

ECONOMIC AND SOCIAL RESEARCH FOUNDATION (ESRF)

**MICRO AND SMALL ENTERPRISES DEVELOPMENT
AND EMPLOYMENT IMPLICATIONS:
REVIEW FOR CURRENT STATUS AND PROSPECTS**

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	III
1.0. BACKGROUND AND CONTEXT	III
2.0. OBJECTIVES	III
3.0. METHODOLOGY	III
4.0. FINDINGS	IV
5.0. RECOMMENDATIONS	V
1.0 INTRODUCTION.....	1
2.0 STATUS AND SIGNIFICANCE OF MICRO AND SMALL ENTERPRISES	3
3.0 THE CONSTRAINTS	7
3.1 MACROECONOMIC POLICY ENVIRONMENT	7
3.2 PHYSICAL AND TECHNOLOGICAL INFRASTRUCTURE.....	10
3.3 THE BANKING AND FINANCE STRUCTURE	11
3.4 LEGAL AND REGULATORY FRAMEWORK	12
3.5 MARKET CONDITIONS	13
3.6 IMPACT OF HIV/AIDS	14
4.0 INSTITUTIONAL FRAMEWORK AND PROMOTIONAL INITIATIVES	14
4.1 PUBLIC SECTOR PROGRAMMES	14
4.2 NON-GOVERNMENTAL ORGANIZATIONS (NGOs).....	16
4.3 LOCAL DEVELOPMENT INITIATIVES	17
4.4 DONOR SUPPORT PROGRAMMES	18
5.0 THE POLICY FRAMEWORK AND SUPPORT SERVICES	19
APPENDICES.....	27
APPENDIX I: SELECTED NGO MSE DEVELOPMENT PROGRAMMES	27
APPENDIX II: SELECTED DONOR SUPPORT PROGRAMMES.....	30
REFERENCE	39

EXECUTIVE SUMMARY

1.0. Background and Context

During the past two decades perceptions of micro and small enterprises and their role in economic development has changed substantially. First, MSEs have shown great resilience during the time of crisis. MSEs usually utilize local resources like capital (such as family savings), skills harnessed to produce a variety of products for the market and utilize local material resources often to a greater extent. Second, MSEs have proved to be a dependable source of employment even (or especially) during periods of crises. MSEs, which are fairly labour-intensive, create employment opportunities at relatively low capital cost. They have been an important source of incomes not only to people who could not find employment in the other sectors but they have also provided an important cushion to falling incomes of employees in the formal sector. In addition, MSEs are an important source of off-farm and non-farm employment in the countryside. Third, recent policy shift towards private sector development has given a new impetus to MSE development. Attitudes towards private sector have become more positive and in this context the role of MSEs as a seed bed for larger scale entrepreneurship is receiving greater recognition. Fourth, increasing concern about the need to achieve high growth which shared and amenable to achieving human development has given a new focus on MSE development. This is because MSEs tend to develop in different regions of the country, hence contributing to reduce concentration of enterprises in urban areas and promoting balanced economic growth. They are more amenable to spreading to small towns and rural areas. Fifth, MSEs have proved to be efficient and dynamic in countries which have given the opportunity to develop and to access appropriate support.

2.0. Objectives

The objective of this paper is to review Micro and Small Enterprise (MSE) development in Tanzania and examine its actual and potential impact on employment creation.

3.0. Methodology

While recognizing the definition of MSE is slippery and has not been universally agreed the paper defines micro enterprises as those engaging 1-5 persons and small enterprises as those

which engage 6-20 persons. MSEs therefore are all those enterprises which engage between 1 and 20 persons. In our opinion this reflects the realities of Tanzania and can be operationalized. Data on MSE is limited, scattered and not consistent. This paper has collected pieces of scattered information from various sources in order to give an indication of the status and significance of the MSE sector even if they may not be accurate to the last digit. The paper is written on the basis of existing literature and various reports and documents on this subject.

4.0. Findings

4.1. The study addressed the significance of MSE in the economy and found that the MSE sector is estimated to contribute 30-35% of the gross domestic product. They consist of more than one million enterprises engaging 3-4 million persons, that is, about 20-30% of the labour force. MSEs have also become an important second source of incomes for those whose real wages and salaries are falling in the formal sector. The MSEs are active both in the urban and rural areas providing an important source of non-farm incomes which have a stabilizing effect (reducing seasonality) and providing potentials for diversification. They contribute a considerable share of household incomes in the rural areas.

4.2. The study examined the compositions of activities in the MSE sector and found that there is high concentration in trade and commerce related activities a situation which is consistent with the incentive structure during the trade liberalization phase. However, with time, manufacturing related activities are becoming important with concentration in tailoring and garment manufacture and agro-processing. This is a positive sign indicating their potential for engaging in directly productive activities and effecting structural change. Most of MSE activities are concentrated in localised markets. This indicates that they have the potential to meet customized demands because of their proximity to the market. Women are increasingly starting business enterprises, mostly in the urban areas, with the objective of raising income. Most of them are self employed (about three-quarters). Women concentrate strongly in particular industries and on fewer occupations most of whom (three-quarters) are occupied in the trade, restaurants and hotels industries.

4.3. The development of MSEs is held back by constraints which can be summarized in five main categories: the macroeconomic policy environment; physical and technological infrastructure; the banking and finance structure; the legal and regulatory framework; and the marketing capabilities and associated linkages. The development of institutions which are necessary for smooth functioning of the market and promote private sector development are not fully in place, the bias and negative attitude towards the private sector and MSEs in particular is being reduced but the bias still remains in many circles. This situation has a bearing on the constraints facing MSE development.

4.4. Promotion of MSE development has been done by various agencies ranging from public sector programmes, NGOs and donor programmes. A major concern is that various actors have lacked the necessary coordination within a coherent MSE development policy framework. Evaluation of MSE promotion programmes suggests that such programmes alone without placing emphasis on policy reforms and deregulation to eliminate the bias in existing policies may not be sufficient. The effectiveness of programme-oriented approaches to MSE promotion is strongly influenced by government policies.

5.0. **Recommendations**

5.1. There is need to create a more effective enabling business environment for MSE development to enable all the actors to operate in the framework of a co-ordinated plan of action.

5.2. The stakeholders need to be organised and committed to a common vision that supports the growth and development MSEs. The development vision (Vision 2025) has provided pointers to MSE development in emphasizing a type of growth and development which would be conducive to carrying along the majority of the people guided by the human development objective and poverty eradication in particular, promotes democratic and popular participation of stakeholders in development initiatives, mobilizes domestic human, material and financial resources and promotes diversification of the economy consistent with the need to raise the level of productivity and competitiveness. MSEs have an important role to play in the context of Vision 2025. The vision provides guideposts which should be used

for the preparation of a more specific MSE development policy.

5.3. There is need to accelerate the process of preparing MSE development policy. Such policy formulation should effectively draw from the experience of various stakeholders in MSE activity. In this new policy the government must focus on motivating private sector associations, chambers and local development institutions to pursue MSE development efforts. These efforts will need to be grounded on a strong public-private sector partnership and on a growing partnership among all the stakeholders in MSE development.

MICRO AND SMALL ENTERPRISE DEVELOPMENT AND EMPLOYMENT IMPLICATIONS: REVIEW OF CURRENT STATUS AND PROSPECTS¹

1.0 INTRODUCTION

During the past two decades perceptions of micro and small enterprises and their role in economic development has changed substantially. First, MSEs have shown great resilience during the time of crisis. MSEs usually utilize local resources like capital (such as family savings), skills harnessed to produce a variety of products for the market and utilize local material resources often to a greater extent. Second, MSEs have proved to be a dependable source of employment even (or especially) during periods of crises. SMEs, which are fairly labour-intensive, create employment opportunities at relatively low capital cost. They have been an important source of incomes not only to people who could not find employment in the other sectors but they have also provided an important cushion to falling incomes of employees in the formal sector². In addition, MSEs are an important source of off-farm and non-farm employment in the countryside. Third, recent policy shift towards private sector development has given a new impetus to MSE development. Attitudes towards private sector have become more positive and in this context the role of MSEs as a seed bed for larger scale entrepreneurship is receiving greater recognition. Many large enterprises start small, hence MSEs serve as a training ground for entrepreneurial ability and managerial talent. Fourth, increasing concern about the need to achieve high growth which shared and amenable to achieving human development has given a new focus on MSE development. This is because MSEs tend to develop in different regions of the country, hence contributing to reduce concentration of enterprises in urban areas and promoting balanced economic growth. MSEs tend to develop in different regions of the country, hence contributing to reduce concentration of enterprises in urban areas and promoting balanced economic growth. They are more amenable to spreading to small towns and rural areas. In this sense MSE development is more consistent with rural-led or agriculture led development strategy. Fifth, MSEs have proved to

1 This paper has drawn considerably from a background paper by D.Massawe (1998) of the Ministry of Industry and Commerce.

2 Many public servants for instance own some small side line businesses which have helped to supplement their falling real wages and salaries. In the process they have also provided employment to other people.

be efficient and dynamic in countries which have given the opportunity to develop and to access appropriate support. For instance, in pre-World War II Japan, MSEs depended on low labour cost for their competitiveness but after the war they gradually modernized, raised wages and established complementary linkages to large enterprises through subcontracting. More recently MSEs have played a dynamic role in the industrialization efforts in China and Taiwan. Taiwan grew fast by following the divergent path blazed by Japan and Italy, relying heavily on the niche and flexible specialization strategies devised by its small and medium scale industries. (Snodgrass and Biggs, 1996). One factor which facilitates this process is that motivated individuals are enabled to take risk and to find avenues for their talents to new types of business activities and innovations in a policy environment which is supportive to these developments.

The definition of MSE is slippery and has not been universally agreed. However, for the purposes of this report we will adopt a definition which in our opinion reflects the realities of Tanzania and can be operationalized. In Tanzania, during the 1970s a qualitative definition of MSEs was adopted by SIDO. By then a small enterprise was defined as "any unit within the capability of the people individually or collectively in terms of capital required and know-how". This definition conveys the message in a qualitative fashion but it has proved difficult to operationalize. However, for the purpose of this report Micro enterprises are considered to engage 1-5 persons and small enterprises are those which engage 6-20 persons³. MSEs therefore are all those enterprises which engage between 1 and 20 persons. This definition includes enterprises engaged either in formal or informal activities.

This paper reviews Micro and Small Enterprise (MSE) development and examines its actual and potential impact on employment creation. The paper examines the role and status of MSE development, identifies constraints which the development of the sector encounters and reviews the policies and programmes which have been put in place in recent years. This paper proceeds to shed some light on the various initiatives taken by the government, Non-Governmental Organisations as well as the donor Community to foster the development of Micro and Small Enterprises (MSEs) in Tanzania and the challenges encountered in the process. The policy framework within which MSEs are operating is examined and the option

3 The Ministry of Commerce and Industry has adopted the cut-off point of 20 persons for small enterprises. But some surveys have sometimes used 50 persons as a cut-off point.

of formulating a more appropriate policy for MSE development is considered.

2.0 STATUS AND SIGNIFICANCE OF MICRO AND SMALL ENTERPRISES

The status and significance of MSE sector has undergone changes in the 1980s and 1990s. MSEs have exhibited considerable resilience in the reform process and have provided opportunities for employment to a considerable number of the would be unemployed youth and women. MSEs have also become an important second source of incomes for those whose real wages and salaries are falling in the formal sector. The MSEs are active both in the urban and rural areas providing an important source of non-farm incomes which have a stabilizing effect (reducing seasonality) and providing potentials for diversification. They contribute a considerable share of household incomes in the rural areas. Within the MSE sector there is a wide variation in the size, level of technology, productivity and pace of development of different enterprises. Many enterprises have exhibited dynamism, competitiveness and capacity to grow sometimes against all odds. They are a potential for improving the level and quality of growth towards reduction of poverty. These trends can be shown using limited data which is available. It has therefore been necessary to collect pieces of scattered information from various sources and not all of these sources are consistent. The important point is that they give an indication of the status and significance of the MSE sector even if they may not be accurate to the last digit.

The MSE sector is estimated to contribute 30-35% of the gross domestic product. They consist of more than one million enterprises engaging 3-4 million persons, that is, about 20-30% of the labour force. There has been an expansion of MSEs for income and employment generation between 1990 to 1996 following the adoption of economic reforms creating some space for the self-employment and private sector activities. Recent studies by SIDO-GTZ (1996) estimate that the number of Micro-enterprises increased at least three fold when compared to the pre-adjustment period. This sector has become the largest urban job provider and shows the highest employment growth rates estimated at 10 percent per year. This may be an exaggeration of the real increase but the direction of change is basically correct. This growth would have been higher if the business environment and government policies had provided deliberate incentives to the development of this sector.

The contribution of MSE to GDP and employment has been shown to be significant in various countries. As far as contribution to National Product is concerned, MSEs in Uganda for instance are quoted as contributing more than 40% of GDP, more than 50% to manufacturing and over 80% in wholesale and retail. In Nigeria, MSEs contribute more than 42% of GDP. In Japan, despite the structure of a developed economy, MSEs contribute 38% of GDP. In Italy, Ireland, Israel, Portugal and Spain MSEs contribute between 35-50%. A survey of MSE in 5 African countries showed that small firms employing less than 10 workers accounted for 45-90% of employment in manufacturing and 26-64% of MVA (Liedholm, 1990).⁴ A survey of growth in employment in three countries in Sub-Saharan Africa (SSA) (Ghana, Sierra Leone and Kenya) has shown that after mid-1970s growth of employment in MSEs (employing less than 50 employees) outpaced that in medium and large scale firms. The respective growth rates for MSEs and MLEs was 4.6% and 2.4% during 1974-80 and 8.2% and 2.9% during 1978-85 (Liedholm, 1990).

The growth of the Micro and small Enterprise in Tanzania has been observed in various sector surveys. Their potential could be explained from an assessment of their contribution to employment and to GDP. MSEs contribution to GDP in Tanzania is estimated to be over 35 percent. The 1991 National Informal Sector Survey revealed that Micro enterprises employed about 20 percent of the total labour force. Of the 2.4 million people recorded to be involved in MSEs, 60 percent were engaged in these activities in the rural areas while 40 percent were in the urban areas. Furthermore, the 1991 survey established that about 50 percent of the Micro enterprise workforce is engaged in trade related activities and 22 percent in manufacturing activities. Urban agriculture and fishing absorb 10 percent.

According to the 1995 Informal Sector Survey (as can be seen in Table 1), Dar es Salaam had 228,637 informal enterprises that employed 345,837 people and that between 1991 and 1995, the employment increased at an average of 2.4% per annum. On the other hand the sector absorbs 30% of the economically active labour force of the city.

The survey also shows that the sector had an output of Tshs. 332 billion and a value added of Tshs.205 billion. It is also revealed that an informal sector activity generates an income

4 Liedholm, C. Small Scale Industry in Africa : Dynamic Issues and the Role of Policy. LD'A-QEH Development Studies Working Paper No. 21, April 1990.

which is about 2.5 times the minimum earning of a Government employee.

Table 1: Dar es Salaam Informal Sector

Description	1991	1995
Number of Enterprises	211,142	228,637
Employment	315,958	345,869
Informal Sector/Labour Force	33%	30%
Output (in Million Tshs.)	137,572	332,030
Value Added (in Million Tshs.)	41,840	205,203

Source: Dar es Salaam Informal Sector Survey

Characteristics of the MSE Sector

Due to lack of data on the MSE sector as a whole, the description of the sector that follows is based on the Dar-es-Salaam Informal Sector Survey of 1995. This remains the most recent, reliable and comprehensive survey of the sector. In a nutshell, the main findings are: -

- Total number of enterprise in DSM -1995 228,637
- Employment in Informal Sector –DSM 345,871
 - Women 124,872
 - Men 220,997
- IS employment as % labour force 30%
- Growth of IS employment (between 1991 and 1995) 2.4%
- Self-employment in the Informal Sector (64%) 222,915
- Employment by industry: Trade /Restaurants 62%
- Manufacturing 15%
- Agriculture 9%

Table 2: Employment by age:

Age	0-9	10-19	20-29	30-39	40-49	50-59	60+	Total
Nos.	62	40,541	152,678	82,819	41,623	15,832	11,205	345,870

- The overall mean age is 29 years indicating that MSEs are an important source of employment and income generation for the youth and have the potential to play this role in a more substantive way in future.

Table 3: Employment in IS by education:

Level of Education	Numbers	%
Primary School or with no schooling	312,654	90
Secondary School	32,454	9
Form iv +Form vi with prof. Training + University	1,868	1
Total	345,870	100

➤ Total Output (Million Tanzania shs)	332,030
➤ Average Output per establishment (Million T.shs)	1.4
➤ Overall Value added (Million T.shs)	205,203
➤ Average value added per establishment (Million T.shs)	0.9
➤ Total Capital invested (Million Tshs)	33,289
➤ Output per Investment	10
➤ Value added per Output	1.62
➤ Enterprises which secured bank loans (out of 228,637)	1,841
➤ Enterprises assisted (by Government, NGOs etc)	6,971

The NIGP-ESRF study (1996) of the MSE sector confirmed the following:

- That there is high concentration in trade related activities petty trade and commerce. This is consistent with the incentive structure during the trade liberalization phase which has tended to favour these activities in general.
- Manufacturing related activities are becoming important with concentration in tailoring and garment manufacture, agro-processing. This is a positive sign indicating their potential for engaging in directly productive activities and effecting structural change.
- Such concentration takes place in highly localised markets. This indicates that they have the potential to meet customized demands because of their proximity to the markets.

The 1991 survey found that at least one-third of the total workforce engaged in the Informal Sector of Tanzania are women. Women are increasingly starting business enterprises, mostly in the urban areas, with the objective of raising income. About three-quarters of all women in the Informal Sector are self-employed; with the rest being employees. Women concentrate strongly in particular industries and on fewer occupations. More than three-quarters are

occupied in the trade, restaurants and hotels industries. The largest groups are engaged at market/stall selling (36%) and food vending (2%). The majority are either saleswomen or labourers, followed by service providers or shop attendants.

The main problems faced by women entrepreneurs are poorer education and training opportunities (especially concerning basic managerial skills), discriminatory credit policies, lack of collateral (particularly with respect to obtaining land title), traditional inequality (both within the family and generally in the society), and weak networks for sharing market information and business success methods. Women suffer also from the lack of technical and communications skills, and face formidable challenges in time management (Krukowski and Finseth, 1997)⁵.

3.0 THE CONSTRAINTS

The development of MSEs is held back by constraints which can be summarized in five main categories: the macroeconomic policy environment; physical and technological infrastructure; the banking and finance structure; the legal and regulatory framework; impact of HIV/AIDS and the marketing capabilities and associated linkages.

3.1 Macroeconomic Policy Environment

Macroeconomic policy reforms which were adopted from 1986 have aimed at restoring macroeconomic stability. In the process, however, the MSE sector has been affected in many ways. The analysis of the effects of policy reforms on MSE can be done by categorizing policy reforms into:

- External sector reforms (devaluation, exchange liberalization and trade liberalization).
- Fiscal reform and public sector restructuring (e.g. budget controls, tax reforms, cost recovery, retrenchment and privatization).

5 Krukowski, P. and W. Finseth,. *The Promise of Growth : Tanzania's Microenterprise and Small Business Sector*. Report to the Commonwealth Secretariat. April, 1997.

- Domestic deregulation and liberalization of internal trade and finance (price decontrol, liberalization of the financial sector, deregulation of wages and labour legislations)
- Demand management (demand control, switching from consumption to investment, switching to exports).

The effect of policies on MSE has been addressed and found that trade and exchange rate policies usually have the largest effect, followed by fiscal policies, financial policies and labour market policies (Snodgrass and Biggs, 1996). Government policies must recognize that dealing with the demand constraints requires that priority be given to potential growth sectors, primarily agriculture and exports. SMEs should be able to participate in that growth directly or indirectly through linkages with other growing sectors.

The effect of policy reforms on MSE has been analysed and contrasting views have been expressed:

Trade liberalization has allowed in competing imports to reduce the market share of MSE products. Through liberalisation of trade, SMEs had increased access to raw materials and inputs. On the other hand, the local market was also flooded with imported products. This created a very stiff competition and as a result, some enterprises had to close down. A survey of the handloom and powerloom industry sector of 1995 indicated that “ *Import of second-hand garments and other textiles in unlimited quantities is systematically destroying small scale textile industry as the second hand products are being sold at very low prices*”

- Devaluation has made competing imports more expensive but is has also made imported inputs more expensive. Devaluation has favoured exporting MSEs. The effect has been positive on some MSEs and negative on others. In the case of Tanzania’s MSE devaluation opened up new opportunities by introducing new MSE product lines such as simple engineering products (hand-operated oil presses, oil expellers, hand operated water pumps, water storage tanks and drill presses). However, enterprises in several branches have lost their market share to competing imports. For instance, bolts and nuts, soap, tie-

and-dye clothing and leather and rubber sandals (Dawson, 1993⁶ Bagachwa, 1993)⁷.

- Removal of exchange controls has improved access of MSE to imported inputs for example, a survey on a selected number of MSEs showed that 78 percent of the firms in Tanzania took advantage of increased availability of imported products as opposed to 9 and 26 percent in Ghana and Malawi respectively (Parker, R et al, 1995).
- Retrenchment and erosion of incomes in the formal sector has increased activity in the MSE sector to the extent of affecting returns in the sector (declining due to competition). The on-going restructuring of public firms and the ongoing Civil Service reform have released a labour force which is straining the labour market even further. Normally these people have no alternative other than to join the MSE sector. This development has saved the incomes of the new entrants from total collapse but it has also reduced average returns to actors in the sector as a whole.
- Demand contraction effects have adversely affected MSEs. The transmission mechanisms for the adverse effects has been through demand restraining stance on government expenditure, money supply and credit squeeze and through competitive pressures originating from imports and other the increasing number of actors in this sector. The challenge of competition has to be seen at least in three dimensions: from the point of view of the expansion of the size of market; the costs of production; and quality considerations.

Macroeconomic policy has improved considerably in recent years in terms of stability and reducing various imbalances. The inflation rate has gone down to single digit, the deficits in the budget and balance of payments have been reduced and the supply of goods and services in the economy has improved generally. However, there are still many problems relating to the challenge of managing the transition from an administratively managed public sector led

6 Dawson, J. Impact of Structural Adjustment on the Small Enterprise Sector : A Comparision of the Ghanaian and Tanzanian Experiences. In Helming, A.H.J. and Th. Kolstee (Eds.). *Small Enterprises and Changing Policies*. Intermediate Technology Publications. London, 1993.

7 Bagachwa, M.S.d. Impact of Adjustment Policies on the Small Scale Enterprise Sector in Tanzania. In Helming, A.H.J. and Th. Kolstee (Eds.) 1993.

economy to a market oriented and private sector led economy. The development of institutions which are necessary for smooth functioning of the market are not fully in place, the bias and negative attitude towards the private sector and MSEs in particular is being reduced but the bias still remains in many circles. An attack has been launched against corruption but many MSEs are still losing part of their profits to corrupt public officials. The high degree of donor influence on the reform process continues to undermine efforts to coordinate MSE development. In general, the political, Economic and social environment in which MSEs are operating is still biased against MSE development (Toroka, 1998). According to the interview which Toroka, the director-general of SIDO gave to the Guardian on October 7, 1998 "The small industries sector is always mentioned only in the budget speeches and then everything ends there". Efforts towards formulating a policy for MSE development are being made but it has not been finalized as yet. So the policy vacuum continues to complicate the place of MSE development in the whole reform process.

3.2 Physical and Technological Infrastructure

In the 1995 Survey, poor infrastructure was ranked as the third problem. This category included lack/high cost of business premise/location, poor utilities and then transport. The poor state of roads in general and in the rural areas in particular remains a major problem for MSE development. The supply of most utilities is unreliable and costly. Power, water and telephone systems are generally in poor state in spite of recent improvements.

There is a lack of appropriate business premises. Often the government authorities clamp down on MSEs as if they are the source of dirtiness in the city especially Dar es Salaam. Experience indicates that when MSEs are able to secure permanent working premises, the quality of the products and services also improve. This is so because such enterprises are then in a better position to plan with greater certainty and stand a better chance of accessing the needed infrastructure and support services. It is therefore necessary for the central and local government to allocate working premises to MSEs. Wherever possible, these sites should be served with minimum infrastructure and supporting services (say in the form of clusters). When properly planned, NGOs / Business Associations/Local Communities etc. could be invited to co-finance such initiatives.

Many entrepreneurs are hardworking but they have low level of formal education and hardly have access to adequate training in business management consistent with the increasing challenges in competition and technology development. The supply of technical and managerial skills is lagging behind the requirements for developing a competitive MSE sector. The traditional way of acquiring skills through the apprentice system in itself is unlikely to make a breakthrough in making the kind of innovations and quality improvements that are needed in a competitive environment. The training of entrepreneurs and managers for MSEs needs to be stepped up to face the increasing competition.

In order to upgrade their processes and products MSEs need technology and technological support from a well-developed technology infrastructure in terms of technology institutions and support systems. There is hardly any support from technology development institutions and some of the required investments are beyond reach of the resources of single MSEs. Industrial support services and industrial research or other technological support services are not available for MSE development.

3.3 The Banking and Finance Structure

Although the Tanzanian financial system comprises a host of both formal and informal organisations, adequate finance is not being provided to allow for the development of the sector. In both the 1991 and 1995 Informal Sector Surveys, lack of capital was cited as most pressing need of the MSE sector operators. The surveys further indicated that working capital (necessary for business growth) was the most needed followed by investment capital (for starting up new business). It was established from the surveys that only 5% could obtain credits from banks, NGOs, and other financing institutions, but the rest (95%) were from own saving (66%), borrowing from friends and relatives (12%) and assistance from friends and relatives (17%) [Magori, C.J, 1996].

The MSE sector has very limited access to capital because:-

- Bank restructuring is taking place but most banks do not operate a MSE financing window. The National Microfinance Bank has great potential but it is practically not operational as yet.

- Some of the banks operate in limited geographical areas. This has become even more restricted after the banking restructuring.
- Inexperience of Bank Staff in issues related to Micro-finance.
- Lack of a guarantee scheme to back up banks financing MSEs .
- The high cost of screening and administering small loans spread over big areas largely because modalities of operating banking and financing activities have not been adapted to the requirements of MSEs.
- Low capability of borrowers to prepare and present applications that meet bank's requirements. It is too expensive to hire professional services for doing this job for MSEs.
- The high perceived risk of business failure of small enterprises. This is a reflection of the lack of information or the perceived high cost of collecting such information on MSEs.
- Inability of MSE operators to fulfil the collateral requirements. This is a reflection of the inflexibility of the banks and other financial institutions. Where this requirement has been relaxed (e.g. Pride Tanzania Ltd) successes have been recorded.

Lack of contact between the modern financial sector and MSEs is an institutional problem which must be addressed if MSEs have to meet employment and job creation expectations. Another way out might be to encourage saving and credit schemes amongst the MSE operators.

3.4 Legal and Regulatory Framework

The legal and regulatory framework in Tanzania has yet to fully adapt to the operations of a market economy. The legal system is still too slow for business decisions and the regulatory framework still reflects the previous system of administrative controls rather than indirect regulation of businesses. The regulatory and bureaucratic hurdles in business registration,

licensing system, and tax administration are adjusting gradually but they are still even more difficult for MSEs.

The business registration, regulatory and reporting environment in Tanzania is one of the worst in the whole of Africa and, more than any other factor, has driven the majority of MSEs to operate in the informal sector. Various studies indicate that procedures for registration and licensing in Tanzania amount to four or five times the number of documents and forms needed to complete the process when compared with other nations of Africa. In addition, in most cases the registration/licensing process is centralised in Dar-es-Salaam and involves several authorities/institutions and is time consuming, expensive and cumbersome. (Refer to Investors Road Map - December 1996 - by USAID/Coopers & Lybrand).

Other complications to the MSE operators include the paying of "provisional taxes" even before one goes into production plus the requirement to pay several other taxes (income tax, provisional tax, stamp tax, sales tax, VETA tax, payroll levy, Municipal and Regional taxes, industrial trading tax etc.) It is generally agreed that by reducing the number of taxes and simplifying the process, more MSEs will be registered and the tax collections will increase. In the case of Argentina, a SME tax reform involved the reduction of taxes from 25 to 3. Prior to the change, only 10% of all businesses were registered as formal businesses. Following the change, 90% of all enterprises registered in the formal sector and paid their taxes. As a result, the tax revenues doubled (Finseth, 1998)⁸.

3.5 Market Conditions

With the trade liberalization policies and in particular import liberalization competition has become so intense that most local firms and especially MSEs are facing the challenge of having to improve quality and compete. There are no set institutional arrangements to help firms access market information and give them assistance to penetrate new markets. In addition aggregate demand is under strain. There is very little linkage between MSE and large enterprise development. Other possible measures could include assisting MSE

⁸ Finseth, William. Strategic Plan to Develop Tanzania's National Policy Framework for Small Business, 1998.

operators with information on the market, available technologies, existing opportunities etc. Also the linkage between MSEs and Medium and Large Enterprises could be fostered through encouraging sub-contracting mechanism. This has proved to be a very effective way of marketing MSE products.

3.6 Impact of HIV/AIDS

The spread of the HIV/AIDS pandemic is becoming both an inhibiting and debilitating factor in the development of MSEs. The impact of HIV/AIDS on the productive labour force can be classified into three categories as follows:

- micro level (individual)- rising medical costs;
- meso level (enterprises)-additional training costs to replace lost human resources and loss in terms of productivity due to sickness and increased staff turn over; and
- macro level (national)-overall economic performance.

The following strategies are recommended to reduce the number of people that are infected by the disease:

- i) strengthening HIV/AIDS information, education and communication activities. More effort should be put into educating the youth;
- ii) adequate research funds should be made available to support research at national and regional levels into the multi dimensional aspects of the HIV/AIDS and;
- iii) establish institutional linkages between various AIDS/HIV programmes to facilitate the exchange of information between countries.

4.0 INSTITUTIONAL FRAMEWORK AND PROMOTIONAL INITIATIVES

Promotion of MSE development has been done by various agencies in the public sector, non-government sector (NGOs) and directly by through various donor programmes.

4.1 Public Sector Programmes

The first major attempt to promote the small industries sector in Tanzania was undertaken in 1966 when the National Small Industries Corporation (NSIC) was formed under the National

Development Corporation (NDC). The NSIC had set up small industrial clusters at Gerezani in Dar es Salaam, Singida, Dodoma, Rukwa, Njombe and Usangi. Basically these were training cum production workshops.

In 1973, the National Executive Committee of TANU (the ruling party) made an explicit statement in support of small industries development which led to the establishment of the Small Industries Development Organization (SIDO) in 1974 to plan, coordinate, promote and offer various types of support to small industries.

SIDO remains the main government arm for promoting SME in the country. During its 25 years of existence of SIDO various services have been provided to MSEs including training, administration of hire purchase schemes for equipment and has contributed to creating an entrepreneurial base. SIDO established industrial estates in 16 regions in the country with more than 140 sheds at regional headquarters. As regards training SIDO established 10 training cum production centers that offered simple rural based technologies. Credit was offered through SIDO in the form of hire purchase arrangements whereby more than 2000 entrepreneurs acquired machines and working tools.

SIDO has also been called upon to administer some MSE development programmes. One such programme is the National Entrepreneurship Development Fund that was established by Parliament in 1993/94 alongside with two other funds, namely the Women Fund and the Youth Fund. More information on these programmes is provided in Appendix III.

The economic reforms since the mid-1980s have had an impact on SIDO. Government funding has dwindled making SIDO depend on donors for a greater portion of its budget. For instance, while in 1989/90 SIDO received sh.176million out of the budgeted amount of sh.450 million in 1996/97 it received only sh.65million out of the budgeted amount of sh.930million (Toroka, 1998)⁹. The donors have also diversified their channels of assistance through NGOs. These developments mean that SIDO is facing a financial squeeze. In response, SIDO has had to restructure towards business-like operations cutting down staff from 600 in 1994 to 250 in 1998 and has started to charge fees for the services rendered. It

⁹ Toroka, E. SIDO: 25 years, still strong despite hitches. An interview with Lwaga Mwambande in the Guardian, Dar es Salaam, 7th October, 1998.

has also reduced the range of support services it can render. It now focuses on credit delivery, training in entrepreneurship and business skills and providing business information, consultancy and advice (Toroka, 1998). The capacity of SIDO to deliver supportive services to MSEs seems to have been reduced and the number of actors has increased especially NGOs. The next section examines the activities of NGOs in MSE development.

4.2 Non-Governmental Organizations (NGOs)

In recent years, the country has witnessed the mushrooming of various Institutions and especially Non-Government Organisations that are providing services to MSEs. The majority of this NGOs are concentrated in urban centres and most of them offer training and credit. These NGOs serve very small geographical areas as well as particular target groups. The dramatic growth in the number of operating NGOs, particularly local NGOs, came about because of a policy shift in the allocation of donor funding. Prior to the reform process, the donor community conducted most of its activity with the Government directly. According to a Commonwealth Secretariat Study the results have been rated poor (Krukowski and Finseth, 1997). The failures within the NGO community have been the result of number of factors, including :

- 1 weak management;
- 2 broad mission statements with the NGOs trying to be “all things to all people”;
- 3 lack of experience, including working experience with international donor agencies and NGOs;
- 4 constant competition among NGOs, the Government and private sector for the best employees from a small pool of suitably qualified personnel;
- 5 duplication of effort and outright competition with other NGOs involved in similar work; lack of experience with the client-base being served;
- 7 working with a large population of clients who no longer appreciate the assistance they receive from NGOs and government ministries;
- 8 piece-meal programmes that fail to meet the full range of social and economic needs of all sectors of the population; and
- 9 lack of national coverage.

As pointed out by the Commonwealth Secretariat report but perhaps the most crucial fault from which all the NGO financial schemes suffer is that they provide no logical, financial pathway of growth for enterprises, a pathway that will allow MSEs to graduate to the formal financial sector. Each NGO has financial lending gaps which limit the potential growth of each MSE borrower, and should the NGO for any reason cease its operations, the MSEs are left stranded with no alternative source of credit. Appendix I presents selected NGO MSE development programmes for illustrative purposes. Although there are some positive prospects from some of the NGOs (e.g. PRIDE (T) and NIGP) their operations have a small coverage compared to the total MSE requirements.

4.3 Local Development Initiatives

Until recently when local government reform initiatives have been taken the government machinery and planning systems has been excessively centralized. This has meant that local development initiatives have been limited making it difficult to tap the potentials from MSE development in various localities. The centralized administrative structure combined with inadequate infrastructure throughout the country has led to inefficient use of resources and underutilization of the MSE development potential.

Institutionally, although there are at least five government ministries and offices which can and do impact directly to MSEs, none of them has been structured and staffed to implement MSE policy statements in an effective and efficient manner. Nor is there any continuing mechanism to ensure inter-ministerial coordination and cooperation. Each ministry operates independently and within its own, closed domain. Policy planning takes place vertically and rarely are the ministries involved in the sub-sector aware of other ministries' activities. Broad, cross-cutting themes affecting the MSEs, which would require inter-ministerial coordination, are not dealt with on horizontal basis and, as a result, both in the planning and implementation phases of government policies there is little, if any, effort to foster cooperation and coordination amongst all the concerned government ministries (Krukowski and Finseth, 1997)

However, there are a number of cases whereby people in a given locality pool together resources so as to pursue an undertaking that is of benefit to all of them. For example, in most

of the rural areas, there are “Rotating Saving and Credit Associations -ROSCAS” organised at the grass root level. These are groups in which members make regular contributions and then share the proceeds in turn. Personal relationships are the dominant factor in setting up and functioning of these groups. The funds raised are sometimes used to finance micro enterprises. There are also examples of local initiatives specifically focused on micro enterprises development such as the following:-

- **DALTA:** The District Association of Local Trades is an association of all operators of micro enterprises in Rombo District . Members of this association are carpenters, tailors etc The association was established to provide a forum of discussion amongst its members ; facilitate the operation of a saving scheme ; act as a lobby or a pressure group etc. Services being provided by the association include the organisation of local trade fairs, operation of common facility services (e.g a wood working machine, equipment etc.), procurement of raw materials in bulk etc .
- **RANGO:** Rukwa Association of Non-Governmental Associations is a local umbrella association of the various Voluntary organisations based in Rukwa region. Though this umbrella organisation, funds are mobilised for onward lending to the NGOs. Other services provided by RANGO include capacity building of the NGOs, advisory services etc.

In the whole of Tanzania, there are numerous and widely spread initiatives similar to the ones given above. These have an impact on SMEs development as well as employment generation. The government, the Private Sector, NGOs and the donor community should support these initiatives. However, the support should be in such a manner that it does not destroy the initiatives of the local communities. The new structure of decentralization as proposed in the local government reform should be able to facilitate the development of these local initiatives.

4.4 Donor Support Programmes

There are many donor support programmes in MSE development. In fact if it was not for donor support there would be little to report on MSE support programmes. There is little on

record showing local MSE support programmes which are not funded by donors. The relative importance of donor support in MSE development is therefore not questioned. What is in question is the coordination and effectiveness of donor support programmes. This is the challenge to the government which should effectively coordinate not only donor activity but contributions of all other actors in MSE development. This coordination must be guided by the principle of facilitation and service to the public rather than one of control as was attempted in the past. Appendix II presents selected donor supported programmes for illustrative purposes.

5.0 THE POLICY FRAMEWORK AND SUPPORT SERVICES

Evaluation of MSE promotion programmes suggests that such programmes alone without placing emphasis on policy reforms and deregulation to eliminate the bias in existing policies may be of little value. The effectiveness of programme-oriented approaches to SME promotion is strongly influenced by government policies. (Snodgrass and Biggs, 1996). There is need to develop a policy framework and formulate support programmes which can address the constraints to MSE development and promote the growth and development of the MSE sector.

The new Sustainable Industry Development Policy (SIDP) ,which covers the period 1996-2020, made explicit reference to the potential of MSEs and to the Government's policy of support. The SIDP provides the overall framework for Tanzania's future industrial development and lists specific national objectives, including the following for MSEs:

"In addition to large-scale industries, the industrial sector will contribute more broadly and evenly to the creation of employment opportunities through the development of medium, small-scale and micro industries which can be established more easily across the regions, districts down to the village level. Towards that end, the government will place special emphasis on the development of Small and Medium-Scale Industries as well as generation of employment opportunities within the

informal sector.

In order to foster the development of the Sector, the SIDP specifies the following measures to be undertaken:-

- ✓ Strengthen the capacities of MSEs service providers
- ✓ Improve the access of capital to MSEs
- ✓ Improve the regulatory environment
- ✓ Assist the informal sector to gradually enter the formal sector (within the framework of the government's policy on informal sector)
- ✓ Support indigenous entrepreneurs (through improved access to finance, business informal, technology, training, simplified registration process etc).

The main problem is that these measures are not yet in place. Some initiatives are beginning to be taken and efforts are being made to formulate a more comprehensive policy for MSE development as shown in Appendix IV.

5.1 Macroeconomic Policy Environment and Coordination

- There has been some improvement in macroeconomic stability and major macroeconomic balances have shown improvement. This in itself provides an opportunity for MSEs to operate in more conducive environment but this addresses part of the problem. Further measures need to be taken to promote investments and growth of the economy.
- There are many stakeholders, including government ministries and agencies and Non-governmental Organisations (NGOs), and donors that are providing various forms of support to the MSE sector. These support arrangements for the MSE sector need to be coordinated more effectively. Many support programmes focus on scattered grass-roots support by NGOs that serve the needs of sections of the poorest of the poor.
- To create a more effective enabling business environment for MSE development all the actors need to operate in the framework of a co-ordinated plan of action that will help fix and support all of the required changes that are needed to improve the enabling business

environment. They need to be organised and committed to a common vision that supports the growth and development MSEs. The development vision (Vision 2025) has provided pointers to MSE development in emphasizing a type of growth and development which carries along the majority of the people guided by the human development objective and poverty eradication in particular, promotes democratic and popular participation of stakeholders in development initiatives, mobilizes domestic human, material and financial resources and promotes diversification of the economy consistent with the need to raise the level of productivity and competitiveness. MSEs have an important role to play in the context of Vision 2025. The vision provides guideposts for the preparation of a more specific MSE development policy. There is need to accelerate the process of preparing MSE development policy. Such policy formulation should effectively draw from the experience of various stakeholders in MSE activity. In this new policy the government must focus on motivating private sector associations, chambers and local development institutions to pursue MSE development efforts. These efforts will need to be grounded on a strong public-private sector partnership.

5.2 Physical and Technological Infrastructure

- Investment in infrastructure deserves to be given high priority directly by government and indirectly by enabling other actors to make investments in infrastructure. The aim should be to enhance access in terms of physical availability and in terms of cost of the infrastructural services. Under changed conditions towards market and competition it is important that MSEs have access to reliable and low cost infrastructural services and other support services.
- Technological upgrading is a necessary condition for enterprises to continue to grow and generate increasing incomes to the actors in the enterprises. Many MSEs may not be in a position to articulate their technology upgrading requirements clearly and may not be in a position to afford such costs at market rates. Their small size makes it more difficult to pay for the full cost of training, technical search and marketing investments needed for technological upgrading. There is need to launch schemes to provide technical assistance and financing of upgrading of technologies in use in MSEs. Experience from elsewhere suggests that the most effective approaches involve support services delivering

comprehensive packages as assistance comprising technical knowledge, finance, management skills, marketing skills and information about market changes (Lall, 1998)¹⁰. The proposal for the establishment of a comprehensive, fully integrated "One-stop" Business Service Centres should be considered seriously. These centres would be established throughout rural and urban areas where the population of small business entrepreneurs justify their existence. These centres would provide the needed business advisory services, business regulatory and administrative services, and other related business services.

- An important aspect of upgrading technology is to encourage subcontracting arrangements between MSEs and larger enterprises in a complementary way. This practice is scanty in Tanzania but there are potentials as shown in some of the clusters in MSEs which were studied by Musonda and Kweka (1998) in Dar es Salaam. These clusters are beginning to develop linkages and can be a potential for technological innovations and upgrading. The potential dynamism from linkages can be promoted through the right incentives and support measures. These measures can be directed to subsidizing aspects of large scale operators who support MSEs through subcontracting and through direct support to MSEs to help them upgrade their technologies.
- Recent literature shows that MSEs are capable of growing, adopting new technologies to upgrade their basic technologies. The pace of technological development has proved to be rapid in some sections of MSE (King, 1996)¹¹. The development of technology infrastructure should be encouraged to enable MSE access all the necessary technological services such as standards, quality control and improvement and research into various aspects of technologies.

5.3 Financing for MSEs

The comparatively small number of enterprises that have outgrown the informal sector and with it some of the social networks (like family credit) has to face constraints of formality

10 Lall, S. (Ed.). *The Technological Response to Import Liberalization in Sub-Saharan Africa*. Macmillan Press, Basingstoke, and St. Martin's Press, New York. 1998. Lall has drawn from experiences of East Asian countries.

11 King, K. *Jua Kali Kenya: Change and Development in an Informal Economy*. James Currey (London), EAEP

without having equal access to formal support institutions (like commercial banks) as large farms. (Qualmann, 1998). The number of NGOs and Microfinancial institutions (more than 40) working in the Small Business Sector is high but their actual reach and effectiveness is relatively low (90% of them have fewer than one thousand clients). These services need to be rationalised to make better use of limited resources (donor financed support, qualified staff, and geographical support) and their volume and coverage need to be increased considerably. The National Microfinance Bank which was established in 1997 is not yet operational on microfinance proper because of preparations have not been completed. It needs support from the government to speed up the preparations. The Bank of Tanzania is taking the lead in the development of a national policy framework for Microfinance Services. This framework needs to be integrated into a broader national policy framework for MSE development.

5.4 Legal and Regulatory Framework

The Government can assist MSE development by reducing their cost of doing business. This can be done by following policies of deregulation, simplifying legal requirements, reducing bureaucracy in registration and other licensing activities. The enabling business environment to be put in place needs to ensure that the coverage of business support services is broad and is provided on a level playing field.

5.5 Market Development

The main policy measures needed to be taken on market development is to put in place institutions which can provide market information and requirements of markets for MSE products. This could be provided the framework of the comprehensive package for support services needed by MSEs. At the more aggregate level the increase of incomes and growth of aggregate demand would have a positive impact on markets for MSE products. Here too the import policies should make necessary consideration to the products of MSEs but in the context of using imports of technology to promote technology upgrading and pursuing import policies which selectively protect products of MSEs while they are in the process of

(Nairobi), Ohio University Press, 1996.

upgrading their technology and giving them some space to undergo learning processes.

Co-operation amongst firms, and among MSEs in particular should significantly reduce information and transaction costs and consequently facilitate enterprise responsiveness to external changes. Therefore promotion of linkages with other enterprises and other sectors of the economy can be an important source of market development.

6.0 Conclusion

This paper has argued that MSEs contribute considerably to productive and efficient use of scarce resources (especially capital), employment creation, improved income distribution, regional dispersal of industry and development of dynamic private enterprises. In fact more recent studies on MSEs development have found that MSEs have a greater contribution to development than had been acknowledged earlier. In particular, two further developments have come to light in recent years. First, MSEs have demonstrated the capacity for considerable resilience during the time of economic crisis and during the reform period. Second, MSEs have shown that they can play a dynamic role in the development process in the context of competitive market niches and flexible specialization strategies. This contributes to explaining why differentials in wage levels, productivity and profits between MSEs and LSEs narrow substantially with development.

The status and significance of MSE sector has undergone changes in the 1980s and 1990s. MSEs have exhibited considerable resilience in the reform process and have provided opportunities for employment to a considerable number of the would be unemployed youth and women. MSEs have also become a source of second sources of incomes for those whose real wages and salaries are falling in the formal sector. The MSEs are active both in the urban and rural areas providing an important source of non-farm incomes which have a stabilizing effect (reducing seasonality) and providing potentials for diversification. They contribute a considerable share of household incomes in the rural areas. Within the MSE sector there is a wide variation in the size, level of technology, productivity and pace of development of different enterprises. Many enterprises have exhibited dynamism, competitiveness and capacity to grow sometimes against all odds. They are a potential for improving the level and quality of growth towards reduction of poverty.

MSEs have become a major provider of jobs and have continued to play this role during the reform period. Yet the business environment and government policies have tended to favour developments in the medium and large scale enterprises in the formal economy.

MSEs face constraints on the supply capacity, demand side and in general the MSEs face constraints in the environment in which they operate. The development of MSEs is held back by constraints which can be summarized in five main categories: the macroeconomic and policy environment; physical and technological infrastructure; the banking and finance structure; the legal and regulatory framework; and the marketing capabilities and associated linkages. These constraints need to be addressed.

Promotion of MSE development has been done by various agencies ranging from public sector programmes, NGOs and donor programmes. A major concern is that various actors have lacked the necessary coordination within a coherent MSE development policy framework. Evaluation of MSE promotion programmes suggest that such programmes alone without placing emphasis on policy reforms and deregulation to eliminate the bias in existing policies may be of little value. The effectiveness of programme-oriented approaches to SME promotion is strongly influenced by government policies.

There is need to create a more effective enabling business environment for MSE development to enable all the actors to operate in the framework of a co-ordinated plan of action. The stakeholders need to be organised and committed to a common vision that supports the growth and development of MSEs. The development vision (Vision 2025) has provided pointers to MSE development in emphasizing a type of growth and development which carries along the majority of the people guided by the human development objective and poverty eradication in particular, promotes democratic and popular participation of stakeholders in development initiatives, mobilizes domestic human, material and financial resources and promotes diversification of the economy consistent with the need to raise the level of productivity and competitiveness. MSEs have an important role to play in the context of Vision 2025. The vision provides guideposts for the preparation of a more specific MSE development policy.

There is need to accelerate the process of preparing MSE development policy. Such policy formulation should effectively draw from the experience of various stakeholders in MSE activity. In this new policy the government must focus on motivating private sector associations, chambers and local development institutions to pursue MSE development efforts. These efforts will need to be grounded on a strong public-private sector partnership.

establishment or strengthening of 6,545 enterprises or an average of Tsh. 297,717.per enterprise.

- Employment generated was 13,090
- More loans were given to women
- The majority of the enterprises are in trade
- 4/5 of the beneficiaries of the programme are in towns
- The loan recovery rate stands a 80%
- About 82% of the loan applications (= 31009 applications) could not be processed due to lack of funds.

The performance of this programme has shown positive signs although relative to the magnitude of the MSE requirements this Fund is quite small. Donor support is being sought to increase the seed capital already injected by the government.

Appendix IV: Initiatives Towards an MSE Policy

Some of the initiatives already taken towards the operationalisation of the recommended measures include:

- SIDO and other Industrial Support Organisations are being restructured with the assistance of SIDA. The process includes strengthening of SIDO's credit fund.
- The National Microfinance Bank has been created as a specialised bank for MSEs
- The National Entrepreneurship Development Fund under the Ministry of Industry and Commerce is being closely monitored and will be strengthened (through mobilisation of more funds).
- The licensing and registration process is being simplified and will at a later stage be done in the regions.
- UNIDO will support the Ministry of Industry and Commerce in the formulation of a

(v) Tanzania Youth Development Foundation (TYDEF)

This was a former UNDP-funded informal sector project for youth in Dar es Salaam. It offered training, credit and follow-up support to youth to establish self-employment income generating projects. TYDEF is now organised as an NGO that is operational in Dar-es Salaam where it serves about 500 clients.

(vi) Poverty Africa:

This NGO operates in Dar es Salaam, Kilimanjaro, Arusha and Mwanza regions. It gives advisory service and credit to MSE operators. Loan ceiling stands at Tshs. 50,000/= and the main objective of this measure is to alleviate poverty.

(vii) Small Enterprise Fund (SEF):

This is a fund under the Vice Presidents Office that was established with the assistance of Africa Development Bank. The fund is meant to serve as credit to MSEs so as to contribute towards poverty alleviation. It is doubtful as to whether a Government institution is able to directly administer such a fund

(viii) SELFINA:

This is an NGO based in Dar es Salaam that leases equipment and tools to women.

(ix) AMKA Trust Ltd.:

This is a Dar es Salaam based NGO that promotes exports of MSEs through giving training and consultancy to such enterprises. Also specialised trade fairs are organised for potential exporters. Working in partnership with Traidcraft Exchange of United Kingdom, AMKA provides a bridge between local producers, manufacturers and international export markets.

(x) National Income Generating (NIGP):

This is a UNDP Fund that is co-financed by Netherlands, Austria, Switzerland and Belgium. Credit is given to MSEs through another NGO called MEDA . As such, NIGP does not give credit directly to enterprises. NIGP has projects in Dar es Salaam, Mwanza, Kagera, Kilimanjaro, Arusha and Mbeya.

Also NIGP has supported the construction of markets in Dar es Salaam (Temeke and Kijitonyama) and Arusha for MSE operators.

(xi) Mennonite Economic Development Association (MEDA)

This is a Church funded organisation that operates in Dar es Salaam and Mbeya Regions. CIDA supports MEDA.

By April 1997, MEDA had a credit portfolio of Tshs 91,000,000 that was serving 600 clients in Mbeya and Tshs.39,000,000 fund that was serving 365 clients in Dar es Salaam.

In addition to giving credit directly to MSEs, MEDA gets funds from NIGP for onward lending to other MSE Promotion Institutions - e.g. SIDO.

During 1994-97 FAIDA supported 901 entrepreneurs with 1872 services implying that most clients came back for a second service (FAIDA, November 1997)¹². There is an important role to be played by NGOs in assistane to MSEs because of their cost effectiveness, motivation and greater understanding of the cultural and social environment in which they operate (Levitsky, 1989)¹³.

12 Brief Overview Finance and Advice in Development Assistance (FAIDA) : A Small Enterprise Project executed by SNV Tanzania November 1997.

13 Levitsky, J. (Ed.). Micro-enterprises in Developing Countries. (Summary Report of International Conference). Intermediate Technology Publication. London, 1989.

Appendix II: Selected Donor Support Programmes

(i) Canadian International Development Agency (CIDA)

CIDA has supported the MEDA credit programs operating in Mbeya and Dar es Salaam. Beginning year 2000, CIDA will embark on a \$ 20 million (CDN) program to support micro-enterprises development in Tanzania. The program will mainly focus on financial interventions.

(ii) Danish International Development Agency (DANIDA)

DANIDA is providing \$2.5 million program of technical support to the cooperative and Rural Development Bank to help strengthen the bank. In addition, DANIDA is supporting the capacity building of saving and credit cooperatives in Mbeya.

(iii) Department for International Development (DFID/UK).

DFID supports the “British Partnership for Enterprise Development (BPED) Programme”. Some of the main components of this programme include: Improving the access of MSEs to finance; business development; supporting small miners etc. The total financial contribution will be 13 million Pounds over the period 1998-2003. Under this programme, the following NGOs that serve MSEs are supported:- PRIDE-Tanzania (micro credit); AMKA (exports promotion); SELFINA (leasing business) and FINCA (venture capital for SMEs in lake zone) etc. DFID is also working with the TDFL and the Netherlands International Development Corporation to assist Akiba Commercial Bank develop into a profitable and sustainable financial institution providing banking services for small enterprise (Ndaki, 1999). Other measures include to enhance the human resource capacity of SME Promotional of which 495,000 British pounds are allocated (for 1997/2000 period) under the “Tanzania Enterprise Awards Scheme -TEAS”

In addition, DFID has been working with the Bank on Tanzania and the World Bank on development of the Regulatory Framework for micro finance operations.

(iv) The Dutch Program - The Government of the Netherlands:

The Dutch supports the District Rural Development Programme (DRDP) that serves District Councils of Bukoba, Biharamulo, Karagwe, Muleba, Ngara, Maswa, Meatu, Kahama and Mbulu. These programme activities also include the strengthening of rural craft centers/workshops and supporting saving and Credit Societies.

(v) European Union (EU)

The European Development Fund (EDF) is active in rural Mbeya where grant is given to support MSE entrepreneurs considered 'poorest of the poor'. A second trench of US \$ 15 million will be used to support MSEs in Mbeya, Iringa, Ruvuma, Mwanza, Shinyanga, Mara and Kagera Regions. In the process, other local NGOs and Micro Finance Institutions will be used as intermediaries.

(vi) Government of Finland

Finland's major program of support is the Rural Integrated Development Project in the regions of Mbeya and Mtwara. The Finish Development Cooperative Agency supports an intermediate transport project (that produces bicycle trailers etc); sponsors a trade fair; supports SACCOs; given credit to small enterprises through CRDB. In addition Finland participated in the task force on Micro Finance that was led by the Bank of Tanzania and the World Bank.

(vii) Germany Development Cooperative (GTZ):

The German Government, through GTZ, supported the sector through the following projects:-

Under the Tanga Integrated Rural Development Program (TIRDEP) , there was the Korogwe based Small Industries Promotion Unit that was instrumental in promoting MSEs in Tanga region through provision of credit, training and supply of machines and inputs. Another MSE focused project that was supported by GTZ was the Rombo District based "Promotion of

Artisans Crafts and Trades - PACT". GTZ is also active in Dar es Salaam where Self-Help Organisations are supported.

(viii) Government of Japan:

Japan supported the Kilimanjaro Industrial Development Centre that was part and parcel of the Kilimanjaro Integrated Rural Development Programme. The KIDC was an industrial cluster that accommodated various workshops that produced simple machines and tools that were required in the region - e.g. groundnut sheller; maize milling machines; brick block making machines etc. There are indications that Japan will further support the MSEs sector beginning 1999. Recently, the Japan International Cooperation Agency (JICA) sent to Tanzania an expert to assess the opportunities for promoting Small Scale Industries in Tanzania.

(ix) Government of Norway/Norwegian Agency for Development Cooperation (NORAD):

NORAD supports the 'Promotion of Rural Initiatives and Development Enterprises - (PRIDE)' micro-credit program as well as the 'Regional Enterprise Development Institute - REDI which is the training subsidiary of PRIDE.

The Government of Norway also supports the NORFUND. The fund is used to support enterprises as long as a Norwegian partner is involved. Also NORFUND provides funds to Promotional Institutions for onward lending to small enterprises.

(x) Swedish International Development Agency (SIDA):

Sweden has been the leading sponsor of SIDA's programmes in Tanzania. Presently, SIDA is supporting the restructuring of Industrial Support Organisations (ISOs) in Tanzania. These ISOs include the Small Industries Development Organisation, the Center for Agricultural Mechanisation and Rural Technology (CAMARTEC), Tanzania Industrial Research Development Organisation (TEMDO), Tanzania Engineering and Mechanical Design Organisation (TEMDO) and Tanzania Bureau of Standards (TBS).

(xi) United Nations Development Program (UNDP):

UNDP initiated the multi-donor interventions program called National Income Generating Program (NIGP) . The funding of this program comes from the UN Credit Development Fund (UNCDF), the Netherlands, Austria, Switzerland and Belgium. The program supports micro and small enterprises.

(xii) United Nations Industrial Development Organisation (UNIDO):

UNIDO is supporting the Agro-Processing Project that operates in Several Regions; the Dar es Salaam based Textile Project and the Leather Processing Project.

UNIDO further support the agro-processing sector as well as offer assistance in formulating the Policy framework for MSEs. UNIDO has pledged to release about US \$ 3.5 million for projects mentioned above as well as all other programmes between 1999 and 2001.

(xiii) The United States Agency for International Development (USAID):

USAID's interventions have been through the support of the Business Centre, which had been offering advisory services to enterprises. USAID (together with DANIDA and NORAD) supports micro enterprise projects called FINCA (Foundation for International Community Assistance). USAID is also sponsoring a US \$ 10 million venture capital fund known as the Social Action Trust Fund (SATF).

(xiv) The World Bank

The World Bank is a member of the task force involved in the development of a National Policy for Rural and Micro-finance.

Appendix III: Some Funds Administered by SIDO

These funds were started to facilitate establishment of income generating enterprises amongst low-income earners. The administration of these funds was put under the respective ministries. Amounts allocated were as shown in Table 4 below -

Table 4: Administration SIDO Funds

Name of Fund	Administrator	Amount Pledged (mil.shs)
National Entrepreneurship	Industry and Commerce/SIDO	1,000
Youth Fund	Labour and Youth	300
Women Fund	Women and Children	500

Source: Budget Speeches 1993/94

Although the government had pledged to release Tshs 1,000 million for this fund, only Tshs 800 million had been released by December 1998. Through this revolving fund, 5001 enterprises worth Tshs 1.366 million were established. This was only 19.2% of the 26,029 loan applications valued at Tshs 11.234 billion received. These enterprises employed 10,000 people. Performance indicators for 1994-98 period are as shown in Table 5 below:

Table 5: National Entrepreneurship Development Fund: Performance Indicators

Amount pledged by the government (mil Tshs)	1,948
Amount released by the government (mil Tshs.)	800 .
Total number of applications received	37,554
Value of total applications (mil. Tshs.)	15,767
Applications approved	6,545
Value of approved loans (mil. Tshs.)	1,949
Employment generated	13,090
Number of loans to women (=49.7%)	3,256
Number of loans to men (= 48.3%)	3,165
Number of urban based enterprises (=81.0%)	5,301
Number of rural based enterprises (=19%)	1,244
Sectoral distribution: Trade	58.3%
Sectoral distribution :Productive sectors	38.4
Average loan recovery rate	80%

Source: SIDO-Statistical Performance of NEDF (February 199)

Based on the above figures it is noted that:

- The seed capital of Tshs. 800 mil. has grown to Tshs. 1.94 bil. and has facilitated the

establishment or strengthening of 6,545 enterprises or an average of Tsh. 297,717.per enterprise.

- Employment generated was 13,090
- More loans were given to women
- The majority of the enterprises are in trade
- 4/5 of the beneficiaries of the programme are in towns
- The loan recovery rate stands a 80%
- About 82% of the loan applications (= 31009 applications) could not be processed due to lack of funds.

The performance of this programme has shown positive signs although relative to the magnitude of the MSE requirements this Fund is quite small. Donor support is being sought to increase the seed capital already injected by the government.

Appendix IV: Initiatives Towards an MSE Policy

Some of the initiatives already taken towards the operationalisation of the recommended measures include:

- SIDO and other Industrial Support Organisations are being restructured with the assistance of SIDA. The process includes strengthening of SIDO's credit fund.
- The National Microfinance Bank has been created as a specialised bank for MSEs
- The National Entrepreneurship Development Fund under the Ministry of Industry and Commerce is being closely monitored and will be strengthened (through mobilisation of more funds).
- The licensing and registration process is being simplified and will at a later stage be done in the regions.
- UNIDO will support the Ministry of Industry and Commerce in the formulation of a

specific policy frame for MSEs, establishment of a business information facility as well as assisting micro agro-processing enterprises.

- The establishment of a Business Council is being supported so as to facilitate effective involvement of the Private in implementation of various relevant issues.

In a nutshell, it is deemed necessary to formulate a Small Enterprise Policy so as to have a comprehensive and integrated approach towards Small Enterprise development in Tanzania.

Small Enterprise Policy Formulation Strategy

The Policy formulation exercise will take into consideration the rich experiences of all the stakeholders who have been involved in Small Enterprise Development in Tanzania for years. In other words, the exercise will greatly involve the entrepreneurs, associations of entrepreneurs, existing support institutions, the Business Community, relevant Government Institutions and Ministries, Research Institutions etc. The policy will be formulated by all the stakeholder in a participatory manner.

In brief, the policy formulation process will follow/followed these stages:-

(i) Entrepreneurs Workshops:

This stage involved the convening of entrepreneurs to discuss their experiences and especially the constraints they face in the process of operating their enterprises. In addition, the entrepreneurs were asked to propose what should be done by all parties involved (including the entrepreneurs) so as to foster the growth of small enterprises.

This exercise has already been accomplished with the support of the Commonwealth Secretariat. In May 1998, 5 workshops were convened in Arusha, Mwanza, Mbeya, Dodoma and Dar es Salaam.

(ii) Promotional Institutions Workshop:

This workshop will be convened to bring together Institutions actively involved in promoting Small Enterprises in Tanzania so as to: -

- To facilitate the exchange of relevant experiences
- To jointly propose what should be done by these institution, the Government, donor agencies and all stake-holders so as to foster the development of the Small Enterprise Sector in Tanzania.

Prior to this workshop, the Ministry will undertake a survey of the existing relevant organisations in Tanzania. In addition, whenever deemed necessary, some issues will have to be researched. Possible issues to be researched and discussed include:

- Micro finance
- The legal and regulatory environment
- Business and physical infrastructure
- Business and Technical Training
- Integration with Medium and Large Industries
- Technology issues
- Marketing Strategies
- Social Security and gender related issues etc

The papers to be prepared could be supplemented by study tours to countries with successful Small Enterprise Policies or Programs.

In addition, **Inter-Ministerial Consultative committees** will be formed to discuss and deliberate on a number of policy issues that touch several Ministries or Institutions e.g. a proposal to harmonise, rationalise and reduce taxes specifically for SME could be discussed by a sub-committee drawing members from Treasury, Tanzania Revenue Authority , the Local Government, Associations representing entrepreneurs etc.

(iii) National Conference

The last stage in the SME policy formulation will involve the convening of a National Conference to put together and discuss :-

- Issues raised by Entrepreneurs in the Zonal workshops;
- Issues raised in the MSE Institutions' workshop;
- Research papers prepared for the purpose;
- Findings from study tours organised to learn from other countries' experiences etc .

Participants to this workshop will be drawn from relevant Government Ministries and

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