

**ECONOMIC AND SOCIAL RESEARCH FOUNDATION
(E S R F)**

**Diversity in the Tanzania
Business Community:
Its Implications for
Economic Growth**

Policy Dialogue Series No. 005

**Diversity in the Tanzania
Business Community:
Its Implications for Economic Growth**

Published by: Economic and Social Research Foundation
P.O. Box 31226 ● 51 Uporoto Street
Dar es Salaam, Tanzania

Printed by: *Change Publications Ltd.*

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ABBREVIATIONS

DTV	Dar es Salaam Television Network
ESRF	Economic and Social Research Foundation
ERB	Economic Research Bureau
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
USAID	United States Agency for International Development

PREFACE

This report is a synopsis of the proceedings of a Workshop held at the Economic and Social Research Foundation (ESRF) to discuss the research findings of a USAID-sponsored study conducted by Prof. Michael Lofchie of the University of California and Prof. Thomas Callaghy of the University of Pennsylvania entitled “**Diversity of the Business Community in Tanzania: Its Implications for Economic Growth**” The study addressed the difficulties which the private sector encounters in Tanzania’s business environment, profiled the diversity of Businesses in Tanzania and assessed the politico-economic future and its implications on growth. The study came at an opportune moment as recent Government policy decisions and pronouncements indicated that there was need to support private sector development. The Workshop was organized as part of the ESRF Policy Dialogue Programme under which the ESRF promotes and stimulates policy analytic dialogue between various actors involved in the area of economic and social policy analysis.

The Workshop was attended by a number of participants from

the diverse business community; academicians/researchers; as well as Government officials. There was at least one representative from each of the following; Coopers and Lybrand, V.I.P. group, the Economic Research Bureau (ERB), INFOTECH Computers Company, The Parliament, Tanzania Chambers of Commerce, Industry and Agriculture (TCCIA), the Faculty of Law, the Judiciary, Prime Minister's Office, Ministry of Industries and Trade, and the ESRF. Present to disseminate the Workshop results were journalists from a number of prominent newspapers such as the Daily News, Business Times, and "The Guardian", one local television channel was also present; Dar es Salaam Television Network (DTV). The main discussants were Prof. H.P.B. Moshi (ERB), the Dr. Enock Bukuku (Prime Minister's Office) and Mr. Mufuruki, Director (INFOTECH), Dar es Salaam.

**DIVERSITY IN THE TANZANIAN
BUSINESS COMMUNITY:
ITS IMPLICATIONS FOR ECONOMIC GROWTH**

1.0 Introduction

It is observed that the transition from a predominantly public sector-led economy to a private sector - led market economy has not been as simple as earlier thought.

The transition entails a re-definition of the role of the State and a change in the working relationship between the Government and the private sector. Dialogue between the Government and the private sector is critical in promoting and enhancing a policy, legal and institutional framework which promotes a win-win partnership and which is friendly to private sector development. This policy dialogue paper outlines the main constraints affecting Tanzania's business environment and provides a diversity characterization of the business community. It is observed that political factors have played a significant role in the evolution of the business community in Tanzania.

2.0 Current Status

The private sector in Tanzania is constrained by a number of factors. These include: bureaucratic tendencies, corruption, poor infrastructure, weak political management, a deficient legal and regulatory environment and high interest rates. The mindset of the bureaucracy, in particular, which was fashioned and modelled under the one Party and socialist economic regime, is a serious bottleneck to the emergence of a vibrant and robust private sector.

On the other hand, the heterogeneity of the business community compounds these constraints. This structure of diversity is characterised by the following distinct forms:

- old versus new enterprises;
- trading versus manufacturing;
- Asian owned versus indigenous owned enterprises;
- formal versus informal;
- female versus male;
- big versus small;
- domestic enterprises versus foreign or multinational enterprises;

Such diversity and its characterisation fragments the private sector thereby undermining its potential force and drive to take up the reins, from the dying State sector, as the engine of economic development.

Clearly this current status of the private sector poses serious challenges to the development of a vibrant and dynamic private sector.

3.0 Challenges

To develop a dynamic private sector which participates actively in the national development entails a change of attitudes both on the side of the Government as well as on the side of the private sector. This is necessary if both organs are to become cooperating partners in promoting economic growth and development. In this context, an enabling environment has to evolve in which the constraints that face the private sector are addressed both at the policy, legal and institutional levels. Equally, the private sector would have to be more responsive to ethical responsibilities demanded of it as well as to playing the role of a corporate citizen by being more socially responsible. These new demands precipitate a number of challenges.

- Maintaining a stable macroeconomic environment which is sustainable and predictable.
- Improving the enabling environment to attract private investments.
- Formulating a coherent policy on private sector development.
- Removing practices which engender corruption and bureaucratic tendencies in the private sector and the Government.
- Putting in place a capable civil service which is well motivated, efficient and accountable.
- De-briefing the bureaucracy to change and transform its mindset to be more attuned to enabling private sector development .
- Improving the Government's delivery capacity of socio- economic infrastructure.
- Improving the dialogue mechanisms between the Government and the private sector.
- Educating private sector players to respect

each other irrespective of business size, form, gender, racial ownership or nationality.

- Encouraging the business community at sectoral level to speak with a single voice.
- Determining the linkage between economic well being of the business sector and the democratization of the political system.
- Promoting racial tolerance in society.
- Encouraging more competition in the banking sub-sector.
- Encouraging foreign investments in order to dynamise the economy.
- Improving gender relations which enable women to actively participate in the ownership and management of enterprises.
- Improving coordination of institutions which interface with the private sector.

4.0 Policies and Strategies

In order to actively promote the private sector in Tanzania and

make it the engine of growth and development a number of policies and strategies have to be adopted:

- Maintain low inflation, manageable fiscal deficit and a realistic exchange rate.
- Provide stable and consistent policies at the macro, meso and micro levels.
- Improve coordination between macro, meso and micro institutions.
- Develop entrepreneurship through special development programmes especially for small and medium enterprises.
- Strengthen the indigenous entrepreneurial and business sector.
- Promote micro-businesses, small household enterprises, and non-household enterprises.
- Enhance equal access of women to business opportunities.
- Develop public awareness to enlist the help of the people in combating corruption on a sustainable basis.

- Castigate racial overtones on business ownership and management.
- Educate the people on the importance of Multinational Companies investing in Tanzania.
- Adopt the attributes of good governance.
- Ensure an efficient public sector that is accountable, transparent, and which upholds and respects the rule of law.
- Provide adequate and efficient socio-economic infrastructure.
- Establish sectoral and across- sectors business associations for more effective dialogue with the Government.
- Establish a National Forum which cuts across sectoral and professional interests to dialogue with the Government on a regular basis.
- Discourage racial and religious conflicts in order to maintain peace and stability.
- Encourage more private banks to be established with a wider regional outreach.
- Encourage foreign investments through the

privatization exercise as well as through provision of appropriate incentives.

- Upgrade the quality of the labour force through training and retraining.
- Encourage the business community to contribute towards education, health, business-related activities and other social services.
- Improve the legal and institutional framework by updating outdated laws and enacting new laws which are compatible with market - led economy.
- Shorten the time lag on adjudication of civil cases.
- Promote the culture of arbitration of contract cases outside the law courts.
- Develop managerial capacity to meet the challenges posed by the new domestic environment and by globalisation.

5.0 Areas for Further Research

The following areas are identified as important for further

policy research in the area of private sector development:

- Development of a vibrant and dynamic private sector requires a strong government. How does one go about establishing such a State?
- Savings culture is an important ingredient of economic development. How should such culture be ingrained in the Tanzanian society?
- Tanzania displays pockets of entrepreneurial attributes in certain regions and ethnic groups. What are these attributes and can they be transferred to other regions and ethnic groups?
- Cooperatives used to be the “centres” of entrepreneurship. However, their initiatives were undermined by the Arusha Declaration Development Model. What should be done to restore the lost entrepreneurship culture?
- Tanzania is potentially attractive to investment; has the highest population in the sub-region; she is not land-locked; has a stable political entity; has eight neighbouring countries to trade with; and the people are friendly. How can this

potential be exploited for development?

- The mindset of Tanzanians has been overly influenced by the socialist dogma. Can this mindset play a key role in the new challenges of promoting development through private initiative? How can the mindset be transformed?