

Unleashing Entrepreneurial Potentials of the Poor in Tanzania: Prospects, Challenges and Way Forward

Working Paper for Presentation to the High Level Commission on the
Legal Empowerment of the Poor

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EXECUTIVE SUMMARY

0.1 Background and focus of the paper

Micro and small enterprises play a crucial role in the Tanzanian economy. However, despite significant improvements in macro-economic management and positive policy reforms in Tanzania, a large majority remain trapped in the informal sector where they operate micro and small enterprises earning low incomes and sustaining poor quality jobs. Operating informally denies them access to markets as well as critical services, such as finance and training and confines them to a vicious cycle of low productivity-low income-low access to resources.

This study sought to examine entrepreneurial potentials in the informal sector and explore how the sector could be better nurtured, supported and directed to generate meaningful incomes, quality jobs and contribute to economic development. It therefore identifies entrepreneurial potentials and barriers for their full exploitation as well as practical, innovative measures that can be taken to address these needs and barriers and hence unleash the entrepreneurial potentials of the poor. It also suggests ways the poor can be involved in reforms that empower them. The paper takes the view that entrepreneurial capacities vary widely in any population and in order to unleash the capacities of the majority, it is essential to have an enabling and facilitative environment. It is only the minority, who have very entrepreneurial who are able to start and develop successful businesses in a difficult environment. The methodology is mainly a review of previous analyses and practice in other countries.

0.2 Under-exploited opportunities

There are many under-exploited opportunities which could generate wealth and jobs for the poor currently engaged in the informal economy. These include markets made available by supermarkets, mines and growing urban markets. There are lot of natural endowments which are barely exploited by micro and small enterprises. There is also a large population of unemployed youth, graduates and retired army personnel. Some of these have valuable energy and skills and do display a great deal of ingenuity as they engage in informal activities. Graduates of higher learning institutes show interest in doing business, but the environment is not conducive enough for many of them to become full-time businesspersons.

0.3 Policy framework

In the recent past, the government has taken a number of measures to promote the private sector and SMEs in particular with support from the development partners. The government's vision, envisages that *"by the year 2025, Tanzania should have created a strong, diversified, resilient and competitive economy, that can effectively cope with the challenges of development, and that can also easily and confidently adapt to the changing market and technological conditions in the regional and global economy."* The SME Development Policy (2003-2013) aims at fostering job creation and income generation through the creation of new SMEs and improving the performance and competitiveness of existing one. This is to be achieved by addressing the key problems, including skills and attitude development through improved quality and outreach of BDS providers and curricula. The National Strategy for Growth and Reduction of Poverty (MKUKUTA) also puts a lot of emphasis on SME development. However, these efforts are yet to have an impact on a critical mass of small enterprises and enable them to grow and formalise.

0.4 Issues and barriers for realising entrepreneurial potentials

A host of problems make it difficult for SMEs to exploit the existing potentials for further employment and wealth creation. The most serious impediment is the limited capacity of people who start and operate the businesses, in terms of the attitudes, motivation, exposure, skills and experiences. Retirees and retrenched are unprepared to use their skills and exposure to build successful SMEs, due to lack of relevant attitudes and skills. Graduates from higher learning institutions could join the sector to and make it more vibrant, but these are not psychologically and functionally prepared to start and develop small businesses because the curricula is designed to produce graduates for highly specialized white collar jobs.

At the same time, services related to entrepreneurship development are underdeveloped and not readily available or affordable to SMEs. The institutions and associations supporting SMEs are weak, fragmented uncoordinated. Their services are quite basic; mainly focusing on helping the poor eke out a living. There are hardly any initiatives for targeted, comprehensive and sustained support specifically to facilitate upward mobility of micro and small enterprises. Among the post-secondary training institutions, initiatives to build capacity for producing graduates with the skills and attitudes to start and run SMEs and effectively supporting enterprise development are still embryonic. Local governments, which could play a critical role in supporting SMEs also face a number of weaknesses.

Access to finance is always mentioned by potential and existing SME operators as the most serious barrier to business start-up or growth. This is because the formal financial sector is yet to evolve functional models which enables them to provide services, especially to the growth-oriented section of the micro and small enterprise sector. Micro and small enterprises operate from temporary, illegal sites or premises because there are not adequate appropriately serviced areas where they can locate and operate from.

The regulatory framework is tailored to the capacities of large companies and hence is not too expensive and cumbersome to micro and small enterprises. This automatically discourages start-ups and condemns businesses that dare to start to the informal sector. It takes a very bold and determined person, who also has networks or resources to complete this process. As a result, a large majority remain informal. Because of their lower capacities, women, the disabled and youth are disproportionately disadvantaged by these barriers.

The implication of the foregoing is that, much more needs to be done to create conditions that make formal business affordable to the majority of operators, including men, women, the youth and the disabled.

0.5 Strategies for Pro-Poor Business Development

Improving the business environment is absolutely essential. However, alone, this measures will not quickly propel a critical mass of Tanzanians micro and small businesses into successful businesses that create significant incomes, quality jobs and contributes meaningfully to government revenue. This is because the constraints to reaching this level are far greater and far most complex that it is often imagined. It is also recognised that there are multi-faceted and require a more comprehensive intervention. These are proposed below.

Regulatory reforms. The ongoing reforms in the business environment need to be expedited. The reforms should come up with multi-tier regulatory mechanisms depending on the size and complexity of the operations. Care should however be taken to minimise the possibility of these tiers being growth or formalisation traps.

Meso-level institutional building. There is need to build strong institutions which are able to strategically and pro-actively address the needs of micro and small enterprises. Currently, support provided is very basic (not strategic) and of low quality. The following could be done to strengthen this capacity

- Each local government should be required to have a private sector development programme. A business development department need to be introduced, possibly substituting the traditionally routine role of the Trade Officer. It is recommended to introduce inter-local authority “business development” and “investment climate” competitions and awards.
- There is need to review the role and mandate of SIDO – preferably to make it a very strong agency for strategically building capacity of entrepreneurs and grassroots BDS providers, and withdrawing from direct support to entrepreneurs whenever possible, so that it concentrates its efforts on building capacity of others institutions. It might also be wise to re-organise SIDO so that there are different departments dealing with industry, commercial agriculture, fisheries, livestock, etc. Alternatively multiple agencies could be established.
- There is a strong need to invest in building appropriate curriculum, including building the capacity of learning facilitators to deliver it in an effective way. The curriculum should among others, promote more interactions between schools and colleges on one hand and micro and small businesses in their surroundings on the other

Enhancing access to financial services for the poor. In order to enhance access to finance, the following measures can be taken:

- Government should encourage financial institutions to downscale to provide services to micro and small businesses. This can be done by, for example meeting the cost of human resource development to prepare competent bank staff who can work with SMEs
- Government can work with other actors to develop innovative/special financial schemes for innovative ideas with great potential through contests, venture capital funds for small businesses, etc

0.6 Creating Micro-Environments for fast-tracking SME Development

It is recommended to take a cluster approach which addresses multiple barriers simultaneously. This will enable effective and efficient learning, innovation and provision of land, finance, premises, training, equipment, and networks. Two types of clusters are recommended. The first are urban industrial clusters. Under this scheme, local governments (and or with other actors) can identify, demarcate and service land with basic infrastructure and utilities (buildings/sheds, water, power, telephone, waste disposal) where related types of micro and small industries can locate and operate from as formal entities, according to current and future demand. These kinds of clusters can be established for a wide range of activities. The centres can be operated by local government or in partnership with a private sector company.

The second type of clusters are agricultural incubator (later clusters). Promoters of these would identify large tracks of accessible land suitable for pre-determined types of crops or livestock for which existence of adequate long-term demand will have to be ascertained in advance. On

this land will be established a “camp” with temporary housing and other basic facilities, where incubatees will stay for a fixed term, while collectively opening up and working hard on farms. At the same time, they will be receiving related agriculture and agribusiness training. Young graduates interested in developing a career in commercial agriculture will be invited to apply for the scheme. Towards the end of their incubation, they will be allocated developed land where they will build their basic houses. After two or three years, the physical incubator will relocate to another area, leaving hundreds of people, each with a significant, productive piece of farm as a cluster. These incubators can be seen as some form of agricultural training colleges, with a bias in starting and operating in agri-business, rather than employment. There could be many variations of this model/idea. For example, incubates may pay fees as they pay in colleges, or they could take a loan for incubation and repay after graduation.

In addition to these measures, steps should be taken to promote a practice and culture of buying Tanzanian products starting with government departments. Also, there should be transitional training, advise and finance schemes for transitioning graduates, army and retirees to gainful economic activities. It should be noted that many army officers retire with a relatively good package, but they lack the preparedness to invest it well.

The poor can be involved in the reform process in several ways. One way is to consider participation (opportunity to be heard) of male and female micro and small business operators in the reform agenda as one of the indicators of good practice in reforms. They can also be involved in assessing the investment climate for the purpose of the competitions at the district/municipal level. This will prompt local authorities to involve, listen to and try to have positive impacts on the lives of men, women and youth at the grassroots.

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1. INTRODUCTION

1.1 Background

Small and Medium Enterprises (SMEs¹) play a crucial role in the Tanzanian economy. It is estimated that about a third of the GDP in Tanzania originates from this sector. The International Finance Company (IFC) ² estimates that there are approximately 2.7 million enterprises in the country out of which about 60% are located in urban areas. A large majority of these (98%) employ less than 5 people and most (66%) have annual turnovers of less than US \$2,000. They are labour-intensive in nature, and have been established using savings or grants from family and friends. They typically operate from homes or from the roadside. Some 43% of micro and small enterprises are owned by women³. Although SMEs are found in all sectors of the economy, they are dominant in trade (54%) followed by services (34%)⁴

Micro and small enterprises are critical for supporting livelihoods as well as overall prosperity and progress. They create employment at relatively low levels of investment per job; utilise and add value to local resources; foster equitable income distribution; and are better positioned to meet local needs in small markets. The technologies used by them are easier to acquire, transfer and adopt, even for people with little education and training. They have the potential to complement large enterprises through partnerships and subcontracting relationships. Micro and small enterprises also serve as a training ground for entrepreneurship and managerial development.

1.2 Micro and small enterprises and informality

It is long established that a large number of micro and small enterprises in Tanzania operate outside the legal framework. Informality is a norm rather than the exception among MSEs. Informal business activities account for 70% of employment and 58% of the Gross National Income (GNI).

A recent comprehensive study of the informal sector in Tanzania by the Institute of Liberty and Democracy (ILD)⁵ found that 98% of 1,482,000 business units covered were extralegal⁶. Informality comes in many ways depending on where the business operates from, legal constitution, licensing procedures completed, conformity to tax, labour, safety and other regulations, etc. Some of the forms of formalisation are show in **Table 1**. All the forms in italics are extralegal.

¹ The SMEs nomenclature in Tanzania is used to mean micro, small and medium enterprises. Micro enterprises are those engaging up to 4 people or employing capital of up to US\$ 5,000. Small enterprises have between 5 and 49 employees or capital of US\$ 5,000 to US\$ 200,000. Medium enterprises employ between 50 and 99 people or use capital investment from US\$ 200,000 to US\$ 800,000.

² IFC. 2005

³ IFC, *ibid*

⁴ The high ratio of manufacturing firms is due to the fact that the areas sampled had a relatively high concentration of manufacturing firms.

⁵ ILD. 2005.

⁶ Extralegal” refers to economic activity that takes place outside the law or is limited or handicapped by the law, and to economic agents or business and real estate assets that are missing fundamental legal and economic mechanisms

Table 1. Some forms of “legality”

Location	Registration	Licensing
Titled land and certified premises	Full incorporation (limited liability)	Sector specific licenses (where applicable) and business license
Certified premises	Registered partnership	Principal business license
<i>Untitled land</i>	<i>Registered business name</i>	<i>Minor business license</i>
<i>No premises</i>	<i>Sole proprietorship</i>	<i>Daily market fee receipt</i>
<i>Unlawful land/location</i>		<i>None</i>

Source: IFAD, 2005

The existence of a large informal sector is a result of two main factors. First is the mismatch between the (largely) imported regulatory and administrative framework and the type and capacities of business establishments in the micro and small business sector. Secondly, there are weaknesses in the enforcement of laws and regulations in terms of administrative bureaucracy, laxity and corruption.

1.3 Issues addressed by the Paper

Significant improvements in macro-economic management and positive policy reforms in Tanzania have led to increasing investor confidence and low (under 5%) inflation rates. However, the impact of these is yet to be felt in terms of increased incomes and enhanced livelihoods among majority of the rural and urban population. This will only happen when a critical mass of enterprises, particularly small and rural based ones, grow and create value, quality jobs and incomes for their employees and owners. As of now, MSEs even within the fast growing sectors are not doing well.

Some micro and small enterprise operators display a great deal of ingenuity and endurance, which are associated with success in all endeavours, including business. While a few succeed to develop formal businesses, most remain trapped in the informal sector where they operate micro and small enterprises earning low incomes and sustaining poor quality jobs. Operating informally denies them access to markets as well as critical services, such as finance and training and confines them to a vicious cycle of low productivity-low income-low access to resources

Graduates of our tertiary training institutions have valuable skills and knowledge and not all of them are able to find jobs in the formal sector. However, the informal sector in which most operators are trapped is not a good role model for new entrants. Indeed, research shows that some of those found in the sector detest the experience⁷.

Already there are a number of policies, programmes and projects which have been supporting micro and small business development in one way or another and some of these are still being implemented. However we are yet to witness significant impact in terms of enhanced performance of a critical mass of these enterprises. They are still unable to respond to the many opportunities in the formal sector. The question that begs for answers is how could entrepreneurial potentials be better nurtured, supported and directed to generate meaningful incomes, quality jobs and contribute to economic development, competitiveness and tax revenues in the formal small business sector?

⁷ Toroka and Wenga, 1997

This paper assesses the key potentials and barriers for unleashing entrepreneurial potentials and suggests some innovative strategies for enabling the poor get out of poverty through business activity. It seeks answers to the following questions:

- What entrepreneurial opportunities and potentials exist in the informal economy in Tanzania?
- What are the critical needs and barriers for realisation of these potentials by men and women including the youth?
- What practical, innovative measures can be taken to address these needs and barriers and hence unleash the entrepreneurial potentials of the poor?
- How can the poor be involved in reforms that empower them?

1.4 Meaning and significance of entrepreneurship

Entrepreneurship is often associated with starting and running a business. However, the broader meaning of entrepreneurship is *a way of thinking, reasoning, and acting that results in the creation, enhancement, realisation, and renewal of value for an individual, group, organisation, and society. At the heart of this process is the creation and/or recognition of opportunities followed by the will and initiative to seize these opportunities*⁸. The behaviours associated with entrepreneurship are need for achievement, calculated risk-taking, initiative, growth seeking, a strong drive and determination, networking, opportunism, etc. Taking this broader view in mind, not all business start-ups constitute entrepreneurship because not all founders display these behaviours. At the same time, entrepreneurial individuals are found in all kinds of contexts and endeavours.

Entrepreneurial capacity is one of the key determinant of success in business, as well as in any other endeavour. Highly pro-active, ambitious, strategic, innovative, confident, hard working and networked individuals who are willing and able to take reasonable risks can circumvent many of the common barriers to start-up and success in business as well as in any other endeavour. Indeed, they can even turn barriers and weaknesses into opportunities and succeed under very difficult conditions. These are the ones who are able to and actually establish and build formal, growing enterprises under the existing restrictive environment. However, these tend to be a minority in any population. A majority of the population tends to have average or below average entrepreneurial capabilities. The more enabling the environment, the more of these latent entrepreneurial capacities are unleashed.

1.5 Methodology

The approach consists of a review of previous analyses of opportunities, potentials, barriers and good practice for pro-poor entrepreneurship and enterprise development. The recommendations are also informed by what other countries have been doing to support small business. The literature was collected from libraries, government ministries and departments, enterprise development programmes and projects, the Economic and Social Research Foundation (ESRF), business associations, development partners, international and multilateral development agencies, the Internet, etc

⁸ Gibb, 2006

1.6 Structure of the paper

After this introduction, the under-exploited opportunities for pro-poor business development in the micro and small business sector are identified. An overview of the conceptual and policy framework for small business development is then presented. This is followed by an assessment of the critical regulatory, institutional and other barriers to realisation of these opportunities. Finally, some innovative measures for addressing these constraints and hence unleash the entrepreneurial potentials of the poor are suggested.

2. UNDER-EXPLOITED OPPORTUNITIES FOR PRO-POOR BUSINESS DEVELOPMENT IN TANZANIA

2.1 Introduction

There are many under-exploited opportunities which could be exploited to generate wealth and jobs for the poor currently engaged in the informal economy. These include markets, natural endowments and human resources.

2.2 Demand for good and services

Tanzania's growing population, investments, per capital income, urbanisation, changing tastes and the growing access to regional and other foreign markets represent a significant opportunity for micro and small enterprises. Unfortunately, the small-scale operators have not been able to respond by competitively providing goods and services to meet the growing demand. The following are some examples of opportunities that are yet to be adequately exploited:

- Supermarkets have been established in major urban areas and large mining operations in some rural areas. However, these are importing most of their products, some of which are very easy to make and for which raw materials exist locally. As a result, the economy fails to reap the benefits which are supposed to accrue from these foreign investments (technology, market, jobs, taxes, etc). The main reason is that local producers are unable to meet stringent quality, delivery time and volume requirements. Most of the local producers are extralegal and are not accustomed to the highly structured processes involved in transacting with multinational firms.
- The government (including central and local government, public agencies and other public owned institutions) is the largest single buyer of a wide range of goods and services. However, like the mining companies and the supermarkets, central and local government departments and agencies as well as development programmes and projects are buying mostly imported goods and services. The main explanation is the same; there are not enough local micro and small enterprises with the capacity to produce and supply to the desired level in terms of quality, volumes and formalities.
- Growing urban populations present a lot of opportunities for selling goods and services, including food and drinks, furniture, leisure, education, etc. The growing levels of incomes among some segments of the population have seen a growing segment of quality conscious consumers who are ready to pay a premium for superior quality. These are mainly buying imported goods and services.

2.3 Natural endowments

It is common knowledge that the country has a lot of under-exploited natural endowments, including a large, arable landmass, tourist attractions (coastline, wildlife, historical monuments, natural forests) minerals, etc. A sample of the under-exploited potential is shown in Table 2.

Table 2: Sample under-exploited natural endowments

Sample resource	Sample under-exploited potential activities and products
Lakes and Sea	Freshwater and sea fishing and farming, fish processing (drying, etc) for local market and export markets
Arable land	Production of high value low volume crops: beans, oil seeds, horticulture, palms and palm oil, sea weeds, silk farming, paprika, vanilla; spices; agro-processing; ranching; ecological farming
Livestock	Traditional chicken farming, processing of hides and skins, making of quality leather products, etc
Minerals	Small and medium scale mining, processing and export of diamond, nickel, phosphates, tanzanite, rugby, industrial minerals such as gypsum, kaolin, glass and glassware products, tiles, plaster, decorative beads, etc
Timber	Timber plantations, quality furniture making and export
Tourist attractions	Eco-tourism, cultural/village tourism, domestic tourism, zoos, sale of local foods and drinks to tourists, city tours, trekking on highland areas, etc

2.4 Technology

Over the past two decades efforts have been made by a wide range of stakeholders to expand the frontiers of possibilities in the micro and small-scale sector, through development of appropriate equipment and expertise which is appropriate for this segment. For example

- Simple hard technologies have been developed for processing of juices, crops, foods, sugar; production of fuel from waste, etc. These have diffused randomly in the sector in an erratic manner, but some are not very widely used. A striking example is that the technology for producing biogas, was developed in Tanzania but is currently being used widely in Rwanda. The technology for processing cassava into flour and starch was also developed in Tanzania, but recently a group of Tanzanians visited Zambia to study how it is used. They learned that the largest market for the products is Tanga region in Tanzania. Expertise came from Sokoine University of Agriculture
- Some high-value-low-volume crops have been tested and potential exists for up scaling and replicating in others areas. Examples include paprika, vanilla, jetropha, moringa, rosella, etc
- Many interventions have taken place in the past twenty years in both rural and urban areas targeting business development. There are potentially many lessons to be learnt from these interventions. However, these have not been captured, documented and used. New initiatives always start as pilots without building on what has been learnt or achieved.

2.5 Labour and talent

There is a large pool of unemployed and under-employed population, most of which could be put to more productive use. Out of over 700,000 graduates of the college and school system, less than 7% secure jobs in the formal sector. The rest have no option but to join the informal sector as business operators or remain unemployed. They include graduate of tertiary training institutions, including vocational training centres.

Some of these demonstrate a great deal of ingenuity in the way they carry on their informal income generating activities. Many examples of this ingenuity can be seen during trade and innovation fairs or competitions. In all urban centres, one finds young men and women, mostly youth, working tirelessly under difficult conditions to generate incomes for their sustenance. They engage in all kinds of activities, including trade, mining, manufacturing, construction and services. In the process, they generate incomes for themselves and their dependants and provide badly needed goods and services to local communities. However, it is rare to see these being translated into growing and sustainable enterprises, which provide quality jobs and contributes to government revenues. They remain marginalized with limited effective linkages with the formal sector.

Since about 10 years ago, graduates of tertiary training institutions have been finding it increasingly difficult to find jobs and some of these have been trying out business. Recent studies consistently show that more than half of students of tertiary training institutions are “very interested” in starting their own businesses⁹. Beyond that, about 16% of final year University students were actually running some kind of business as they study. This demonstrates that interest in doing business, even among those with high education is quite high. Although, the transition rates to full-time business activity among graduates has not been documented, anecdotal evidence suggests that it is still quite low.

Some entrepreneurial employees in the public and private sectors show interest and capacity to do business. However, because of the uncertainties and risks associated, few take the decision to concentrate on business as a full-time activity. They continue doing business on part-time basis, limiting their potential to grow.

Currently, many educated army officers with the rank of lieutenant to major graduate at between 47 and 52 years. At this time, they still have a lot of energy and many have valuable skills, which can be used to start and develop businesses. However, most of these are ill prepared for a productive post-retirement life and soon sink into poverty.

3.0 FRAMEWORK FOR SME DEVELOPMENT

3.1 Introduction

There are many ways of supporting micro, small and medium enterprise development. While the actual support can be rendered by private sector as well as civil society, governments throughout the world play a key role in leading , financing and even delivering the support. In this section the generic framework for enterprise development is presented, followed by the policy framework in Tanzania.

3.2 Government approaches to SME development

In all countries of the world, central and local governments as well as other actors take a number of measures to support development of SMEs. These measures vary from the “minimalist” approaches, where the government deals with improving the business environment to hand-on direct support to individual firms. The range of support can include:

⁹ Massawe, 2005; Komba, 2006; Sitaki, 2006

- (i) Sustaining a favourable macro-economic environment – inflation, exchange rates, low deficit, economic liberty, investor confidence, etc which are considered essential for a well functioning private sector. This is mainly done at the central government level through good macro-economic management.
- (ii) Sustaining a favourable business environment: This includes enhancing awareness of rights and obligations, efficient and reliable infrastructure; fair, simple, consistent and transparent laws and regulations including taxation; efficient and fair administrative processes; opportunity to be heard/listened to; promotion of an enterprising culture (one that values private initiative, independence; success, innovation, efficiency, etc) etc. This can be done at both local and central government levels.
- (iii) Providing a supportive interventions including quality assurance, recognition, fiscal and other incentives to encourage non-state service providers of training, incubation, finance, advisory services, clusters, industrial parks, science parks, etc to small firms. This can be done at both central and local government levels.
- (iv) Designing SME development policies and strategies: reforming curriculum of school, college and vocation training systems; co-ordinating reforms, actors and initiatives; and providing information and dialogue platforms. This can be done at both central and local government levels.
- (v) Sustaining think tanks and processes, which research on the sector, monitor its health; and come up with innovative mechanisms for fast-tracking its development.
- (vi) Providing basic infrastructure, such as surveyed and serviced land, water, security, waste disposal, etc. This is typically done local governments
- (vii) Creating and maintaining institutions that support capacity building of institutions which support businesses, in terms of research, consultancy, training, incubation, etc. A good example of this is GODISA of South Africa, which supports establishment and government owned business incubators in various economic sectors.
- (viii) Creating and maintaining semi-autonomous institutions/agencies that provide direct support to small business in terms of training, premises, incubation, finance, advisory services, industrial parks, science parks, etc. Example are SIDO of Tanzania and Mozambique Information and Communication Technology Institute (MICTI) both of which have established a business incubators. The later will soon establish a science park and an ICT training Institute.
- (ix) Providing business development services, such premises; training, incubation, finance, advisory services, industrial parks, science parks, etc directly to SMEs. Many local governments in Tanzania do this, although not very well.

The first five functions are basic roles of any government, whether local or central. Unfortunately however, not all perceive it that way. It is much easier for governments with limited capacities to deal with the higher level issues (i) to (vi) than the lower ones (vii) to (ix).

The later approach may crowd out private sector initiatives trying to do the same. In many countries a debate as to whether local and central governments should still be involved in the last two approaches is still going on with many donors advocating for a minimalist approach.

Typically, local governments tend to engage more directly with enterprises than central governments. Below is an example of how one city approaches SME development

Box 1: The City of Buenos Aires Support for SMEs¹⁰

The Government of Buenos Aires (capital of Argentina) takes a comprehensive approach to enterprise development: four different programs aimed at new firm creation are simultaneously under way. The city's government reoriented the Micro enterprise Support Center (CAM), created in 1996, from traditional training and technological assistance programs to support for the creation of new enterprises, mainly among the city's poor population. In the year 2002 the Center gave assistance to 3,055 firms, 57% of which were newly created. Individual business loans were extended, amounting to as much as 6,000 dollars per firm.

The Young Entrepreneur's Program was launched in 1999 under the joint responsibility of the Education, Industry, Commerce and Labour Departments. The basic services this program delivers are: (i) a promotional contest for ideas and projects for new ventures, (ii) workshops in micro enterprise management, and (iii) Internet seminars for entrepreneur training. Despite budget cuts, activities continue focused mainly on the promotional contest, which gives rise to about 130 projects a year, involving 500 students from 60 different schools.

INCUBA Center is an Incubator for new enterprises created in the year 2000. It's specialized in design, tourism and cultural assets. The support for new ventures focuses on training, technical, commercial and legal assistance, advice on financial opportunities, patent and brand registration, and quality certification. The channel to secure these services from INCUBA is to participate in the contest launched yearly. The first contest was held in 2002 with 369 projects participating, 46 of which reached the final selection stage, and 13 were finally selected.

Finally, the University Program to Stimulate Enterprise Vocation (PRUEVE) among young students, professors and graduates, was implemented in the year 2001. The purpose of this program is to "foster the development of innovative projects oriented to the creation of new technology-based enterprises". The main vehicles for accomplishing this are: (i) a regional contest for the financing of the best projects, and (ii) an incubator (called BAITEC) for infrastructure support in a city facility of 1,300 square meters. The first contest edition was in the year 2001 with 143 projects-ideas participating and 11 winners, with a total of 29 entrepreneurs.

3.3 Policy framework in Tanzania

In recognition of the importance of SME sector, the Government has continued to design and implement a number of policies and programmes supportive to the development of the sector. Tanzania Development Vision 2025 seeks to transform from a low productivity agricultural economy to semi-industrialised one led by modernised and highly productive agricultural activities that are buttressed by supportive industrial and service activities through actively mobilising people and other resources towards the achieving shared goals. In the National Strategy for Growth and Reduction of Poverty (MKUKUTA), the Government has committed itself to promote private sector participation including Small and Medium Enterprises.

The Sustainable Industrial Development Policy - SIDP (1996 - 2020) places specific emphasis on promotion of small and medium industries through the following measures: supporting existing and new promotion institutions, simplification of taxation, licensing and registration of

¹⁰ *Fernando Villarán and Esteban Hnylicza. 2004.*

SMEs and improve access to financial services. In addition, SIDP encourages informal sector businesses to grow and be formalised. Furthermore, the policy identifies measures to enable indigenous entrepreneurs, women, youth and people with disabilities to take part in economic activities.

The National Micro Finance Policy (2000) covers the provision of financial services to small and micro enterprises in rural areas as well as in the urban sector that are engaged in all types of legal economic activities. The Agricultural and Livestock Policy is aimed at the development of agricultural and livestock activities that are performed by both small farmers and livestock keepers. Priority is given to resources-based enterprises particularly activities that add value to agricultural products.

The Minerals Policy of Tanzania identifies the artisan and small-scale mining operations as a major target group to be promoted through improved access to finance and availability of tools, equipment and consumables, supportive extension services, simplified licensing and enhanced marketing opportunities. The National Employment Policy recognises that the private sector including SMEs is the major source of employment in Tanzania and outlines policies that will contribute to the creation of an enabling environment for private sector development.

Other policies with a bearing on the development of the SME sector include: National Trade Policy, Gender and Women Development Policy, Cooperative Development Policy and the Rural Development Strategy. Central to all these policies, is a creation of an enabling environment, building of a robust private sector and articulation of strategies that will create a sustainable growth. A number of institutions, both public and private were established to implement and coordinate various programmes arising from these policies. Furthermore, the government has undertaken various measures aimed at creating an enabling environment to enhance enterprise development. These include, among others, maintaining macro-economic stability; review of tax regime; simplification of licensing procedures; implementing a programme on 'Business Environment Strengthening for Tanzania- BEST' and implementation of a 'Competition Policy'.

Apart from SIDO, various institutions have been established to support enterprise development in Tanzania. They include the Tanzania Industrial Research Development Organisation (TIRDO) which supports local raw materials utilisation; Centre for Agricultural Mechanization and Rural Technology (CAMARTEC) which is involved in promotion of appropriate technology for rural development; Tanzania Engineering and Manufacturing Design Organisation (TEMDO) responsible for machine design; Tanzania Bureau of Standards (TBS) mandated to promote and enforce standards; and the Board of External Trade (BET) which is instrumental in promotion of exports mainly through trade fairs.

Government owned tertiary training institutions have also introduced a number of units which provide research, consultancy and training services in SME related issues. These include the University of Dar es Salaam Entrepreneurship Centre (UDEC) and the Technology Development and Transfer Centre (TDTC). Both are active in incubation initiatives.

The Vocational Education and Training Authority has over 630 centres in the country offering training in more 34 different trades. The Ministry of Industry, Trade and Marketing (MITM) has developed a National Incubator Programme, which is a framework to guide all initiatives in this direction. This programme is supposed to co-ordinate incubation initiatives, including those led by SIDO, Technology Development and Transfer Centre (TDTC) of UDSM and the UDSM Entrepreneurship Centre (UDEC).

Despite all these and other completed and ongoing interventions, we are yet to see a real take-off in terms of upward mobility and formalisation of a critical mass of micro and small enterprises. This suggests that there may be a need for different kinds of approaches to unleash entrepreneurial potentials.

4.0 ISSUES AND BARRIERS FOR REALISING ENTREPRENEURIAL OPPORTUNITIES IN SMALL FIRMS

4.1 Introduction

Despite the immense opportunities for developing micro and small enterprises, almost all have remained informal or semi-formal, serving the low-income segment of the population for which there is very stiff competition among the businesses. Their access to formal markets and incidence of upward mobility is quite limited. There are many reasons for this state of affairs. These include limited awareness and capacities of the operators; limited access to financial and other support services and a disabling business environment.

4.2 Awareness and capacity

One of the most debilitating constraints is limited awareness and capacity of existing and potential business operators, in terms of exposure, values, attitudes, knowledge and skills. The result is that most simply duplicate what their neighbours are doing and do not appreciate the importance of innovation, quality, credibility and customer-care. One of the main reasons for this state of affairs is that our education and training system does not consciously develop values, attitudes and skills that enable people to see and realise the potentials in the country. This problem could be addressed by private extension services and business development services (BDS) through training, advice and other support. However these services are under-developed, with limited outreach. Another explanation for the limited display of innovation, quality, credibility and customer care is that some operators get into business out of necessity and as a result are not fully committed to what they are doing¹¹. Research shows that most of the people who get into business out of necessity are neither risk-taking, opportunity seekers nor innovative¹².

4.3 Access to finance

Access to finance is always mentioned by potential and existing SME operators as the most serious barrier to business start-up or growth. However, what is reported as "lack of funds to start or run a business" is sometimes a symptom of limited capacity to articulate and present ideas to appropriate financiers, failure to attract enough customers or poor management of finances. Nevertheless, it is a reality that there exists a wide gap between the existing financial intermediation frameworks (assumptions, approaches, methodologies, regulations, outreach) and the reality of SMEs. Formal financial institutions and regulations require professionally prepared loan proposals presented by credible, formally licensed and traceable applicants and backed by recorded business history and collateral. The reality of SMEs is different: most are extralegal; few appreciate the need to keep records or build credibility; have no licenses, do not have collateral and cannot afford to or do not appreciate the value of the services of consultants. There is no access to start-up capital from any formal financial institution.

There is as yet no national identification system, making traceability difficult or impossible in some cases. Traceability is also limited by the fact that most businesses operate from isolated, temporary, informal and even illegal sites or premises. Even when they locate in surveyed

¹¹ Olomi, 1999

¹² Oyhus, 1999

areas, there are no street names to facilitate traceability and access by service providers, including financial institutions.

At the same time, financial institutions are yet to evolve a significant capacity to respond to the needs. They do not understand the culture of small firms. Their approaches are mainly modelled on the needs and features of corporate entities. Many financial institutions have very basic, traditional products in urban areas. They lack enough, adequately trained and experienced officers. They also have limited access to long-term finance, and this explains why they do not have long-term finance products for clients. There is also a serious problem of mistrust by banks of their loan officers, a factor that subjects loan processing to long and cumbersome bureaucratic processes, even in small private banks.

In the recent past, an increasing number of these institutions are expressing interest in working with smaller firms, driven by stiff competition for the few corporate clients and prospects in the growing SME sector. As of now, they are still struggling to learn and develop viable models for reaching out to small and micro- enterprises. There is cutthroat competition for the few officers who have acquired experience in working in this area, financial service providers hesitate in investing in human resource development because trained staff are quickly snatched by competitors.

Micro-finance institutions are serving a growing number of informal and micro/small enterprises. However, their products are quite few and limited to the needs of those who require very little sums of money and whose opportunity cost of time is so low that they can afford to spend many hours every week attending meetings in return for the possibility to borrow a small amount of money. There are other financial products which are required by small businesses, but they are currently not available. These include insurance, and factoring.

A few guarantee schemes have been introduced, but these have limited outreach. Also these schemes address only one constraint – which is collateral. One of the major reasons for the limited access to finance for micro and small enterprises is a very low level of trust in the society. People will only extend credit (in cash or goods) to or even received cheques only from people they know very closely.

4.5 Homelessness of micro and small firms

It is ironic that while actors in the public sector express interest in promoting micro and small enterprises, these mostly informal businesses and the ingenious entrepreneurs behind them are “homeless” operating from temporary, illegal sites or premises. This is only for one reason – there are not adequate appropriately serviced areas where they can locate and operate from. Hence, entrepreneurs who are ready to take the bother to invest in industries (woodwork, ironworks, food processing, etc) often have to establish these by the roadside or in unplanned and unserviced squatter settlements, which then renders them informal. These men and women working hard to create jobs and wealth for themselves and others are then seen as a menace, rather than a great asset.

The problem lies squarely with local governments which are unable or unwilling to (i) identify and service suitable land for various productive activities and (ii) ensure that operators operate only from these areas and premises. Part of the explanation for this state of affairs is that the

local government officers are oriented to manage cities where the main business actors locate in exclusive areas. While this is the case in countries where our knowledge base has been borrowed from, the opposite is true in countries such as Tanzania, where a large number of small industrial activities are responding to localised needs in various neighbourhoods. It must be noted here that many Tanzanians can only start at a very small scale and grow. Even many of today's medium sized manufacturers started this way. Another explanation as to why businesses tend to locate along main roads is that local governments have not named streets and numbered houses, even in surveyed areas, making area located beyond the major streets difficult to locate and hence unattractive to business operators.

4.6 Disenabling regulatory environment

A number of measures have been taken in the past 10 years to improve the investment climate for both small and large firms. For example, licensing and taxation has been made simpler and less costly, especially to small firms. However, problems still remain, especially at the local government level, where petty corruption and bureaucratic processes still persist. Despite existence of a law on intellectual property rights, there is no effective enforcement of these rights. This is due to the limited awareness of rights and enforcement capacity in government, including the courts. This frustrates innovations in the SME sector. Local government, which is supposed to provide enabling environment at the local level lacks capacity to do so. Membership associations are in some cases advocating for positive reforms, but in many urban and rural areas, they are either non-existence or still weak and hence unable to bring about meaningful changes.

In many cases, the (largely imported) regulatory framework is tailored to the capacities of large companies and hence is not accessible to micro and small enterprises. This automatically discourages start-ups and condemns businesses that dare to start to the informal sector. Table 2 shows the number of procedures and time it takes to start business and pay taxes in Tanzania, relative to 175 other countries.

Table 2: Ease of starting a formal business and paying taxes in Tanzania

INDICATOR	SCORE
Starting a formal business	
Number of procedures	13
Time (days)	30
Ease of starting business (rank out of 175)	127
Taxation:	
Number of tax payments	48
Times for tax (hours per year)	248
Ease of paying taxes (rank out of 175)	113

Source: World Bank. 2006. Doing Business, p.7

To formally establish a small food or beverage processing business, one needs to have the premises, location and process assessed and licensed by the Tanzania Food and Drug Authority through municipal/district and ward level health officers. There are separate licenses for the premises, the production process and the business. The first two can only be obtained in Dar es Salaam. In most cases, premises will have neither running water, appropriate power nor wastewater disposal provisions.

A recent comprehensive analysis of the informality in Tanzania found that:

The obstacles that Tanzanians would have to overcome to access the legal system and obtain organizational structures, credit, capital, markets beyond their immediate families, and legal property rights, are insurmountable. If a poor entrepreneur throughout a 50 year business life obeys the law, it will require him/her to make cash payments of US\$91,000 to the State for the requisite licenses, permits, and approvals, and spend 1,118 days in government offices petitioning for them (during which he could have earned US\$9,350). The same entrepreneur would have to wait another 32,216 days for administrators to resolve all his/her requests, and during that time lose another US\$79,600 in potential income. The grand total of these costs: almost US\$ 180 thousand —enough money to create 31 additional small enterprises (ILD, 2005)

In addition to the complexity in the design of the regulatory framework, there are still problems in implementation. Petty corruption and bureaucracy in business licensing and registration is still endemic in some districts. The spirit of reforms has not yet been fully embraced at the local government level where attitudes are changing very slowly. In some districts, layers of disabling by-laws and bureaucratic procedures are being added from time to time. In one district, the Municipal Council recently ruled that all business license applications have to be approved by the applicants' councillor. The counsellor in turn demands that the applicant must contribute to a school fund for the Ward. One business operator reported that his application for a manufacturing license was delayed in the councillor's office past the deadline for application, forcing him to pay a fine for not applying in time.

It takes a very bold and determined person, who also has networks or resources to complete this process. As a result, a large majority of food processors remain informal. Only the few which later develop the capacity to comply with the complex frameworks will even formalise and grow. It can also be argued that many of those who would otherwise start such businesses do not do so because of these constraints. It also be noted that women, the youth and the disabled have much lower capacity to deal with these constraints and hence are disproportionately affected.

The implication of the foregoing is that, much more needs to be done to create conditions that make formal business affordable to the majority of operators, including men, women, the youth and the disabled.

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4.7 Institutions as barriers to business development

Ideally, local government and other institutions should be supporting development of small businesses in different ways. In Tanzania, the municipal and district councils operate government-micro-finance funds for youth and women. The community development offices at this level also provide training to producer and marketing groups, some of which are pre-co-operatives. The co-operative development department is supposed to provide training and advise for co-operative societies. Other technical departments are also supposed to provide extension services in agriculture, fisheries, livestock, etc. However, the capacity of the local authorities to effectively do this is limited to the extent that the support often does not go beyond enabling businesses to survive in the informal sector. The focus is still to help micro

enterprises survive in the informal sector, rather than to enable formalisation and growth. The main reason for this lies in the mind-set, and limited capacity, in terms of skills, staff, knowledge, systems and experiences in supporting serious private sector activities.

It is unrealistic to expect any local government to have enough competent extension workers to meaningfully provide direct support to a critical mass of micro and small enterprises in the entire district or municipality. The role of the local government should therefore be more enabling and catalysing other actors' initiatives. Its direct support should be limited to a few very strategic initiatives with substantial potential impacts and which will not lead to unfair competition and hence stifling private sector initiatives.

There are also systemic political issues. For example, members of parliament and councillors play a key role in deciding who gets what kind of support, and this is usually for political patronage. As a result, support is often not directed where it will be most effective, and when it is in the form of credit, it is rarely repaid. For example, repayment rates for local government operated micro-finance funds is mostly below 50%. There are also serious weaknesses in the capacity of local governments attributable to the mindset of councillors, some of which have very limited education and exposure and hence have a very narrow view of their role. Although the Rural Development Policy of 2001 requires all local authorities to develop private sector development programmes, hardly any has done this.

National laws, policies and regulations are not adequately translated at the local government level. There are not even mechanism for keeping records and monitoring the health of the private sector, or co-ordinating various central government or donor supported initiatives. As a result, local government is more of a barrier rather than a facilitator of development of formal micro and small businesses. As part of the ongoing reforms, the central government has taken away some of the local government's powers to tax local business. While this is a positive measure in the short term, it reduces the dependency of local government of local businesses and hence the perceived importance of investing in nurturing the later.

5.0 STRATEGIES FOR PRO-POOR BUSINESS DEVELOPMENT

5.1 Introduction

Improving the business environment is absolutely essential. However, alone, this measures will not quickly propel a critical mass of Tanzanians micro and small businesses into successful businesses that create significant incomes, quality jobs and contributes meaningfully to government revenue. This is because the constraints to reaching this level are far greater and far most complex that it is often imagined. Its is also recognised that there are multi-faceted and require a more comprehensive intervention. These are proposed below.

5.2 Regulatory reforms required to make formalisation affordable and attractive

The ongoing reforms in the business environment need to be expedited. However, by and large, these reforms are being spearheaded by people whose understanding of formality is based on western experiences and knowledge base. Thus, land must be surveyed using very expensive instruments and processes. Given that some areas of the country are not productive enough to meet the cost of, say, surveying land, there should be alternative means of

formalising and managing land. The same applies to food, beverage and drug processors and sellers whose level of operations does not justify investment in the existing licensing processes. The ongoing regulatory reforms should therefore come up with two or three-tier regulatory mechanisms for land surveying, titling and licensing depending on the size and complexity of the operations. Care should however be taken to minimise the possibility of these tiers being growth or formalisation traps.

5.3 Meso-level institutional building

There is need to build strong institutions which are able to strategically and pro-actively address the needs of micro and small enterprises. Currently, support provided is very basic (not strategic) and of low quality. The following could be done to strengthen this capacity:

Local government

The business development role of the local governments should be defined more concretely in the mandate of the authorities and in the terms of reference and performance indicators of their leaders and managers. Each local government should be required to have a rolling private sector development programme, which includes strategies and actions to effectively address the key barriers to business start-up, formalisation and growth in the particular district as well as creatively stimulate and support formalisation and growth. A specific, well-defined business development department need to be introduced, possibly substituting the traditionally routine role of the Trade Officer. It is recommended to review the process of electing ward councillors so as to enhance the quality of the councils. In order to stimulate and show case good practice in regulation, it is recommended to introduce inter-local authority “business development” and “investment climate” competitions and awards. Organising such schemes can be one of the terms of reference of the Better Regulation Unit in the Ministry of Planning, Economy and Empowerment. One way of involving the poor in this process is to consider participation (opportunity to be heard) of male and female micro and small business operators in the reform agenda as one of the indicators of good practice in reforms. They can also be involved in assessing the investment climate for the purpose of the competition. This will prompt local authorities to involve, listen to and try to have positive impacts on the lives of men, women and youth at the grassroots.

Reforming the national small business development agency

Although SIDO has been supporting small businesses for a long time, its impact is not very evident. One reason for the limited performance of SIDO is that despite its presence in all regions, its capacity to reach out to many businesses is very limited. As a result what SIDO is doing is a trickle, compared to the needs of millions of micro enterprises. At the same time, some other BDS providers are increasingly being established, effectively competing with SIDO. There is need to review the role and mandate of SIDO – preferably to make it a very strong agency for strategically building capacity of entrepreneurs and grassroots BDS providers, and withdrawing from direct support to entrepreneurs whenever possible, so that it concentrates its efforts on building capacity of others institutions. These other institutions can be vocational training centres, including Fold Development Colleges, many of which are in rural areas. Direct capacity building of operators could target strategic areas with significant impact, such as enabling producers to meet the requirement for supplying to supermarkets, government and the mines, instead of doing generic kinds of support. Targeted capacity building for locally

responding to demands in supermarkets, mines, government markets as well as low volume-high-value products. It might also be wise to re-organise SIDO so that there are different departments dealing with industry, commercial agriculture, fisheries, livestock, etc. Alternatively multiple agencies could be established.

Curriculum reforms in schools and colleges

Schools and colleges are key socialisation agents in a modern society. With this in mind, Vision 2025, the 1995 Education and Training Policy and the 2003 SME Development policy commits the government and other stakeholders to integrate entrepreneurship in all school and college curriculum. Implementation of these policy statements have however been slow, for a number of reasons. Tanzania Institute of Education (TIE), Vocational Education and Training Authority and some other tertiary training institutions have taken measures to integrate entrepreneurship in the content. However, interpretation of what entrepreneurship is varies from one institution to another, and hence there are vast differences in what is in the curricula. The biggest problem lies in lack of enough instructors with the skills to appropriately deliver an entrepreneurship curriculum. As a result, objectives of integrating entrepreneurship in the curriculum have not been met. There is a strong need to invest in building appropriate curriculum, including building the capacity of learning facilitators to deliver it in an effective way. The curriculum should among others, promote more interactions between schools and colleges on one hand and micro and small businesses in their surroundings on the other. This will help not only in socialising students to the real world of business in their context, but also facilitate knowledge and information exchange between business operators and future policy makers, regulators and service providers. It is another way of indirectly connecting the poor people to decision makers.

5.4 Enhancing Access to financial services for the poor

Like in other areas, there are number of initiatives to improve access to financial services, especially for micro, small and medium enterprises. These include the Financial Sector Deepening Programmes (FSDP), Rural Financial Services Programme and Guarantee schemes. It is recommended that efforts be made to ensure the following, either in the context of the existing initiatives or new ones:

- Government should encourage financial institutions to downscale to provide services to micro and small businesses. This can be done by, for example meeting the cost of human resource development to prepare competent bank staff who can work with SMEs
- Government can work with banks, tertiary training institutions and financial institutions to develop innovative/special financial schemes for innovative ideas with great potential. This can be, for example, through creating an innovation fund for commercialising new ideas with a lot of potential for impact on the poor. The ideas can be developed, refined and selected through business plan competitions
- Government should liaise with other local and international stakeholders to establish Venture Capital Funds for ideas and persons with big growth potential. These funds can be sector specific.

6.0 CREATING MICRO-ENVIRONMENTS THAT CAN FAST TRACK SME DEVELOPMENT

6.1 Introduction

The limited awareness and capacity, access to external support and a disempowering business environment together are real problems which make it hard for potential entrants into the business sector to start and formalise. Previous efforts have mainly tried to address each of these problems separately. Given the low level of development of the small business sector and the large size of the country and population of businesses, it is unlikely that we shall be able to see a critical mass of small businesses overcoming these barriers and becoming role models for others.

It is recommended to take an approach which addresses multiple issues simultaneously. The cluster approach can be used to achieve this. There is no single universal definition of a cluster but generally the concept involves an agglomeration of interconnected firms in a contiguous geographical area. Frequently, the firms are sectorally specialized, for instance in the manufacture of articles of clothing, and establish forward and backward linkages based on both market and non-market mechanisms of interaction. It is usual to have the presence of a network of public and private institutions that provide support services to the economic agents. The benefits from organising such clusters include¹³

- Need identification and delivery of targeted support (finance, training, technology, advice, etc) is made easier to a group of firms that share similar structure, opportunities and concerns
- There are economies of scale in the delivery of policy support and business development services to a network of firms
- Inter-firm learning, innovation and technology transfer processes are facilitated.
- Cluster participants can organise themselves and have their collective voice heard by relevant authority
- Cluster participants can do joint or co-ordinated packaging, marketing, procurement, quality assurance, etc
- There are economies of scale in the provision of infrastructure (road, water, telephone, power, surveyed land, premises, etc)
- Trust can be built, members can borrow from or guarantee each other and hence reduce the need for collateral

These formal microenvironments already exist in some areas, for example the fish market in Dar es Salaam and the handicrafts market in Mwenje. These are however currently under-exploiting the potential value of clusters, in terms of processing technologies and facilities, linkages with suppliers and formal buyers, technology transfer and innovation, etc. The idea is to extend and adapt the same concept to other sectors, sub-sectors and areas.

6.2 Urban industrial clusters

Currently micro and small industry operators locate by the roadside or outside residential areas and are seen by regulators as a curse. Local governments (and or with other actors) can identify, demarcate and service land with basic infrastructure and utilities (buildings/sheds,

¹³ Villarán and Hnyilicza, 2004

water, power, telephone, waste disposal) where related types of micro and small industries can locate and operate from as formal entities, according to current and future demand. These locations should not be too far from the markets. They could even be in every ward, and adjacent to main roads, depending on the types of products or services offered and the type of clientele targeted.

- An urban woodwork cluster could, for example, accommodate timber merchants, carpenters, woodworking machines (owned by carpentry workshops or for hire by others), makers and retailers of glue, varnish, polish, carpentry tools, etc. Even carpentry training centres and restaurants can be located in such areas.
- A food processing cluster could include small scale food and beverage processors located in small licensed premises, some common facilities including some manufacturing, packaging, quality control and laboratory equipment; small scale makers of packaging materials, labels, etc; retailers of some inputs, distributors of the manufactured goods, a training facility providing business, technical, environmental, etc skills, etc.

These kinds of clusters can be established for a wide range of activities. Once the local government has provided adequate space for the growing urban areas, it should ensure that related operators do not operate from outside the demarcated areas. The centres can be operated by local government or in partnership with a private sector company.

6.3 Rural agricultural clusters

Agriculture is still the backbone of our economy. It contributes more than 50% of the country's GDP and accounts for about 60% of the country's foreign earnings. Despite existence of many opportunities for commercial agriculture in rural areas, the barriers are just too daunting for a significant change in commercialisation of agriculture to take place in the foreseeable future. There is need for a radical scheme to make agriculture viable option, even for graduates of colleges. It is recommended to establish agricultural clusters cum incubators to nurture and produce commercial farmers. The proposed scheme could work as follows. Incubator promoters would identify large tracks of accessible land suitable for pre-determined types of crops or livestock for which existence of adequate long-term demand will have to be ascertained in advance. On this land will be established a "camp" with temporary housing and other basic facilities, where incubatees will stay for a fixed term, while collectively opening up and working hard on farms. At the same time, they will be receiving related agriculture and agribusiness training.

Young graduates interested in developing a career in commercial agriculture will be invited to apply for the scheme. Their initial capital may be their labour or loans from the government or other institutions. Towards the end of their incubation, they will be allocated developed land where they will build their basic houses. After two or three years, the physical incubator will relocate to another area, leaving hundreds of people, each with a significant, productive piece of farm as a cluster. The incubatees could organise themselves into a marketing co-operative and or/SACCO, even before the incubator relocates. These incubators can be seen as some form of agricultural training colleges, with a bias in starting and operating in agri-business, rather than employment.

There could be many variations of this model/idea. For example, incubates may pay fees as they pay in colleges, or they could take a loan for incubation and repay after graduation.

Graduating incubatees may have the option of selling their farms to other people, or some farms so developed could be sold to interested retiring army or other retirees. It could also be for commercial animal husbandry, including ranching. The big advantage of this mode is that many of the constraints are simultaneously addressed. The programme can be funded in different ways and combinations: private sector, government, development partners, not-for profit organisations, etc

For this to be effective, the following has to be considered:

- Enough accessible land, which does not rely on rain for agriculture should be available
- It would be useful to identify a much larger land than the initial incubator, because once the cluster of commercial firms is functional, other people will be attracted to the area. New entrants can start developing farms while staying with friends or associates in the established cluster or even in a campsite within the established cluster. They will need access to good land. Hence the initial incubator and cluster should be seen only as a nucleus to enable a much wider area to be exploited commercially.
- There should be deliberate moves to connect the incubator with the related value chains, including providers of finance, training, equipment and inputs as well as markets.

The following benefits would be derived from this kind of incubation:

- Graduates, retirees and other people will be attracted to work in the farm sector in rural areas
- Farmers can learn from each other
- Farmers can readily organise themselves and have their collective voices heard
- Farmers can aggregate their outputs and do joint marketing for economies of scale and realise better prices in the market
- There will be more know-who and trust, as well as possibility for farmers to mutually guarantee loans for each other

6.4 Promote buy Tanzania

Currently, the government, private sector and almost all stakeholders are buying most of their requirements from other countries. This translated into many billions of dollars, which could play a very big role in stimulating small business growth and poverty reduction. There is need for deliberate moves by the government to simultaneously support capacity building to enable local small businesses to meet quality and other requirements and at the same time institute a policy which gives preference in procurement to local producers.

6.5 Transitional programmes for graduates and retirees

Until now, there is no mechanism to support graduates and retirees to transit from college/employment to business. As a result, most are unable to effectively transit. It is recommended to introduce transitioning programmes for army, graduates and other retirees. This can be designed along with agricultural incubators in mind, such that retirement benefits may be used to buy low risk businesses such as going concerns in animal husbandry and agriculture.

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