

Challenges and Opportunities for Growth of Small and Medium Enterprises (SMEs) in Tanzania

**"Brief Research on State of SMEs
around Market places and Bus Stands"**

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Investment and
Consultant
Group Ltd*

Author: Amran Issa Bhuzohera
Title: Senior Planning Advisor,
Planning and Budgeting | Finance and Development Economy |
Research, Monitoring & Evaluation

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© Tanzania Investment and Consultant Group Ltd
Dar es Salaam, Tanzania
E-mail: amranbhuzohera@gmail.com / amran@ticgl.com
Website: www.ticgl.com

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Introduction

95% of the businesses in Tanzania are Small and Medium Enterprises (SMEs), and they represent about 35% of the country's GDP, according to the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA).

Tanzania is set towards becoming a middle-income country as the economy grew by an average of 6.5% per year in the past decade. The "Tanzania Development Vision (TDV) 2025" highlighted small and medium-sized enterprises (SME) sector as one important contributor to the country's long-term development. It is estimated that Tanzania's SME sector consists of more than 3 million enterprises which contribute to 35% of overall GDP. Most of them are in the agricultural sector, and more than half are owned by women.

However, key constraints remain for SME development. This includes unfavorable legal and regulatory frameworks, undeveloped infrastructure, poor business development services, limited access to financing, and ineffective and poorly coordinated institutional support framework.

Among these constraints, access to finance is the most critical one. As such, the government of Tanzania is currently working with the World Bank on a new US\$150 million financial intermediary lending operation designed to increase access to finance for SMEs.

Overview

Research Objective:

General Objective:

Challenges and opportunities for Growth of Small Business in Tanzania.

Specific Objectives:

- ① Are there policies and strategies for providing support to Small Business.
- ② What challenges and Opportunities confront the Small Business.
- ③ What procedure does the government use to finance Small Business.
- ④ What measures can be recommended to improve the effectiveness of Small Business.

These constraints largely resemble those faced by Malaysian SMEs in the past. In the past two decades, the Malaysian government pursued reforms and undertook interventions to address these issues. Now Malaysia is known to have one of the most vibrant SME sectors in the region. The SME sector in Malaysia contributed 35% to GDP, 65% of employment and 16% of exports in 2019. The sector is expected to grow at a rate of at least 6.5% per year.

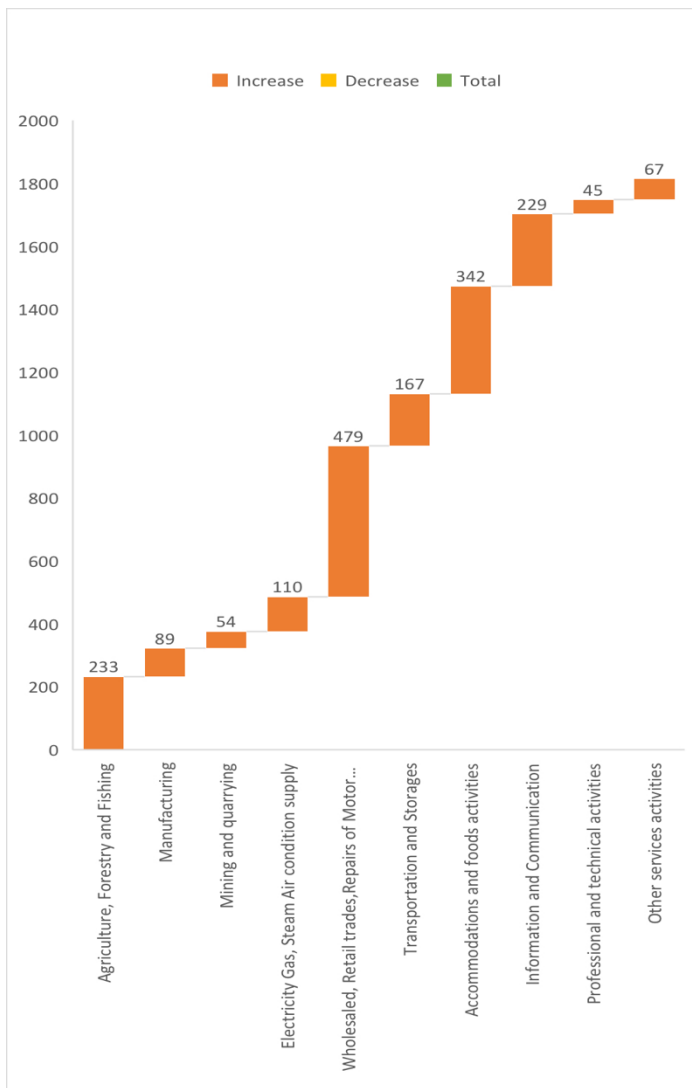
The SMEs segment made considerable contributions to employment in Tanzania:

① Not including agriculture, in 2015 the SMEs segment employed more people than the large companies in the private sector and the public sector together. The employment in the SMEs segment would comprise about 82% self-employed persons and 18% paid workers; the reality, though, is that the number of paid workers alone makes up about 45% of all paid workers including the entire private and public sectors.

② An additional analysis estimated that the SMEs segment contributed about 23.4% to total employment (including agriculture) in Tanzania. As employment in agriculture is largely self-employment of smallholder farmers, from a statistical perspective, employment in Tanzania can be considered largely self-employment.

In total, about 479 small businesses are Wholesale, Retail traders, Repairs of Motors vehicles, and Hardwares. About 342 Small businesses are Accommodations and foods activities, 229 of small businesses are Information and communication. whereas 233 small businesses are agriculture, forestry and fisheries, the others did another small business. An almost identical questionnaire was administered to both groups of owners of closed enterprises.

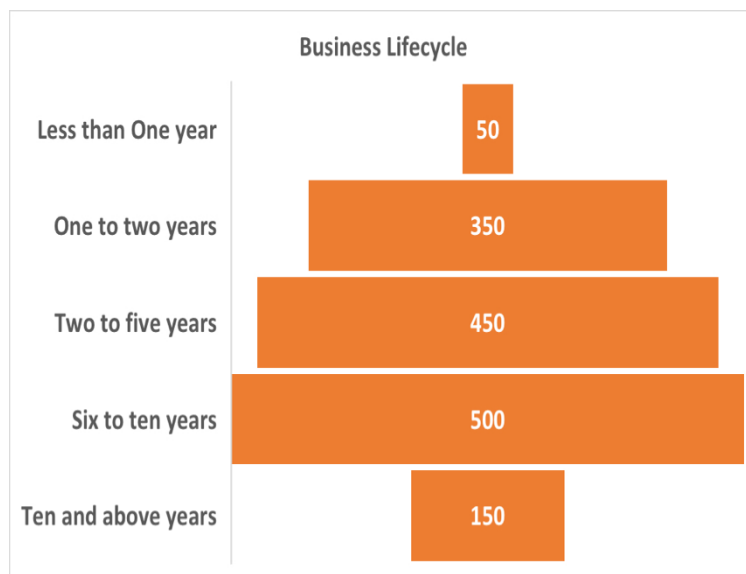
Types of Small Business Interviewed



There were about more than 2,754,697 people in Tanzania who owned and ran small, or medium size business. While 86.2% of the small businesspersons owned and ran only one business, the rest owned and ran two (12.8%) or more (1%) businesses. In total, all SMEs owners owned and ran about 3,162,886 SMEs. About 96.4% of small business owners were sole proprietors, and about 3.5% were in partnerships in which 77% of all partners were related.

Very few small businesses owned a computer or laptop. Those who owned a computer used it mainly for business correspondence (0.5%) business records (0.5%), accessing the internet (0.3%), providing computer services to customers (0.1%), selling products and services online (0.0%), or private use (0.1%).

Business Lifecycle

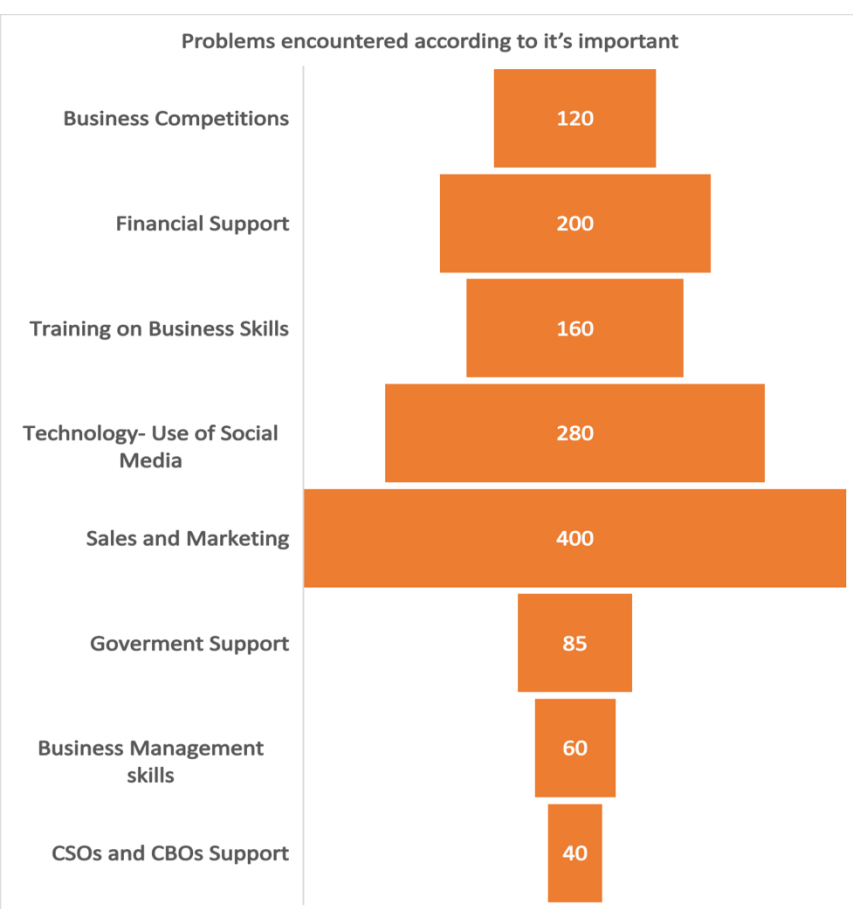


The majority of employed people in SMEs belonged from six to ten years of doing business, While 450 belonged to two to five years of business. This emphasizing the importance of small businesses to the survival. Further, most businesses were personally related to the owner of the business at which they worked.

More women than men owned and ran a small business. Fewer women than men were employed as paid workers, but more women than men were friends/relatives of the small business owner.

The main difficulty was that only 44.7% of small business owners kept written financial records, and of the 55.3% that had kept accounts, about 70.9% mainly focused on recording sales. Although information on sales and various expenses was collected, respondents could often not refer to written accounts and were therefore only able to report estimated figures from memory. Similarly, the household-based portion of the survey did not give small business owners the opportunity to refer to their written accounts even if they existed.

Technical Support Encountered according to it's Important



The lack of Government support, CSOs and CBOs Support, lack of skills such business management also meant that there was probably significant mains problems for SMEs.

The main problem that encountered by SMEs and request assistance was Sales and Marketing that is 400 high scored by small business owners, and of the Technology - Use of social media that had kept accounts, about 280 scored. Although information on about Financial Support, Business Competition, Government Support and various related issues was collected, respondents could often not refer to written situation and were therefore only able to report from memory. Similarly, the household-based portion of the survey did not give small business owners the opportunity to refer to their written accounts even if they existed.

Education has only been partly improved by short training courses attended by SME businesspersons after their formal education. In fact, about 20.5% of SME owners received some business training, and 7.3% received some technical training, but 72.1% had never received any training at all before starting their business. Consequently, most small businesspersons regarded themselves as unskilled (66.5%) or semi-skilled (21.7%).

Main Challenges and Opportunities Confronts Small Business

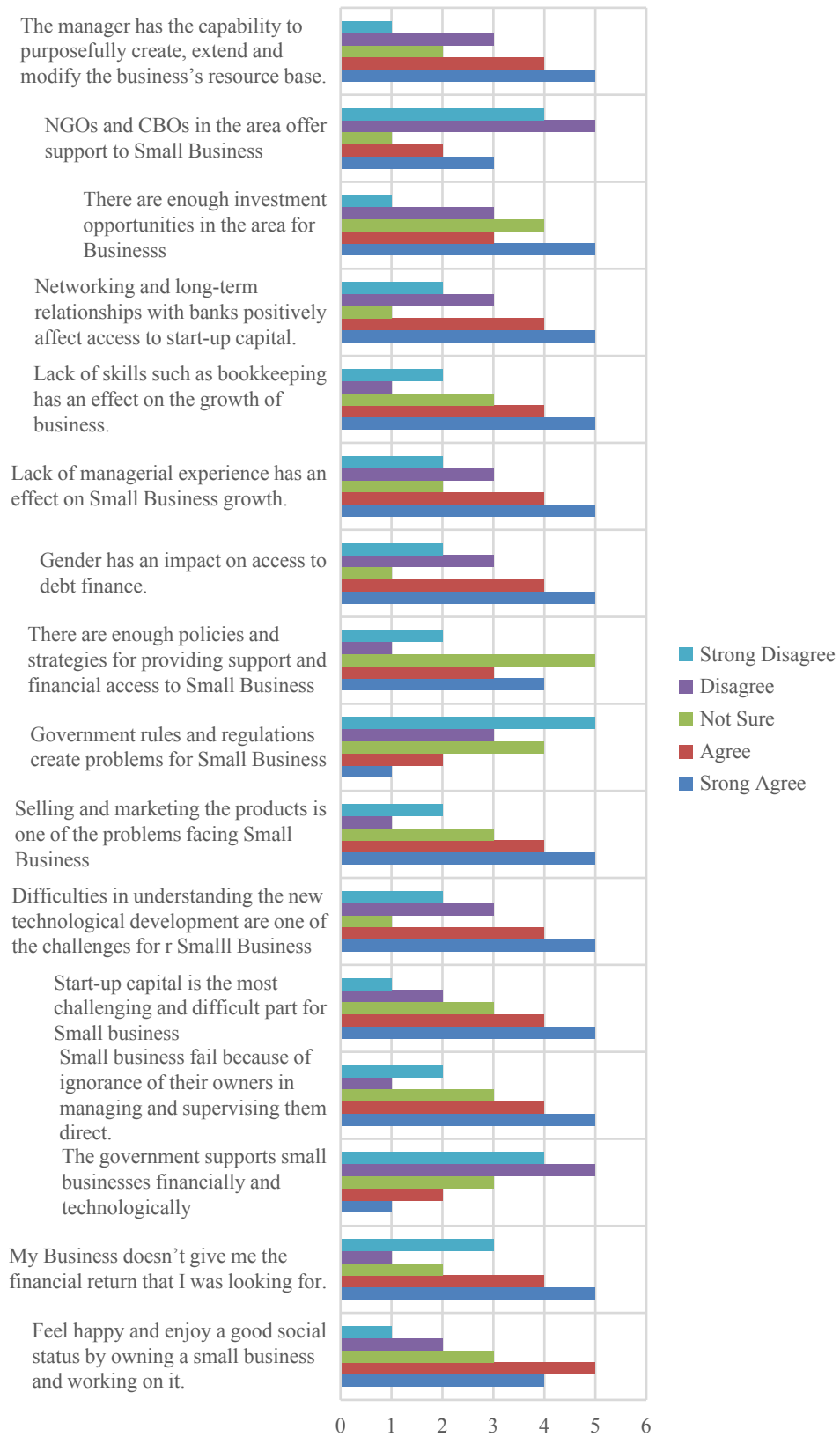
The biggest problems identified by small businesses were: (i) Startup capital and insufficient working capital and (ii) Selling and Marketing . Consequently, SMEs owners would like the government to improve access to finance, provide greater access to business development services, and provide better infrastructure. Small businesses mostly needed information regarding: ways to get loans; gaining access to markets; and business training. Small business owners were not adequately aware of where to get business advice or training, but those who had received it were generally quite satisfied with it.

Most known providers of business advice and training were actually financial service providers. Small business owners had moderate financial literacy. About 10.6% of small business owners had access to formal financial services providers; about 10.9% to semi-formal providers; 12.1% to informal providers; and 66.4% were excluded from access to financial services.

Most small business owners who had a bank account had a savings account and ATM or debit cards. Small business owners did not apply for credit and loans in anticipation of refusal although the actual refusal rate was not very high. Most SMEs of all levels of access saved for business in different ways. Although SME owners were aware of various business risks, only about 4.4% had ever bought an insurance policy.

Depending on their level of access to financial services, small business owners mainly used bank transfers or mobile phones for money transfers.

Most customers of SMEs were households or small traders from the same ward or district. Similarly, suppliers of SMEs also came from households or small traders from the same ward or district.



Small businesses employed about 5,206,168 people; of those, 3,447,469 were owners/spouses; 964,246 were paid workers; 718,663 were relatives and friends; and 79,390 were apprentices. These figures indicate that employment in small business is mainly a family affair. The low number of apprentices also indicates insufficient skills development within the SME segment. About one-fifth of employed people in the SME segment were underemployed.

Based on the survey findings, it was estimated that small businesses contributed about 35% to Tanzania's GDP in 2019. Small businesses also made a valuable contribution to poverty reduction:

① In households with SMEs, small businesses played an important role in income generation (62.7%) or were even the only source of income (34.1%) for the household.

② The monthly income from small businesses (TSh 444,200) was significantly higher than the average income of all Tanzanian households (TSh 146,000).

③ The quality of dwellings belonging to small business owners was also significantly better than that of the average Tanzanian.

In 90% of households, other family members depended on the income from the small business. Other sources of family income were mainly income from agriculture (38.5%) (particularly in rural areas), the earnings of a spouse (19.1%), and the salary from another business (14.5%).

Overall Conclusions and Recommendations

The following conclusions and recommendations of Challenges and Opportunities for Growth of SMEs as it indicated and outlined in the findings.

① The government should capacitate the Small Business owners for their sustainability and growth.

② The governmental financial institutions should give Small Business owners financial support to enhance business viability and encouragement for local business development.

③ The government should develop alternative strategies and policies to empower Small Business owners.

④ The government should revisit the policy and formulate another one that considers the changing environment and dynamics.

⑤ The government should ensure training and development of Small Business owner.

⑥ Small business owners should be made aware of opportunities the government.

⑦ Government should provides economic emancipation.

⑧ The independence emanating from ownership and management of one's own business allows entrepreneurs to pursue what they personally regard as important.

⑨ The opportunity to realise a business's full potential makes entrepreneurship an instrument of self-actualisation.

⑩ The owner-managers should capacitate themselves by undergoing management development courses. By attending the courses, they can be able to develop business plans, balance their financial statement and market their businesses.

⑪ Develop the SME financing ecosystem. Access to finance itself is a complex and broad topic that goes beyond the provision of credit. The ecosystem consists of several distinct but mutually reinforcing elements: institutional arrangements, financing schemes, education and awareness, facilities to seek information and redress, as well as debt resolution programs. Having a financing ecosystem is important because the needs of SMEs will evolve as they become more sophisticated.

⑫ Provide a wide spectrum of financing services and products. The SME sector comprises of enterprises with different characteristics. Common differentiating characters are size, sector, location, business life cycle, and

ownership profile (gender, education, etc). SMEs may have different needs for financial services and products according to their characteristics. Both conventional and Islamic financing services are also available. Service providers range from traditional financial institutions such as development financial institutions, commercial banks, credit guarantee institutions and investment companies, to new players in SME financing: financial technology companies.

⑬ Since most of the Small Business do not have enough capital to finance their own businesses, it is important for the governmental financial institutions to provide them with financial support to enhance business viability and encouragement for local business development.

⑭ The government should develop alternative strategies and policies to empower Small Business. It is also important that awareness on Small Business owners to be raise about opportunities the government provides for economic emancipation.

⑮ Good planning and coordination are essential. A robust SME development strategy requires adequate inter-ministerial coordination because SMEs operate within many sectors. Policymakers must realize SME development is a long-term undertaking that needs support from the highest level of government.

⑯ Good planning is equally important. A good planning document should clearly state its vision and goals, and also describe systematically the interventions needed to strengthen SMEs. It should have a framework to measure results.

⑰ Address all constraints - not just financing. We tried to shows several constraints which hindered SME growth: market access, legal and regulatory frameworks, infrastructure, human capital, technology including access to finance. Therefore, interventions should be a combination of financing, advocacy, advisory, training and other forms of technical assistance activities. Many governments only focus their interventions on access to finance but do not address other constraints, and therefore do not achieve optimal outcomes.



*Tanzania
Investment and
Consultant
Group Ltd*



Dar es Salaam , Tanzania



E: amranbhuzohera@gmail.com / amran@ticgl.com



W: www.ticgl.com