

Tanzania Country study

Background

Tanzania's economy has gone through a period of profound change since the late 1980s, after her move to abandon protective policies under the command approach to economic management. Subsequent Government reforms embraced market led policies that explicitly acknowledged the role of the private sector in building a sustainable economy and alleviating the widespread poverty. Like other Sub-Saharan countries, Tanzania sees the private sector as being a driving force for job creation, industrialization and economic development. Parallel with the promotion of the private sector, Tanzania also adopted a more open foreign investment policy, allowing foreign ownership and according full protection of property rights. As a result of these policies the private sector has grown rapidly with micro, small and medium enterprises (MSME) playing a crucial role. According to the Tanzania's Small and Medium Enterprise Development Policy of 2002, micro enterprises are defined as those firms employing up to 4 persons, while small and medium enterprises are those firms employing between 5 to 49 persons and between 50 and 99 persons respectively (URT, 2003). It is estimated that about a third of Tanzania's GDP originates from the MSME sector. Many of the micro and small enterprises in Tanzania are survival firms; few grow into medium and large firms, while many others are struggling to grow. There is therefore still the so called "missing middle." Although the Tanzania's private sector is overwhelmingly dominated by the MSME sector, accounting for an estimated 2.7 million enterprises, with many of them operating in the informal sector, the large enterprise sector is also significant, accounting for 12 percent of registered enterprises, 38 percent of the Gross Domestic Product (GDP) and 20 percent of formal employment.

Due to its open investment policy also Tanzania has been able to attract a lot of foreign direct investments (FDIs). For example, while FDIs amounted to a total of USD 90 million between 1990 and 1995, in 2007 alone the country attracted USD 600 million in FDIs (URT, 2008).

In the international arena, Tanzania is a signatory to a number of international, regional and bilateral agreements and protocols, including the Uruguay Round that established the World Trade Organization (WTO). Its trade policy is hence guided by the rules and obligations of the Multilateral Trading System. Others include the EU's "Everything But Arms," the East African Community (EAC), and the Southern African Development Community (SADC), as well as several bilateral trading partnerships with USA (AGOA), Canada, China, Australia, and South Korea. Despite enjoying preferential treatment from these international, regional, and bilateral initiatives, Tanzania's export performance is still not impressive. Its share in world trade declined from 0.04 percent in 1980 to almost 0.00 percent in 1990 and slightly less than 0.02 percent in 2001. Its current account deficit has widened substantially from 2.2 percent in 2002 to an 11.8 percent in December 2010 (BOT Monthly Economic Reviews, January 2011).

Since the late 1990's, the Government has successfully pursued a number of macro economic reforms. Inflationary pressures have been controlled, from 30%-40% in the 1980s to single digit figures between 1999 and 2007. Inflation rate stood at 6.4 percent as of January 2011 up from 5.5 and 5.6 percent during the year ending November and December, 2010, respectively (BOT, 2011). Nevertheless, according to analysts, rising food and fuel prices coupled with the current chronic energy shortage are expected to push Tanzania's inflation rate back to double-digit levels in 2011. The business environment, however, remains generally unfavourable. Poor infrastructure, corruption, legal and regulatory issues, and bureaucratic tendencies are some of the hindrances. The BEST (Business Environment STrengthening) program, is a Government initiative which aims at creating

an enabling regulatory environment for businesses to thrive and operate more efficiently through reduced cost of doing business.

Past research focusing on business sector development in Tanzania has also pointed to a lack of favourable business climate, citing lack of finance, bureaucratic institutions, corruption, poor infrastructure, lack of capabilities and knowledge, culture just to mention a few as some of the hindrances. There is however little knowledge on how successful firms are combining their resources and capabilities to gain competitiveness, survival and growth amid this unfavourable business environment. There is also little knowledge on how successful firms are creating alliances through influential figures in politics and the bureaucracy, through social networks, business to business linkages, locally and internationally through global value chains to gain competitiveness, and guarantee survival and growth of their enterprises. This calls for an innovative approach to the study of business sector development in the country. Research in this direction should inform relevant policies that can facilitate sustainable private sector development. However, any discussion on research issues on sustainable business sector development in Tanzania should be aligned with the national priorities. The National Strategy for Growth and Reduction of Poverty (NSGRP I and II) has identified poverty as largely a rural phenomenon, and that the poor are concentrated in subsistence agriculture. 80 percent of Tanzanians depend on agriculture for their livelihood. The sector, which is also the main pillar to food security especially in the rural areas, has been singled by the NSGRP as one of the priority sectors for achieving poverty reduction and economic growth objectives. Tanzania is one of the poorest economies, with a GDP per capita of USD 333 (URT, 2006).

Sector focus

More specifically, the NSGRP, which is informed by the aspirations of Tanzania's Development Vision 2025 (Tanzania 2000) for high and shared growth, high quality livelihood, peace, stability and unity, a strong and competitive economy, good governance, and a well educated and learning society has identified increases in factor productivity with a focus on technological change with particular attention on rural/agricultural productivity and its associated linkages with industry as one of the important sources of growth. In particular, within the strategy of promoting sustainable and broad based growth (one amongst the strategies/goals of NSGRP) increasing productivity and profitability of agriculture is top of the agenda. It is important to note that despite significant growth observed in other sectors in the recent past, agriculture remains the leading sector in terms of its contribution to GDP (27.6 % in 2009). When spill over effects are considered, the contribution to GDP jumps to 60 percent (URT, 2006 Agricultural Sector Review). The spill over effects which are derived from production forward and backward linkages and consumption multipliers are found in value adding activities such as agro-processing, the activities of which are captured under manufacturing or transport sectors. Other examples of spill over effects are consumption effects of agricultural produce which may be counted in other sectors such as trade, hotels and restaurants, etc. Thus, in terms of Tanzania's ability to participate effectively in the new global economy, agriculture becomes the lead sector that gives the country a comparative advantage if effectively promoted and diversified. Development of the sector therefore remains a key to the country's economic and social development, at least in the foreseeable future.

In June 2009, the Government adopted the KILIMO KWANZA as Tanzania Green Revolution to transform its agriculture into a modern and commercial sector (URT, Budget Speech, 2009). Amongst the ten actionable pillars of the KILIMO KWANZA, is industrialization for agricultural transformation (TNBC, 2009). The Strategic Trade Policy (2002-2007) which amongst other objectives aimed at promoting a diversified and competitive export sector recognized the need to promote competitive agro-processing industrial sector as the foundation for trade development. The

SME Development policy has similarly recognized agribusiness as an important sector where Tanzania has a comparative advantage.

On the other hand, the structure of the Tanzanian economy in terms of GDP composition has changed in recent years. The share of agriculture in GDP (27.6% in 2009) has declined relative to services (45% in 2009), industry and construction (20.8% in 2009). Services constitute the main sector of the economy hence its growth is critical in sustaining higher economic growth (URT-NSGRP II Book 2010). Our current research thus focuses on agribusiness and service firms. Since the service sector is very wide, we intend to focus on tourism SMEs, especially the accommodation firms. The tourism sector has grown significantly in the recent past. The number of international tourists grew from 326,000 in 1996 to over 700,000 in 2009. Over the same period tourism earnings more than trebled from USD 322 million to USD 1,159 million, which accounted for 27.5 percent of total exports of goods and services, making tourism the second leading export sector, after gold (BOT monthly reports). This study will thus examine the internal and external drivers of growth in these enterprises in search of models that can contribute to business sector advancement, and hence sustainable and inclusive economic development in the Tanzania. The study also aims at investigating strategies used by successful firms in agribusiness (upstream and downstream) as well as the tourism and financial sectors.

Project Objectives and Research Questions

The overall research question in the country study is: How do successful local firms in Tanzania gain competitiveness and sustain and grow their businesses amid the changing market and institutional conditions?

More specifically the study will strive to answer the following questions:

1. What are the main internal factors that have contributed to the success of firms in the agribusiness and service sectors?
2. What are the main external factors that have contributed to the success of firms in the agribusiness and service sectors?
3. How do successful firms manage their relations with local and international institutions?
4. Are there any discernible differences in the strategies between successful local small firms and medium and large firms?
5. Are there any discernible differences in the strategies and results of firms operating locally and those crossing borders to serve regional and global markets?

The major objective of the joint study is to assess how successful firms combine their resources, capabilities, and strategies to gain competitiveness and sustain and grow their businesses despite the challenging and unfavourable business environment. We hypothesize that that successful SSA firms develop and grow by continuously aligning their resources, strategies and capabilities to the changing market situation (key economic factors such as labour conditions, participation in value chain, both local and global, trade issues) and institutional conditions (networks, personal and political alliances). We further hypothesize that firms engaged in value chains (local and global) are more successful than those that are not such linked.

Methods

Study area

The study will be undertaken in geographical areas where there is concentration of agribusiness and service firms. Dar es Salaam is home to most businesses accounting for 43 percent of total business establishments in the country. Apart from Dar es Salaam the study will also be undertaken in Mwanza, Arusha, Iringa, and Morogoro. These regions have a high concentration of industries, particular agro processing, next only to Dar es Salaam. The World Bank funded Regional Program on Enterprise Development (RPED) survey was also undertaken in these regions.

Firm selection and data collection

The study will entail three main data collection stages. In the first stage, a mapping of firms in the selected sectors will take place. Tanzania does not have an organized socio economic data base. Hence the first stage will involve collection of secondary data and other general primary data from the Government Ministries of Agriculture, Industry, Trade and Marketing, The Planning Commission, Private sector associations such as the Confederation of Tanzania Industries, Tanzania Chamber of Commerce, Industry and Agriculture, The Business Registration Licensing Agency, The Agricultural Council of Tanzania, The Tanzania Private Sector Foundation, The Tanzania National Business Council, the Bank of Tanzania, etc. This process should generate a directory of enterprises in the selected sectors from the chosen regions.

In the second stage, a survey of firms contained in the directory will be undertaken. This should involve a sample of approximately 150 firms in the agribusiness and the tourism sectors. This survey will enable us to select a number of more successful (16) and less successful (16) firms for in-depth interviews. Published data on such companies will be collected to support the selection of firms. The survey will also enable us to make comparison of the results between firms operating locally and those crossing borders to serve regional and international markets, as well comparison between small, medium and large firms. Quantitative data collection will dominate this stage, which will enable us to test the hypotheses generated at the formulation stage,

In the third phase, in-depth interviews with the chief executive officers and owners of the 16 more successful and 16 less successful companies in both agribusiness and the tourism sectors will be undertaken. The in-depth interviews will be repeated over a three year period.

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Outputs and Dissemination

Papers for international journal publications will be prepared, among others the Journal of African Business. At the end of the study, policy briefs will be prepared. Also a workshop to present the findings to stakeholders (Government officials, private sector associations and the business community) will be organized. The University of Dar es Salaam has since 1997 been organizing an international Conference on African Entrepreneurship and Small Business Development. Some of the findings will be presented to this annual conference in 2014. Papers will also be presented in international conferences, including in Copenhagen in 2015.