

Environmental Constraints on Small Enterprises in Tanzania: A Case Study of the Retail Electrical, Retail Clothing, and Travel Industries in Dar Es Salaam

Victor Egan, Curtin University of Technology, Australia
V.Egan@curtin.edu.au

Small enterprises (SEs) have long been touted as a driving force for economic development by way of entrepreneurial innovation, and the employment opportunities created. In this context, the efficiency of the SE sector should be of paramount concern to governments, particularly those with the responsibility of delivering economic growth and improved living conditions to the citizens of less developed countries. This paper presents the results of a study which sought to determine the primary constraints to efficiency and profitability for SEs in Tanzania. More specifically, the study focused on the retail electrical, retail clothing, and travel industries in Dar es Salaam, as representative of a microcosm of the business environment. The results indicate that a number of constraints to performance were common. These include erratic and costly electricity, lack of infrastructure, lack of human resources, and competitive practices that were dysfunctionally imitative rather than innovative.

INTRODUCTION

The development of an efficient private sector in Sub-Saharan Africa is of critical importance in the quest to deliver sustainable economic growth and rising living standards in the region (Ramachandran & Shah 1999). In support of an efficient private sector, there are many factors that influence sustained economic growth, including geography, education, access to land and finance, and infrastructure (Bleaney & Nishiyama 2002). In addition, entrepreneurial activity and effective small enterprises (SEs) has often been proffered as an important mechanism to promote employment, productivity, and innovation, and hence, progress the economic development of a country (Daniels & Mead 1998; Djankov et al. 2008; Klapper & Delgado 2007; Spencer & Gomez 2004; Steel et al. 1997; van Praag & Versloot 2007). However, many constraints to SEs remain in much of Sub-Saharan Africa. These constraints include unfair competition from the informal sector, poor access to land and infrastructure, lack of access to finance and requirements for collateral, low productivity of human resources, inequality in tax administration, and corruption (Arbache & Page 2007; Enterprise surveys 2008; Kellow 2007; Kuzilwa 2005; Nyikuli 1999; Sender et al. 2005; Trulsson 2002; UNCTAD 2007).

This paper will explore the constraints to the effective operation of SEs in Tanzania, with a specific focus on the retail electrical, retail clothing, and travel industries in Dar es Salaam, as representative of a microcosm of the business environment. The paper will begin by briefly reviewing the economic development of Tanzania. The paper will then outline the connection between SEs and economic development, before proffering the methodology, results, and conclusions of the study.

ECONOMIC DEVELOPMENT IN TANZANIA

Tanzania is a country located in East Africa, in the Sub-Saharan region of the African continent. Historically, German East Africa was colonised in 1880. At that time, the German possession was in two parts; Tanganyika and Zanzibar Island. Following the military defeat of Germany in 1918, both parts were ceded to Britain. Tanganyika gained its independence in 1961. In 1963, Zanzibar became independent, and in 1964, the Republic of Tanzania was formed by the union of Tanganyika and Zanzibar Island (Reader 1998). From 1967 to 1991, Tanzania entered a prolonged period of socialism, in which the government of Julius Nyerere Africanised, indigenised, and nationalised the economy by the creation of a parastatal industrial sector (Hewitt 1999; Meredith 2005). Since 1991, Tanzania has been transformed

from a centrally planned/command economy to a market-oriented system through trade liberalisation measures. The government has taken considerable steps to encourage private sector led growth through restoration of market forces, and less interference in commercial activities (Strategies to eradicate poverty 2008).

However, developmental problems persist. For example, Tanzania still suffers the hangover of the socialist period in three ways; firstly, corruption remains rampant (Index of economic freedom – Tanzania 2008; Mfaume and Leonard 2004); secondly, mistrust of government and government instrumentalities permeates society (Hyden 2001); and thirdly, the private sector has essentially had to be invented almost from scratch (Hewitt 1999). Furthermore, the structure of the Tanzanian economy reveals a heavy dependence on agriculture and natural resources (Industrial sector performance in Tanzania 2007; Trade point: Economy 2008).

According to Ministry of Natural Resources and Tourism, tourism became the fastest growing industry in Tanzania in the 1990s (National Tourism Policy 1999). Foreign earnings from tourism increased from US\$20m in 1986 to US\$824m in 2005. Indeed, the annual growth rate of tourism since 1985 has been over 30 percent (Tourism Statistics 2008). However, the tourism industry in Tanzania is constrained by poor infrastructure. Inadequacies exist in accommodation facilities, communication infrastructure, air and road transport, and the security of water and power supplies (National Tourism Policy 1999).

SMALL ENTERPRISES AND ECONOMIC DEVELOPMENT

Schumpeter (1934) was perhaps the first to link economic development to small business by suggesting that development is rooted in innovation. He perceived the entrepreneur (rather than the capitalist) as the linchpin of economic growth, and the role of government to support the innovative activities of the entrepreneurs. Porter (1990) later argued that domestic demand and domestic rivalry at the small business level ultimately leads to competitive clustering, consolidation, and stimulation for international competitive advantage.

In Sub-Saharan Africa, 80 percent of firms are small (IFC 2006), so it is obviously not merely the proliferation of small businesses that creates economic growth. To this end, Spencer and Gomez (2004) confirmed a negative relationship between per capita GDP and the percentage of small firms in a country. It would appear that the proliferation of small business is a characteristic of less developed countries that lack the economies of scale provided by a considerable large firm sector. In addition, the general marginal profitability of small businesses in Africa means that employees are most often paid very low wages, which, while alleviating absolute poverty, contributes to low productivity and poverty stricken households. Indeed, there appears to be a number of enabling conditions that must be present before the small business sector can contribute to the economic development of a country.

METHODOLOGY

Following the definition provided by the Small and Medium Enterprise Development Policy (2003) of the Tanzanian government, SEs are defined as those that employ >4 and <50 people. Qualitative data were collected by interviewing 10 proprietors in each of three industries (i.e., a total of 30 proprietors); namely, retail electrical, retail clothing, and travel agencies. All businesses were located in the capital city, Dar es Salaam. The respondents were interviewed in the English language using a semi-structured questionnaire. The interview questions focused on the main expense items for the business, and the problems most affecting business operations, profitability, and growth.

Table 1: Demographics of Respondent Firms

Industry	No. Employees		Sales per year (USD)	
	Min	Max	Min	Max
Electrical retailers	5	48	\$30,000	\$1,500,000
Clothing retailers	10	25	\$8,000	\$40,000
Travel agencies	6	16	\$300,000	\$960,000

Travel Agents

The number of employees ranged from 6 to 16; 50 percent of the SEs employed family members, 100 percent employed non-family, and 100 percent of management were family members. The sales per annum generated by travel agents surveyed ranged between US\$300,000 to US\$960,000. Gross margin ranged from US\$60,000 to US\$240,000.

Electrical Retailers

The retail electrical SEs were selling computer hardware and software, and peripheral equipment. The number of employees varied between 5 and 48; 70 percent of the SEs employed family members, and 80 percent employed non-family. The sales per annum generated by the electrical retailers surveyed ranged between US\$30,000 to US\$1,500,000.

Clothing Retailers

The retail clothing SEs were selling both clothes and shoes. The study sample was focused on the Mlimani City shopping mall in the Kinondoni District of Dar es Salaam. The number of employees varied between 10 and 25; 70 percent of the SEs employed family members, and 100 percent employed non-family. The sales per annum generated by the electrical retailers surveyed ranged between US\$8,000 to US\$40,000.

RESULTS

Travel Agents

The travel respondents reported that their major business expenses were (in order, highest first) telephone and electricity (36-45 percent), transport (23-43 percent), salaries (20-31 percent), and rent (8-15%). In terms of problematic issues that impact on the business, respondents mentioned costly and erratic electricity supply, currency fluctuations, and telephone connection. Frequent power outages forced travel agents to use standby generators, hence, increasing operating costs. In addition, respondents offered a lack of qualified staff, poor parking facilities, and poor airport service as inhibiting factors. They noted that the increasing use of e-ticketing, and other services on the internet, has become problematic since income is mainly generated from commissions. A number of respondents indicated that weather is an obstacle to their business success. For example, during the rainy season (i.e., March-May) many roads to the tourist sites become impassable. The respondents commented that they had many cases of tourists becoming stuck while transiting from one site to another. The travel agents also indicated that it is often difficult for tour guides to locate animals in the national parks during the hot season (i.e., December-March), since at this time, the animals seek refuge in the cooler undergrowth. Lastly, the travel agent respondents lamented the proliferation of unlicensed operators. They referred to these informal operators as ‘flycatchers’.

Electrical Retailers

The electrical retailers reported that their major business expenses are (in order, highest first) salaries, telephone and electricity, transport, and rent (8-18 percent). The respondents reported no common problems that were the same for all proprietors; rather each had their own particular issue that appeared to

bother him or her most. However, there were three issues which were mentioned more often than others; erratic electricity supply, high government taxes, and counterfeit products.

Clothing Retailers

The clothing retailers reported that their most significant business expenses are (in order, highest first) salaries, telephone and electricity, transport, and rent (10-20%). The most common problem for retail clothing SEs was reported to be lack of access to capital. In addition, the respondents reported that interest rates were high, even if they did have access to finance. The respondents were quite critical about the competence of their employees, as well as the incidence of theft by employees. However, the proprietors likely contribute to their own problem. They tend to employ those with a low level of education, since this means reduced salary expenses. But, surreptitiously, the low education/low wage workers perform poorly, make adverse deals with customers, and steal. Another impact of low level of education rests with the proprietors themselves. Lack of education creates management difficulties. The generally high level of theft means that any sense of trust outside of the extended family is lost. Hence, the common use of extended family members in Tanzanian SEs (Trulsson 1997). Diseases are a major factor which continues to affect the economic development of Tanzania, and the most significant is malaria. The retail clothing proprietors were unanimous in indicating that malaria impacts on the profitability of their businesses. For businesses with 5 to 20 employees, on average one employee is absent everyday because of malaria (Industrial sector performance in Tanzania 2007). This unfortunate statistic impacts heavily on SE productivity at the micro level, as well as on the economic development of Tanzania at the macro level.

Table 2 summarises the most significant expenses for the three industries that were at the centre of this study. The same four issues are evident in all three industries; it is merely the order that changes. In the case of retailing, salaries take the primary position as the most significant expense, whereas in the travel industry telephone and electricity costs are most significant.

Table 2: Most Significant Expenses for SEs

Retail Electrical	Retail Clothing	Travel Agents
Salaries	Salaries	Telephone/electricity
Telephone/electricity	Telephone/electricity	Transport
Transport	Transport	Salaries
Rent	Rent	Rent

Table 3 summarises the most significant problems for the three industries. Of primary concern to all is the cost of electricity and its erratic supply. The lack of infrastructure is also prominent in the form of airport facilities, as is the weak capacity of human resources. Dysfunctional competition is also evident in the form of ‘flycatchers’ in the travel industry, and the purveyors of counterfeit products in retail electrical.

Table 3: Most Significant Problems for SEs

Retail Electrical	Retail Clothing	Travel Agents
Electricity supply	Access to finance	Electricity supply
Government taxes	Human resources	Currency fluctuations
Counterfeit products	Malaria	Telephone connection
		Human resources
		Airport infrastructure
		Climate
		Informal competition

DISCUSSION AND CONCLUSIONS

Small enterprises (SEs) in Dar es Salaam in the retail electrical, retail clothing, and travel industries were studied as a microcosm of the general business environment in Tanzania. The results indicate that the cost of electricity and the incidence of power outages are the major concerns for business proprietors across all industrial sectors. This finding is consistent with a 2006 survey which found that, on average, there were 11.42 power outages per month, each with an outage duration of 7.88 hours (Enterprise surveys 2008)

Poor infrastructure was reported as a substantial inhibiting factor for effective firm operation and growth. This arises in the form of electricity, telephone connection, and airport infrastructure. Consistent with other studies (see, for example, Dowswell et al. 1996; Sender et al. 2005), low labour productivity is also highlighted. The low level of education of employees leads to a need for close supervision in terms of both decision making and theft. A vicious circle would appear to be perpetuated as business proprietors seek low wage employees to the detriment of productivity and social capital (Hyden 2001). Alternatively, SE proprietors often seek technology as a substitute for an unreliable and unproductive workforce (Chowdhury 2006; Trulsson 1997).

Consistent with previous studies (see, for example, Enterprise surveys 2008; Kellow 2007; Kristiansen et al. 2005; Kuzilwa 2005; Trulsson 2002; UNCTAD 2007), this study found a number of constraints on small enterprises in Tanzania. These constraints include an erratic and costly electricity supply, lowly educated workforce, lack of business skills, lack of access to finance, and dysfunctional competitive practices in the form of informal sector competition and counterfeit products. These issues continue to create an impediment to formal sector entrepreneurial activity, and the economic growth of the country.

As Kristiansen et al. (2005, p.367) noted of developing countries, the unemployed are attracted to an industry and location by perceptions of the business success of others. Travel agent and electrical retailer respondents to the present study suggested that this was certainly the case in Tanzania. Lack of education and capital, prohibit individuals from engaging in industries with higher entry barriers, and hence, results in dysfunctional competitive practices. Consequently, in Tanzania, imitative businesses predominate over innovative entrepreneurial activity, and contribute to the shared poverty of the country. While small business is often touted as the mechanism to raise a country from the “poverty trap” (Sachs 2005, p.19), in reality, poverty produces a vicious circle that envelops both consumers and suppliers, each securing the poverty of the other. Meanwhile, governments promote the vicious circle by failing to provide an enabling environment that can circumvent obstacles to firm growth and operation (Ayyagari et al. 2003).

The World Bank (1993, p.26) was right in suggesting that the quality of government was the major contributor to economic development by way of the “pragmatic adherence to the fundamentals”.

However, the role of government is far more complex than merely adhering to a set of ‘fundamentals’. The internal entrepreneurial activities of a society, and the external economic pressures of global commerce, weave a complex web of fundamentals and enabling conditions that must all be balanced to achieve economic prosperity for citizens (Burnside & Dollar 2000). The present study has shown that the Tanzanian government faces a substantial challenge to provide the sort of investments in infrastructure and human resources that will be conducive to economic development in the coming years.

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