



Insights Behind the Growth Performance of Micro and Small Sized Businesses in Tanzania

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ABSTRACT

This policy brief analyses the growth performance of Micro and Small Enterprises (MSEs) in the country so as to inform policy makers on the set of key issues to be addressed for Tanzania's MSEs to be able to realize their growth potential. It points out the need to direct equal efforts on both financial and non-financial aspects so as to facilitate growth and expansion of these businesses for the benefit of the business community and the nation as a whole.

1.0 Introduction

The private sector has been globally recognized as an engine for economic growth where a sizeable portion of global economy is being run by the sector. It is against this background that Tanzania has been implementing policies that are centred on creating a vibrant business environment for the private sector to flourish. Like most developing countries, Tanzania's private sector consists mostly of Micro and Small Enterprises (MSEs) whose performances are not outstanding in terms of productivity, revenue earnings, machinery use, capital-labour ratio and growth of value added. Consequently, the enterprises in these countries have failed to upgrade their businesses to the next level of productivity, assets and employment (Berner E., Gomez G., and P. Knorrinda, 2008). This calls for concerted efforts to unlock their potential so that they contribute

meaningfully to the nation's economic growth.

The Government efforts in the development of a robust MSEs sector have been directed mainly towards expansion of financial access to business owners following the findings by many researches in the developing world that inaccessibility to finance is the greatest obstacle hindering MSEs to grow (Owualah, 1999; Carpenter, 2001; Veselin K. et.al, 2013). Information collected from key stakeholders through a baseline survey conducted by ESRF in 2014 revealed that, despite the increased financial access, performances of most Tanzania's MSEs have not changed due to a number of challenges which are explained in the next section.

2.0 Key challenges facing MSEs in Tanzania:

- **Access to Finance:** In many cases, there are delays in loans processing, stringent collateral requirements; high interest rates that reap a huge chunk of earned profits; corruption practices among loan officials in the financial institutions as well as insufficient amount of loans to cater for business needs especially from informal financial institutions.
- **Lack of Innovation:** Innovation is lacking among Tanzania's entrepreneurs because they do not want to take risks. Consequently, businesses of the same type are established closely without considering the size of the market which creates uneconomical competition whereby enterprises end up making low sales and profits. In order to capture the market, the MSEs resort to price undercutting instead of improving quality which further limits business growth.
- **Overlapping activities between respective Government authorities:** Lack of coordination between and among Local Government Authorities, Ministry of Industry and Trade (MIT), Tanzania Revenue Authority (TRA), Tanzania Bureau of Standards (TBS) and other business regulatory institutions results into existence of overlapping mandates, which raises costs of business registration and business operations.
- **Underdeveloped and unreliable infrastructures:** Stagnation of MSEs in Tanzania is also rooted from underdeveloped and unreliable

economic infrastructures. The most serious ones include the supply of electricity and water, poor roads, unfavourable business locations, low technological development to facilitate transaction processes as well as inadequate business management skills among MSEs owners.

3.0 Policy Recommendations to unleash micro and small -enterprise growth

- In order to improve access to finance, it is recommended that financial institutions providing small loans to MSEs should adopt the international best practices which advocate for efficient and effective lending mechanisms. Also, the Government, in collaboration with financial institutions should harmonize and reduce interest rates in as much as most business enterprises end up servicing the loans without realizing meaningful profit.
- On the other hand, financial service providers should introduce financial literacy training programmes for the MSE owners before and after accessing credit. Knowledge generated through the trainings will assist MSE owners in managing their loan portfolios, accessing more credit and minimizing interest rate expenses which will eventually translate into increased profits and high business growth.

To increase innovativeness among MSEs owners, the government apart from providing information on new innovations available worldwide, it should organize some

- courses aiming at improving innovative capacities of MSEs owners.
 - In order to remove overlapping mandates among government institutions involved in the trade sector, their responsibilities should be reviewed and harmonized. This will help to reduce the associated costs to MSEs.
 - The government should improve business enhancing infrastructures i.e. storage and marketing facilities, roads, water and electricity access to rural areas in order to reduce the costs of business operations and enable MSEs owners to generate profit by expanding their businesses. Moreover, the Government should initiate entrepreneurship trainings as a national agenda with the view to improve the business management skills of enterprise owners. This can be done by integrating entrepreneurship trainings in school curricular at all education levels.
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