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Research Report 08.6

Assessing the Institutional Framework for Promoting the Growth of MSEs in Tanzania: The Case of Dar es Salaam

Raymond Mnenwa
and Emmanuel Maliti

**RESEARCH ON POVERTY
ALLEVIATION**

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Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
BDS	Business Development Services
BEST	Business Environment Strengthening in Tanzania
BET	Board of External Trade
BIT	Board of Internal Trade
CARMATEC	Centre for Agricultural Mechanisation and Rural Technology
CBO	Community Based Organisation
CTI	Confederation of Tanzania Industries
EAC	East African Community
GDP	Gross Domestic Product
HBS	Household Budget Survey
HIV	Human Immunodeficiency Virus
IFAD	International Fund for Agricultural Development
IFC	International Finance Company
IPi	Innovation Promotion Institute
LIRT	Local Investors' Round Table
MIS	Management Information System
MSE	Micro and Small Enterprises
NBS	National Bureau of Statistics
NBC	National Business Council
NGO	Non Governmental Organisation
NSGRP	National Strategy for Growth and Reduction of Poverty
PER	Public Expenditure Review
PSDS	Private Sector Development Strategy
R & D	Research and Development
RDI	Research Development Institute
REPOA	Research on Poverty Alleviation
RNE	Royal Netherlands Embassy
SACCOS	Savings and Credit Cooperative Society
SIDO	Small Industries Development Organisation
SME	Small and Medium Enterprises
TBS	Tanzania Bureau of Standards
TCCIA	Tanzania Chamber of Commerce Industries and Agriculture
TCM	Tanzania Chamber of Mines
TPRI	Tanzania Pesticides Research Institutes
TIRDO	Tanzania Industries Research Development Organisation
TPSF	Tanzania Private Sector Foundation
TRA	Tanzania Revenue Authority
VIBINDO	Viwanda na Biashara Ndogondogo

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Raymond Mnenwa and Emmanuel Maliti
(August 2009)

Abstract

This paper contains the results of a study conducted in Dar es Salaam in 2006 and 2007 to assess the MSEs institutional support. The study focused on the type and nature of the MSE support institutions which included services they provide, conditions for assessing the services and their needs. The study was conducted in order to inform policy makers, planners and other stakeholders about the function and need, for strong MSE support institutions as well as the capacity of these institutions to adequately meet the demands of MSEs.

The results show that there is huge potential demand for MSE support services which is not adequately met by the existing MSE support institutions. The institutional framework for supporting MSEs was found to be constrained by inadequate financial and human resource capacity as reflected in the stringent conditions imposed on MSEs and strategies adopted to promote service delivery. This paper further reinforces knowledge about the institutional framework, and clarifies the needs of both the MSEs and their support institutions.

Executive Summary

Introduction

The link between institutions and development outcomes and how they affect each other has recently become a “hot topic” in the international debate on development. Institutions have an impact on growth and economic development through their role in stimulating an increase in investment, a better management of ethnic diversity and conflicts, better policies and an increase in the social capital stock of a community. Research on Poverty Alleviation (REPOA) commissioned a research in 2006 to assess the capacity of the Micro and Small Enterprises (MSE) support institutions to promote the growth of the MSEs.

The problem statement

Despite the role played by MSEs in poverty reduction, there are serious constraints limiting their growth and thus their contribution to poverty reduction. Apart from macroeconomic problems such as non-conducive, non-transparent and complicated legal and regulatory frameworks, MSEs face inadequate markets, low productivity and lack access to capital. It is known that most of these constraints could be eased through effective MSEs institutional frameworks as highlighted by a number of studies including one by Wangwe (1999). Despite the existence of many MSE institutions, the plight of MSEs in the country continues to worsen raising questions as to whether the institutions have adequate capacity to support the MSEs. No adequate research effort has been made to address this. It turns out therefore to be important to conduct a critical assessment of the capacity of the existing MSE support institutions so as to understand the factors underlying the dismal performance of the institutional framework for the MSEs development.

The survey

The study was conducted in the Dar es Salaam region, the largest commercial city in the country. Data collection was carried out in two rounds. The first round took place between 15th August to 7th September 2006 covering MSE support institutions, while the second round covered MSEs between 25th May and 10th June 2007. A multifaceted survey design of gathering data on a spectrum of variables was adopted. The research methodology encompassed (a) a desk review of information on MSE support institutions, using data and reports already available and (b) interviews with owners and employees of MSEs and management of various MSE support institutions in Dar es Salaam. A semi structured questionnaire was used to guide the interviews. The interviews involved 83 MSEs and 53 MSE support institutions. In total 136 respondents were interviewed. The type of MSE support institutions that were consulted included government institutions (central and local governments), Non-governmental organisations (NGOs), private service providers, and donor programmes.

Results and Discussion

The demand for MSE support services

Tanzania has approximately 2.7 million enterprises in the country, out of which the majority (98%) are MSEs. If all these enterprises were able to access MSE support services, they would constitute a huge demand for the services. The study identified a wide range of services that were needed by MSEs in Dar es Salaam including government support in form of tax incentives, loans, guarantees, grants, market information and a better regulatory environment. Other services that are needed by MSEs include financial, marketing services, technical and management training services.

According to the results of this study, the MSE entrepreneur's awareness of services provided by various MSE support institutions varied depending on the type of service. This included financial services from banks, microfinance institutions and government agencies. Strikingly, it was noted that some of the respondents were not aware that the government and its agencies were responsible for policy coordination, regulations and standards. Although most of the respondents were aware of some of the MSE support services, very few accessed services due to a number of reasons including lack of information, bureaucratic procedures, lack of collateral, high interest rates and conditions on forming groups especially for accessing services from microfinance institutions.

The MSE institutional framework

The MSE institutional framework in Dar es Salaam was found to be composed of public and private institutions. Central government institutions were found to be the main players in the public sector perhaps because of their role in setting and enforcing legislation and regulations. The public MSE support institutions included ministries and government agencies. Ministries that are mandated to directly support small businesses include the Ministry of Industry, Trade and Marketing; the Ministry of Community Development, Women and Children, the Ministry of Labour, Employment and Youth Development and the Ministry of Planning, Economy and Empowerment. Other ministries such as the Ministry of Agriculture and Food Security, the Ministry of Livestock, and the Ministry of Energy and Minerals are also responsible for MSEs development in their respective sectors. Local authorities were also found to be an important component of the MSE support institutions in the public sector. These authorities were found to be vital in facilitating small businesses through licensing, allocation of space for business premises, health and quality control, setting rules and regulations and policy management.

The major participants in the private sector included financial institutions such as banks, microfinance institutions, savings and credit cooperative societies (SACCOS), private consultants, business associations such as the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), and other non-governmental organisations. These institutions provide services to MSEs directly, under public private partnership or self-help arrangements.

Core services delivered by MSE support institutions

The services provided by MSE support institutions were categorised into the following: Coordination and policy management, regulatory services, financial services (credit, money transfer, savings), lobbying and advocacy, training and advisory services. From the assessment of services delivered to MSEs, a distinction can be made between those provided by the private sector and by the public sector. The government is primarily responsible for the overall function of the support institutions by putting favourable policies in place, provision of an enabling environment for MSEs and promotion of institutional changes conducive to the development of the private sector. In contrast, the businesses support services provided by the private sector include financial services, advisory services, business linkages, training and market promotion. Most of the services provided by the private sector are operated on a commercial basis except for those provided by NGOs such as associations, self-help organisations and not for profit private institutions. Some private support institutions provide services on public private partnership arrangements.

Conditions for service accessibility

The study shows that most of the institutions imposed some conditions to the MSEs to access the services. These conditions included collaterals, cost sharing, experience, gender and legal status. While the imposition of conditions for accessing services by MSEs may be inevitable, the proliferation and enhanced stringency of conditions for accessing MSE support services has been a source of concern among many MSEs. Even if the conditions were not intentionally used to discriminate against MSEs, there is concern that their growing complexity and lack of differentiation between MSEs and large scale enterprises impede the accessibility of the MSEs to the services. There is also a concern that many MSEs simply lack the administrative, technical and scientific capacities to meet the conditions, presenting potentially insurmountable barriers in the short or medium-term. Furthermore, the costs of meeting the conditions could undermine the competitive position of MSEs or otherwise compress the profitability of the businesses. The combined effects of institutional weaknesses and lack of the necessary resources to meet the conditions, it is argued, contribute to the further marginalisation of weaker economic players in MSEs.

Strategies and initiatives

MSE support institutions were found to employ various strategies to facilitate effective service delivery. For instance all the respondent institutions employed supplementary services while networking was found to be an important strategy used by many of the support institutions. Cooperatives and group formation was used as one of the strategies to facilitate accessibility to some of the services provided by microfinance institutions. Other strategies that were identified include advertising and regulation enforcement. The strategies were however employed by few support institutions. The lack of strong advertising and educational programmes for MSE entrepreneurs could be responsible for the inadequate knowledge of some the MSE respondents about the services provided by MSE support institutions.

The capacity of the MSE support institutions

It was found that many of the MSE support institutions had inadequate financial and human resource capacity. For instance, data shows that only 47% of the respondent institutions had strong or very strong financial capacity, implying that budgets in more than 50% of the respondent institutions were not sufficient to operate the programs at desired levels. Regarding human resources, 58% of the respondent institutions interviewed were reported to have been strong or very strong, suggesting that more than 40% of the institutions experienced some deficiencies in this area. The respondent institutions pointed out that in order to create an appropriate organisational culture, the agencies would need to either hire new staff or re-orient existing staff to serve MSEs. It was however found that more than 70% of the interviewed support institutions had appropriate Management Information Systems, (MIS) that could be customised in order to serve MSEs though they expressed the need to improve the systems so as to have MIS that can track client performance on a real time basis.

The MSE support institutions' capacity needs

A needs assessment was conducted for the MSE support institutions. The MSEs support institutions needed effective internal structure (staff, financial equipment and facilities). On the other hand, the effective delivery of services depends on environment external to agencies such as government support, trustworthiness of MSEs, entrepreneurial attitudes of MSEs, and cost sharing.

1.1 The study

Poverty is still a common phenomenon in both urban and rural areas in Tanzania. Kilindo et. al. (2006) shows that some decades after independence, following a socialist period and various attempts at more market-oriented reform, Tanzania remains a country still struggling to find an effective development path. Although its economy has recorded impressive growth in the recent years, both agriculture and manufacturing have lagged behind. The conditions for businesses are also not particularly good (Kilindo et al., 2006). It is estimated that, across Tanzania, 18.7% of the population live below the national food poverty lines, and 35.7% of the population live below the basic needs poverty lines¹. Tanzania has just completed the development of its National Strategy for Growth and Reduction of Poverty (NSGRP). The NSGRP has set targets to reduce income poverty in both rural and urban areas. For the urban areas the goal is to reduce the proportion of the population below the basic and food poverty lines from 25.8% and 13.2% in 2001 respectively to 12.9% and 6.6%, respectively by 2010.

To achieve these goals a broad range of actions in production and marketing needed to be undertaken. The NSGRP has indicated that the development of small and medium enterprises (SMEs) much of which are MSEs is one of the key strategies to attain the goals. Many studies have indicated that broad-based MSEs development provides an effective means for both reducing poverty and accelerating economic growth. This is normally achieved not only by increasing incomes for entrepreneurs and workers (Mnenwa and Maliti, 2005), but also by creating demand for non-tradable goods, namely services and local products through links. It is this indirect effect on demand, and the associated employment creation in the small businesses in rural and urban areas, that appears to be the main contributing factor to the reduction of poverty.

Since the late 1980s Tanzania's economy has gone through a period of profound change. The Government's economic reforms have gradually introduced the framework necessary for the development of a market economy. As part of this process, the government has withdrawn from direct involvement. As a result the private sector has grown rapidly, whereby estimates of the number of micro (up to 5 employees) and small enterprises (6 to 50 employees) range widely, from 1 to 2.5 million countrywide ². According to RNE (2004), the private sector is significant in urban as well as rural areas, though most enterprises are located in towns and cities with an average of 1.5 employees per enterprise. Estimations of the percentage of labour force engaged in MSEs in urban areas range from 38% to 56%, while in rural areas it is approximately 15%. Most micro-enterprises are in the informal sector, i.e. neither registered nor licensed and have been set up for reasons of survival rather than with a longer-term plan for growth.

In the past, the effectiveness of the MSE support institutions in Tanzania was severely hampered by the inadequate macroeconomic environment (Wangwe 1999). After a successful stabilisation of macroeconomic environment, it was expected that the effectiveness of the institutional framework would improve as well, but this was not the case. The effectiveness of the support institutions seems to be minimal. This raises questions as to whether they have the capacity to deliver adequate and relevant services sufficient and effective institutional framework³ for supporting the growth of MSEs.

¹ 1993:24 HBS (2000/01)

² RNE (2004).

³ Based on the above definition of institutions, this study takes institutional frameworks as a system of organisations encompassing their services, procedures, conditions and modalities for accessing their services.

This study attempted to throw new light on institutional frameworks for MSEs by assessing the capacity of the MSE support institutions to promote the growth of the MSEs. The study investigated both the demand and supply side of the subject. On the demand side the study focussed on the characteristics of the MSEs, their needs, awareness and utilisation of the various opportunities offered by the MSE support institutions. On the supply side the study examined the type and characteristics of the support institutions, the services they offer, their capacity and needs, and conditions for accessing their services.

1.2 Limitations of the Study

This study does not pretend to be free of limitations. Though the findings and conclusions are not affected, it is important to highlight some of the limitations. Firstly, the study has only been conducted in the Dar es Salaam region, and has not examined regional variations in Tanzania. Secondly, as with most surveys, the study only captures the circumstances prevailing at the time of the interviews. Thirdly, it is also possible that some of the respondents did not provide their true opinions during the interviews because they regarded some of the questions as sensitive. However, this group is regarded to be small and we assume that they did not affect the overall results and conclusions.

1.3 Organisation of the Report

The remaining part of this report covers the problem statement and significance of the research in Section 2, the research objectives in Section 3, and the literature review and theoretical background in Section 4. Section 5 presents the methodology and research questions used in this study, while Section 6 provides the study results and discussion. In Section 7 conclusions arising from the results and discussion are summarised followed by emerging policy implications in Section 8. Finally, Section 9 makes suggestions for further research.

Problem Statement and Significance of the Research

2

Despite the role played by MSEs in poverty reduction, there are serious constraints limiting their growth and thus their contribution to poverty reduction. The most important constraints inhibiting the MSEs sector growth have always been non-conducive, non-transparent and complicated legal and regulatory frameworks coupled with bureaucracy. Although these constraints are also faced by large firms, they affect MSEs more. Another constraint MSEs are facing is inadequate markets due to unstable market value chains and reliance on small and localised markets. Purchasing power is low, transport infrastructure poor, and most MSEs have no knowledge of markets beyond their immediate locality. Productivity (including quality) is low, due to a variety of reasons, which include inadequate and outdated technology, low levels of technical and vocational skills, and weak business management capabilities. Competitiveness is therefore low, especially when comparing products imported from neighbouring countries and beyond. Most enterprises lack access to capital that would allow them to address some of these weaknesses.

It is known that most of these constraints could be eased through effective MSEs institutional frameworks. A number of studies have indicated that the business institutional framework for MSEs is crucial for sustainable and rapid growth of MSEs. The institutional framework is critical in view of the strong waves of globalization and against the background that Tanzania's MSEs function in an environment that is non conducive. A great need for transformation is needed in the MSEs sector to protect the poor entrepreneurs from the frequent losses arising from inadequate business management styles.

Currently there are many MSE support institutions providing backing to MSEs. Despite their existence, MSEs in the country continue to weaken, raising questions as to whether the institutions have adequate capacity to support the MSEs. By itself, however, an inadequate institutional framework does not constitute a research problem. The major issue is that previous studies had focused on the identification of the institutional constraints facing MSEs without assessing the capacity of the support institutions and requirements and delivery systems of their services. Studies like one by Wangwe (1999), Lund et al. (2005), and Kimuyu (2002) have investigated the role of the institutions in promoting MSEs, but do not explain why the institutional framework for the promotion of MSEs is poorly integrated, or what constraints the MSE support institutions themselves face. The quality of the institutional framework depends on the capacity of the players within it. It turns out therefore to be important to conduct a critical assessment of the capacity of the existing MSE support institutions so as to understand the factors underlying the dismal performance of the institutional framework for MSEs development. Though the study focuses on the assessment of the MSE institutional framework, some of the causes of the dismal performance of the MSE support institutions could also be found in the demand side. Accordingly, the study was extended to include issues related to MSEs' service needs, awareness and utilisation.

3

Research Objectives

3.1 General objective

The overall objective of the study was to carry out an assessment of the MSEs institutional support focusing on the type and nature of the MSE support institutions, the services they provide, the conditions for assessing the services and their needs. The purpose of the research was to inform policy makers, planners and other stakeholders about the function and need for strong MSE support institutions. Thus to facilitate informed policy decisions, planning and facilitation of MSEs, thereby contributing to poverty reduction.

3.2 Specific objectives

To achieve the overall objective the project pursued the following specific objectives:

- To assess the MSEs' service needs, awareness and usage of services from MSE support institutions;
- To identify and characterise MSEs support institutions from which MSEs can get business support services, including financial institutions, capacity building institutions, market linkages, legal and business planning services;
- To assess the extent to which MSEs support institutions were designing and implementing support services and strategies that responded to the short and long term needs of MSEs;
- To determine the capacity of the MSE support institutions to assist MSEs. Attention was given to financial capacity, information systems, human resources, equipment and other facilities;
- To explore the needs of the MSE support institutions for enhancing their capacities to promote MSEs;
- To propose strategies that will facilitate a link between MSEs and the identified MSEs support institutions. Particular attention will be put on market linkages, micro-financing, technology, training and advisory services.

4.1 Literature review

There is extensive literature on institutions and MSEs. This literature could be grouped into three categories as follows: theoretical issues and concepts on institutions and MSEs; those which try to link institutions and MSEs; and empirical studies. Important literature on theoretical issues and concepts on institutions include, North (1990; 1989) and Aron (2002), who have provided precise definitions of institutions and theoretical justification for institutions in terms of their role in economic growth. Other scholars who have made a substantial contribution to theory and concepts on institutions include, Williamson (2000) who included in the definition of institutions, organisational entities, procedural devices and regulatory frameworks.

Literature that tries to link institutions to economic growth include Johannes J tting (2003), Adebiji et al. (2004), Tolentino (2005) and Rodrik et al. (2002). In most of these articles, institutions are defined in a broader sense, linking various different measures of institutional quality to development outcomes from various angles and disciplines (Johannes J tting, 2003). The link between institutions and development outcomes and how they affect each other has recently become a 'hot topic' in the international debate on development⁴. There is an overall acknowledgement in the literature that implies institutions matter and have a direct impact on ways that they can influence growth⁵. Adebiji et al. (2004) reports that besides an observed direct impact, institutions have an indirect impact on growth and economic development through their role in stimulating an increase in investment, a better management of ethnic diversity and conflicts, better policies and an increase in the social capital stock of a community.

Literature shows that promotion of MSEs, as a way of combating poverty, has gradually emerged as a topic in development policy research probably due to the central role played by small businesses in poverty alleviation. Literature on MSEs shows that considerable differences exist over what constitutes a micro and small business. This results in the terminology being used with different meanings and also depends on the economic context of a country under consideration and frame of reference of the person concerned. There is no precise definition of what constitutes a small business, as the micro and small businesses sector is more heterogeneous and complex than many definitional frameworks allow. Many previous studies have used the number of persons working in the businesses as criteria to determine the size of businesses.

Literature on MSEs shows that the promotion of MSEs is one of the policy strategies for achieving national development goals such as poverty alleviation, economic growth increasing people's participation in economic activities, employment creation and income generation. It also includes strengthening the industrial base and a number of other socio-economic objectives. Tolentino (2005) reports that the potential socio-economic benefits of MSEs are attributed to their capacity to achieve the following: create jobs at low investment cost, contribute significantly to the economy by increasing output of goods and services and improve linkages between economically, socially, and geographically diverse sectors. This will also create opportunities for developing and adapting appropriate technology, provide an excellent breeding ground for entrepreneurial and managerial talent, develop a pool of skilled and semi-skilled workers, act as ancillaries to large-scale enterprises, adapt to market fluctuations and fill market niches which are not profitable for larger enterprises. This in turn will help MSEs lend themselves to development policies favouring decentralisation and rural development and help alleviate the negative consequences of structural adjustment programmes.

⁴ Johannes J tting (2003).

⁵ Adebiji (2004); Rodrik et al. (2002); and Johannes J tting (2003).

Based on the literature review, an enduring paradox in micro and small enterprises (MSEs⁶), literature in Sub Saharan Africa illustrates that despite liberalisation and other economic reforms the institutional framework for SMEs has remained inadequate. A second problem regarding the available literature is that much of it focuses on identification of the institutional constraints facing MSEs without assessing the capacity of the support institutions, requirements and delivery systems for their services. Generally there is a shortage of ideas on why the institutional framework for the promotion of MSEs is poorly coordinated, or what constraints MSE support institutions themselves face.

4.2 Theoretical background

We base our definition of the term 'institutions' on the idea of institutions as 'rules of the game'⁷. Institutions are considered as 'constraints that human beings impose on themselves' (North, 1990). Following this definition, institutions prohibit, permit or require a specific type of behaviour, i.e. political, economic or social behaviours, that are important for reducing transaction costs, for improving information flows and for defining and enforcing property rights. According to North (1990), institutions can be viewed as either sociological, any behavioral regularity; or economic. This also includes the rules of the game in a society, or the devised constraints that shape human interaction. Institutions from development management perspective refer to "a system in which organisational structures and procedures match the tasks, products, people, resources and the contexts it deals with"⁸. Gustafson (1994), Brinkerhoff et al., (1992), and Ahmed (1992) explain that institutions are intimately concerned with the exchange of resources where economic and political relationships intertwine to create varying patterns of implementation network and intervention packages. In view of the notion of institutions, organisations are institutions because they embody rules and regulations, formal or informal, which govern their operations and access to their services. We argue that the government, NGOs, banks, and consulting firms can be viewed upon as facilitating exchanges either in the ex-ante sense, or in the ex-post (i.e., monitoring) role, acting directly or reinforcing the existing stock of social capital. More importantly, one of the theories underpinning this research would be in laying down a unified system where all these organisations will be seen to be capable of being arranged, such that all their services fit an institutional framework for promoting business growth.

The institutional framework within which firms, in this case MSEs, interact with banks, government, NGOs and other service providers, and each other, can have a profound influence on a firms economic performance. Mnenwa and Maliti (2005) report that education, motivation, sources of initial capital and technology are some of the socio-economic factors that have a positive influence on profit margins and employment creation. The potential and ability of small businesses to contribute to poverty reduction objectives are largely vested in the capacity of the MSE support institutions to provide the needed education, incentives and capital. In a relatively poor country like Tanzania, the cost of staying competitive can be enormous. Wangwe (1999) points out that the development of MSEs is constrained by economics, poor infrastructure, poor technology, inadequate finance, an unfavourable legal framework, the impact of HIV/AIDS and inadequate market and social linkages. Metcalfe (1994) and Lall (2001) indicate that in the technological issues two broad rationales are usually advanced for supporting small firm activities through the traditional technology policy methods. The first is the perceived market failure in the labour and technology markets, and the second is the incidence of weak or absent markets and institutions in developing countries. As most analysts agree, there is a pervasive market failure in

⁶ IFAD (2005).

⁷ Williamson (2000), North (1990 and 1997)

⁸ Salahuddin & Nunn E (1993)

developing countries, while widespread institutional inarticulation exerts far greater impact on small, rather than large, producers ⁹.

Oyelaran-Oyeyinka (2004) indicates that institutional weaknesses raise transaction costs, thereby constraining firms from taking the advantage of market opportunities, while market failures limit access to markets and innovation possibilities. Furthermore, the professor indicated that while MSEs development remains central to the economic health of African countries, they lack the economies of scale advantage and the capabilities that are often internalised by large firms. The exposure of African industry to international competition from the 1980s onward further revealed the structural fragility of the region's industrial system. The policy response to the internal resource scarcity of MSEs and competitive pressures had been for the public and private sectors to attempt to develop institutions and services to promote production within small firms ¹⁰.

Various arguments have been presented about the types of support that should be used to develop the MSEs sector. Two basic arguments have emerged i) market forces and; ii) an intervention approach. Cook (2000) indicated that the first argument is based on the position to rely principally on market forces. Underlying this approach is the notion that previous policies pursued in developing countries have led to a bias in favour of the development of larger-scale enterprises. Much of the support that was developed for small-scale industry was of a direct kind and at the micro level (Schmitz and Musyck, 1994) involving forms of managerial and technical support through training, credit provisions and a range of site and service facilities. Later this was replaced by structural adjustment policies aimed directly at removing the so-called market distortions to create a level playing field in which enterprises of all sizes will have equal access to resources. It was argued that a market-based approach would reduce the scope for arbitrary decision-making and lessen the opportunity for privileged access to resources through bribery and patronage.

The second approach has been associated with the structuralist school of thought: this argues pro-actively for the continuance of forms of intervention to assist small enterprise development¹¹. The general difference between the two approaches is not in questioning the importance of the appropriate macro environment for small-scale development, but in the nature of the types of changes that are required to bring about improvements. The infant industry argument underlies the second approach and envisages forms of intervention that are unacceptable to the first. The consensus in the structuralist approach retains the need to improve the overall policy environment for small-scale industry and, in particular, to remove the bias toward large-scale industry¹².

Efforts to support small businesses in developing countries are not new. However, both the reasons and the type of support have changed over time. Cook, (2000) indicates that earlier support mechanisms centred on direct assistance programmes are usually initiated by state or parastatal agencies. However, most of the earlier attempts to shape their institutional environments for small scale enterprises were largely divorced from general industrialisation policies laid down in development plans. In recent decades a more complex picture of the extent, range and underlying rationale for support mechanisms has emerged. Apart from ongoing support to small enterprises, set in place to mitigate the constraining operational environment that has historically developed, those designed to cushion any adverse effects, or conversely, to

⁹ Metcalfe (1994) and Lall (2001).

¹⁰ Oyelaran-Oyeyinka (2004).

¹¹ Dijkstra (1996); Lall (1995).

¹² Liedholm and Mead (1987); Stewart (1990).

reap the benefits of adjustment measures, a newer focus for support is currently being emphasised. Evidence is emerging of a trend towards the development of a multi-layered network of support ranging from government policies to micro-interventions by non-governmental organizations¹³.

Significant market segmentation in underdeveloped countries gives certain categories of enterprises greater access to funds. For instance, large firms are more likely, than small firms, to obtain loans¹⁴. In Africa, micro-enterprises are an integral part of the industrial system, yet they do not count in official statistics, and as such they rank low in priority for state support. Resources for innovative research and development (R & D) and training are not easy to obtain. Capital market and skills market failures, which are more pronounced in poor countries has led governments of such countries to formulate policies to selectively channel funds to smaller enterprises. MSEs in Africa rely largely on their own savings, not only to grow but also to innovate. These firms often need real services support and formal financial assistance, short of which, under-investment in long term capabilities may result¹⁵. Besides finance, there are critical elements lacking within the technology support institutions themselves. These undermine the effectiveness of their support to MSEs, and include: knowledge, skills and experience of staff; capacity and quality of internal facilities; information and knowledge of market; intellectual and managerial leadership; external infrastructure and the incentive system (at the meso and macro levels).

Oyelaran-Oyeyinka (2004) indicates that three forms of institutional support exists and are classified as public, private services and network associations. The last two fall in to the private domain, and differ in their motives and governance structure. Government, or public support could be provided indirectly within a macroeconomic package, as technical assistance in training, and as a finance subsidy. Government support is delivered through technology centers or public research and development institutes (RDIs) with broad mandates to assist SMEs in carrying out innovation. Network associations are voluntary trade and manufacturing organisations supported through membership fees. Service providers from the private sector operate as consulting organisations and deliver these services at a cost. Three forms of services, namely technical, financial, and market/export support seem the most common.

The process of creation and development of enterprises is usually thought of as automatic, and is often taken for granted as long as they yield what is considered as acceptable results, and are seen to be contributing satisfactorily to the attainment of a country's development objectives e.g., employment creation, improvements in standards of living, income distribution, and overall economic growth and development. Tolentino (2005) indicates that the concern about the need for policy, and direct interventions arises when the intensity of the process of enterprise creation and development falls short of expectations, or does not contribute sufficiently to the achievement of particular development objectives. For example, when investments are not being made in the 'right' economic sectors or geographic areas, or when the enterprises being created and developed are not bringing about the desired level of economic participation by a particular target group. When this type of situation arises, specific interventions are called for at project, programme and policy levels to promote and stimulate the process of enterprise creation and development.

¹³ Cook (1996).

¹⁴ Oyelaran-Oyeyinka (1996).

¹⁵ Oyelaran-Oyeyinka and Lal, (2003).

Tolentino (2005) further indicates that support institutions that facilitate starting a business and making its operations efficient and effective are important in enterprise development, particularly for MSEs. There are size-related constraints that affect MSEs access to markets, and inputs that make support institutions particularly important to their creation, survival and growth. These support institutions are not always government agencies. In fact, private sector organisations and enterprises can provide some support services more efficiently. Support institutions providing access to finance for long-term investment in capital goods, and short-term financing for the purchase of raw materials, or other items of working capital are essential for enterprise creation and development. Literature shows that the availability of assistance in the selection and acquisition of technology is a valuable service when investment decisions have to be made when starting a business, or in the case of business upgrading and growth. Management development and productivity upgrading institutions are essential to the continued viability and growth of enterprises.

4.3 Review of empirical studies

Empirical work on institutions and MSEs has shown that institutions are important for business growth in general, and the development of MSEs in particular. A study by Mnenwa and Maliti (2005) shows that small business contributed to poverty alleviation through income generation in form of profits to entrepreneurs, salaries to workers and job creation. According to Mnenwa and Maliti (2005), there is a correlation between firm size and the potential to increase income and employment creation, and that business performance in terms of profit generation and employment creation is positively related to the size of the firm, suggesting that strategies, which promote vertical growth, are more favourable than those favouring horizontal growth. These views are also shared by Aron (2002) who reports that there is a link between the quality of institutions, and investment and growth.

Empirical work have also shown that in many instances institutions are inadequate in supporting MSEs. Studies such as one by Wangwe (1999), Lund et al. (2005), and Kimuyu (2002), Kilindo et al. (2006) investigated the role of institutions in promoting MSEs, and found that the institutional framework for the promotion of MSEs is poorly coordinated. Another important set of studies consists of those which, among other issues, touched on the characterisation of MSEs. While some of micro businesses are one-person operations, in developing countries there tends to be heavy reliance on the family unit (Berger, 1991). Bol (1995) classified non-traditional export firms in terms of the number of workers, and came up with four groups: micro firms (less than ten workers); small firms (ten to fifty workers); medium firms (fifty to five hundred workers); and large firms (more than five hundred workers). KCBS (1999) and JETRO (2000) define micro and small businesses as those with less than 50 employees, while Massawe (2000) suggests that micro and small businesses are those employing less than 30 persons. According to IFAD (2005), micro enterprises are those engaging up to 4 people or employing capital of up to US\$ 5,000 while small enterprises have between 5 and 49 employees or capital of US\$ 5,000 to US\$ 200,000.

The main lesson from these studies is that most of them had focused on the role of institutions. Their link to MSEs growth and constraints with less accent on the capacity of the institutions to support MSEs. In the available literature less has been said regarding the capacity of institutions in promoting MSEs and strategies to improve their capacity.

Methodology and Research Questions

5.1 Analytical framework

The analytical framework to examine the capacity of the MSEs support institutions was adopted, but modified, from the work of Masten (1999). Masten (1999) defined capacity as the process by which individuals, groups, organisations, and institutions develop their abilities, individually and collectively, to perform functions, solve problems and achieve objectives. Important elements of an organisations capacity include financial management, information systems, human resources, facilities and equipment, and monitoring and evaluation systems. The framework differentiates between demand and supply factors that influence the effectiveness of support institutions. The first question the framework answers is whether the MSEs are aware of and need the services that are delivered by the existing MSE support institutions. The second question relates to the services, the conditions, and the capacity of the MSE support institutions to meet the expectations of the MSEs.

5.2 Study area

The study was conducted in Dar es Salaam region, the largest commercial city in the country. According to Mnenwa and Maliti (2005), the city has large number of MSEs and MSE support institutions. Administratively, the region is divided into three districts, Kinondoni, Temeke and Ilala, which are further divided into 52 wards, 32 of which are classified as urban¹⁶. The study areas covered all the three districts of the region.

5.3 Data collection

Data collection was carried out in two rounds. The first round took place between 15th August and 7th September 2006 and covered MSE support institutions. The second round was conducted for MSEs between 25th May and 10th June 2007. Based on the analytical framework, a multifaceted survey design of gathering data on a spectrum of variables was adopted. The research methodology encompassed (a) a desk review of information on MSE support institutions, using data and reports already available: and (b) interviews with the owners and employees of MSEs, and the management of various MSE support institutions in Dar es Salaam. A semi structured questionnaire was used to guide the interviews. Table 1 shows the type and number of respondents for this study.

Table 1: Type and number of MSEs and MSE support institutions interviewed

Type of respondent	Number of respondents
Micro and small enterprises	83
Microfinance institutions	16
Government agencies	14
Government Ministries	4
Commercial banks	5
Private service providers	5
Business associations	4
Local governments	3
NGOs	2
Total	136

¹⁶ Mnenwa and Maliti (2005).

The table shows that 83 MSEs and 53 MSE support institutions were interviewed. The MSE support institutions that were consulted included government institutions (central and local governments), non-governmental organizations (NGOs), private service providers, and donor programmes. In total 136 respondents were interviewed.

The sampling of institutions was made using a purposeful sampling technique, whereby the relevant institutions were identified listed and consulted based on their roles in the institutional support system. The sampling frame for micro and small enterprises was between the micro and small enterprises in Dar es Salaam Region. The business firms were stratified according to category. From each category, a random sampling of micro and small enterprises was done. The sample size was 300, i.e. 100 firms from each district.

Data Analysis

5.3.1 Analysis of the demand for MSE institutional services

The analysis of the demand for support services by MSEs was intended to capture the demand for services that are provided by the MSE support institutions. The issues that were covered in this analysis include the needs of MSEs in Tanzania, and the awareness and utilisation of services from various MSE support institutions. The data on these issues were analyzed using qualitative description, frequencies and cross tabulations.

5.3.2 Analysis of the capacity of MSE support institutions

The capacity of MSE support institutions was the primary theme of the research, and was analysed using descriptive statistics (frequencies and percentages). The analysis of the capacity of MSE support institutions covered the type of MSE support institutions are as follows: the services they provide, the conditions they impose on MSEs, the strategies they use in promoting the services, their capacity and needs assessment.

5.4 Research questions

The following are the major questions that were used to guide the study:

- What are the MSEs service needs, awareness and utilisation of services from MSE support institutions?
- What institutions play which role in supporting MSEs in Dar es Salaam region?
- What services are being provided by the MSEs support institutions to MSEs?
- What are the conditions that have to be met by MSEs to access the services?
- Are the strategies and services provided by MSEs support institutions adequate and relevant?
- Do the MSEs support institutions have adequate capacity to support MSEs?
- What are the needs of the support institutions in enhancing their capacity to promote MSEs?

6

Results and Discussion

The Demand for MSE Support Services

6.1.1 Needs of micro and small enterprises (MSEs)

It is estimated that about a third of the GDP in Tanzania originates from the Small and Medium Enterprise (SME) sector¹⁷. Estimates show that there are approximately 2.7 million enterprises in the country, and that a large majority of these (98%) are MSEs. If all these enterprises were able to access MSE support services, they would constitute a huge demand for the services. Respondents were requested to indicate their need for services. Table 2 demonstrates the needs of MSEs as reported by the respondents.

Table 2: Types of services needed by MSEs and proportions of respondents reporting them

Type of services	No. of respondents	No. of respondents
Government support	83	100
Conducive business environment	82	99
Financial services	81	98
Market services	78	94
Technical skills	41	49
Regulations	40	48
Networking	30	36
Management skills	29	35

The table shows that all (100%) the MSE respondents in the research area felt that they needed government support. Most of them felt that the government should have a role in providing services to MSEs. The kind of support they needed focuses, unsurprisingly, upon tax incentives, loans, guarantees, grants, market information and better regulatory environment conditions. This feeling was further reflected in the results on those who pointed to a conducive business environment as an important need. A conducive environment was indicated by 99% of the MSE respondents. This implies that those who operate the regulatory environment should really understand MSEs and have a positive attitude towards them. At the same time results show that only 48% of the respondents needed regulations. This is a clear indication that most of the regulations in the study area are perhaps considered restrictive to MSEs. Mnenwa and Maliti (2006) argue that frequently noted conflicts between the local government and young business people in various streets of Dar es Salaam are an indication of this concern. While the local governments have no proper plans to support MSEs, the MSE operators usually decide not to observe many of the local government regulations. Mnenwa and Maliti (2005) reports that although regulations such as registration, taxation and licensing might have an influence on profit generation and employment growth, they were not capable by themselves to enable small businesses to increase their performance.

The emphasis upon financial and market service needs was expected, and is remarkable in the light of MSEs impression. Most of the MSE entrepreneurs started their businesses with their own

¹⁷ The International Finance Company (IFC) of the World Bank.

savings, or borrowed money from their family or other members of the team¹⁸. Later we are going to show that most of the firms in the sample were still seeking to expand, with a substantial minority of them looking for loans from banks, microfinance institutions or other similar sources, and that the non-availability of long-term credit at reasonable rates of interest, together with cumbersome application procedures and collateral requirements, were seen to constitute major barriers. Market services were needed by the majority of the respondents. As highlighted in the literature review, most of the MSEs are constrained by an inadequate market for their products arising from high competition from imported goods, a poor infrastructure, the lack of information, and diseconomies of scale.

Technical and management skills were reported, by 49% and 35% of the MSE respondents, respectively, as some of the most important needs for MSEs. The results imply that a minority of MSEs (35%) recognise that they have training needs in management skills such as marketing and financial management. Such generalised skills though important, results show there is no indication of keen demand for such training. Other researches (e.g. Mnenwa and Malit, 2006), however, point to the key to success in business being the experience of the owner and management team, their organisational skills, their ability to build good relationships with customers and clients backed up by the quality of the product and service. A higher proportion (49%) of the MSE respondents, nevertheless, indicated the need for technical skills that would be needed for the improvement of product quality and increased productivity. Other less frequently reported needs by the respondents, but important, include networking among the MSEs, and between them and the MSE support institutions.

It is important to underline here that these results do not necessarily mean that the needs of the MSEs correspond to the importance of the services provided to the MSEs. The results explicitly explain what the MSEs indicated at that particular time with the information they had, and also took into consideration other factors such as operational scale and social capital.

6.1.2 Awareness and usage of MSE support services

All the 83 respondents interviewed during the study responded to this question. According to the results of this study, the MSE entrepreneurs' awareness services provided by various MSE support institutions varied with the type of service. Table 3 summarises the results from a self assessment of the awareness of various services by the respondents. The table demonstrates that financial services from banks, microfinance institutions and government agencies were leading by being known by the entrepreneurs. About 93%, 88% and 92% of the MSE respondents expressed that they knew that banks, microfinance and government agencies, respectively, provide loans and credits to MSEs. It was, however, interesting to find that many of them did not know that banks and microfinance institutions provide training, advisory services and information. Generally the services provided by consultants, NGOs and other similar services providers were hardly known to the MSEs as only between 20% and 39% of the MSE respondents had indicated to know at least one among a range of services provided by MSE support institutions.

Strikingly, it was noted that some of the respondents were not aware that the government and its agencies were responsible for policy coordination, regulations and standards. Only 34% and 24% of the respondents were aware that the government was responsible for policy coordination

¹⁸ Mnenwa and Maliti (2005).

Table 3: Proportion (%) of respondents who were aware of the services provided by MSE support institutions

Services	From Banks	From microfinance institutions	From support services providers**	From the government
Loans and credit	83	88	36	92
Training	20	47	39	37
Advisory services	18	13	20	16
Information	20	10	28	15
Lobbying	-	-	23	13
Trade fairs facilitation	-	-	22	22
Policy coordination	-	-	-	34
Regulations	-	-	-	62
Standards	-	-	-	24

**Non financial support institutions such as consultants, associations, and NGOs.

and administration of standards, respectively, though at least 60% of the respondents were aware that the government was responsible for regulations.

Although most of the respondents were aware of some of the MSE support services very few were accessing the services. To assess the accessibility to the services by MSEs, the MSE respondents were asked to indicate whether they were using the various services from the MSE support institutions. The results from this assessment are presented in Table 4.

Table 4: Proportion (%) of respondents using services provided by MSE support institutions

Services	From Banks	From microfinance institutions	From support services providers	From the government
Loans and credit	18	31	8	5
Training	7	24	21	20
Advisory services	5	24	21	20
Information	3	2	7	5
Lobbying	0	0	2	4
Trade fairs facilitation	0	0	4	6
Policy coordination	0	0	0	26
Regulations	0	0	0	59
Standards	0	0	0	16

**Non financial support institutions such as consultants, associations, and NGOs.

The table shows, for instance, that only 18%, 31%, 8% and 5% of the MSE respondents had received a loan or credit from a bank, microfinance institution, support service providers and government agencies, respectively. The results from this study suggest that the usage of services from MSE support institutions is generally low. However, on a scale, microfinance institutions

were found to be instrumental in service provision to MSEs. With the exception of policy coordination, regulation and standards which are primary roles of the government, Table 4 shows that the MSE respondents who received at least one service from microfinance institutions ranged from 2% to 31% of the MSE respondents, compared to the services from banks, 3% to 18%, and other service providers, (2% to 21%).

A further assessment was made to identify the reasons for the dismal usage of the services provided by MSE support institutions. Table 5 summarises the main reasons that were produced by the respondents for their low usage of the services from banks and microfinance institutions. A larger proportion of the MSE respondents expressed a lack of knowledge of the services as the main reason they were not accessing the services.

Reasons for not accessing loans	From Microfinance	From Banks
Not informed	51	45
Bureaucracy	6	19
High interest rate	11	10
No collateral	5	10
Not in groups	8	0
Never tried	19	17
Total	100	100

About 51% and 45% of the MSE respondents reported that they were not informed of the processes involved in accessing the services from microfinance and banks, respectively. While some MSEs had the impression of bureaucratic procedures in the microfinance institutions (6%) and banks (19%), others thought that banks (10%) and microfinance institutions were charging high interest rates. Other reasons mentioned, though by a few respondents, include lack of collateral and conditions to form groups especially for accessing services from microfinance institutions. Some of the respondents reported that they had never dared to seek for services from these microfinance institutions (19%) and banks (17%) for other reasons they could not tell.

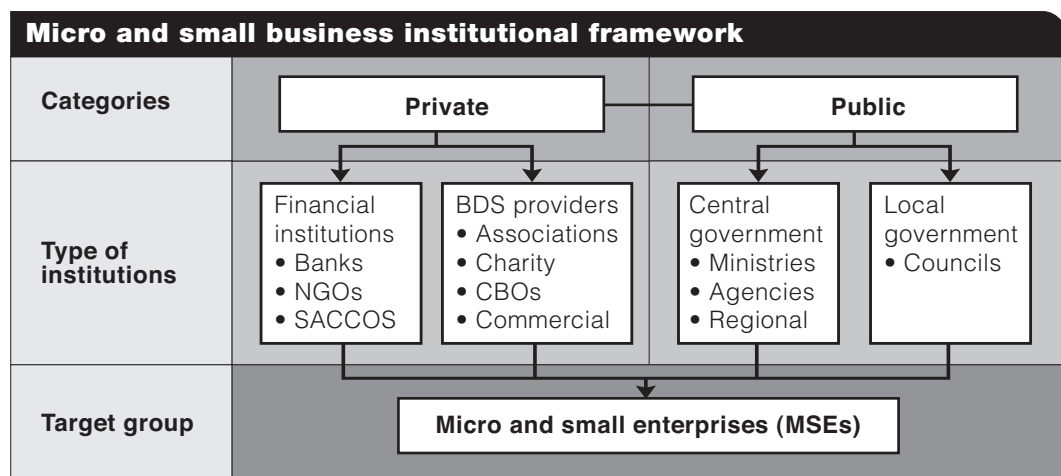
The Supply of MSE Support Services

6.2.1 Type of MSE support institutions

The promotion of MSEs development in Tanzania is carried out by various support institutions in the private and public sectors. An identification and assessment of the MSE support institutions was conducted as part of this research. In view of the assessment, the MSE institutional framework can be summarized as indicated in Figure 1. As indicated in the figure, the MSE institutional framework in Dar es Salaam is composed of public and private institutions.

As expected, central government institutions were found to be the main players in the public sector, perhaps because of their role in setting and enforcing legislation, and regulations. The MSE support institutions in the government included ministries and government agencies. The ministries that are mandated to directly support small businesses include the Ministry of Industry, Trade and Marketing, the Ministry of Community Development, Gender and Children, the Ministry

of Labour, Employment and Youth Development, and the Ministry of Planning, Economy and Empowerment.



It is important to note that these are not the only ministries that are dealing with supporting MSEs. Other ministries such as the Ministry of Agriculture and Food Security, the Ministry of Livestock Development, and the Ministry of Energy and Mineral Resources are also responsible for MSEs development in their respective sectors.

The relevance of these ministries to MSE support services was found to vary according to their functions and responsibilities. Ministries responsible for industries, trade, agriculture and livestock, were found to have direct relevance, while other ministries were found to have indirect but important relevance to MSEs development. The role of government is to set the institutional framework for business environment, the rules of the game, and to ensure that it receives the appropriate incentives to become well functioning and to serve as a catalyst and enabler by intervening to improve access, competence and capability.

It was found that for some specialised duties the government had established a number of agencies (institutions, projects and programmes) that were mandated to execute roles on behalf of the government. These institutions include regulatory bodies such as the Tanzania Revenue Authority (TRA), which is responsible for tax management and collection, the Tanzania Bureau of Standards (TBS), which is responsible for quality control and promotion. Other agencies established included development programmes such as Business Environment Strengthening in Tanzania (BEST), which is concerned with the creation and promotion of the business environment in the country, the Small Industries Development Organisation (SIDO) which is charged with the promotion of small scale industrialisation, the Board of External Trade (BET) and the Board of Internal Trade (BIT), which are responsible for external and internal trade respectively. The main role of the regulatory agencies is to enforce specific laws that govern MSEs, but they can also provide other services such as advisory services, information provision and training.

Local authorities were also found to be an important component of the MSE support institutions in the public sector. The authorities were found to be vital in providing facilitation to small businesses through licensing, allocation of space for business premises, health and quality control, setting rules and regulations, and policy management. The study found that the main

characteristic of the function of the local government authorities was to set local conditions in which MSEs operate, although they are also responsible for enforcement of regulations set by the central government.

As major participants in private sector development, the private sector itself has a unique and powerful role to play. The study found that some private financial institutions such as banks, microfinance institutions and SACCOS, private consultants, business associations such as TCCIA, and other non-governmental organisations had been playing a large role in providing development and advocacy services to MSEs. The private service providers deliver services to MSEs directly, under public private partnership arrangement or through self help arrangements.

6.2.2 Core services delivered by MSE support institutions

The assessment of the services provided by the MSE support institutions was intended to identify the nature and type of services that are delivered to MSEs in Dar es Salaam. In this assessment, only MSE support institutions were interviewed. The respondents were asked to mention and describe the services they were offering to MSEs. The services were then categorised into coordination and policy management, regulatory services, financial services (credit, money transfer, savings), lobbying and advocacy, training services and advisory services. According to the discussions with the respondents the primary objectives of these services was to create an economically stable environment, a stronger MSEs sector, broad based growth, better targeting of resources, and institutional capacity building for MSEs. It was hoped that successful implementation of the services would allow the MSEs to have better access to markets, technology, credit and information.

Table 6 summarises the results of the assessment regarding core services the MSE support institutions were providing to MSEs. The table indicates the types of institutions that reported the services. It was found that almost 100% of the interviewed government ministries and local governments reported policy coordination and management as one of the core activities. These results confirmed that coordination and policy management is mainly the role of the public sector (local government, central government and its agencies). This is further explained by a lack of popularity of these functions among the interviewed institutions. Only 36% of the respondents (mainly the public sector) were involved in coordination and policy. As stated, the government is responsible for setting the institutional framework for the business environment encompassing

Table 6: Percentage of respondents reporting on the type of services offered by various MSEs support institutions in Dar es Salaam

Type of institution	Policy and management	Regulatory	Financial Services	Training and advisory	Lobbying and advocacy
Government ministries	100	0	0	0	0
Local governments	100	100	100	100	67
Government agencies	86	93	36	50	14
Commercial banks	0	0	100	100	0
Microfinance institutions	0	0	88	88	0
Private service providers	0	0	17	100	0
Business associations	0	0	40	80	80
NGOs	0	0	50	100	100
Overall percentage	36	30	58	77	19

the rules of the game, and to ensure that it receives the appropriate incentive to become well functioning. Furthermore, to serve as a catalyst and enabler by intervening to improve access, competence and capability.

Although, from these results one may conclude that the private sector plays a limited role in policy coordination and management, this does not mean that the sector has nothing to do with policy processes. While the private sector may have a limited role in the actual coordination and management of the policy, it is the major implementer of policies, and its involvement in the policy formulation process is critically important for smooth policy implementation. In recent years the private sector, through its private sector organisations, has been constantly preparing policy discussions with the government about various issues. These include, the development of the Private Sector Development Strategy (PSDS), the public expenditure review (PER), the Local Investors' Round Table (LIRT), and dialogues with the National Development Council (NDC).

Regarding regulatory services it was found that that the role of regulation setting and enforcement was exclusively the role of the public sector, particularly the government agencies and local authorities. The regulatory services include setting rules and conditions for business operations, registration, licensing, regulation and permits. Examples of the central government regulatory bodies include TBS, Tanzania Pesticides Research Institute (TPRI).

Financial services i.e. a set of functions carried out by individuals or institutions to facilitate availability of money to entrepreneurs to finance their business activities were mainly found to be the role of the private sector. Table 6 shows that overall, 58% of the respondent institutions provided financial services whereby 100% of the local governments and commercial banks dealt with financial services compared to 88% for the microfinance institutions. Following the ongoing reforms in the financial sector, the private sector has been increasingly taking an active role in the sector. This suggests that the liberalisation of the financial sector has substantially transformed the industry into a relatively diversified, competitive, and vibrant sector. It is important to note that some of the public institutions are also mandated to offer some financial services. These include SIDO, and Local authorities.

The assessment of services has also shown that while the provision of training and advisory services was shared between the private sector and the public sector, the local governments, some government agencies and private sector organisations were the main players in lobbying and advocacy. The major providers of training and advisory services were the private institutions although the public institutions like SIDO, with additional support provided by TIRDO, CAMARTEC, IPI and TBS were also found to deal with such services. Overall, 77% of the respondent institutions were providing training and advisory services, it was further found that 48% and 94% of the public and private support institutions respectively, were engaged in training and advisory services. The training and advisory services that were provided include business training, vocational and business topics such as business management, financial management, accounting, marketing, and personnel management.

On the other hand, within the public sector government agencies, SIDO indicated lobbying and advocacy as their main services provided to MSEs. The private organisations which provided lobbying and advocacy include the Tanzanian Chamber of Commerce, Industry and Agriculture (TCCIA), the Confederation of Tanzanian Industries (CTI), the Tanzania Private Sector Foundation (TPSF) and the Tanzanian Chamber of Mines (TCM). Self-help organisations of

micro-entrepreneurs were also found to be taking over advocacy roles in recent years exemplified by VIBINDO¹⁹.

From the assessment of services delivered to MSEs by the support institutions, a distinction can be made between the services mainly provided by the private sector from those provided by the public sector. The government is primarily responsible for the overall functioning of the support institutions by putting favourable policies in place providing an enabling environment for MSEs and the promotion of institutional changes conducive to the development of the private sector. Currently, the government has redefined its role to that of policy maker, maintenance of law and order, provider of basic social and economic infrastructure and facilitator of economic growth. The government recognises that it has the role to facilitate the private sector and other economic agents to actively and effectively invest in productive and commercial activities in order to accelerate economic growth and development.

In contrast the businesses support services provided by the private sector include financial services, advisory services, business linkages, training and market promotion. Most of the services provided by the private sector are operated on a commercial basis except for those provided by NGOs such as associations, self-help organisations and not for profit private institutions. Some private support institutions provide services on public private partnership arrangements.

The dichotomy between 'roles of the public sector' and 'roles of the private sector' suggests that close attention is needed to the specifics of particular roles to understand how MSEs support institutions, both in the private and public sectors, is providing complementary services to MSEs. Close attention to specifics would greatly assist in identifying and understanding the strategic options and patterns of performance of the MSEs support institutions with particular attention to complementary and supplementary angles existing between these two sectors.

6.2.3 Conditions for service accessibility

Some of the reasons that were raised by MSEs for not accessing MSE support services include the stringent conditions imposed on them (Table 5) such as interest rate payment, collaterals, cost sharing and formation of groups. The interviewed MSE support institutions were asked to indicate the conditions imposed on the MSEs in accessing the services provided by the MSE support institutions. Table 7 summarises the responses showing that most of the institutions imposed some form of condition to the MSEs to access the services. The table shows that only 6% of the respondent institutions did not apply any of the listed conditions. These conditions included collaterals, cost sharing, experience, gender and legal status.

The table shows that conditions related to collateral, cost sharing and business experience were popularly imposed by the financial service providers to small businesses as reported by the majority of the respondents from these institutions. According to MSE support institutions, while collaterals were used as securities for loans provided by the financial institutions, cost sharing acted as an indicator of commitment on the part of MSEs and also it was intended to cultivate a sense of ownership and participation. On the other hand, some of the government agencies

¹⁹ Society, founded in 1995, as an umbrella organisation for self-help initiatives in the Dar es Salaam area. VIBINDO is a genuine response to basic needs that the state does not meet and the individual self-help organisation is not capable of fulfilling alone. It is one of the means by which micro-enterprises attempt to improve the environment where they operate and to support each other in a variety of ways. VIBINDO work covers a number of issues such as influencing the formulation of city development policies and plans; advocating for a participative urban land allocation in strategic business areas; propagating fair issuing of business licences and charging of reasonable levies; etc.

Table 7: Number of respondents reporting conditions imposed to MSEs in accessing services

Type of institution	None	Collateral	Cost Sharing	Experience	Gender	Gender
Government ministries	25	0	0	25	0	25
Local governments	0	100	100	100	0	67
Government agencies	7	29	36	21	29	0
Commercial banks	0	100	100	100	0	100
Microfinance institutions	0	63	44	69	31	50
Private service providers	0	0	83	0	0	0
Business associations	20	0	20	0	0	0
NGOs	0	0	0	0	0	0
Overall percentage	6	42	49	43	17	30

and financial institutions reported to had been using gender as one of the conditions while legal status was an important condition for accessing services from some public and private agencies. From these findings it can be deduced that meeting some collateral conditions such as buildings, farms and vehicles was a particular feature of financial institutions as all of them reported the use of collaterals as one of the important conditions for getting credits and loans, though with differing degree. Most of the financial institutions also required cost sharing in form of equity, business experience and legal status of the business entities. Public institutions offering some financial services such as Municipal councils and SIDO were found to impose conditions similar to those imposed by financial institutions.

While the imposition of conditions for accessing services by MSEs may be inevitable, the proliferation and enhanced stringency of conditions for accessing MSE support services has been a source of concern among many MSEs. In some instances the support institutions impose blanket conditions on both large-scale enterprises and MSEs, thereby becoming stringent to the MSEs. Even if the conditions were not intentionally used to discriminate against MSEs, there is concern that their growing complexity and lack of differentiation between MSEs and large scale enterprises could still impede the accessibility of the MSEs to the services. There is also a concern that many MSEs simply lack the administrative, technical and scientific capacities to meet the conditions, presenting potentially insurmountable barriers in the short or medium-term. And, the costs of meeting the conditions could undermine the competitive position of MSEs or otherwise compress the profitability of the businesses. The combined effects of institutional weaknesses and the lack of necessary resources to meet the conditions, it is argued, contribute to the further marginalization of weaker economic players in MSEs.

Lack of adequate and reliable information on MSEs could be partly responsible for the stringent conditions imposed by the MSE support institutions. The absence of adequate information on MSEs makes it expensive for financial institutions, for instance, to extend loans to MSEs. Without adequate information, lenders such as credit referrals find it difficult to quantify the credit risk and therefore cannot price it correctly. As a result, good and bad borrowers are treated equally.

6.2.4 Strategies and initiatives

Based on the results in Table 5 some MSEs do not access services from MSE support institutions due to a number of reasons including lack of information, bureaucracy and high

interest rates. The respondents from MSE support institutions were requested to outline the strategies that were employed by their institutions to ease some of these constraints and enhance effective delivery of services to MSEs. From the assessment, the MSE support institutions were found to employ various strategies to facilitate effective service delivery to their clients. In Table 8, the various strategies are summarised as reported by the respondents from the support institutions visited during the study.

Table 8: Number of respondents reporting conditions imposed to MSEs in accessing services

Type of institution	Networking	Regulation Enforcement	Co-ops and groups	Experience	Use of supplementing services	Advertising
Government ministries	75	0	0	25	0	25
Local governments	100	100	100	100	0	67
Government agencies	64	29	36	21	29	0
Commercial banks	100	100	100	100	0	100
Microfinance	69	63	44	69	31	50
Private service providers	33	0	83	0	0	0
Business associations	80	0	20	0	0	0
NGOs	100	0	0	0	0	0
Overall percentage	74	42	49	43	17	30

The strategies that were reported include networking, regulation enforcement²⁰, cooperative and group formation, use of supplementary services and advertising. The table shows that among the strategies reported, the use of supplementary services were found to be the most popular strategy employed by the institutions visited. All the respondent institutions employed this strategy. With supplementary services, it means that before the MSEs were able to assimilate services from MSE support institutions some supplementary services had to be provided to prepare them for the adoption of the primary innovations and services. For instance, if a bank wished to provide credit to its clients, preparatory training would be important for clients in financial and business management. In connection to this we refer to the results in Table 3 on MSEs' awareness of the services provided by MSE support institutions, which show that little was known about supplementary services such as training, information and advisory services given by banks and microfinance.

Next to supplementary services, networking was found to be an important strategy that was used by many of the support institutions interviewed, (Table 4). This strategy was employed by 76% of the respondent institutions (public and private). Networking is a system where MSE support institutions can benefit from each others operations. In the promotion of MSEs, various institutions were involved. The institutions included the central government, local government, legal instruments, NGOs, and private service providers. Because of the prohibitive costs of information collection and dissemination as well as capacity considerations, a strategic partnership between MSE support institutions makes a lot of sense. The partnership would allow the support institutions to take advantage of services and information that already existed with the support institutions. For effective service provision these players need to be coordinated and this could be achieved through networking. MSE support institutions could, through the network,

²⁰ This is not always favourable to MSEs as many of the regulations are so binding to them. While regulation enforcement could facilitate exchange, obeying to them is not always costless, even when they are meant to facilitate MSEs.

reach the appropriate institutions that are able to provide the assistance. This could take place through referral from business advisory services which, through a preliminary consultation and diagnosis, would decide who and where suitable help could be available.

Cooperatives and group formation was used as one of the strategies to facilitate accessibility to some of the services provided by the support institutions. Principally, cooperatives and groups can serve as a security in accessing credits from microfinance institutions. Though this strategy was not supported by some MSEs (Table 5), to enhance traceability of the individual owners of MSEs, some support institutions required their customers to form groups that would then act as guaranteeing agencies for their members. Such mechanisms included a group lending system, and SACCOS.

Other strategies that were identified include advertising and regulation enforcement. The strategies were however employed by only a few support institutions. The lack of strong advertising and educational programmes for MSE entrepreneurs could be responsible for the inadequate knowledge of some the MSE respondents about the services provided by MSE support institutions. While regulation enforcement was exclusively employed mainly by government agencies, some private and government financial institutions used advertisements to attract customers.

6.2.5 The capacity of the MSE support institutions

A self assessment of the capacity of the MSE support institutions to provide effective services to their clients was conducted. Through a multi-criteria participatory process the respondents were requested to indicate on a scale their assessment of the ability of their institutions regarding financial capacity, information systems, human resources, equipment and facilities. In each of these, some criteria was used as the basis for judgement. In the finance area, the criteria was budgeting procedures, accounting systems, financial control, audits, and a resource base. In relation to the information system, besides the level of technology employed, the criteria included the type and use of data for management decision making. Human resources were evaluated on the basis of staff qualifications, unfilled positions, work planning, performance, salary administration, communications and diversity. Equipment and facilities were evaluated based on adequacy, capacities, condition and capacity utilisation. Table 9 summarizes the responses. The table shows that only 47% of the respondent institutions had strong and very strong financial capacity. This implies that budgets in more than 50% of the respondent institutions were not sufficient to operate the programs at desired levels. Regarding human resources, 58% of the respondent institutions interviewed reported to had been strong or very strong, suggesting that more than 40% of the institutions experienced some deficiencies in this area. The respondent institutions pointed out that in order to create an appropriate organisational culture, the agencies would need to either hire new staff or re-orient existing staff to serve MSEs.

Most of the interviewed support institutions, (70%) felt that they had appropriate MIS systems that could be customised in order to serve MSEs. However, the respondents expressed the need to improve the systems so as to have a management information system (MIS) that can track client performance on a real time basis. They identified this as critical for viable MSEs support agency operations, considering the need for effective follow-up on services delivered. The present MIS in many institutions is not able to track, monitor and analyse the performance of MSEs receiving services from the support institutions. MIS needed should be able to handle accounting and service monitoring and have the ability to produce services reports.

Table 9: Number of respondents judging their institutions as being strong or very strong in various aspects

Type of institution	Financial Capacity	Human Resource	Information System	Equipment and Facilities
Government ministries	50	75	50	25
Local governments	0	100	67	0
Government agencies	57	57	64	50
Commercial banks	100	100	100	100
Microfinance institutions	44	31	81	44
Private service providers	17	83	50	33
Business associations	40	40	60	20
NGOs	0	0	0	0
Overall percentage	47	58	70	43

6.2.6 The MSE support institutions needs assessment

A needs assessment was conducted for the MSE support institutions. The respondent institutions were requested to indicate their needs required for improved service delivery. The MSEs support institutions needed effective internal structure (staff, financial equipment and facilities). On the other hand, the effective delivery of services depends on environment external to agencies such as government support, trustworthiness of MSEs, entrepreneurial attitudes of MSEs, and cost sharing. Results of the needs assessment are shown in Tables 10 and 11. Looking Table 10, transport and promotion facilities appear to be one set of the important needs as these were highlighted as critical for improved services to MSEs. For efficient service support institutions needed transport facilities such as vehicles and also promotion facilities such as office accommodation, show rooms and posters.

Table 10: Number of respondents indicating the primary needs

Type of institution	Computer and related equipment	Staff Development	Finance	Promotion Facilities	Transport
Government ministries	50	50	100	50	50
Local governments	100	100	100	100	100
Government agencies	21	43	36	43	50
Commercial banks	0	100	0	100	100
Microfinance institutions	63	81	69	88	81
Private service providers	33	50	33	67	67
Business associations	80	80	80	80	80
NGOs	100	100	100	100	100
Overall percentage	49	72	58	75	75

The need for transport, and promotion facilities were highlighted by 75% of the interviewed MSE support institutions. These needs were found to be critical for both the support institutions in the private and public sectors.

The table also highlights qualified staff as one of the most important needs. Most of the support institutions reported that they had unfilled positions and were experiencing difficulty in motivating and retaining staff due to inadequate incentive packages. More than 70% of the support institutions interviewed expressed the need for staff development, and this need cut across all

the agencies in the MSEs support institutions. Staff in all of the support institutions needed additional skills training.

Inadequate budget for the implementation of service delivery was the concern of many MSEs support institutions in Dar es Salaam. This concern was expressed by more than 50% of the respondents (Table 10). Financial resources were needed to finance purchases of computers, transport services and other promotion materials and acquisition of office accommodation. More importantly financial resources were needed by many agencies to finance service delivery activities. The need for computers and related facilities was expressed by 49%. These facilities were needed for improvement of management and information system.

Table 11 indicates that entrepreneurship talented MSEs are the most important requirement for MSE support institutions to be effective in their service delivery. In most cases the support institutions would prefer to deal with MSEs that can organise, manage and assume the risk of a business or enterprise. Such MSEs would be able to perform in their businesses and recover the costs of services given to them. The table shows that support from the government was another important need. The kind of support that is sought from the government included policy support, information provision and the sensitisation of the society to use the services provided by the MSEs support institutions.

In relation to entrepreneurship the MSE support institutions needed trust-worthy entrepreneurs. While, for instance, loan repayments could be a function of business performance, some MSEs could just attempt to disappear with loans or loans could be used in businesses that it was not intended for. These factors have been the main causes of the widely reported low loan repayment.

Table 11: Number of respondents indicating needs external to agencies

Type of institution	Entrepreneurial Attitudes of MSEs	Govt support for MSEs development	Trust worth among MSEs	Cost sharing with MSEs
Government ministries	75	0	50	25
Local governments	100	100	100	100
Government agencies	57	71	29	43
Commercial banks	100	100	100	0
Microfinance institutions	94	75	81	44
Private service providers	67	50	33	67
Business associations	80	80	80	80
NGOs	100	100	50	100
% of respondents	83	74	64	51

Cost sharing was mentioned by more than 51% of the respondent institutions as an important need for MSE support institutions. In most cases resources are scarce and needs from MSEs are many. The support institutions usually ask their beneficiaries to also contribute to businesses to allow for a wider coverage of MSEs. Cost sharing is also used as an indication of commitment from the MSEs to their businesses.

The intension of this study was to assess the institutional framework for promoting MSEs. From the analysis of MSEs demand for support services and the institutional framework for supporting MSEs. The following conclusions were drawn:

- There is a high potential demand for support services from MSEs. However although many MSEs seem to be aware of the services provided by MSE support institutions, some constraints were hampering them from accessing the support services. These included a lack of information and stringent conditions imposed on them from the support institutions.
- The MSE institutions framework in Dar es Salaam consists of both the public and private sector support institutions. The public support institutions include government ministries, local authorities and government agencies. The MSE private support institutions include commercial banks, microfinance institutions, private service providers, NGOs and associations.
- A distinction can be made between the services mainly provided by the private sector and from those provided by the public sector. The government is responsible for the overall functioning of the support institutions and focuses on policy coordination and regulation enforcement. In contrast the support services provided by the private sector include financial services, advisory services, business linkages, training and market promotion. Most of the services provided by the private sector support institutions were operated on a commercial basis except for those provided by NGOs such as associations, self-help organisations and not for profit private agencies. Some private support institutions provided services on public private partnership arrangements.
- The MSE support institutions imposed some conditions to MSEs obtaining services from them. While this is inevitable, the proliferation and enhanced stringency of conditions for accessing MSEs support services has been a source of concern among many of them in view of blanket conditions. MSEs also lack the administrative, technical and scientific capacities to meet the conditions and the costs of meeting the conditions could undermine competition.
- Most of the MSE support institutions perceived their capacity in terms of financing and human resources as inadequate. Although many perceived their MSIs as adequate they highlighted the need to improve the systems.
- The MSE support institutions were found to have both primary and secondary needs. The institutions primary needs included computers and related equipment, staff development finance, promotion facilities and transport facilities for the internal performance of the agencies. It also included staff, financial equipment and general facilities. Secondary needs were identified as being government support, trustworthiness of MSEs, entrepreneurial attitudes of MSEs, and cost sharing for strengthening their position in service delivery.

8

Emerging Policy Implications

Based on the findings and conclusions from this study, a number of policy implications have emerged. The first relates to the need to strengthen the collaboration between the public and private support institutions for effective delivery of support services to the MSEs. The government is responsible for the overall functioning of the support institutions by putting favourable policies in place, providing an enabling environment for MSEs and promoting institutional changes conducive to the development of the private sector. The private sector delivers the actual services such as financial and advisory services, business linkages, training, and market promotion. For effectiveness, the public sector ought to work with the private sector institutions while the operations of the private sector ought to be in accordance to the policies and procedures set by the public sector. More importantly both sectors could work together under public private partnership arrangements.

The second implication relates to the need to encourage the establishment of an information system that will inform the MSE support institutions of potential and existing MSEs. It could also inform the MSEs of the potential and existing support institutions. The absence of an information system in Tanzania causes a high level of information asymmetries, thereby causing inefficiencies in the system in terms of pricing of the services and condition setting. Establishment of referral and credit bureaus are proposed to facilitate information availability to both the MSEs and their support institutions. The proposed referral and credit bureaus could include information and value added services such as credit scoring to facilitate better access to finance and other services for MSEs.

The third implication relates to the need to support the MSE support institutions themselves. In this respect fiscal incentives could be considered. It is proposed that the resources used by the support institutions could be relieved of taxation, at least, partially.

The fourth policy issue relates to the need to develop social entrepreneurship in the country. The general lack of entrepreneurial culture in the country accounts for much of the poverty we see now. An urgent move from a culture that undervalues entrepreneurship to one that highly values it, would however involve shifts in attitudes, expectations and perceptions among people of all ages. A cultural revolution is needed and MSE support institutions could be encouraged to support social entrepreneurship development.

This research paper examined the institutional framework for supporting MSEs. One of the important issues that was raised by the study is the need to develop social entrepreneurship in the country. The study shows that one of the needs of the MSE support institutions was to work with MSEs owned by persons with entrepreneurial talents who can innovate and run businesses efficiently. As we are increasingly moving towards economic integration through the East African Community (EAC), the Southern Africa Development Community (SADC), the need to develop entrepreneurship becomes a critical strategic option. However, the move from a culture that undervalues entrepreneurship to one that does, would involve shifts in attitudes, expectations and perceptions among people of all ages. Future research is needed to investigate the critical determinants of entrepreneurship in Tanzania. Currently, there is also no reliable and current data on entrepreneurship development. In view of this, there is a need for a baseline survey that will provide accurate and formative data on entrepreneurship development.

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