



Country Update

Promoting the Participation of Small and Medium Enterprises (SMEs) in International Trade



Economic and Social Research Foundation (ESRF)

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Introduction

This note seeks to obtain the views of relevant stakeholders in EAC countries, on the opportunities for SMEs better integration in regional and international trade. In addition, their views are sought on the specific challenges affecting SMEs at regional and multilateral trade level, as well as suggested means of redressing those challenges especially in the context of multilateral rules.

The Small and Medium Enterprise Development Policy (2003) of the Government of Tanzania defines SMEs by considering the number of employees and the capital investment in assets, as shown in Table 1 below.

Table 1: Categorization of SMEs in Tanzania

Business Size	Number of employees	Capital investment (TZS)
Micro enterprise	1 to 4	Up to 5 million
Small enterprise	5 to 49	Above 5 to 200 million
Medium enterprise	50 to 99	Above 200 to 800 million

Source: URT, 2003

When an enterprise falls under more than one category (e.g., one employee but capital investment greater than 5 million Tsh), the level of capital investment is the deciding factor in determining the size category.

In 2004, the Tanzanian government initiated Property and Business Reform Program (PBRP/MKURABITA) to allow informal sector to co-exist with formal sector so as to reduce the chronic problem of unemployment. The estimate of unemployed persons for the year

2011 was 10.7% of the total labour force in the country (URT, 2012a).

According to Mpango (2015), the increase in unemployment situation has forced a large number of the working population to opt for self-employment in the informal sector through micro, small and medium enterprises (MSMEs). However, since SMEs tend to be more labour intensive, they tend to create employment at relatively low levels of investment per job created.

The Integrated Labour Force Survey of 2006 also reveals that 40% of all households in Tanzania Mainland were engaged in informal sector activities as compared to 35% in 2001 (URT, 2012b). This shows the extent to which the informal sector in Tanzania continues to expand.

Stakeholders perspectives on SMEs

Sectors of which SMEs are mainly involved

It is estimated that there are more than 3 million SMEs in Tanzania employing more than 5 million people. However, a large proportion of these SMEs are in informal sector.

Although the estimated size of the informal economy as a percentage of GDP has decreased from 62.5% in 1991 to 39.7% in 2010, the sector is still considered to absorb 62.5% of yearly urban labour force, which is higher than the estimated 8.5% by the formal sector.

The Tanzania Chamber of Commerce, Industry and Agriculture reveal that more than 95% of businesses in Tanzania are small enterprises. Together, they contribute about 35% of the country's Gross Domestic Product (GDP). There are currently in excess of a million entrepreneurs in Tanzania, running

small, medium or micro enterprises (SME's) responsible for generating up to 40% of total employment.

From the discussions with different stakeholders, it was underscored that the majority of the SMEs in Tanzania are in clothing and tailoring, furniture industry and food processing industries with women being major players in these sectors. The reasons given for these SMEs to focus in these sectors are mainly due to the low costs associated with the investment as well as the fact that these sectors do not need sourcing of materials from outside the country.

However, it was further noted that there is an increasing sense of optimism from the current leadership of Dr. John Magufuli's leadership that there will be an increase in SMEs activities in the manufacturing industries especially agro-processing. The optimism originates from a mere fact that the President has shown signs of empowering the local Tanzanians who are striving to make ends meet.

Policies/ actions needed to promote the growth of SMEs in the sectors identified

i. Creating an enabling business environment:

It is proposed that the Government should commit itself to pass new enabling legislation, which will in turn formalize the importance of SMEs in the overall economy. It is opined that the legislation should include special provisions to facilitate empowerment of indigenous entrepreneurs, women businesses and the youth, and the preservation of the environment.

ii. Streamlining and strengthening Regulatory procedures:

It is also recommended that the Government should take deliberate measures to simplify and standardize procedures, including

business registration and licensing; loan applications; purchasing, sub-contracting and tender documents; export documentation and other commercial papers; registration of contracts; simplified tax return forms for SMEs; etc. There is also a dire need for these regulations to strengthen SME access to raw materials and other inputs controlled by monopolistic suppliers.

iii. Encouraging the establishment of Regional Business Development Centres (RBDCs):

In order to promote further growth of SMEs in the country, stakeholders recommend to have RBDCs established at village, town and/or city level, which will provide information and advice services to small enterprises, as well as training, mentoring, business plan preparation, marketing and sub-contracting support.

iv. Need to support SMEs Exporting Capacities:

Tanzania requires the expansion and modernization of the exporting sector, in order for it to take on a significant role in the national economic development. Unless effective export-promotion policies are implemented, Tanzanian SMEs will not be able to compete internationally. It is equally important to encourage the establishment of export promotion mechanisms with more national coverage. PPP model could be adopted to co-finance the use of consulting services required to carry out projects aimed at increasing SMEs participation in international markets.

v. Supporting Access to Technology:

It has been observed that upgrading technology in SMEs is vital for the development of the sector and the economy at large. The Government should promote new initiatives, which aim at developing high-quality technical services centres through partnerships between the public and private sectors. Business incubation is an approach adopted in some countries to transform technologies developed at research centres into viable business ideas and eventually into

successful SMEs.

Challenges being faced by SMEs in their efforts to participate in regional and international trade

i. Poor infrastructure:

The poor state of roads in general and in the rural areas in particular remains a major problem for SME 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.

ii. Low quality standard of products:

Quality standards control is inadequate in Tanzania and there is little capacity in the country to help enterprises to gain in competitiveness through ISO 9000 and ISO 14000 ratings of approval.

iii. Cumbersome bureaucratic regulatory procedures:

Although the Government has been taking several measures in reducing red-tapes in business environment, however, it should be noted that such conditions make it difficult for SMEs to thrive and grow.

iv. Information on business opportunities and markets:

Available technologies, potential joint-venture partners, etc., is also limited to very few SMEs in Tanzania due to lack of delivery mechanisms accessible by small-scale producers.

Way Forward on the Participation of SMEs

- a. Global Value Chain can to a great extent contribute towards linking SMEs with the international markets. However, it is equally important that as an LDC, Tanzania should seek for support from the developed countries

to facilitate in the capacity building of our local SMEs, especially on technology and meeting international standards.

- b. Seek for harmonised set of international standards set by different developed countries that tend to prohibit growth in exports of locally produced commodities by local SMEs.
- c. Call for strengthening links between SMEs in developed and developing countries as means to forge business partnerships that would see local SMEs in Tanzania have assured markets of their products that would be sold to SMEs in developed countries which will be sold in the developed market. This will enable SMEs in Tanzania be able to not only produce goods that meet required standards, but will also be able to access the

market that has rather proven to being very difficult to access for a long while, unless raw materials are exported.

- d. It is also strongly urged that our negotiators should not succumb to agreements that would result to demise of our local industries, but rather call for equal opportunities for our own locally produced goods and services be able to access global markets. This goes hand in hand with Dr Magufuli's caution to enter into agreement with the EPA, calling for in depth review on how the EAC as a region, and Tanzania as a country, would be able to grow its industries through such agreement. This should now be the benchmark in whatever agreements developed countries would want to enter with developing countries such as Tanzania.



CUTS International, Geneva

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