, and expansion while taking into account of the proportions of debt and equity that a firm should use to finance its business. The literature on firm's finance by various authors e.g. Vander, 1989; Wlchaelas et. Al, (1999), Brealey and Myer (1986) and Schumpeter, (1934) show that firms use various financing methods to reach optimal debt-equity proportion that maximises the firm's wealth.

Schumpeter (1934) analyzed the role and motive of external finance to grow small businesses. Modern finance theory provides a host of arguments as to why companies would want to choose debt, equity, or hybrid instruments. Fiscal Theory, Trade-Off Theory and Pecking Order Theory explain various

financing decisions in respect to firms' capital structure (Vander, 1989; Michaelas et al, 1999; Modigliani and Miller, 1984). These theories are relevant as part of the explanation of the role of equity finance to Floriculture business operators. In practice investment and financing decisions interact and cannot be wholly separated (Barley, 1986). In perfect markets only investment decisions affect firm's value (Modigliani and Miller, 1984.) The following theories explain imperfect market situations to address Tanzania local financial market situation.

The Pecking Order Theory states that a firm uses internal funds to finance investment and choose debt over equity when external finance is required. New equity issues are last resort when the company runs out of debt capacity. In respect of internal-funds Floriculture business operators always suffer shortage of internally generated funds. The Trade-Off Theory of capital structure purports that a company with safe tangible assets and taxable income to shield ought to have a high target debt ratio. Floriculture business operators with risk intangible assets ought to rely primarily on equity financing, which is insufficient. Miller's theory- an extension of Modigliani and Miller's theory argues: "The supply of VC is a hybrid financial instrument, which consists of varying proportion of debt and equity Capital. The theory points out that equity income may largely escape personal taxes if it comes in the form of capital gain. A conclusion of this literature is that if a company has easily collateralizable assets, it may want to raise debt against them. If, however, such assets cannot guarantee debt, a number of agency problems may increase the cost of debt. Issuing equity instead of taking on debt may alleviate some of these agency problems. If, however, a company needs to give up a significant equity stake to outside investors, a different set of agency problems may arise. In particular, the management team may have weaker incentives to maximize shareholders value as the equity share of the owner manager and the size of the employee option pool becomes smaller.

In general, it can be argued that unsecured debt has a lower risk profile than equity. At a low leverage, it may thus be a relatively "cheap" source of funds. In addition to wanting to raise a maximum amount of collateralizable (or "safe") debt, a company would thus want to raise some unsecured debt, as well as some equity (Harris and Raviv, 1991)

Critics of the theories on capital structure do not explain how companies behave at different economic sectors such as Agriculture or at different life cycle stages such as startup and early growing stages and how accordingly meet their external financing demand. They explain only in brief about the role of equity in the dynamics of growth of enterprises and leave a gap on existing literature on shortage of equity to business operating in specific economic sectors traditionally perceived as high risk undertaking. For instance performance result of agribusiness companies is closely linked to performance of agri-sector. The potential role of equity is identified only when the company runs out of debt capacity or when there is no gain from tax shield and shy away from early growth stages. Theories favor conservative financing that is more impracticable to Floriculture business operators. They stress the value of financial slack which is not always available to small growing enterprises. In a country like Tanzania there is always shortage of finance in Floriculture business sector hence financial slack in practice is negligible

The theories have ignored the critical explanation of financial environment of small and growing firms in specific economic sectors such as Agriculture; hence explain less about inter-industry differences and dynamics in large corporations' vis-a-viz small and growing industries like Floriculture business operators (Jensen, 1985, quoting: Brealey and Myers 1986). Venture capital investee is rarely in a tax-paying position. Tax arbitrage is therefore often of secondary importance to these companies unless the company is profitable. The theories have not explained the use of more complex 'instruments, for example, the convertible preferred share, a common instrument used in the VC industry. Also the theories do not identify the option of financial contracting techniques (George et al December, 1995 simultaneous use of debt and equity from single financier as means to combines various proportion of debt and equity in one instrument to finance a more dynamic enterprises.

2.1.3 The Relevance of Debt Financing to Business Operators

A long-term debt offers greater flexibility over short-term debt to the borrower as it allows a longer period for repayment. Debt is raised by use of security like equity shares, preference shares, bonds and debenture (quasi equity) (Coopers and Lybrand, 1990). Debt finances are mostly used to acquire major fixed assets such as land buildings, machines and equipment to support the running of the business. Long-term debt can be available from banks and non-bank financial institutions at fixed or floating interest rates secured against the enterprise's assets. Enterprises whose large portion of assets comprise intangible properties can arrange for quasi equity or unsecured bond. Debt financing is most preferred to equity financing because interest expense is tax deductible, hence less costly. However, this assumption works only to the extent that an enterprise has made adequate profit to take advantage of debt cushion and has accumulated significant tangible assets. Floriculture business perceived by banks to have uncertain profit levels, irregular cash inflows to service its debt and most of its intangible or biological assets will find debts as the most expensive sources of finance. Many floriculture business operating in Arusha are experiencing financial constraints from high interest loan and credit. Over 6% flower companies financed by the Special credit Quarantee scheme of Central Bank of Tanzania, have default their loan totaling 400 million USD

A bank term loans, may have a variable or a fixed rate of interests. For a fixed rate, the bank takes out the downside payment of the interest rate risk. But the company loses the chance to benefit if interest rate falls. With variable rates, the borrowing firm has to meet both the up and the down side risk should the interest rate change. Thus loans discussed above are not suitable and even available to small and growing floriculture businesses in Tanzania. In this situation as discussed above, the role of equity capital as risk cushion, with timed and variable returns will be most favored by Floriculture business operators.

2.1.4 The Relevance of Equity Finance to Enterprise Capital

Most firms in the Floriculture business sector, are entrepreneurial and low- technology based firms. These businesses have more biological and intangible assets such as flowers and trademarks, and product market attractiveness, with good demand to the market and do not have safer stock of tangible assets. In a developing market like Tanzania these assets are not well developed and recognized in the commercial market. Hence, they cannot be used as collateral against debts nor interpreted as prosperity for Initial Public Offers. This asymmetry attracts creditors willing to provide finance but only at a lower level of risk. Risk transfer creates value to seekers of higher returns, always debt-holder. Equity holders bear variable returns after all other claims on the enterprise have been met while creditors expect a steady return in the form of interest payments and principal repayments. Thus equity harmonises the risk of non-simultaneous flow of production and return by facilitating management of mismatch flows. (World Bank, 1885). There is no evidence that mismatch of flows of finance capital and high turn from agribusiness turnover influence financing and investment decisions in floral business in Tanzania.

Equity instruments can also help to determine how an organization conducts its business and establishes its organization's objectives for its founder, owners and clients (Van, 1991). With venture capital, venture capitalists acquire an agreed proportion of equity of the company and are exposed to the risk of the company failing. While debt and equity are important sources of finance, equity is the most important structural issue impacting company management (Zahra, 1989 cited in Hisrich et. Al, 2000).

Equity capital finance is traditionally made available through personal funds, family friends, business angles and partners (Kuehl and Lambing, 1990). Equity finances in developed countries such as the UK and USA are available from various institutional sources including insurance companies, merchant banks, clearing banks. Government sponsored agencies, nationalized industries, and Business expansion. Schemes and State Development agencies, (PricewaterhouseCoopers et al. 2000). Following the privatization and reforms in the financial sector, equity finance institutions are now active in Tanzania to stimulate and create a pool of VC funds which in turn support professional private equity supply in

Tanzania.

2.2 Empirical Literature Review

2.2.1 Financial Factors Influencing Investee's Decisions to Use VC

Floriculture business operators should critically assess factors in selecting Venture Capital investors in order to obtain best advantages. The factors affecting Floriculture business decisions pivot around two extremes of strategic management and financial related factors (Kotller, 2000: Kuehl, 1900). The following are critical factors influencing use of venture capital financing funds.

- a) Additional equity. Generally, the ability to raise additional capital from venture capital firms and other external sources increases after injection of VC to Floriculture business operators. Availability of further finance from VCAs is possible by additional rounds of funding to finance growth.
- b) Risk cushioning. VCAs become a true business partner, sharing both the risk and rewards. The shared ownership reduces investee's level of risk.
- c) Low finance cost. Dividend and interest paid to VC financiers are always below market. (Coopers and Lybrand and Delloite, 1990)
- d) Insignificant collateral security. Investee access to unsecured finance is possible when VCAs extend quasi debt without need of a serious collateral security. (Coopers and Lybrand and Delloite 1990)
- e) Enlargement of credit capacity. VC Investee's ability to raise further finance influences attractiveness to use VCF. Often Floriculture business operators do not meet their cash-flow forecast and require additional funds throughout their early stage (Roberts 199 i). Antoine (1984) found that equity holders assume a disproportionate share of risks compared to debt-holder. Equity supports good use of loans and credit. This asymmetry attracts creditors to investees who have received equity from VCFs and provide finance but only at a lower level of risk.
- f) The Stages of venture capital investment. The stage at which VC investment is made influences the decision of VCF to invest in VC because each stage influences both exit period and the amount of VC investment which in turn influences its risk level and returns to VCA. Thus, the stage of a company development is determined by the purpose for which the financing is required. The stages of VC investment include: Early stage, first stage, seed, expansion, management buy-ins and buy-out, buy-in management buy -out (BIMBO). Institutional buy-out (IMO), rescue or turnaround fund, refinancing bank loan, and bridge financing. The stage at which VC investment is made influences the decision of SME to opt for VC finance. Reviewed theories show that Floriculture business operators face more financial difficulties at early stages of growth than expansion stages. At expansion stages, Floriculture business operators can more easily access funds from non-VCF.

2.2.2 Critical Factors Influencing Venture Capital Investment Decisions

In Tanzania venture capital firms has started since 1980s. Currently there about 19 active firms providing venture finance or technical management support services to investee. Tanzania Angel Investor network, Tanzania Private sector Foundation, Venture capital for Africa, Ndoto Halis, Sahara Venture, Cheetah Development, Fanisi Fund, Mkoba Fund, MTI Investment, Real Capital, Persistent Energy Partner, Match Maker Fund, Grofin Tanzania, Tujijenge Africa, Grass root Business Fund and Social Action Trust Fund. The venture capital firm used screening mechanism to select business proposal for funding and or management support. Some of these firm provide specialized in sectors of Agriculture, SMEs, microfinance, community development, energy while other are engage in all sectors.

In screening and selection process, venture capitalists assess the riskiness of a financial investment proposal in respect of the following key factors.

- a) Market attractiveness. Most VC investors are critical on the market size, value, segmentation, competitors, potential customers marketing strategy on product selling and pricing that make the product viable. Markets share gained from established and successful competitors is not market potential that attract VCAs (Cooper Lybrand and Delloite, 1990; Brealey and Meyers, 1996).
- b) Product unique features. The unique features that influence marketability of the product include product formulas, pending or attained patent rights, trademark and brand name. Licensing the product unique feature to attach legal protection to the product increase marketability of the product in the market (Kuehl, 1999: Tyebjee et al. 1984). Leopold and Fromman, (1998) point out that legal protection to the unique feature of the investee product increases marketability of the product in the market. Richard, (2002) argues that legal protection of commercial properties in weak legal system in developing economies create unacceptable business risk. Small businesses in Tanzania are likely to suffer from legal protection of their output.
- c) Significant competitive advantage. Firm product or services should have a competitive edge such as unique selling point. Competitive edge and distinctive compliance that range from innovative product to unique marketing or Research and Development approach will make the venture a leader inhibited business idea, product and technique (Coopers and Brand and Delloite, 1990).
- d) Product development stage. The life product cycle of Investee's product should be identified along with the investee development stage as either early stage, expansion or mezzanine stages to enable VCA to define the next opportunities attached to the product.
- e) Managerial capabilities of Investee Company. The expertise and contribution of the owner managers in terms of their managerial skills are expected to be important criteria in the initial screening of investment proposals. VCAs want to be confident that the potential investee has the quality and depth in the management team to achieve its aspirations. Investors look for competent management qualities in investee management are leadership, vision, integrity, openness, decision making process, social perception, persuasion and social adaptability and impression management (Accel, 1999; Goffmans, 1995).
- f) Investment Exit Expectations. Risk affecting the business and environment of industry in which it operates are accommodated through exit mechanisms, (Tand, 1984). The ability to exit from an investment profitably is fundamental to venture capital activity (Lorenz, 1989). A good exit mechanism process involves planned exit time and methods. Regulatory framework and environmental threat influence the availability of an exit mechanism and cash-out potential. Exit period and route or exit methods from the investment influence venture capitalists' decision to invest in investee.
- g) Firm's technology and skills. TBFs have always faced more financial problem than NTBFs. However, financing difficulties are particularly acute for TBFs on formation and at their earliest stages of development (Bagari, 1992: Murray and Lott 1994). Limited tangible assets of these firms reduce the opportunity for collateral based lending from banks. The economic value of intellectual property rights created by the entrepreneur is, as yet, unproven and thus unexplainable and classified as risky intangible assets in the early stage of company growth. S. Bagari (1992) argued that development in innovation and technology increases sophistication in business industries and sectors smoothed the demarcations between technology based firms and non-technology based.
- h) Benchmark Rates of Return. VCAs compare the financial performance of potential investees against the benchmark or targeted rate of return that venture capitalists assume to be reasonable compensation for risk capital. In uncertain environment, and an under-developed VC market like Tanzania, venture capitalists seek to invest in those projects that already appear to be commercially viable such as privatized state firms. VCF use a variety of standard benchmark rate of returns to assess and compare individual investment opportunities. VCAs assess factors that influence rates of returns and in turn influence predetermine benchmark rate at initial screening stage. These factors pertain to market conditions of a particular segment and general economic conditions. Changes in returns for quoted equities or returns of long-term treasury bonds and

bills and the expected gearing ratio are also basis of indicators to expect benchmark rate of return associated to actual cash amount investors seek to receive from an investment The industrial sector, nature of product, the geographical region of the investment bear second influence to the VCAs' return benchmark. The more stable these factors are the less influence VCAs has on predetermined benchmark rate of return (Shapiro, 1986; Sagari, 1991).

2.3 Conceptual Framework, Research Design and Methodology

The conceptual framework addresses the implication of existence of relationship of venture capital providers and floriculture business in Tanzania. The framework shows at every stages of business growth, venture capital finance is pivotal on financing strategy. The level demand of floriculture business operator for VC changes with various stages of business development is explained. The model investigates the relevant of VC finance to floriculture businesses operating at small and medium scale. We deduce that VC providers are more interested on financial returns rather than non -financial return. (Tyebjee and Bruno, 1984). Further, the framework demonstrates how technical management support and finance packages can be effectively delivered to floriculture business by receiving VC finance arrangement.

2.3.1 Conceptual Framework

The figure 1 (fig) below summarizes literature reviewed and shows the significance of VC finance to floriculture business. Inversely the fig also shows FBs with high potential growth magnetize VC finance. The resultant effect is enhanced FBs business growth. This phenomenon manifested itself when other exogenous variables such as environmental threat or adverse tax regimes remained steady in Tanzania business environment.

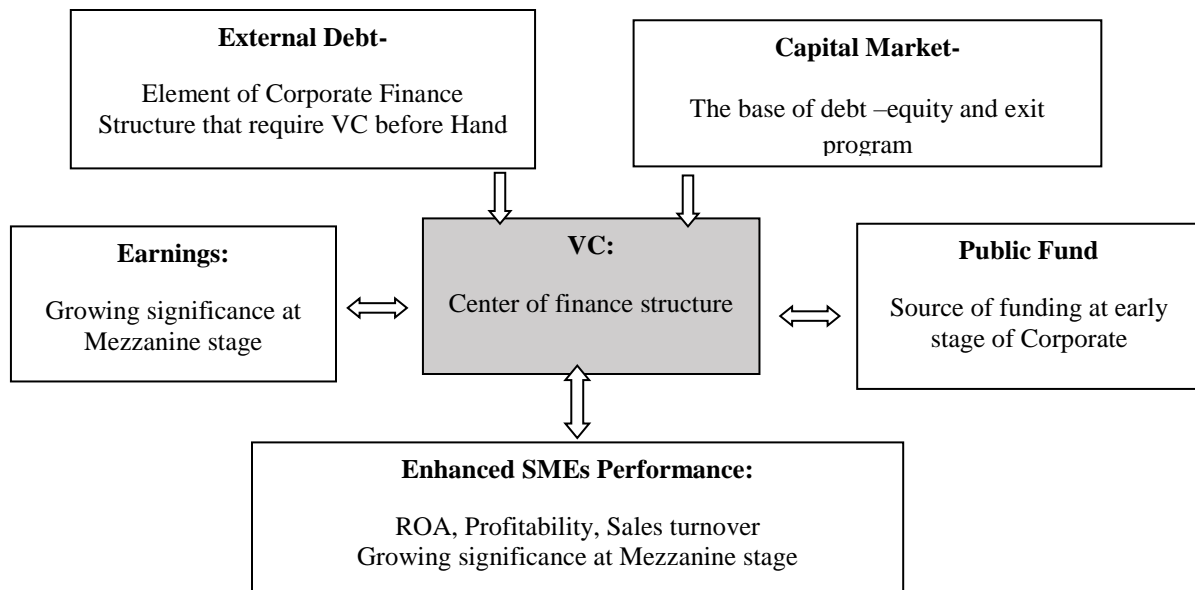


Fig 1: Venture Capital- Critical Missing Middle of Financing Strategy of SMEs in Tanzania

2.4 Research Hypotheses

The testable propositions on the patterns of decisions of VCFs in Tanzania VC industry are based on venture capitalists' evaluation criteria of potential investee (floriculture business) in respect of the following areas: market attractiveness, product unique features, benchmark rate of return, environmental threat, capabilities of investee's management, and firm's technology. Likewise, the same factors were used to test the propositions on decision of VCF to finance SMEs.

Hypothesis I

Inherent Shortage of equity finance to Floriculture business operators has impact on the importance given by VCA on the decision to invest on Venture capital finance.

Explanation of Hypothesis I. VCFs examine and place more emphasis on intangible assets/factors in small business before they decide to finance it (Scarborough et al., 1991). Floriculture business operators as potential investee of venture capital firms have risk and intangible assets/factors such as, market attractiveness, quality of management, product unique features, firm's technology and skills, which influence its attractiveness to VC investment. From reviewed theories companies with unsafe tangible assets use more equity than debt while those with safer tangible assets use more debt against their assets as source of collateral. VCFs will place more emphasis on intangible factors of floriculture business operators in their decision to invest. Hence at early stages Floriculture business operators are more attracted to use VC finance than other form of finance

Hypothesis II

Venture capital providers' decision to finance floriculture businesses is influenced by the minimum targeted rates of return on investment. Literature reviewed postulate that significance benchmark of return constitute ROA, ROE, Profitability growth and sales growth rates. Thus we hypothesize that:

There is significance influence of VC financing to the startup and growth of floriculture business' start up, sales turnover, profitability and ROA

2.4.1 Hypothesis II Explanation

Supplies of VC Finance to floriculture business in Arusha region fill the Equity finance gap that magnetize assets growth, and raise ability to generate cash from increased revenue turnover. Performance of VC backed flowers growers firms outperform Non VC backed firms based on minimum recommended benchmark criteria on ROA and ROE. SMEs growth potential tapped with VCF contribute positively to flowers business startup and growth.

2.5.1 Research Design and Methodology

We used exploratory research method to obtain insights understanding of Tanzania and Global VC industry. Mixed and complemented research approaches were used to qualify the objective of the research. (Robertson, 1992) in search for literature and talking to expert-narrative approach- in the subject. (Adams Schevaneveldt, 1991). The mixed-method strengthens the ideological and experimental paradigms that complement each other (Saunders, Lewis and Thornhill, 2012). Deductive approached was used to develop theory and hypothesis. Descriptive and correlation research approaches were used to systematically measure variables and explain trends, characteristics and relationships between VC finance, sales growth, profitability and return on Assets. Correlation approach was used to determine how well these variables are related.

2.5.2 Sample Selection, Sample Procedures, Size and Data Collection

The study used a 5-point Likert scale questionnaire to collect primary and secondary data. A verbal analysis technique (Fee et al 1999) was also used to supplement the questionnaire. The respondents provided their scores from strongly disagree (1) to strongly agree (5). Stratified sampling frame were taken from a total population of 45 participants engaging in floriculture businesses in farming, consultant, and providers of venture capital operating in Arusha regions. We categorized the FBs into twofold variables - VC-backed and non-VC-backed firms. FBs were chosen because they constitute the

floriculture business in Arusha region.

The primary source of data focus on individuals and floriculture business by Small Industry Development Organization (SIDO), under the Ministry of Industry, Trade and Investment based Dar es Salaam and Tanzania Hot culture Association (THA)- THA is private Agriculture organization based in Arusha.. Also we engaged active VC firms and Association in Tanzania because they compose of knowledge and custody of the data required for the study. We interacted with the key players in the VC industry and compiled their understanding of VC performance, best practices and challenges.

2.5.3 Data analysis

Factors influencing Decision to use VC by Floriculture Business Operators

Venture capital providers identified among others factors market attractiveness, product unique feature, managerial capabilities and bench mark rate of return as factors influence their decision to invest their VC in floriculture business. These factors closely accord with the finding of several studies (Tyjee and Bruno, 1984; Macmilan et, 1983 Hall and Hoffer, 1993. Table below show detail analysis of the factors that influence decision of VC providers. Tyjee and Bruno, argue that non-financial factors influence investor decision to use VC finance. While other scholars were more tilted to financial factors such bench mark rate of return to analyze its influence on investment and financing decision.

We have analyzed both no financial and financial factors as summarized below

We analyzed quantitative data using descriptive statistics, inferences, financial ratio analysis and excel. The multiple regression model statistically measured the relationship between VC financing and floriculture businesses' performance. Also we used chi-Squire analysis to determine the significant of factors influence decision to use VC to finance floriculture businesses

Communalities 1

Factors	Initial	Extraction
Market attractiveness.	1.000	.717
Product unique features.	1.000	.758
Managerial capabilities	1.000	.778
Investment Exit Expectations.	1.000	.678
Benchmark Rates of Return.	1.000	.851

Extraction Method: Principal Component Analysis

Further statistical analysis show that the factors are significant in the use of chi-squire test as shown in the table below:

Factors	Chi-Squire	df	Asymp.sig
Market attractiveness.			
Product unique features.			
Managerial capabilities			
Investment Exit Expectations.			
Benchmark Rates of Return.			

Factors Influence Decision to Invest VC to Floriculture Business 1

a. O cell (.0%) has expected frequency less than 5. The minimum expected cell frequency is 11.3

Measuring Bench Market Rate of Return and Its Impact of VC Provide to Floriculture Business

In measuring the FBs' performance, we considered sales turnover, ROA and profitability to determine the extent to which the independent variable influences the dependent variables. The multiple regression model:

$Y = \alpha + \beta X_1 + \beta X_2 + \beta X_3 + \epsilon$, where: • $Y = VC$, • $\beta X_1 =$ annual sales, • $\beta X_2 =$ profitability, • $\beta X_3 =$ ROA, • $\alpha =$ intercept, • $\epsilon =$ residual (error), • VC-backed and non-VC-backed are binary variables allocated 1 if FBs received VC financing and 0 if they did not receive VC financing.

Key assumptions of the model are

- Assumption One: Linearity of the Data.
- Assumption Two: Predictors (x) Are Independent and Observed with Negligible Error.
- Assumption Three: Residual Errors Have a Mean Value of Zero.
- Assumption Four: Residual Errors Have Constant Variance.

2.4.5 Operationalization of the study Variables

The questionnaires give a set of measured perceptions and importance of FBs to use V capital finance. Descriptive analysis was used to analyse respondents' perception in VC. FBs Business performance was used to assess the survival and growth of firms. Scholars in business finance define business performance as a parameter(s) used by enterprises to measure the capacity of total assets to generate revenue.

Hypotheses

We hypothesize that VC financing enhances the growth of FBs sales turnover, profitability growth and ROA. Sales turnover, profitability growth and ROA were performance variables analyzed. Financial ratios were used to analyze business financial performance, such as sales turnover, profitability and ROA. They facilitate a realistic way to compare companies of different industries and assist to match business enterprises across different sectors, to recognize their strengths and weaknesses.

Computation of financial Ratio

Working capital ratio, Price-Earnings (P/E) Ratio Return on assets (ROA):

Returns on equity (ROE) are key financial ratio that's considered particularly effective at measuring, and summarizing a company's financials snapshot of liquidity, efficiency and profitability in relation to its competitors or peers. VC commonly used ROA ratio

Return on assets is a profitability ratio that provides how much profit a company is able to generate from its assets. ROA measures how efficient a business management is in generating earnings from their economic resources or assets on their balance sheet. ROA is shown as a percentage, and the higher the number, the more efficient a company's management is at managing its balance sheet to generate profits.

Calculating Return on Assets (ROA)

Average Total Assets are used in calculating ROA because a company's asset total can vary over time due to the purchase or sale of an asset during the year vehicles, land or equipment, inventory changes, or seasonal sales fluctuations. The formula for ROA is: $ROA = \text{Net Income} / \text{Average Total Assets} * 100$.

Net income is the amount of total revenue that remains after accounting for all expenses for production, overhead, operations, administrations, debt service, taxes, amortization, and depreciation, as well as for one-time expenses for unusual events such as lawsuits or large purchases. VCA usual invest in business with minimum range of 30%-45% ROA (Tyebjee and Bruno, 1984).

Sales turnover refer to a company's revenue for a year or for another accounting period. Sales turnover is also used as a measure of the speed by which inventory is sold. Company managers and investors alike, use sales turnover as tools for evaluating a firm's performance. The higher the turnover rate, the more efficiently the company turns money spent on purchasing goods into profits. Venture capitalist use sales turn over ration as one of key to evaluating a firm's performance for their investment decision.

Validity and Reliability of Data

We evaluate data reflect the phenomena under study for face validity; construct validity, content validity or discriminant validity using SPSS (Collis and Hussey 2009). The questionnaires were evaluated for reliability using Cronbach’s alpha coefficient with a 95% significant confidence level (Table 1) and the fig 2 below.

$$Pt = k/[k-1][1-(\sum \sigma^2)/ \sigma^2x]$$

Figure 2: Cron-banch's Alpha Coefficient Model

where

k= number of scale items

σ^2 Variance associated with items

\sum = Symbol for variable summation

Pt = Coefficient = 0.855

Table 2: Reliability of statistics

Coefficient 's alpha	Coefficient’s alpha based on standardized item	Number of items
0.855	0.859	70
Source: SPSS		

Alpha coefficient measure reliability and content validity, as recommended by Numally and Bernstein, (1994). The results showed 85% confidence level of the questionnaire and a margin error of 1%. Implicitly internal consistency values of individual variable surveyed was within acceptable range.

Findings and Discussion of Results

Questionnaire and Interview

Data was extracted from 45 or 65% of all questionnaires with response rate of 50% which was sufficient for numerical data analysis. 15 interview sessions with business owners and managers, VCs and government agencies were conducted out of 30 targeted interviews. We extracted the data from audited reports and accounts, management, financial and reports and open-ended questionnaires. The annual

revenue growth, annual turnover rate, ROA growth and profitability for 3 years (2018–2020) were also computed using financial ratio analysis techniques aforementioned. The financial ratios minimized the subjectivity associated with other data collection methods and help to supplement data collected by using the Likert scale questionnaires (Dess and Robinson, 1984).

Variance Analysis (ANOVA)

Using SPSS we conducted descriptive statistics, multiple linear regression, Pearson’s correlation coefficient and analysis of variance (ANOVA), to determine any relationship between VC financing and SMEs’ performance.

Sales Growth for the VC-backed and non-VC-backed firms from 2019 to 2020.

Figure 1 shows that VC-backed firms had a higher revenue growth rate across all years from 2019 to 2020. In 2017, VC-backed firms recorded above 20% growth rate as compared to 10% for non-VC-backed firms. In 2017, the growth rate increased to 22%, whereas non-VC-backed firms registered 14%, and in the third year, the VC-backed firms indicated 18% versus 10% for the non-VC-backed firms.

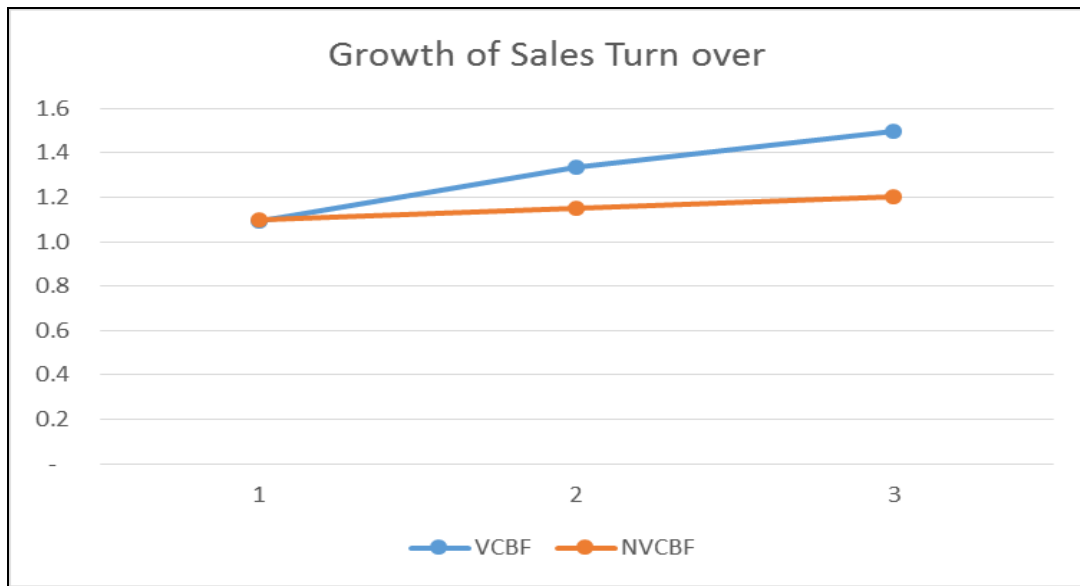


Figure 1: Sales Growth for the VC-backed and non-VC-backed firms from 2019 to 2020.

Source: SPSS

The analysis of the revenue trends shows that VC-backed firms outperformed non-VC-backed firms for all the 3 years. The maximum revenue turnover for VC-backed SMEs was TZS 10 billion against TZS 4 billion for the non-VC-backed firms for 2017–2020. We conclude that VC financing leads to increased sales revenue growth, which was consistent with previous studies (Adongo, J., 2012; Kwame, 2017; Memba et al. 2012). Also ROA of selected floriculture business are summarized in the table below:

Table 3 : Industry Average ROA ratio

Industry	Average ROA	VCBF/NVCBF
Kiliflora	40%	VCBF
Tanzania Flowers	8.20%	NVCBF
Kombe	15%	NVCBF

Tengeru Flowers	15.89%	NVCBF
Hortanzia	60%	VCBF
Horticulture Farms Mount	60.8	VCBF
Zanziflora	25	NVCBF
Meru Flowers	33.50%	NVCB
La Fleur d'Afrique	70	VCBF
Allua Flowers	65	VCBF
Falmingo	51.43%	VCBF
Arusha booms	30	VCBF/
Source: Survey results		

Calculating sales turnover ratio

Pearson's Correlation Coefficient

Pearson's correlation coefficient tests to determine the relationship between VC financing and sales turnover. Table 2 displays the correlation coefficient results for sales revenue at 0.000. The correlation is significant when $p < 0.01$ and $p < 0.05$. The results are below $p < 0.01$, demonstrating a significantly strong relationship between VC financing and the sales revenue growth for VC-backed firms. Thus, changes in the sales revenue growth for the VC-backed companies are explained by VC financing. Sales revenue went up after receiving VC.

Table 3: The level of significance between VCF and sales revenue growth

Pearson's correlation coefficient	Variable	Venture Capital	Sales Revenue
Venture capital	Pearson Correlation sig -2 tail	1	0.424 *
	Significance	-	.000
	N	70	70
Sales revenue growth	Pearson Correlation sig -2 tail	0.424	1
	Significance	.0000	-
Source: SPSS	N	70	70

Significance level between VCF and its influence on sales revenue growth for venture capital-backed firms. When $p < 0.05$ results indicate a significant correlation between venture capital Finance and sales revenue. Correlation is significant at the 0.05 level (2-tailed) of $p < 0.05$; correlation is significant at the 0.01 level (2-tailed).

ROA Growth for Both the VC-Backed and Non-VC-Backed Firms

In the approach to measuring the growth in assets, we computed ROA growth for both the VC-backed and non-VC-backed firms to adequately compare whether VC financing influences asset growth. Fig 3 and 3b below show the computed results for ROA growth rate.

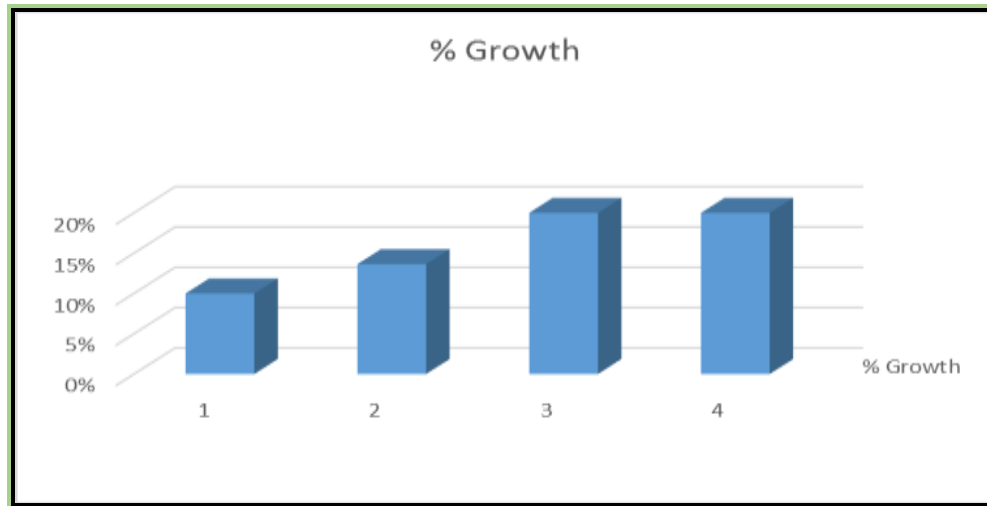


Figure 3 Return on Asset (ROA) – None VCBF

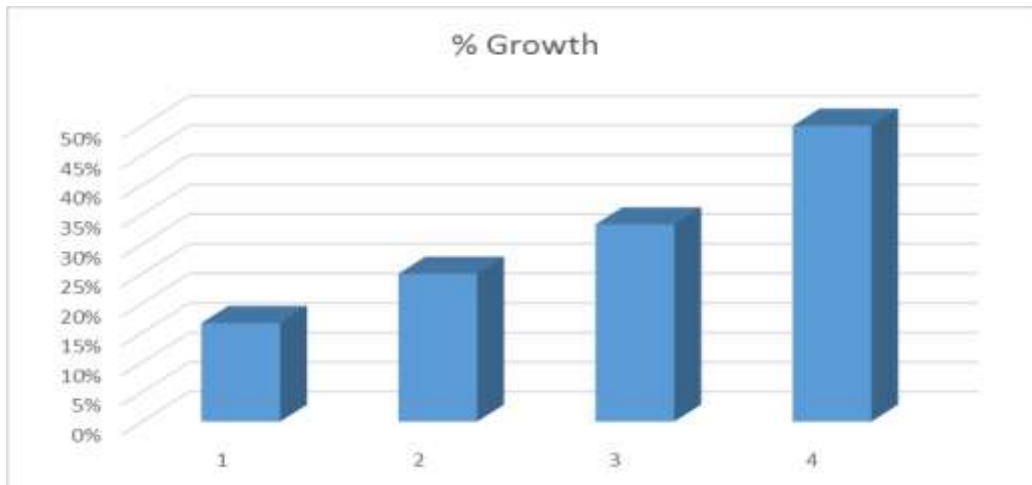


Figure 3b Return on Asset (ROA) VCBF Backed firms

The year 2017, the results show an increase in ROA by 15% for the VC-funded firms as compared to 8% for the non-VC-funded firms. In the second year of VC financing, ROA increased to 11% compared to 25% for the non-VC-backed firms. However, in 2018, VC-backed increased by 45% and non-VC-backed firms had increased by 18% in ROA growth. The results indicate that VC-backed firms generated more sales revenue as pointed by other scholars.

A Pearson's correlation coefficient test was also conducted to examine if there is any relationship between VC financing and Returns on Assets (ROA).

Table 3 shows the correlation coefficient r for ROA at 0.05. The correlation coefficient is significant when the p -values are $p < 0.01$ and $p < 0.05$. The results show a $p < 0.05$. These results confirm there is a strong positive relationship between VC financing and changes in ROA. The higher the ROA, the more effective is the use of assets to the advantage of shareholders. These results imply that VC financing is positively correlated to ROA, implying that the asset for the VC-backed firms produced higher sales following receipt of VC financing.

Table 4: Correlation coefficient r for ROA and VCF

Pearson's correlation	Variable	Venture Capital	Sales Revenue
Venture capital	Pearson Correlation sig -2 tail test	1	0.326#
	Significance	-	.000
	N	70	70
ROA, return on assets.	Pearson Correlation sig -2 tail	0.326	1
	Significance	.0000	-
Source: SPSS	N	70	70

Correlation is significant at the 0.05 level (2-tailed) of $p < 0.05$; #, correlation is significant at the 0.01 level (2-tailed)

Descriptive Statistics Measured Profitability Growth

Likert scale measure: 1 – Strongly disagree and 5 – Strongly agree, and accepted a mean score of 3.5 (agree).

Table 4 shows a mean score of 3.7 and 0.68279 above the acceptable score for agreeing of 3.5. The findings indicate that 68% of the respondents confirmed the growth of their companies' profits being attributable to VC financing. Besides, the results also indicated a mean score of 3.8 and a standard deviation (SD) of 0.87836 for the VCs' direct involvement in SME management, while the market share recorded a mean score of 3.7 and an SD of 0.74549. These results show a profitability growth after VC financing, VCs' direct involvement in SMEs' management contributed to the increase in the profitability growth, and VC-funded companies improved their market share and expansion.

Table 4: Descriptive statistics measurement

Variable	Max	Minimum	Mean	Standard Dev
Profitability growth	5	2	3.7	.65
VC Direct Involvement	5	1	3.5	.78
Market share and Expansion	5	2	3.7	.71
	N	70	70	

We conducted multiple regression tests for the statistical relationship between VC financing and profitability growth (Table 5).

Table 5: Tests between venture capital financing and profitability growth effects.

Source	Type II sum of Squares	df	Mean Square	F	Significance
Mean Squares	10.71 (R2)	5	2.1	6.54	.0000
Residual	20.49	95	0.342		.0000
Total					
Source: SPSS	N	70	70		

The results in Table 5 show profitability growth at 0.000, a significant positive relationship between VC financing and profitability. This shows that a change in VC financing positively affects profitability growth. Furthermore, the least-squares is $R^2 = 0.322$ and adjusted $R^2 = 0.278$, showing that the variations in the dependent variable (profitability growth) of 34.2%. We conclude that VC financing contributed to profitability growth by 34.2%. These findings were consistent with the study (Biney 2018; Carvalho et al. 2013; Kwame 2017; Paglia and Harjoto 2014).

Conclusion

This study researched on the performance of VC-backed and non-VC-backed firms engaging floriculture business in Arusha region from 2018 to 2022. We analyze the impact of VC financing method on floriculture business performance in Tanzania. Venture capital financing affects the performance of floriculture firms. We observed that sales revenue increased for VC-backed firms, higher than non-VC-backed firms. Venture capital-backed firms disclosed a maximum sales revenue of TZS 18 billion as compared to TZS 4.6 billion for non-VC-backed firms.

Furthermore, the profitability for VC-backed firms increased by 28.9%, while the ROA increased by 71% because of the increased demand for local exports in the East African community.

Further we observed certain critical factors influence investee or investor to use VC finance over other forms of finance. This superior research results from use of venture finance can be inflected and new method of finance that can improve firm performance in high risk and high return investment in agriculture business environment in developing economies like Tanzania.

Implication to Research and Practice

The paper supports the government's efforts and development partners in their engagements to foster SMEs' access to finance and inspires a philosophy of policy assessment. We have proved that VC financing is a sustainable financing model pushing SMEs' growth. Tanzania's VC industry is developing with limited number of VC finance transactions.

Future Research

Empirical evidence shows a significance growth of venture-capital-backed SMEs businesses as compared to the non-venture-capital-backed SMEs. Contrary to this positive result SMEs Managers were defensive to technical management services or auxiliary services usually packed with VC finance. The paper concluded that venture capital finance is one of the fundamental components of finance that enhances SMES performance and development in developing economies like Tanzania. We recommended research on linkage of venture capital financing and management style of SMES managers and owners. Also we suggest research in this sector to assess how VC influences IPOs or trade sales in the emerging financial markets like Dar es Salaam Stock Exchange and developing economies respectively.

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