



MINISTRY OF TRADE AND INDUSTRY

National Baseline Survey Report

Micro **S**mall & **M**edium **E**nterprises in Tanzania

December 2012



**National Baseline Survey Report
for
Micro, Small, and Medium Enterprises
in Tanzania**

December 2012

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Foreword

Over the past two decades, Tanzania has witnessed the growing trend of Tanzanians engagement in the Micro, Small, and Medium Enterprises (MSMEs) sector. This triggered the government to establish the status of this sector so as to position her efforts in supporting it. To achieve this goal, the Ministry of Industry and Trade collaborated with the Financial Sector Deepening Trust (FSDT) to conduct the MSMEs baseline survey countrywide in 2010. The objectives of the survey were to establish the size and structure of the MSME segment in Tanzania's economy; estimate the contribution of said enterprises to the national economy in terms of income and employment; identify the constraints and opportunities faced by MSMEs; profile their demand for financial and business development services; segment MSMEs in ways practical for the design of appropriate interventions and services; and develop new segmentation approaches that allow better understanding of the needs and dynamics of the sector.

I am pleased to present the National Baseline Survey Report for Micro, Small, and Medium Enterprises, published in December 2012. The report highlights the results of the first comprehensive, representative national baseline survey of MSMEs in Tanzania, and underscores the significance of this sector to Tanzania's economy. This document offers guidance and practical applications to help address recent changes in the MSME sector in Tanzania. As such, this survey report represents a great resource for enhancing the development of the MSME sector and its contribution to the national economy. It is my sincere hope that partners, researchers, and other interested in MSME sector development in Tanzania will find this survey report useful in their activities.

In general, the report specifies that there are more than 3 million small businesses in Tanzania, most of which are engaged in trade and service sectors. The manufacturing sector, which is a core driving force for industrial development, accounts for only 13.6%. Another distinctive feature of the sector is a huge number of informal operations. This situation suggests that there is a lot to be done in the sector to make it vibrant contributor to the economic and social wellbeing of Tanzanians. However, it is encouraging to note that women participation in the sector is 54.3%. This in itself testifies the ability of the sector in narrowing the women exclusion gap in the economic activities. I commend to all stakeholders who pioneer women development to designate a particular attention on this sector. The Ministry's doors are open for cooperation and deliberations.

Finally, it is important to acknowledge that this report is a collaborative achievement of many people and I would like to express my sincere appreciation to all those who have made this survey a possibility. In particular, this report is only possible because of the financial support from the World Bank; Steering Committee Members, for playing advisory roles and giving guidance; Eastern Africa Statistical Training Centre, for conducting a relevant database management course; the technical support of National Bureau of Statistics and the project advisers. The collective guidance, hard work, time, dedication, of the staff of the Ministry of Industry and Trade and the Financial Sector Deepening Trust for their effort ensured the success of this report. I am also indebted to Synovate Ltd for hard work and dedication in collecting and processing data of this report.



Hon. Dr. Abdallah O. Kigoda (MP)

Minister for Industry and Trade

December, 2012

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Many persons contributed to the eventual success of the MSME baseline survey and it would require a long list of names to thank everybody individually for his/her contribution. Nevertheless, FSDT and MIT would like to specifically thank members of the Steering Committee: Desystant Massawe (MIT), Consolatha Ishebabi (MIT), Joyce Meru (MIT), Patricia Mwangi (FSDT), Ahmed Makbel (NBS), Bob Currin (Consultant), Ralph Engelmann (Consultant), and Charles Obote (Project Manager). We would also like to thank Peninah Mukiri and Edward Ihaji from Synovate Ltd.

Abbreviations

BDS	Business Development Services
BRELA	Business Registrations and Licensing Agency
BSM	Business Sophistication Model
EA	Enumeration Area
EAP	Economically Active Population
FSDT	Financial Sector Deepening Trust
GDP	Gross Domestic Product
HBS	Household Budget Survey
ILO	International Labour Organization
ISIC	International Standard for Industrial Classification
MIT	Ministry of Industry and Trade
MKUKUTA	National Strategy for Growth and Reduction of Poverty (abbreviation in Kiswahili)
MSME	Micro, Small, and Medium Enterprises
NBS	National Bureau of Statistics
ROSCA	Rotating Savings and Credit Associations
TIN	Tax Identification Number
VICOBA	Village Community Banks
VSLA	Village Saving and Loan Association

Executive Summary

This report of the first nationally representative baseline survey of micro, small, and medium enterprises (MSMEs) in Tanzania includes a discussion of the survey design and development, an exposition of the data collected from owners of both currently operating and recently closed enterprises, an estimate of the contribution of MSMEs to Tanzania's GDP, and an example of the use of the data for segmentation and more detailed characterization of MSMEs.

- The specific objectives of the survey were to: Establish the size and structure of the small business segment in the Tanzanian economy.
- Estimate the contribution of small businesses to the national economy in terms of income and employment.
- Identify constraints and opportunities of the small business segment.
- Quantify the demand for financial and business development services.
- Profile this demand and segment small businesses in ways practical for the design of appropriate interventions and services.
- Develop new segmentation approaches that allow better understanding of the needs and dynamics of small business.

The data of the MSME survey were collected during interviews with 6,134 small business owners identified in a three-step sampling process:

- In the first step, a sample of 640 representative enumeration areas was selected. A complete listing of all households was carried out to identify households that currently owned and ran small businesses or had recently closed businesses.
- About 9 to 12 households with currently operating businesses (and 2 to 3 households with closed businesses) were then selected in a second step.
- If more than one member in a selected household owned and ran a small business, a Kish Grid was applied to select the interviewee.

Three questionnaires were applied in the MSME survey:

- A simple questionnaire for the household listing.
- A main questionnaire with 192 questions on 20 topics, asked of owners of currently operating enterprises.
- A special questionnaire with 21 questions asked of owners of closed enterprises.

During the time of the survey in September 2010, about 2,754,697 individuals in Tanzania owned and ran 3,162,886 small businesses. About 54.3% of small business owners were female. Their primary and secondary education was slightly higher than in the general population, while their vocational education was about the same. For about 83% of small business owners, the primary motivation for starting a business was to provide support to their families.

Of the more than 3 million small businesses, about 1,758,896 were in the trade sector; 964,235 were in the services sector; 430,381 were in the manufacturing sector; and about 17,364 were in other sectors. About 466,049 small businesses were located in Dar es Salaam; about 935,256 were in other urban centers; and about 1,675,385 were in rural areas. Only about 2.9% of all small

businesses had five or more employees; 66.1% were one-person businesses; and 31.0% had two to four employees. Only 3.9% of all small businesses were formally registered under the Business Registrations and Licensing Agency (BRELA); of those unregistered, 96.4% were micro businesses, and 84.4% were classified as small businesses. Only 44.7% of small business owners reported that they kept financial records.

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

Small business owners had moderate financial literacy. About 10.6% of small business owners had access to formal financial services providers; about 10.9% to semi-formal providers; 12.1% to informal providers; and 66.4% were excluded from access to financial services. Most small business owners who had a bank account had a savings account and ATM or debit cards. Small business owners did not apply for credit and loans in anticipation of refusal although the actual refusal rate was not very high. Most MSMEs of all levels of access saved for business in different ways. Although MSME owners were aware of various business risks, only about 4.4% had ever bought an insurance policy. Depending on their level of access to financial services, small business owners mainly used bank transfers or mobile phones for money transfers.

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

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

Based on the survey findings, it was estimated that small businesses contributed about 27% to Tanzania's GDP in 2010. Small businesses also made a valuable contribution to poverty reduction:

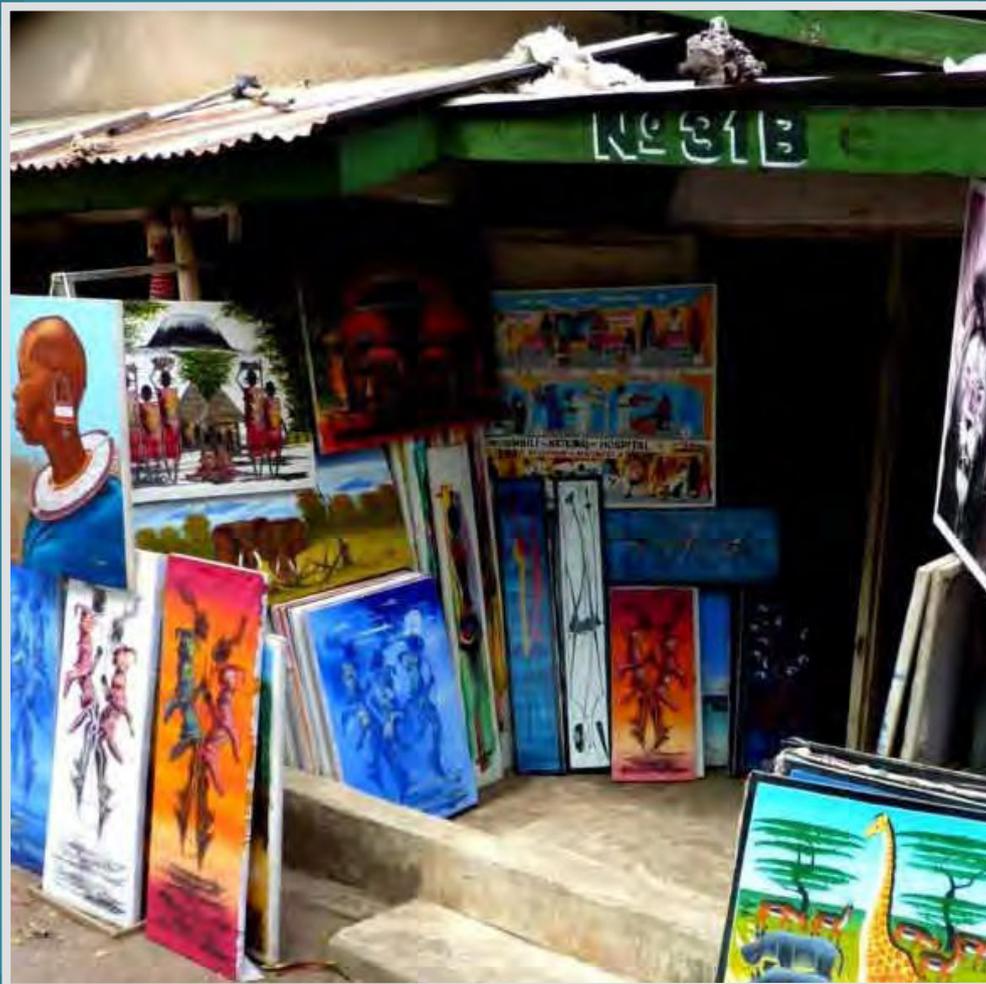
- In households with MSMEs, small businesses played an important role in income generation (62.7%) or were even the only source of income (34.1%) for the household.
- The monthly income from small businesses (TSh 444,200) was significantly higher than the average income of all Tanzanian households (TSh 146,000).
- The quality of dwellings belonging to small business owners was also significantly better than that of the average Tanzanian.

Two groups of closed businesses were distinguished in the survey. While both groups had closed businesses in the two years prior to the survey, one group was running another small business at the time of the survey while the other group was not. In total, about 571,400 small businesses had closed in this period. There were notable differences between the two groups in terms of reasons of closure, ownership structure, etc.

A Business Sophistication Model (BSM) segmentation model was introduced as an analytical tool for segmentation or cluster analysis. Based on the MSME survey data, seven clusters of small business owners were identified and showed different needs and behaviors.

Numerous lessons and recommendations were drawn from the MSME survey. The most important recommendations include:

- This survey did not include agricultural production. As farming is a significant business, future surveys should include agricultural enterprises.
- The household-based research approach used in this survey had certain limitations; an establishment-based survey to better capture the small and medium enterprise segment would be helpful.
- The Government of Tanzania's policy and strategy for MSMEs should be reviewed in light of the survey's findings.
- Informal and formal businesses should not be regulated under different ministries, as is currently the case, and the entire small business sector should be under the Ministry of Industry and Trade (MIT).
- The National Bureau of Statistics (NBS) should improve the collection and dissemination of statistics on small business.



Part A: Organization of Tanzania's MSME Baseline Survey

1. Introduction and Background

Since the shift towards a more market oriented economy in Tanzania, small business has played an increasingly important role in the country's development. However, little information on the sector existed, as no comprehensive, representative national baseline of small businesses had been established. A few attempts to survey small business surveys had been made in the past, but these suffered from either methodological deficiencies or limited geographical scope.¹

In 2009, the Small Business Division in the Ministry of Industry and Trade (MIT) and Financial Sector Deepening Trust (FSDT) joined forces and started planning for the first representative national small business survey of micro, small, and medium enterprises (MSMEs). In two workshops, the MIT/FSDT team widely consulted other stakeholders on the survey content, and FSDT's experience with previous FinScope surveys also informed the preparation of the MSME survey. After MIT and FSDT invited the National Bureau of Statistics (NBS) to join the team, NBS designed the survey's sampling method, provided training and survey support services during field work, and joined the Steering Committee.

In an open tender, Steadman Associates² was awarded the contract for collecting and analyzing the data. After enumerators were trained and the questionnaires pretested, data was collected from June to September 2010. Data entry and analysis followed by the first public presentation of the survey's results in October 2011, in a closed meeting of stakeholder groups. This led to the more detailed analysis presented in this report.

2. Objectives of the MSME Baseline Survey

The overall objective of the survey was to provide a representative national baseline of the MSME segment in Tanzania that would allow for statistically significant statements on a regional basis.

The survey was specifically aimed at:

- Establishing the size and structure of the small business segment in the economy.³
- Estimating the contribution of small businesses to Tanzania's national economy in terms of income and employment.
- Identifying constraints and opportunities of the small business segment.
- Quantifying the demand for financial and business development services.
- Profiling this demand and segmenting small businesses in ways that are practical for the design of appropriate interventions and services.
- Developing new segmentation approaches that allow better understanding of the needs and dynamics of small business.

1 Some of these surveys are the Informal Sector Surveys of 1991 and 1995, and the surveys sponsored by Swisscontact (2003) and Tanzania Gatsby Trust (2006).

2 Steadman Associates later changed its name to Synovate and IPSOS.

3 As small businesses are found in many sectors of the economy, for the purposes of this report, the entirety of small businesses is called a "segment" of the economy rather than a sector.

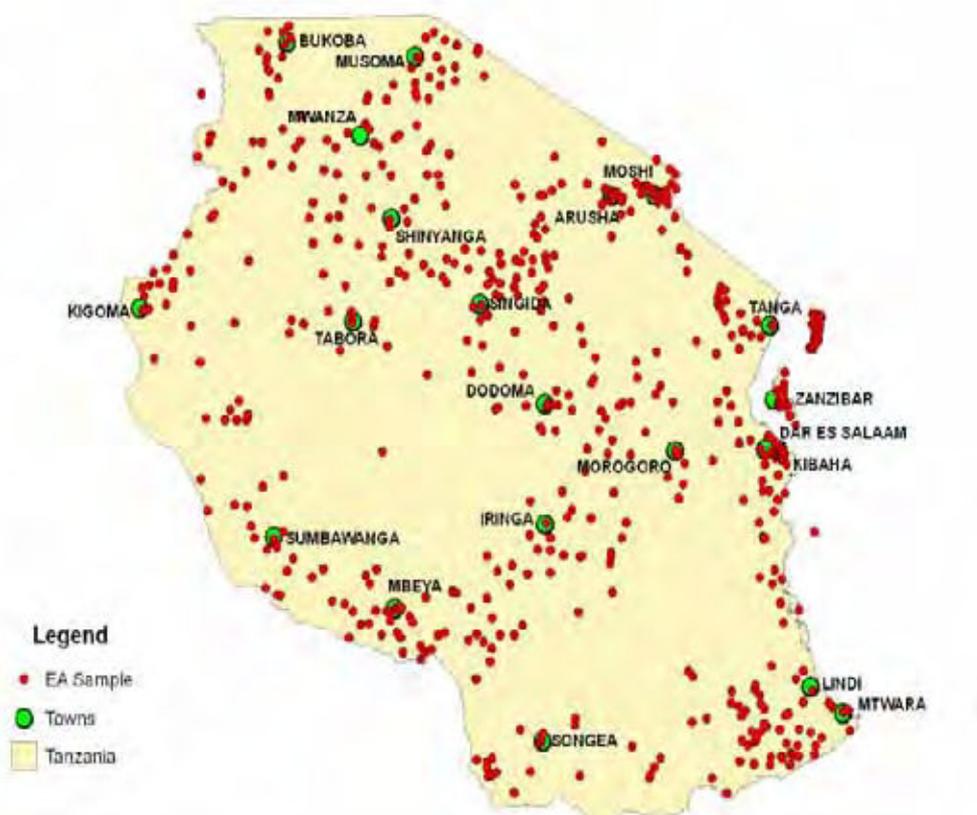
It was furthermore expected that the survey results would motivate and enable various organizations to improve their knowledge of small business and provide more appropriate services to MSMEs accordingly.

3. MSME Baseline Survey Methodology

The survey aimed to collect business information directly from small business owners. To achieve the desired level of quality of statistical data at the national and regional levels,⁴ the survey applied a three-step sampling process:

1. The survey referred to Tanzania's 2002 Census frame for selection of Enumeration Areas (EAs). However, since the second FinScope Survey had been completed in 2009, the MSME survey initially attempted to use the same EAs as its sample frame. In a pilot sample, some EAs were tested for changes from 2009 to 2010. As it was found that a lot of demographic changes had occurred, the household listing of the 2009 FinScope survey could not be used for the MSME survey, and a new listing of households in all EAs was made. However, the same EAs were used (see Figure 3.1).

Figure 3.1: Sample of EAs from FinScope and MSME surveys



2. In all selected EAs, a complete listing of households was made to identify all households that either currently owned and were running a small business or that had closed a small business in the two years prior to the interview. Based on that list, a sample of 9 or 12 households in the first group and a sample of 2 or 3 households in the second group were randomly selected from each EA. A simple questionnaire was administered to these selected households.

⁴ The survey was expected to achieve an error margin of 5% with a confidence level of 95%.

3. In households that had more than one family member who owned and ran a small business, a Kish Grid was applied to select the interviewee for the survey (household members had to be 16 years and older).

During data collection, 6,134 interviews were carried out in 640 EAs, with a response rate of 98%. 559 small business owners who currently ran a small business but had also closed a business in the last two years were interviewed using a questionnaire identical to the one used for current owners who had not recently closed a business. Another 1,468 household members who had closed a business in the last two years and were not currently running a business were interviewed using a closed enterprise questionnaire.

Based on this three-step survey process, the respective weights of each group were computed to allow for appropriate extrapolation to the universe of small businesses from the survey sample (multiplying the un-weighted data by the relevant weights). The weights were adjusted for non-response and the 2010 mid-year population projections.

4. Questionnaires and Operationalization of the MSME Survey

4.1 Questionnaires

Three questionnaires were developed and administered as part of the MSME survey:

- A questionnaire for household listing in the EAs and for the household register.
- A main questionnaire that was applied to selected household members who were owning and running a small enterprise during the time of the survey.
- A special questionnaire for households that had closed a small enterprise two years prior to the survey and that did not own and run another small enterprise during the time of the survey.

The content of the three questionnaires comprised the following questions:

1. A questionnaire for households listing in the EAs. This questionnaire established household members' details (name, age, gender, relationship, education, employment) and whether members had owned and run a business or closed a business in the past two years. The purpose of this questionnaire was to establish basic data on all households engaged in small business in all EAs.
2. A main questionnaire⁵ administered to selected households members who owned and ran a MSME during the time of the survey. The main questionnaire covered 20 topic areas with 192 questions (Table 4.1).
3. A questionnaire for closed MSMEs. This questionnaire asked the same questions as Section 2 of the main questionnaire, except for one question asked of the owner that was added: "What do you do for a living"

Table 4.1: Topic areas covered in main MSME questionnaire

Section	Content	No of questions
1	Details of respondents	10
2	Closed business section	10
3	Background to the business	22
4	Business location	10
5	Infrastructure and technology	17
6	Labour	12
7	Skills and business development	16
8	Customers	12
9	Suppliers	9
10	Financial literacy	3
11	Banking	7
12	Credit and loan	12
13	Savings and investment	3
14	Insurance	5
15	Other finance	3
16	Income and expenditure	8
17	Recordkeeping and registration	11
18	Business performance and attitudes	10
19	Obstacles of doing business	2
20	Livelihoods and demographics	10

⁵ See detailed questionnaire in Annex 1.

4.2 Operationalization

Micro, Small, and Medium Scale Enterprises

In this survey, MSMEs were defined as business activities that met four criteria:

- The first criterion referred to the nature of the business activities and excluded all activities of agricultural production, animal husbandry, fishing, hunting, gathering, and forestry. Although many small businesses carry out those excluded activities, particularly smallholder farms, they were excluded for the purpose of this survey as they are under the purview of other ministries.
- The second criterion included all business activities that process output of agricultural production, animal husbandry, fishing, hunting, gathering, and forestry. If, for example, a farmer crushed his own sunflower seeds and produced sunflower oil, the production of oil was considered a small business for the purpose of this survey, whereas the growing of seeds was excluded.
- The third criterion ensured that business activities were included in the survey regardless of whether the business was formally registered or operated informally. The survey addressed the issue of formality in some depth.
- While the term “small business” is sometimes used generically for all MSMEs, the fourth criterion defined the size of small businesses. According to the Small and Medium Enterprise Development Policy of the Government of Tanzania, the size categories of small businesses are defined through the number of employees and the capital investment in machinery, as shown in Table 4.2. The number of employees includes the working business owner and manager. When an enterprise falls under more than one category (e.g., one employee but capital investment greater than 5 million TSh), the level of capital investment is the deciding factor in determining the size category.

Table 4.2: Government of Tanzania’s categorization of business size

Business size	Number of employees	Capital investment in machinery (TSh)
Micro enterprise	1 to 4	Up to 5 million
Small enterprise	5 to 49	Above 5 to 200 million
Medium enterprise	50 to 99	Above 200 to 800 million
Large enterprise	100+	Above 800 million

Informal Sector

According to the NBS’s definition,⁶ informal sector enterprises are characterized by five criteria:

- They are household enterprises or unincorporated enterprises owned by households.
- They are not separate legal entities independent from households.
- They do not have a complete set of accounts that separates the business from the owner.
- They may or may not employ labour.
- They produce for sale.

Some of these criteria are mere descriptions and not definitional; only the second criteria was considered valid for the MSME survey. Thus when the MSME data are compared with NBS’s informal sector data, the reader should bear in mind that there is a difference in the characterization of the informal sector.

⁶ See the Integrated Labour Force Survey of 2006.

In Tanzania, all businesses are required to be registered by the Business Registration and Licensing Agency (BRELA), regardless of whether they are individual businesses, partnerships, or corporations. Business related cooperatives or societies are also required to be registered, but under other legal requirements and arrangements and in another department of the government.

Formal businesses therefore comprise all enterprises formally registered by BRELA. The above-mentioned criteria of enterprise size play no role as far as formality is concerned. All business activities that are not registered are therefore regarded as informal business. However, in this survey, a less strict definition of formality was used such that businesses that held any long-term license were also regarded as formal. Such licenses included operating and market licenses by municipalities, but excluded daily trading licenses. A tax identification number (even if solely used for business) held by a small business owner was not regarded as a long-term license.

Employment

The labour force of a country is normally defined as the Economically Active Population (EAP) during a particular reference period. In Tanzania, the current EAP comprises all people aged 10 to 55 or more years old who have been economically active within one week preceding the interview, while the usual definition of EAP makes reference to the 12 months preceding the interview. In the MSME survey we used the current EAP but the focus was on persons older than 16 years.

The EAP includes all employed and unemployed persons. The employed population is grouped into paid employees (in cash and in kind), unpaid family members, and self-employed persons. According to NBS, self-employed people work for gain either on their own farms or in any other income-generating activity. It is noteworthy that there is no separate category for trainees and apprentices, who seem to be included in the self-employed group.

The MSME survey used the same categories but in slightly different way, such that:

- The survey did not establish the extent to which employees were paid in cash or in kind; it was assumed that all paid workers and owners/spouses were paid in cash. Relatives/friends and apprentices were paid in kind, if paid at all.
- Every enterprise needs workers, managers, and entrepreneurs. A self-employed person normally works in the enterprise in all three roles, whereas an entrepreneur might not actually work directly in the enterprise. In relation to enterprise size, all owners of micro enterprises were regarded as self-employed. It was recognized that some owners of small and medium enterprises could be self-employed by combining manager and entrepreneur functions or acting only in an entrepreneurial function. However, the MSME survey could not establish these details; this is a topic that requires further research.
- Owners of small businesses who were still employed elsewhere while running their business were considered in the MSME survey as small business owners and the degree of their involvement in the business is discussed in a separate section below.

In the Integrated Labour Force Survey of 2006, NBS also attempted to measure underemployment. A person was considered underemployed when his/her actual working hours were less than 40 hours per week and the person indicated his/her availability for more work. In the MSME survey, underemployment was measured by establishing the time involvement of all employees.

Contribution to Gross Domestic Product

A country's gross domestic product (GDP) is generally used as a measure of the income in its economy. NBS defines GDP as the sum of value added of all domestic producers. It represents the money value of all goods and services produced in Tanzania due to economic activity within one year before the provision of consumption of fixed capital.

The gross added value is based on the production accounts of individual producers, as described notionally in Table 4.3:

Table 4.3: Elements of an individual production account

Purchase of goods and services	Total sales
+ Stock of goods in the beginning of the period	
- Stock of goods at the end of the period	
- Salaries and wages	
- Operational expenses	
- Water	
- Electricity	
- Rent	
- Transport	
- Other expenses	

The individual production accounts of producers are then aggregated to the production account of the sector, such that sales and purchases of goods and services within the sector cancel each other out. The production account has to be corrected by the own consumption of business owners unless it is properly recorded in the enterprise accounts, in which case it will already be declared there as own consumption.

For the purpose of detailed computation, NBS has identified 79 economic sectors (plus one dummy sector): the first 27 sectors are for agricultural production of various crops and livestock; sectors 28 to 31 are for the mining sector; sectors 32 to 64 describe industrial production; sectors 65 and 66 summarize production of electricity and water; sector 68 is for wholesale and retail trade; sector 69 is for hotels and restaurants; and the remaining sectors capture transport and various services.

The compilation of GDP contribution by sector is based on respective sector statistics. Depending on the sector, those sector statistics also include data on the informal sector based on the National Informal Sector Surveys of 1991 and 1995.⁷

⁷ See NBS Publication "National Accounts of Tanzania Mainland 2000 to 2010"(September, 2011).



Part B: Findings of MSME survey

5. Profile of MSME Owners

5.1 Personal Details

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

Small business owners were distributed regionally across Tanzania as follows:

Table 5.1: Small business owners by area (#)

Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
2,754,697	405,902	814,557	1,459,167	75,071

About 45.7% of MSME businesspersons were male. The higher percentage of female owners was the result of their much higher presence in micro enterprises with one employee (Table 5.2).

Table 5.2: Business size and ownership by gender (#)

Number of employees	Male	Female
1 employee	833,279	1,259,817
2 to 4 employees	537,546	444,295
5 or more employees	75,287	12,263

Business owners were found in all age groups, with the greatest concentration in the 25-34 year old group.⁸The difference in the age distribution of men and women was insignificant.

Table 5.3: Ownership by age groups and gender (%)

Age group	Total	Male	Female
Under 25 years	11.0	10.4	11.6
25 to 34 years	36.0	38.4	34.2
35 to 44 years	30.7	29.4	31.8
45 to 54 years	15.5	15.4	16.0
55 years and above	6.8	6.8	6.4

5.2 Education

Table 5.4 indicates the highest level of education achieved by small businesspersons. About 14.6% of MSME owners had not completed primary school.

⁸ The oldest respondent in the survey was 91 years old.

Table 5.4: Highest level of education attained by small business owners by area (%)

Highest level of education	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
None	7.4	3.0	5.7	9.5	7.2
Some primary school	7.2	2.6	6.4	8.8	6.9
Primary completed	73.5	73.1	71.5	74.7	19.8
Some secondary school	3.8	5.0	5.4	2.5	30.4
Secondary completed	7.2	14.2	10.0	3.9	34.5
Technical training after secondary	0.6	1.2	0.7	0.4	0.4
University	0.3	0.8	0.3	0.1	0.4
Refused	0.0	0.0	0.0	0.1	0.0

An additional analysis (not provided here) showed that male business owners generally obtained higher levels of education than female owners; this was particularly pronounced in rural areas. Technical training did not seem to play an important role for small business owners.

Compared to the education levels of the general Tanzanian mainland population (see Table 5.5),⁹ small business owners completed higher levels of primary and secondary education. Although the Household Budget Survey (HBS) of 2007 and the MSME survey are not completely comparable, it appears that the vocational education of small business owners was not better than that of the general population, perhaps contributing to the problems and constraints of the small business sector.

Table 5.5: Highest level of education attained by mainland TZ population (%) (HBS 2007)

Highest level of education	Total mainland	Dar es Salaam	Other urban	Rural areas
None	23.6	7.9	12.1	28.5
Some primary school	10.9	5.2	7.9	12.3
Primary completed	54.0	57.0	58.9	52.4
Course after primary	0.8	2.0	1.4	0.5
Some secondary school	7.0	16.6	13.7	4.1
Secondary completed	0.6	2.4	1.0	0.2
Course after secondary school	1.2	4.8	2.8	0.4
University	0.6	2.6	0.9	0.3
Others	1.3	1.5	1.3	1.3

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

5.3 Identification

To obtain financial services and register and license businesses, individuals must have some form of official identification. Most small business owners use a voter's card, but some also use party identity cards or birth certificates. In Zanzibar, a wide majority (78.6%) use other forms of identification, such as official and unofficial letters.

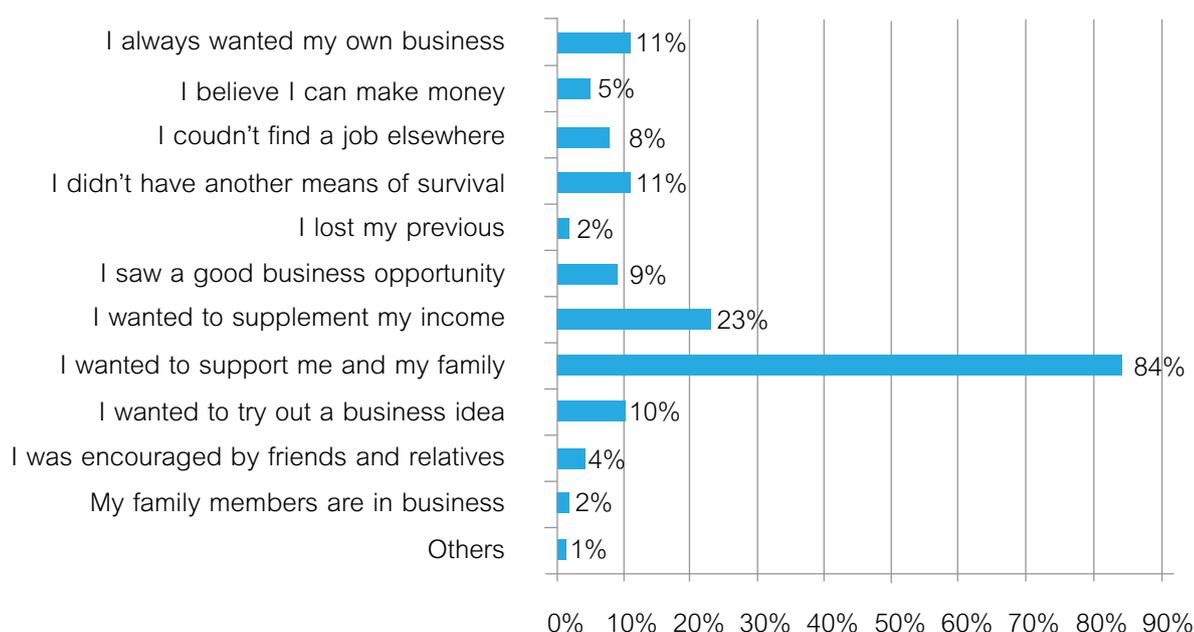
9 See HBS 2007, page 20ff.

Table 5.6: Methods of identification used by small business owners by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Driver's license	1.4	3.5	1.4	0.8	2.8
Voter's card	93.5	96.7	93.7	92.6	77.0
Birth certificate	5.4	6.4	7.3	4.1	26.5
Passport	0.9	2.6	1.1	0.3	2.2
Party identity card	9.4	6.8	4.6	12.7	1.1
Bank ID card	0.8	2.2	1.1	0.4	0.1
I don't have any	1.2	0.2	0.7	1.7	0
Others	5.2	1.8	7.9	4.7	78.6
None	2.7	2.1	2.3	3.0	1.4

5.4 Business Motivation

The motivation for starting a business originated for most small businesspersons from their need to support their families or to supplement their incomes. Less than a third of small business owners cited achievement as a motivation for startup. Two-thirds of small businesspersons were mostly motivated by the financial benefits they expected to generate.

Figure 5.1: Motivation of small business owners for business startup(%)

This motivation is reflected to a lesser degree in the reasons given for their choice of business. Most small business owners were driven by market opportunities and hampered by capital constraints (Figure 5.2).

Table 5.7: Reasons for business choice by broad sector (%)

	Total	Trade	Services	Manufacture	Others
I had previous experience in this line	18.1	14.3	19.9	29.3	32.1
Friends/ relatives are in this line	15.2	15.5	11.2	20.3	49.0
I saw a market opportunity	46.2	47.6	44.5	43.5	61.8
My capital could only finance this business	41.8	43.3	43.8	32.6	14.6
No apparent reason	4.9	5.8	4.2	3.0	1.2
I could start business gradually	0.3	0.3	0.5	0.3	0.0
Goods are easy to manufacture and sell	1.9	1.8	2.5	0.9	0.0
I just wanted to be near my house	1.0	1.1	0.7	0.5	11.2
I have been trained in it, I am an expert	0.9	0.4	0.7	3.4	0.0
Goods are available	0.7	0.9	0.4	0.4	0.0
I perceived it to be profitable	1.5	1.5	1.7	1.0	2.7
I liked it	1.3	1.1	1.5	1.2	4.0
Business does not have many problems	0.7	0.7	0.5	0.9	0.0
Others	2.7	3.0	2.4	2.1	4.9
None	0.8	0.8	1.0	0.7	0.9

Before they started their business, many small male business owners had various other occupations (Table 5.7). Most female business owners had been housewives; other owners had run a small business in another sector that gave them at least some small business experience.

Table 5.8: Former occupation of small business owners by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Unemployed	7.1	9.4	10.5	4.6	20.2
Housewife	18.9	33.8	25.9	11.0	29.5
In education	4.2	5.5	5.4	3.1	6.8
Large enterprise, similar sector	1.2	3.0	1.9	0.4	0.6
Large enterprise, different sector	3.6	7.2	4.4	2.2	1.4
Similar sized enterprise, same sector	1.0	1.5	1.5	0.5	2.7
Similar enterprise, Different sector	1.1	3.1	1.1	0.5	1.6
Ran similar sized enterprise, same sector	1.4	1.5	1.9	1.2	8.8
Ran similar sized enterprise, different sector	14.8	21.0	18.6	11.0	7.3
Civil servant	2.5	4.9	2.4	1.9	5.1
Employed by individual	1.3	2.2	2.0	0.7	0.7
Cattle rearing	0.5	0.2	0.4	0.6	0.1
Farming	35.7	0.5	18.2	55.2	11.0
Selling food	0.9	0.8	1.3	0.7	1.0
Others	4.6	3.2	3.9	5.5	2.2
None	1.2	2.4	0.6	0.9	1.0

About 54.3% of small business owners reported they would not give up their business for a full-time salary-paying job. The other 45.7% said they would like to work for the government (28.9%) or a large private company (11.3%); the higher security of income was the main reason given for their desire to change.



6. Profile of the MSME Segment

6.1 Sector Allocation

Based on their main activities, their main products and services, and their location, small enterprises were allocated to various sectors according to the International Standard for Industrial Classification (ISIC). Table 6.1 shows the number of enterprises and their relative percentage in the different ISIC categories. The categories were then aggregated to the broad sectors of trade (T), services (S), manufacturing (M), and other (O) services.

Table 6.1: MSMEs by sector

ISIC sector	Number	%	Broad sector
Agriculture, forestry, and fishing	13,178	0.4	O
Mining and quarrying	3,684	0.1	M/O
Manufacturing	429,050	13.6	M
Electricity, gas, steam, air conditioning supply	9,849	0.3	S
Water supply, sewerage, and waste management	1,843	0.1	O
Wholesale, retail trade, repair of motor vehicles	1,750,897	55.4	T
Transportation and storage	14,404	0.5	S
Accommodation and food service activities	836,564	26.4	S
Information and communication	1,791	0.1	S
Professional, scientific, and technical activities	9,845	0.3	S
Administrative and support service activities	8,742	0.3	S
Public administration, defense, social security	2,670	0.1	S
Other service activities	80,370	2.5	S
Total	3,162,886	100.0	

Table 6.2 shows that there were significantly more micro enterprises than small or medium sized ones in all broad sectors:

Table 6.2: MSME broad sector allocation by enterprise size (#)

Size	Total	Trade	Services	Manufacture	Others
1 to 4 employees	3,074,736	1,710,884	942,596	406,426	14,830
5 or more employees	88,150	40,012	21,639	23,965	2,534

6.2 Regional Distribution of MSMEs

The regional distribution of small business sectors indicated that the numbers of trade, manufacturing, and service enterprises are higher in rural areas than in Dar es Salaam, other urban areas, and Zanzibar (Figure 6.1).

Figure 6.1: MSME broad sector allocation by area (#)



The general business density (percentage of households with a small business) was considerably higher in urban areas than in rural areas. The highest business densities were found in Mbeya (46%) and Dar es Salaam (45%), and the lowest in Kagera (14%) and Manyara (17%). Nevertheless, the absolute number of small businesses in rural areas was still relatively high due to the higher population in the rural overall.

6.3 Formality

About 80.6% of all small businesses had a business name, but 18.9% did not (0.5% did not answer). About 96.4% of small businesses were formally owned by sole proprietors. There were very few registered companies.

Table 6.3: Legal status of company by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Sole proprietor	96.4	94.0	96.2	97.1	98.4
Private company	0.05	0.0	0.1	0.0	0.0
Partnership	3.5	5.7	3.7	2.8	1.5
Cooperative	0.1	0.3	0.0	0.0	0.1

Only 3.9% of small businesses were registered under BRELA. The low registration was consistent across all regions (Table 6.4).

Table 6.4: Registration under BRELA by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Registered	3.9	4.5	3.2	4.2	3.4
Not registered	96.1	95.5	96.8	95.8	96.6

While less than 4% of micro enterprises were registered, it is noteworthy that about 16% of small enterprises were unregistered, as the common belief is that all small enterprises are registered (Table 6.5).

Table 6.5: Registration under BRELA by size category (%)

	Micro enterprises	Small enterprises	Medium enterprises
Registered	3.6	15.6	100.0
Not registered	96.4	84.4	0.0

Small business owners gave a variety of reasons for not registering their business under BRELA:

- The procedure is too complicated (1.6%)
- The cost is too high (1.3%)
- I don't have money to register (3.3%)
- I have tried to register but I was not successful (0.2%)
- The registration does not give me any benefit (1.1%)
- I don't have the time to register with the relevant bodies (0.2%)
- No action will be taken against me (0.8%)
- My business is too small (27.7%)
- I don't know about these regulations (63.0%)
- I don't want them to know how my business is performing (0.2%)
- I don't know BRELA (13.7%)
- Others (0.7%)
- Refused to answer (0.1%)
- None (81.6%)

Although the majority of small businesses were not registered under BRELA, many still held other licenses that indicate some degree of formality, as seen in Table 6.6:

Table 6.6: Other formal licenses held by MSMEs by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Trade license	6.3	7.9	10.5	3.5	28.2
Professional registration	0.3	0.2	0.3	0.4	0.4
Local authority license	3.6	3.9	5.4	2.5	4.2
Daily license	9.0	4.1	7.1	11.4	3.2
Others	0.5	0.0	0.8	0.5	0.0
Total	19.7	16.1	24.1	18.3	36.0

A few small businesses had a tax identification number (TIN) for the business that may also serve as an indicator of formality:

Table 6.7: Small business owners that hold a business TIN by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Yes	5.9	9.3	9.1	3.1	18.4
No	94.1	90.7	90.9	96.9	81.6

Small businesses paid several taxes and levies, as shown in Table 6.8. Their regional distribution shows considerable variation, although there should be more uniformity in the official taxes and levies. Unofficial levies seem to be higher in Dar es Salaam and Zanzibar.

Table 6.8: Taxes and levies paid by MSMEs by area (%)

	Total	Dar es salaam	Other urban	Rural areas	Zanzibar
Income tax	5.2	7.7	8.2	2.8	14.6
Property tax	2.0	4.2	3.2	0.7	6.6
VAT	2.5	3.0	4.5	1.3	17.3
PAYE	1.4	3.1	2.3	0.3	2.5
NSSF/ZSSF	0.2	0.6	0.3	0.0	0.1
Excise levies	0.2	0.6	0.2	0.0	0.0
Other taxes/levies	2.2	4.1	3.6	1.0	8.8
Skills development levy	1.9	3.6	2.9	1.0	4.4
“Unofficial” levies	0.9	2.0	1.4	0.3	3.3
Electricity/ water levies	3.0	6.0	5.2	0.9	9.5
Daily taxes	0.9	2.1	1.3	0.4	5.5
Business license	0.1	0.1	0.1	0.1	0.0

6.4 Business Startup

A few small businesses in the MSME survey were started in the 1940s, but the majority were established after 2000. The average age of existing small businesses was 5.9 years. The average age of formal enterprises was about 7 years, while the average age of informal businesses was 5.6 years.

More than nine out of ten small businesses were founded independently by owners (Table 6.9).

Table 6.9: Mode of business creation by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Independently by myself	92.5	90.3	90.5	94.3	95.1
With business partner	1.8	3.1	2.2	1.1	0.7
Founded by family	5.3	6.4	6.7	4.1	4.2
Bought from someone	0.3	0.2	0.6	0.1	0.0
Others	0.1	0.0	0.0	0.4	0.0

Informal businesses were most likely to be established independently by the owner. This also applied largely to formal business, but about 10% of formal businesses were established by the family.

Table 6.10: Mode of business creation and formality (%)

	Formal	Informal
Independently by myself	86.9	93.3
With business partner	2.5	1.7
Founded by family	9.9	4.6
Bought from someone	0.5	0.2
Others	0.2	0.2

During startup, small business owners faced a variety of problems. Table 6.11 lists them in order of frequency cited. About one in five business owners reported that they did not experience any problems during startup.

Table 6.11: Startup problems of MSME owners (%)

Problem	%
Accessing finance / cost of finance	53.0
Getting premises	23.0
Getting equipment / materials	17.6
Lack of business skills and knowledge	12.0
Difficulties in getting customers	11.1
Getting transportation	9.2
Crime, theft, disorder	5.5
Customers not paying their debts on time	3.5
Getting licenses and permits	2.7
Getting water	2.3
Getting electricity	1.3
Others	4.3
None	19.5

The startup capital of 64.9% of small businesses was less than TSh 100,000 and about 94.6% of small businesses had a startup capital of less than TSh 1 million. The average investment of startup capital was about TSh220,500. The startup capital of MSMEs by broad sector is indicated in Table 6.12:

Table 6.12: Startup investment capital by broad sector (%)

	Trade	Services	Manufacture	Others
Less than 49,999	43.2	58.4	55.7	72.3
50,000 to 99,999	15.4	14.3	13.7	7.9
100,000 to 499,999	29.4	19.5	20.1	19.8
500,000 to 999,999	6.3	4.2	3.2	0
1,000,000 and more	5.7	3.6	8.3	0
Average investment (TSh)	261,400	183,400	267,500	80,700

A varying amount of startup capital was used for investment in machinery. The machinery investment of about 97.5% of small businesses was less than TSh 100,000, and about 99.1% of small businesses invested less than TSh 1 million in machinery. As 94.4% of small businesses did not have any investment in machinery, the overall average is quite low (2.6%). The overall average investment in machinery was about TSh 5,865, far lower than the Government's defining investment criteria of TSh 5 million for micro enterprises.¹⁰

6.5 Business Location

Most small businesses started operations at the house of the owner. This was particularly true in rural areas and in Zanzibar. However, 18.4% of small businesses started in formal commercial areas.

¹⁰ See the Government of Tanzania's "Small and medium enterprise development policy, 2003" (page 5).

Table 6.13: Location of MSMEs at startup by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
By the roadside	16.6	20.2	18.3	14.7	11.4
At my own house	39.8	32.6	34.5	45.0	62.5
Rented house	12.7	19.5	16.3	8.8	3.3
Mobile	8.4	8.2	10.2	7.4	4.8
Formal commercial area	18.4	14.1	17.2	20.0	13.6
Formal industrial site	0.5	0.9	0.7	0.3	0
On farm	0.6	0.0	0.0	0.5	0.3
School rented	0.7	1.8	0.9	0.5	2.2
Market place	1.1	2.2	0.6	1.2	0.9
Others	1.1	0.2	0.7	1.6	0.9
None	0.1	0.3	0.1	0.0	0.1

Only a few small businesses had shifted to another location after startup, while 79.1% had never shifted at all (Table 6.14).

Table 6.14: Frequency of shifting business location by area (%)

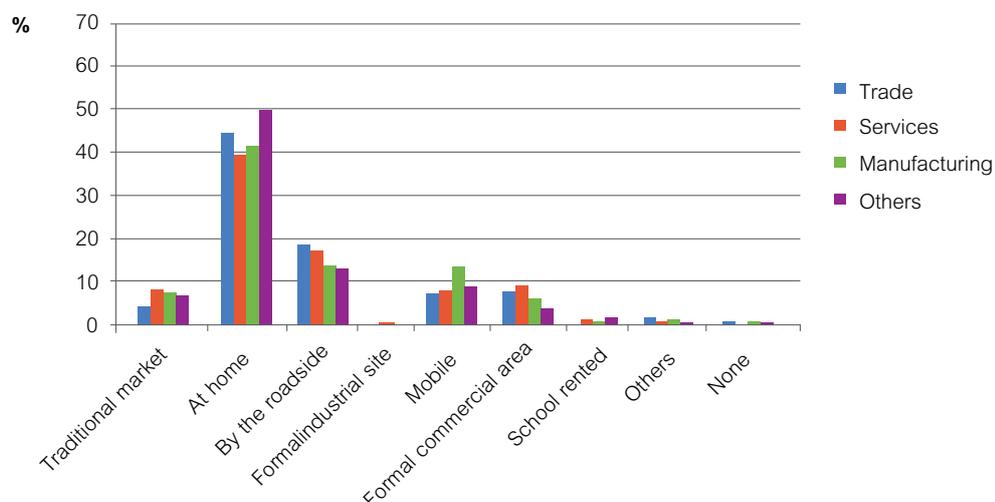
	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Many times	5.3	3.8	6.7	4.9	7.8
Once or twice	15.6	14.8	16.3	15.5	13.2
None	79.1	81.4	77.0	79.6	79.0

Small businesses that had shifted to another location(s) gave the following reasons (multiple answers were possible):

- I needed a bigger place (14.8%)
- The landlord asked me to leave (8.9%)
- The rent was too high (5.9%)
- I needed to be closer to the market / customers (51.8%)
- I needed premises with utilities (1.3%)
- Municipal authorities destroyed location (1.1%)
- I shifted residence (10.3%)
- Municipal authorities evicted me (2.4%)
- I move / hawk to get customers (1.2%)
- I had family problems (1.9%)
- The area was not good for business (3.0%)
- I married (2.5%)
- There were calamities (0.4%)
- Distance between my residence and business was too big (1.5%)
- I wanted more security (0.9%)
- Other reasons (0.7%)
- None (0.9%)

Those that had shifted listed the following locations as their current premises:

Figure 6.2: Current type of business location by area (%)



Small businesses were often co-located with other similar or related businesses (74.8%). Overall, almost one in four small business owners owned their business premises, but in Dar es Salaam and other urban areas, most of the business premises were rented from other landlords (Table 6.15).

Table 6.15: Ownership of business premises by area (%)

Premises owned by	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Business owner	38.8	25.0	31.5	45.7	43.4
Other landlord	31.6	41.7	37.5	25.7	21.7
Family	6.9	14.8	7.4	4.5	16.9
Government/ Municipality	22.4	17.5	23.3	23.9	17.9
None	0.3	1.0	0.3	0.2	0.1

The security of tenure was relatively low, as most small business owners did not hold title deeds or rent agreements.

Table 6.16: Title deed and rent agreement for business premises by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
No title deeds	85.0	58.2	76.0	91.6	42.1
No rent agreement	80.9	67.9	72.7	89.8	61.9

The quality of business premises varied considerably, although more than half were permanent structures made out of stones, blocks, or wood:

- Stone or block permanent structure (50.0%)
- Wooden temporary structure (9.9%)
- A temporary stall or table, packed every day (8.6%)
- Wooden permanent structure (5.4%)
- Building of mud and sticks (5.0%)

- A temporary stall or table left behind every day (4.8%)
- Tin, plastic, or cardboard structure (1.2%)
- A fixed permanent stall or table (1.9%)
- Under a tree (1.9%)
- Open field (1.5%)
- Spread sacks (1.1%)
- Temporary building (1.0%)
- Outside, in front of my house (0.8%)
- Makuti building (1.2%)
- A container (0.2%)
- A car or a truck (less than 0.1%)
- Others (3.0%)

Almost seven out of ten (68.1%) small business owners considered their premises to have some room for expansion.

6.6 Internet and Media Usage

The small businesses surveyed did not use the internet for doing business. Only a few (0.5%) used the internet for getting information on products and markets, and almost none used it for orders with suppliers and customers. A very few (0.6%) used it for sending and receiving emails.

In the seven days prior to the survey, small business owners had used the following media:

Table 6.17: Use of media by small business owners by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Watched television	38.6	69.2	50.9	23.3	75.9
Listened to radio	78.5	82.7	82.6	75.1	90.6
Read newspaper	21.7	40.7	29.8	11.9	40.9
Used email / internet	0.6	2.3	0.7	0.1	2.5
None of these	17.7	7.1	12.0	23.6	4.1

Overall, the results suggest that radio would be the best media to reach these small business owners, particularly in rural areas.

6.7 Computer Ownership

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

6.8 Mobile Phone Usage

About 59% of small business owners owned a mobile phone. The percentage was much higher in Dar es Salaam (77.8%) and other urban areas (70.9%), but considerably lower in rural areas (47.2%). About 30.7% of small business owners who did not own a phone used the phone of someone else in their household or someone close to them.

Mobile phones were mainly used for:

- Placing orders (57.4%)
- Transferring money to family or friends (3.7%)
- Transferring vouchers/ sending air time (5.1%)
- Following up on clients (48.65%)
- Sending and receiving SMS (26.2%)
- Sending and receiving email (0.1%)
- Surfing the internet (0.2%)
- Buying telephone services (0.3%)
- Mobile banking (0.3%)
- Talking to customers (Skype) and other people (6.4%)
- Visiting social websites (5.0%)
- Communicating with business partners (1.1%)
- Getting information on price changes (1.0%)
- I don't use mobile phones (13.6%)

The choice of network was influenced by factors listed in Table 6.18. Affordability was an important factor in Dar es Salaam, but other factors were equally important elsewhere.

Table 6.18: Criteria for choice of mobile phone network by area (%)

	Total	Dar es salaam	Other urban	Rural areas	Zanzibar
Good coverage	56.4	42.9	49.5	68.4	53.5
Affordable prices	59.2	78.4	61.0	49.1	54.1
Clarity of calls	21.7	15.5	23.0	23.3	38.8
Friends or family in network	32.1	29.9	35.1	30.6	48.3
Many customers	14.9	10.8	18.0	14.0	15.2
Attractive promotions	0.9	0.7	1.7	0.4	0.0
Others	0.0	0.0	0.0	0.0	0.5
None	0.4	0.4	0.0	0.7	0.0

The various mobile phone providers in Tanzania have reached small business owners differentially by area:

Table 6.19: Small business owners per mobile phone provider by area (#)

Company	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Vodacom	948,210	145,181	428,582	373,737	710
Zain	834,208	107,597	277,831	445,610	3,170
Tigo	670,671	302,462	219,460	133,707	15,042
Zantel	101,317	17,997	22,693	4,992	55,635
TTCL	10,598	4,418	5,155	1,026	0
Others	108	0	0	108	0

Small business owners were asked to respond to the following two statements about mobile phone usage:

Table 6.20: MSME owners' statements about mobile phones (%)

	Yes	No	Don't know
You have to give up something in order to afford a phone	29.5	38.2	0.3
You are prepared to learn how to use technology like cell phones to manage your money matters better	82.0	14.2	1.5

6.9 Energy and Utilities Usage

For lighting purposes, small businesses used liquid paraffin and electricity (grid) as their main sources of energy, but 38% did not use any energy for lighting at all.

Table 6.21: Energy sources used for lighting by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Electricity, grid	17.7	39.0	29.2	5.3	50.0
Electricity, generator	2.4	1.1	2.5	2.7	0.0
Solar energy	1.5	0.6	0.7	1.6	0.0
Batteries	1.0	0.0	0.7	1.4	0.0
Charcoal	0.2	0.3	0.0	0.4	0.0
Firewood	0.2		0.0	0.4	0.0
Liquid paraffin	35.3	21.2	22.7	46.3	14.7
Torch	2.0	1.7	0.2	3.1	0.0
Paraffin	0.1	0.1	0.3	0.0	0.0
Candles	0.5	0.2	0.4	0.5	0.0
Don't use energy	38.2	35.1	41.9	36.9	34.7
Don't know	0.9	0.7	1.4	1.4	0.6

To conduct their work, many small businesses did not use energy at all or they used traditional forms of energy such as charcoal and firewood. Businesses in Zanzibar enjoyed higher connectivity to the electrical grid than those in mainland Tanzania (Table 6.21).

Table 6.22: Energy sources used for working by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Electricity, grid	5.9	12.8	10.0	1.6	20.7
Electricity, generator	1.7	0.2	1.6	2.2	0.2
Solar energy	0.3	0.2	0.1	0.5	0.1
Charcoal	10.6	20.1	15.0	5.4	9.8
Firewood	17.8	5.9	12.2	24.2	16.5
LPG	0.3	0.1	0.5	0.2	0
Maize cobs	0.2	1.4	0.0	0.0	0
Don't use energy	62.9	59.3	59.4	65.4	52.6
Don't know	0.3	0.0	1.2	0.5	0.1

Small businesses used different sources of water depending on their location. In this regard as well, Zanzibar businesses showed higher connectivity to public water sources (Table 6.22).

Table 6.23: Sources of water supply by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Public sources	29.0	35.4	49.9	17.1	75.6
Own well, borehole	4.1	6.3	4.9	3.1	1.1
Shared well, borehole	30.8	10.6	17.5	37.5	10.0
From vendors	6.2	19.6	6.6	2.4	5.5
River, lake	20.4	0	18.5	31.6	2.2
Dam, spring	0.3	0	0	0.5	0
Don't use water	9.2	28.1	2.6	7.8	5.6

6.10 Assets and Facilities

Very few small businesses owned or had access to the following communication facilities, as seen in Tables 6.23 and 6.24:

Table 6.24: Ownership of communication facilities by broad sector (%)

Small businesses owned:					
	Total	Trade	Services	Manufacture	Others
Operational landlines	0.7	1.0	0.4	0.3	0
Internet	0.3	0.4	0.2	0.1	0
Computers, laptops	0.5	0.6	0.4	0.6	0

A small percentage of those businesses that did not own facilities still had access to them by other means, as reported in Table 6.24:

Table 6.25: Access to communication facilities by broad sector (%)

Small businesses had access to:					
	Total	Trade	Services	Manufacture	Others
Operational landlines	1.8	1.7	2.2	1.2	0
Internet	0.7	0.5	0.6	1.8	0
Computers, laptops	0.7	0.5	0.6	1.5	0

Small businesses owned or had access to the following facilities and assets:

Table 6.26: Ownership and access of other assets and facilities (%)

	Own	Access
Motor vehicle for business use	1.2	1.4
Office equipment	17.3	0.1
Storage space for business	59.1	0.8
Cooling facilities	5.6	0.5
Warehouse	0.7	0.1
Safe place for keeping cash	15.5	0.5
Computers	0.5	0.1
Factory/manufacturing/processing machinery	0.3	0.1
Agricultural assets and facilities	1.0	0.0
Training room for staff	0.3	0.0
Reception area for waiting	0.5	0.1
Calculator	16.7	0.6
Switchboard	0.3	0.3
Cash register	0.2	0.0
Water storage tank	19.7	0.8

	Own	Access
Manual tools	74.6	0.5
Power tools	6.5	0.3
None of these	6.9	90.4

6.11 Machines and Technology Usage

Only about 6.1% of all small businesses used machines in their operations. The main reasons cited for not using machines are listed in Table 6.26:

Table 6.27: Reasons for not using machines by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Small operation	83.5	86.3	81.0	76.2	70.5
Lack of funds	12.5	10.2	13.3	22.1	14.8
No access to energy	2.4	2.1	2.9	3.0	0
Don't know what machines, where to buy them	2.4	1.4	3.5	4.3	1.2
I did not think about it yet	4.1	4.0	4.2	3.8	11.7
Other reasons	0.5	0.5	0.5	0.7	0
None	1.4	1.4	1.2	0.8	12.9

If small businesses did use machines, owners reported that they would require the following types of machines:

- In trade, the most common machines required included blenders, oil refining machines, grinding machines, and milling machines, but 43.8% of small traders thought that no machines were required in their business.
- In services, the required machines included blenders, dryers, sewing machines, and shaving machines. About 19.5% of small business owners could not think of a required machine.
- In manufacturing, the required machines were milling machines, sewing machines, and carpenters plane machines. About 7.4% of owners said they did not require machines.



7. Management of MSMEs

Section 7 summarizes the data that describe how small business owners in the MSME survey managed their businesses. It covers relevant structural issues as well as processes.

7.1 General Management

The gender management distribution of MSME was as follows:

Table 7.1: Gender management by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Male only	37.1	43.8	38.4	32.3	42.2
Female only	20.5	33.3	14.6	17.7	43.8
Both male and female	42.4	23.0	47.1	50.0	14.1

While the majority of MSME owners are women, table 7.1 shows that male owners prefer to work on their own while women tend to involve others in running their businesses.

When asked about the availability of ownership agreements, about 7.4% stated they had written ownership agreements such as partnership / shareholder agreements. This contradicts the data in Section 6.3, in which only 3.6% claimed to be owners in a private company, partnership, or cooperative that would presumably require these documents. It is possible that sole owners did not understand the question, and misinterpreted which documents were being discussed.

Table 7.2: Availability of ownership agreements by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Yes	7.4	2.9	13.9	5.0	10.7
No	92.6	97.1	86.1	95.0	89.3

7.2 Decision-making and Planning

For making important decisions, small business owners stated that they consulted with various people and groups as follows:

Table 7.3: Decision-making in micro and small enterprises (%)

	Micro enterprises	Small enterprises
I make all decisions myself	69.6	54.0
I consult with my family	30.7	34.2
I consult with my employees	0.3	5.9
I consult with my investors	1.0	8.8
The board of directors makes the decision	0.1	6.5
I consult with people outside of business	1.2	0.0
I involve my spouse	0.8	0.1
I get opinions of fellow businessmen	1.0	2.6
Others	0.0	0.0
None	0.6	0.7

Owners of microenterprises made more decisions themselves and consulted others less than their counterparts in small enterprises.

Table 7.4 indicates the percentage of small businesses that held specific key planning documents. Nine out of ten small business did not hold the basic planning documents typically used in business management.

Table 7.4: Small businesses with planning documents by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Vision/mission statement	1.5	2.0	0.8	1.0	0
Written business plan	1.0	1.2	1.1	0.3	0
Written marketing plan	0.2	0.2	0.1	0.1	0
Formal training plan for staff	0.1	0.1	0.1	0.0	0
Business budget	7.1	7.9	6.6	5.3	0.4
None of these	91.8	90.7	92.7	94.0	99.6

7.3 Communication Methods

In their business communication, small business owners used the following communication methods/facilities:

Table 7.5: Communication methods and facilities by broad sector (%)

	Total	Trade	Services	Manufacture	Others
PO Box	1.3	1.4	1.4	0.8	0
Email address	0.4	0.3	0.5	0.6	0
SMS messages	37.6	40.8	33.3	34.7	23.3
Business website	0.3	0.3	0.4	0	0
Phone	11.4	12.1	9.8	11.3	41.9
By mouth, sending someone	1.2	0.9	1.4	1.8	0
Personal delivery	0.3	0.3	0.2	0.1	0
None	57.1	52.1	60.0	59.6	42.4

The mobile phone (voice mail and SMS) dominated the communication methods used by small businesses.

7.4 Financial Records

Only about 44.7% of small businesses reported that they kept financial records, but this figure varied considerably across broad sectors:

Table 7.6: Recordkeeping in MSMEs by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Yes	44.7	51.3	36.4	36.2	59.3
No	55.3	48.7	63.6	63.8	40.7

While only 44.1% of micro enterprises reported that they kept financial records, surprisingly only 66.7% of small enterprises did so. The method of recordkeeping is indicative of the quality of recordkeeping. For the small businesses that did keep records, they reported the following methods:

Table 7.7: Methods of recordkeeping by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Record on a piece of paper	20.3	19.2	19.0	27.0	1.6
Record on a handwritten ledger	78.4	79.6	79.4	69.5	97.8
Just keep receipts	3.1	3.3	2.8	2.5	0.7
Record in receipt book	1.1	1.0	1.6	0.4	0.0
Record in my computer	1.0	1.1	0.6	1.5	0.0
Use specialized software	0.2	0.2	0.4	0.0	0.0
Keep records in a file	0.8	0.5	0.5	2.9	0.0
Others	0.3	0.2	0.5	0.2	0.0
None	1.0	1.2	0.7	0.5	0.0

Small businesses kept records on a variety of specific items as seen in Table 7.8:

Table 7.8: Items recorded by micro and small enterprises (%)

	Total	Micro enterprises	Small enterprises
Total sales made	70.9	71.1	69.1
Number of customers	9.4	9.3	10.1
Revenue before expenses	45.6	45.6	45.6
Cost of sales	24.4	24.5	22.0
Expenses of business	42.2	42.5	34.4
Income after expenses	26.6	25.8	41.9
Stock	8.2	8.0	13.1
Debts or debtors	31.4	32.2	12.9
Hire of equipment	1.2	1.1	3.6
Profit and loss	3.2	3.3	0.0
Number of goods bought	4.5	4.7	0.0
All costs related to purchases and distribution	1.7	1.8	0.0
Others	0.2	0.2	0.0

It seems that only a few enterprises recorded all items. Again, it is noteworthy that not only micro enterprises but also small enterprises reported considerable deficiencies in their recordkeeping.

When asked who keeps the financial records in their business, about 76.1% of small business owners claimed that they did it themselves, helped by family members, friends, and workers. Only 0.2% hired an accountant. Only 2.3% of the written financial records were checked or audited by accredited accountants.

The main reasons for not keeping financial records were listed as:

- I don't need it because I know everything off the top of my head (82.3%)
- I don't know how to do it (10.1%)
- The amounts are too small (1.5%)
- The business is too small (1.1%)
- I don't know how to read and write (1.3%)¹¹
- No reason (1.8%)

¹¹ Note that enumerators read the questions to respondents and in some cases gave options of answers (closed questions).

7.5 Payment of Salary to Owner

Small business owners used different methods of paying themselves a salary if they actually worked in their enterprise. They also used profits in different ways, as seen in Table 7.9:

Table 7.9: Payments to owners by broad sector (%)

	Total	Trade	Services	Manufacture	Others
I pay myself a fixed salary	12.4	12.1	13.2	12.1	11.2
I only pay myself when I have surplus	55.1	55.4	53.8	57.9	38.1
I draw money when I need	83.4	82.0	84.0	88.2	66.5
I withdraw all profits at the end of the year	14.2	15.1	11.7	16.5	4.9
I invest some of the profits into the business	77.9	79.3	77.3	74.9	42.2

7.6 Measuring Performance and Growth

More than 87% of MSMEs confirmed that they monitored their performance but they used different indicators for measuring performance, as shown in Table 7.10:

Table 7.10: Business performance measures used by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Turnover	96.2	96.4	95.7	97.3	62.0
Profitability	97.8	98.2	97.4	97.0	96.6
Cost of sales	68.2	71.8	62.6	66.7	45.8
Asset value	17.6	17.7	14.9	23.4	6.0
Number of customers	69.2	67.9	68.7	76.4	54.0
Prices of products/services	63.9	67.0	61.0	59.0	28.6
Cost of inputs	58.5	60.6	55.2	59.0	15.1
Number of employees	6.6	5.9	7.7	7.5	3.7
Stock used	46.5	48.0	42.0	49.1	19.7
Equipment used	31.3	25.6	34.1	48.3	30.1
Loss	0.0	0.0	0.1	0.1	0
If I can add when I need	0.0	0	0.1	0	
If I can add materials	0.0	0.1	0.1	0	0

There seems to a discrepancy between how small business owners wanted to measure their performance and what they actually measured through their financial records.

For measuring business growth, small business owners used the following indicators:

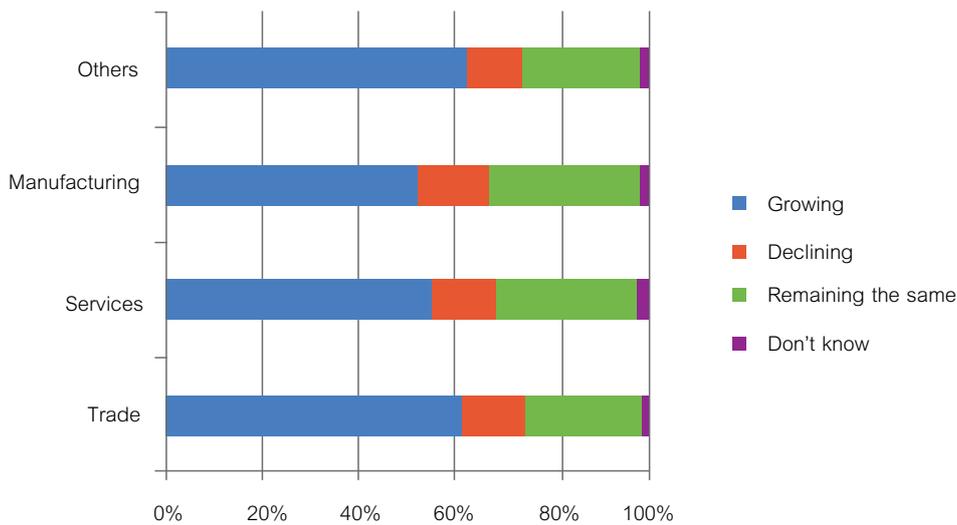
Table 7.11: Business growth measures used by broad sector (%)

	Total	Trade	Services	Manufacture	Others
By increased sales	77.9	79.8	75.5	75.9	73.7
By increased cash in hand	52.5	54.0	49.7	52.8	46.0
By physical expansion	2.2	1.8	2.9	2.4	0
By improved quality	4.8	5.9	2.1	6.4	0
By the ability to compete	1.6	1.7	1.4	2.0	0
By ability to purchase stocks, equipment	11.9	13.2	9.5	12.7	0
By changed lifestyle of owner	4.5	4.4	3.7	7.0	3.0
By increased popularity of brand	1.4	1.4	0.8	2.9	0
Profits	2.3	2.6	2.3	0.9	0
Increased customers	0.5	0.5	0.5	0.9	0
Reduced customers	2.4	1.8	2.8	4.2	3.4
Others	1.6	1.6	1.6	1.5	5.8
None	1.5	1.0	2.5	1.3	1.2

There seems to be less discrepancy between how small business owners wanted to measure growth and what they actually recorded in the financial accounts. In other words, the records of small business owners were better suited to measure growth than performance.

Most small business owners held the view that their business was growing. Overall, small business owners reported the following about the growth of their business:

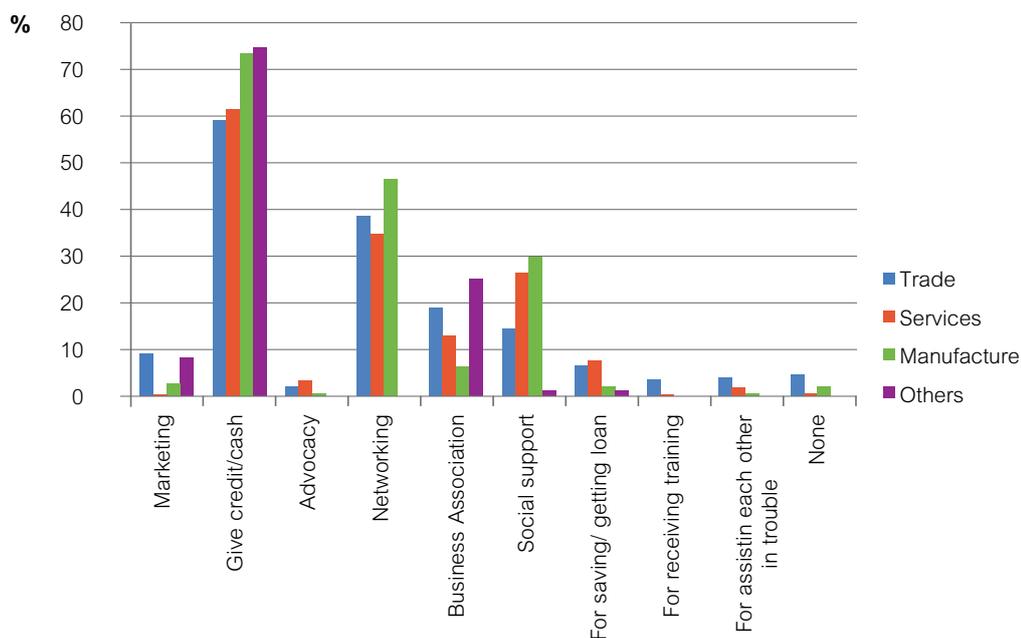
Figure 7.1: Growth assessment by broad sector (%)



7.7 Business Associations of MSMEs

Only about 7.2% of all small business owners were members of a business association. Those involved with business associations reported the following as the key functions of those associations:

Figure 7.2: Activities of business associations by broad sector (%)



The perceived membership benefits largely corresponded with business associations' activities, as seen in Table 7.12:

Table 7.12: Perceived business association benefits by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Providing market information	10.0	13.7	2.9	13.5	0.0
Giving cash/loans	60.4	54.9	67.0	67.9	74.8
Advocacy	6.0	9.6	1.6	0.6	0.0
Networking	29.2	29.5	27.2	19.4	74.8
Support during emergency	36.5	31.2	39.0	39.0	0.0
Personal development	15.4	15.3	13.9	20.2	16.8
Negotiating price discounts, group service	7.0	6.1	6.4	8.4	25.2
Receiving encouragement	0.7	0.9	0.0	1.5	0.0
Improving knowledge and skills	3.6	2.2	7.7	0.5	0.0
Receiving business advice	2.8	4.0	0.0	5.5	0.0
Savings	1.2	1.1	1.9	0.0	0.0
Others	0.2	0.3	0.0	0.0	0.0
None	2.5	2.4	1.7	6.1	0.0

Small business owners who were not members of an association gave the following reasons for not joining:

- I don't know about associations and what they do (23.9%)
- Membership costs too much for joining and maintaining (11.0%)
- There is no association in my area (46.9%)
- They offer me no benefits (10.2%)
- It takes too much time to attend meetings (4.4%)
- My business income is too small for that (3.3%)
- I fear being conned/ they are not faithful (2.6%)
- My business is not developed enough (2.6%)
- I have not decided yet (3.5%)
- I am not convinced by associations (0.9%)
- There is no guidance to join associations (0.9%)
- None (3.1%)

7.8 MSME Owners' Views on Business Practices

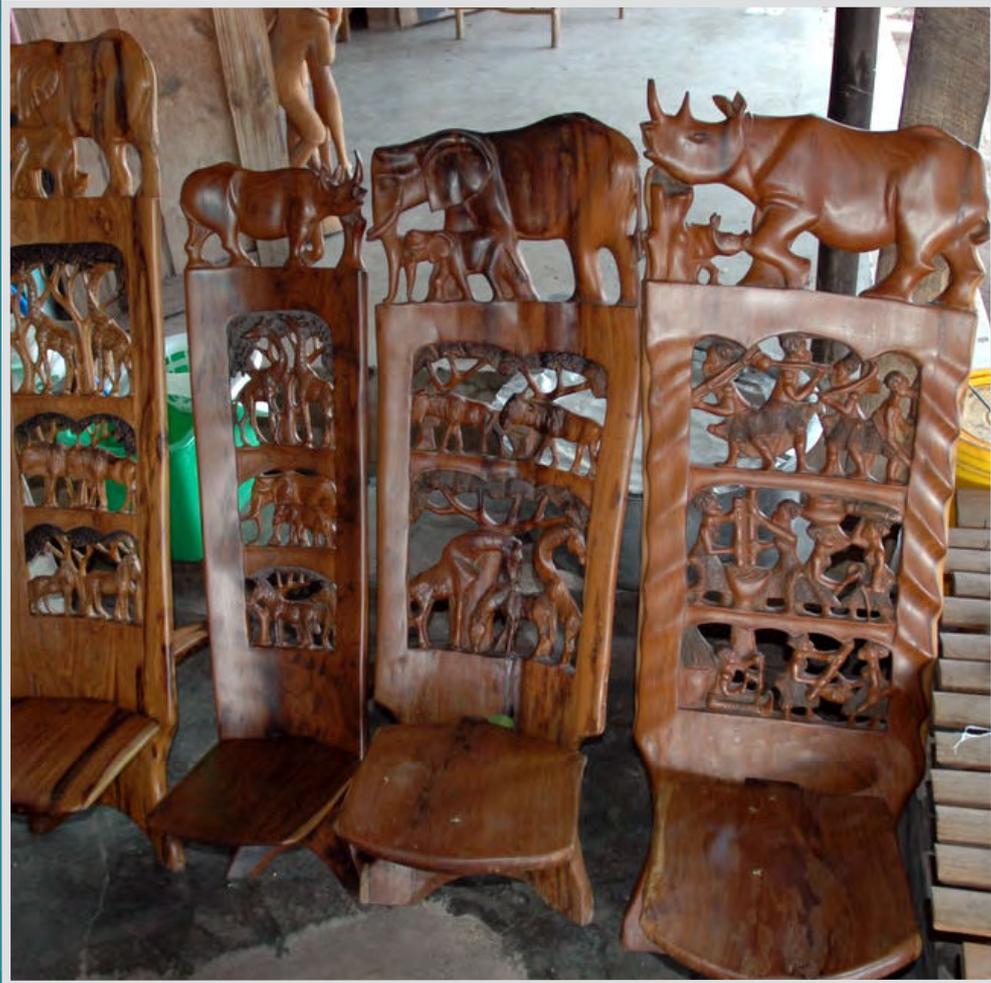
Small business owners were asked about their views on different business practices and strategies. The extent of their agreement or disagreement is shown in Table 7.13:

Table 7.13: MSME owners' views on business practices (%)

	Yes	No
Having drive is more important than doing careful research on business	51.9	44.7
I don't network enough with other business people	16.6	82.9
I am happy to take charge and see things through	96.2	2.9
If I have made up my mind I don't let anything stop me	71.1	27.8
I don't like to act on impulse	86.1	12.9

	Yes	No
I follow tried and tested ways in business	65.8	31.0
I actively look for advice to help me improve my life situation	92.4	7.1
I completed a business plan before starting my business	37.3	58.8
I regularly analyze my competitors	63.9	35.1
I would easily consider venturing into a new business	56.0	41.0

While these answers show a rather positive picture, they contradict the actual practices reported in other parts of the survey.



8. Constraints and Opportunities of MSMEs

Small business owners rated the following three problems as their most critical problems:

Table 8.1: Critical problems of MSMEs (%)

	Most critical	Second most critical	Third most critical
Insufficient working capital	27.3	18.2	45.5
Insufficient market access	8.5	11.1	19.6
Low demand for my products/services	5.9	5.7	11.6
High competition from other businesses	5.3	5.9	11.2
High cost of inputs	4.9	5.3	10.3
Having to keep prices low	2.0	3.7	5.7
Access or cost of finance/credit	3.9	9.5	13.4
Harassment from authorities	1.7	2.1	3.5
Shortage of inputs	2.6	4.2	6.8
Lack of proper working space	1.1	2.0	3.1
Lack of skilled workers	0.3	0.4	0.7
Lack of trusted workers	0.3	0.4	0.7
Lack of access to utilities	1.3	2.9	4.2
Poor roads to business	3.6	5.1	8.7
Lack of management skills	1.8	3.5	5.3
Restrictive laws	0.2	0.8	1.1
Corruption	0.2	0.8	1.0
Crime, theft, disorder	5.5	5.7	11.2
Business licensing and permits	0.5	0.5	1.0
Customers taking products on credit and not paying	5.6	4.3	9.8
Poor sales / shortage of customers	1.6	1.1	2.8
Low profits	0.0	0.1	0.1
Frequent price increases	1.1	0.9	1.9
Taxes being higher than income	0.3	0.7	1.0
Decrease in product quality	0.1	0.1	0.2
Too much exposure to heat	0.0	0.0	0.1
Similar businesses/ no creativity	0.0	0.1	0.1
High cost of transportation	0.7	0.5	1.1
Loss of property in government operations	0.0	0.0	0.0
Lack of unity	0.0	0.2	0.1
Discouragement by some people	0.0	0.3	0.3
Witchcraft	0.0	0.3	0.3
Goods getting destroyed by supplier	0.7	0.6	1.2
Lack of cleaning services	0.0	0.3	0.3
Health problems	0.5	0.4	0.9
Lack of business premises	0.3	0.6	1.0
Lack of communication	0.0	0.1	0.1
Customers not heeding advice	0.0	0.0	0.1
Lack of transport	0.7	0.8	1.6
Disagreement with customers	0.3	0.1	0.4
World economic recession	0.0	0.1	0.1
Lack of working machines	0.1	0.1	0.2
Conning by agents	0.0	0.0	0.0
Weather / climate changes	0.1	0.1	0.2
Fake money	0.0	0.0	0.0
Disability	0.0	0.0	0.0
Major family expenses	0.0	0.0	0.1
Lack of enough sleep	0.0	0.0	0.0
Lack of banking services	0.0	0.0	0.0

	Most critical	Second most critical	Third most critical
None	10.6	19.7	30.7

Small business owners were of the opinion that the government should address the following issues:

Table 8.2: Proposed government actions (%)

	First priority	Second priority	Third priority
Provide access to finance	49.7	19.4	69.1
Provide business services (e.g., information)	11.8	15.8	27.6
Provide/improve infrastructure	11.0	18.4	29.3
Improve skills and training	6.4	14.6	21.0
Ease regulations controlling business	1.6	6.1	7.7
Reform tax system	2.6	6.6	9.2
Create markets for products	6.9	15.5	22.4
Provide better health services for workers	0.2	1.4	1.5
Simplify loan conditions	4.6	0.2	4.8
Reduce product prices	0.4	0.1	0.5
Reduce exploitation	0.1	0.0	0.2
Create awareness of the use of locally produced goods	0.1	0.0	0.1
Improve the economic status	0.2	0.1	0.3
Regulate prices	0.2	0.0	0.2
Regulate counterfeit products	0.1	0.0	0.1
Set aside good business areas	0.4	0.0	0.4
Find customers locally and internationally	0.1	0.0	0.1
Start and develop microfinance institutions	0.1	0.0	0.1
Provide entrepreneurship training	0.3	0.0	0.3
Provide funds and working facilities	0.4	0.0	0.4
Provide security	0.0	0.0	0.0
Give special concern to women in business	0.3	0.0	0.3
Ease availability of goods in rural areas	0.0	0.0	0.0
Visit rural areas to ensure that they have received assistance and loans	0.1	0.0	0.1
Create union of sellers of palm oil	0.1	0.0	0.1
Stop / regulate corruption	0.0	0.0	0.0
None	2.5	29.3	31.8

While most proposed actions are clearly government responsibilities, others should not be taken up by government in a market economy, such as providing funds and financing and ensuring the availability of goods in rural areas.

The agreement or disagreement with the following statements reveals the convictions of small business owners about business in Tanzania.

Table 8.3: Convictions of small business owners regarding business in Tanzania (%)¹²

	Agree	Don't agree	Don't know
I believe my business is going to be more successful in the future	83.5	11.3	5.2
My business is growing too big for me to handle	43.7	53.4	2.9
I think the current economic conditions in TZ are favorable	44.2	48.1	7.7
I believe the Government is creating opportunities for small business	54.3	34.2	11.5
Tanzania has a stable political environment	65.6	25.3	9.1
I enjoy the work I do in my business	88.7	10.5	0.7
The only way to be successful is to take greater risks	83.4	13.1	3.4
I feel I don't have the same opportunities as other people	32.8	65.6	1.6
So far I am satisfied with what I have achieved in my business	51.6	47.8	0.7
I believe that there equal opportunities for men and women	75.0	22.2	2.8

Slightly more women (77.1%) than men (73.2%) agreed with the last statement in Table 8.3.

¹² Numbers do not sum to 100% due to non-response.



9. MSMEs and Business Development Services

9.1 Access to Business Information

To understand how small business owner's access business development services (BDS), it is important to understand from where they get business information. Table 9.1 indicates their main sources of information:

Table 9.1: MSME owners' sources of business information (%)

Source	%
I talk to my spouse/family/relatives/friends	44.8
I talk to my employees	3.3
I talk to my customers	53.3
I talk to my suppliers	20.2
I talk to my bank/SACCO/MFI	0.5
I talk to other business owners	36.9
I talk to a professional consultant	0.6
I talk to government institutions	0.2
I talk to small business support organizations	0.2
I talk to my business partners	4.0
I talk to my mentor/advisor	0.7
I talk to my community/religious leaders	0.2
I talk to my former employer	0.0
I look in the media for it (newspapers, radio, TV)	1.1
I look in the internet for it (free websites)	0.1
I look in the internet for it (payable websites)	0.1
I invent something	1.7
Others	0.4
I don't know	4.6

Small business owners listed their first, second, and third most important sources of information. These are depicted in Table 9.2(only those sources with more than 1.0% as a first priority are ranked).Information on getting loans ranked highest, followed by information on customers / markets and business training.

Table 9.2: Information needs of MSME owners (%)

Information on	First priority	Second priority	Third priority
Ways for getting subsidized loans	29.5	11.6	2.4
Markets and customers	15.9	11.3	2.5
Business training	12.4	9.5	2.5
Availability of products	7.3	4.1	1.1
Where to get capital	5.7	1.8	0.4
Where to find premises with low rent	5.2	4.0	1.4
How to reduce corruption	3.9	2.3	0.6
Product prices	3.7	2.4	0.7
Means of getting equipment	2.0	1.4	0.6
Improve infrastructure	1.2	1.4	0.3
Distributors and investors	1.0	0.6	0.5
Nothing	5.8	44.9	85.1

9.2 Need for Services

The MSME survey asked small business owners about their needs for several types of services. As seen in Table 9.3, small businesses reported the greatest need for financial and marketing services. Roughly equal needs were reported for legal, technical, and security services.

Table 9.3: MSME owners' needs for services (%)

	Business has currently	Business needs, does not have	Business does not have or need
Financial services	6.5	63.1	30.4
Legal services	1.0	26.0	73.0
Technical services	3.5	26.6	69.9
Security services	16.3	26.9	56.7
Marketing services	4.1	58.7	37.2
None	75.7	19.0	0

All small business owners were asked about which BDS they were aware of and whether they knew of service providers for each service. As shown in Table 9.4, all surveyed enterprises also rated the importance of each service to their business.

Table 9.4: Awareness, knowledge, and importance of BDS (%)

	Aware of service	Know provider		Importance		
		Yes	No	Very	Fair	Not
Business management training	20.2	27.6	72.6	56.4	38.1	5.3
Marketing training	10.0	11.0	89.0	35.5	58.5	6.0
Entrepreneurship training	39.4	34.6	65.4	65.8	30.7	3.6
Market information	17.9	15.5	84.5	48.8	49.7	1.7
Farm support services	13.0	19.7	80.3	38.9	43.9	17.2
Business plan development	10.2	20.8	79.2	40.2	57.4	2.3
Advisory service in contracting	7.7	18.0	82.0	29.6	57.9	12.6
Product certification	10.8	29.6	70.4	36.8	53.5	9.7
Accounting bookkeeping	12.0	18.8	81.2	21.3	59.1	19.5
Technical skills training	23.9	35.3	64.7	42.9	40.3	16.8

Entrepreneurship training (65.8%), business management training (56.4%), and provision of market information (48.8%) were the three services regarded as very important. Of those enterprises aware of these services, there is a considerable gap between awareness of the service and knowledge of service providers (Table 9.4). The same services have been received and rated by small business owners as follows:

Table 9.5: Usage and rating of BDS (%)

	Received		Rated as		
	Yes	No	Good	Fair	Poor
Business management training	11.4	88.6	91.0	5.3	3.7
Marketing training	11.3	88.7	87.0	5.5	7.5
Entrepreneurship training	14.5	85.5	80.1	18.4	1.5
Market information	10.6	89.4	76.9	23.1	0
Farm support services	9.0	91.0	85.1	7.7	7.2
Business plan development	12.8	87.2	84.4	8.2	7.5
Advisory services in contracting	13.4	86.6	65.8	25.5	8.1
Product certification	7.7	92.3	86.1	13.9	0

Accounting bookkeeping	8.9	91.1	82.4	9.7	7.9
Technical skills training	18.1	81.9	91.0	8.9	0.2

Compared to the awareness level and importance of BDS, relatively few small businesses had received such services. However, a relatively high percentage of the small businesses that had received services rated them as good. These responses seem to indicate that knowing who provides services is the biggest obstacle to actually using them.

This observation is supported by the responses presented in Table 9.6, which lists owners' reasons for not using BDS. Almost one in three micro enterprise owners stated that they did not know the provider of services, nor did one in five small enterprise owners. For micro enterprise owners, the cost of the service was also an obstacle.

Table 9.6: Reasons for not using BDS (%)

	Micro enterprise	Small enterprise
I have never heard of these services	4.0	0
I don't know who offers these services	27.7	19.1
The service is too expensive	8.5	6.0
Their offices are too far for this business	3.8	6.1
They did not offer these services recently	1.6	2.8
My business is small	1.6	6.8
I have not decided to use services	0.7	0
Education and training on services	0.7	2.6
Services are not available here	0.6	0
Others	0.5	0

Similarly, in the last 12 months, only 2.7% of small businesses had made use of expert advice from outside of the business to improve operations, performance, or productivity. About 37% paid for these services, while 63% did not.

When questioned about organizations that offer advice and assistance to small businesses, small business owners mainly named financial service providers. In total, 81 organizations were mentioned. Organizations mentioned in more than 1.0% of all cases are listed in Table 9.7:

Table 9.7: Known providers of BDS (%)

More than 1.0%	First mention	Second mention	Third mention	Fourth mention
SACCOs	14.8	3.9	2.0	0.5
Pride	8.9	6.2	1.9	0.3
FINCA	5.5	4.9	1.5	0.3
BRAK	2.8	1.4	1.2	0.2
SIDO	2.0	0.6	0.2	0.1
SEDA	1.1	1.1	0.6	0.0
Total number (#)	81	60	50	26
None known	59.5	78.2	90.4	97.8
Made use of services offered	8.8	1.3	0	0

The small business owners who had received services indicated that they had learnt about important issues from these organizations, such as:

Table 9.8: Topics of advice and assistance from BDS providers (%)

Topic	
Accounting and bookkeeping	0.5
Financial budgeting of forecasting	4.6
Knowledge of relevant laws and regulations for small business	4.7
Debt management	36.0
Technical training on goods and services	3.1
Customer relations	2.5
Business management	18.6
How to write a business plan	0.8
How to market a business	5.4
Productivity improvement	2.3
How to save money	4.4
How to get loans	7.3
Education in business and agriculture	2.5
Cooperation and partnership in business	0.5
How to calculate profits	0.7
Other topics	1.7
None	4.4



10. MSMEs and Financial Services

10.1 Financial Literacy

Finance requires a certain level of basic knowledge and understanding, commonly referred to as financial literacy. Table 10.1 shows the degree to which small business owners indicated they were familiar with important aspects of small business finance.

Table 10.1: MSME owners' familiarity with financial terms (%)

	I have never heard of it	I have heard of it but I don't know what it means	I have heard of it and I know what it means
Interest	5.9	23.5	70.6
Insurance	12.1	48.8	39.1
Collateral	6.0	21.3	72.6
Tax returns	38.3	38.1	23.6
JK billions	36.7	50.3	13.0
Credit Guarantee Scheme	31.7	51.3	17.0
Women Loan Fund	21.9	59.7	18.4
Youth Loan Fund	35.5	51.0	13.5
BRELA	50.9	35.9	13.5

The degree to which small business owners translated their financial knowledge into practice is depicted in Table 10.2:

Table 10.2: MSME owners' financial practices (%)

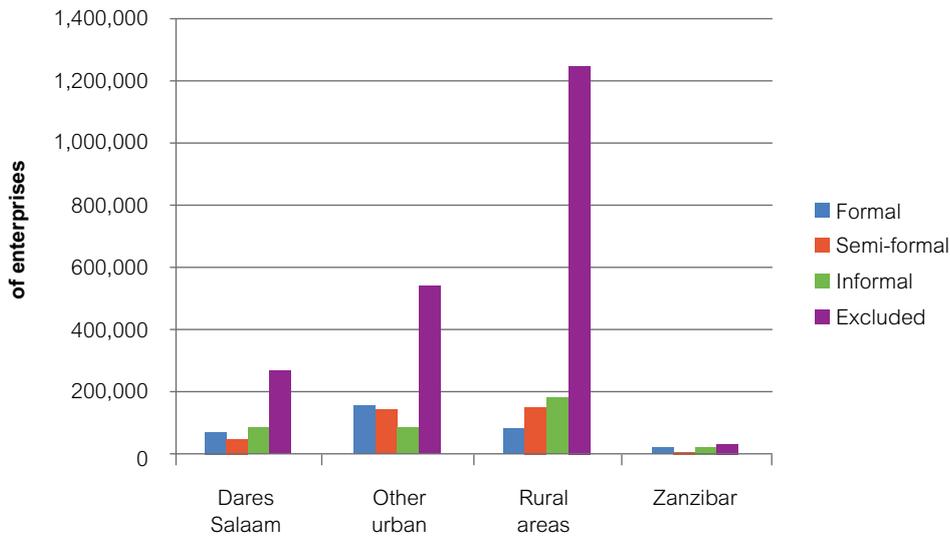
	Yes	No
I pay my business expenses before I pay my home expenses	64.7	35.3
I keep my personal and home transactions separate from my business transaction	91.9	8.1
I know the difference between revenues and profits	97.1	2.9
Revenues are the most important for me to track to know how much money I can take out of business	93.9	6.1
I would pay my loan first before all personal expenses to avoid penalties and loss of collateral	87.3	12.7

10.2 Strands of Financial Access

The small business owners who access finance can be categorized into different groups according to their strand of financial access (e.g., formal, semi-formal, informal, or excluded). Small business owners are considered to have formal access if they hold an account or have some sort of relationship with a financial institution that is supervised by a financial services regulator. Semi-formal access comprises small business owners who use financial services from organizations that are formally registered but not supervised by financial service regulators. Such organizations include SACCOs, microfinance organizations, and mobile phone payment companies. Informal access characterize small business owners who use products of associations or groups such as ROSCAs, VICOBA, VSLAs, family and friends, small businesses, and money lenders. The excluded strand comprises all small business owners who have no dealings with any organization of the other strands.

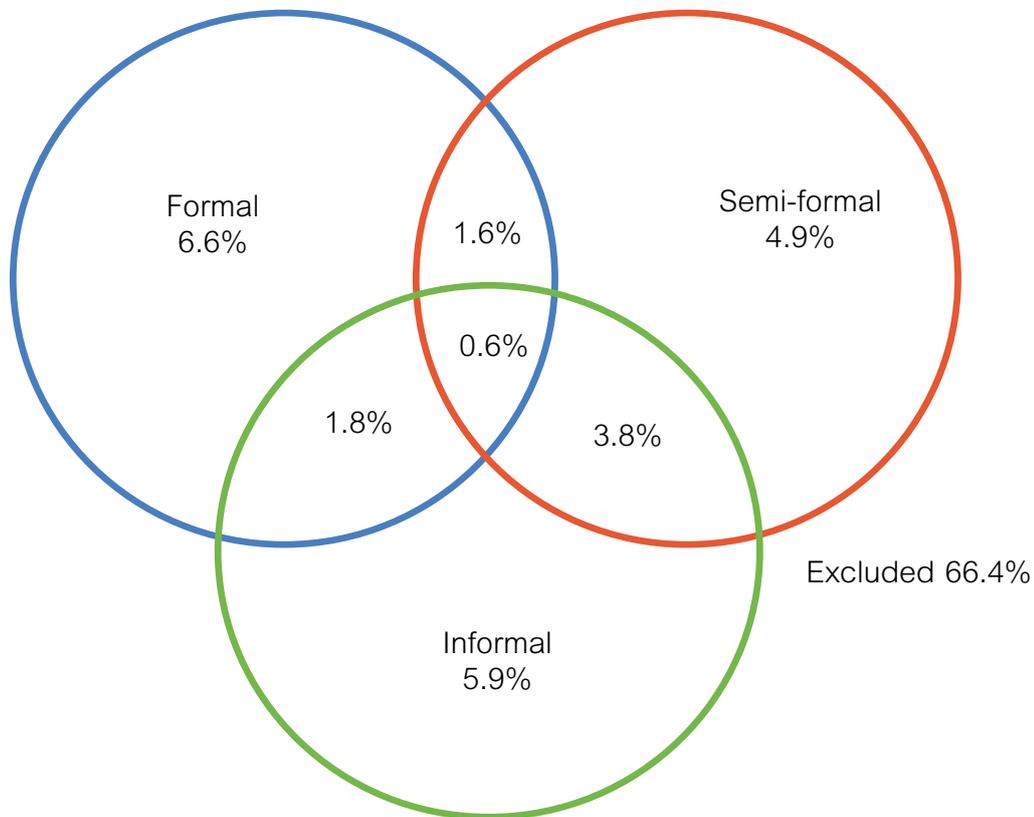
About 10.6% of the surveyed small business owners had formal access, 10.9% had semi-formal access, 12.1% had informal access, and about 66.4% were excluded. The regional distribution of the access strands is shown in Figure 10.1.

Figure 10.1 Strands of financial access by area (#)



There was a certain degree of overlap in access as shown in Figure 10.2, meaning that some owners accessed finance from more than one source:

Figure 10.2: Overlap of financial access levels



The personal characteristics of small business owners in the different levels of access are described in Table 10.3:

Table 10.3: Personal characteristics of MSME owners by level of access (%)

	Formal	Semi-formal	Informal	Excluded
Male	13.2	11.1	8.3	67.3
Female	8.4	10.6	15.2	65.7
16 to 24 years	4.5	6.7	12.8	76.1
25 to 34 years	9.3	10.1	12.3	68.3
35 to 44 years	12.0	13.0	13.0	62.0
45 to 54 years	16.6	11.1	12.5	59.8
55 and older	7.5	11.7	4.7	76.1
Some primary school	3.8	9.6	14.0	72.6
Primary completed	9.0	11.3	11.8	67.9
Technical training	17.1	22.1	9.4	51.4
Some secondary school	22.3	13.9	14.6	49.6
Secondary completed	35.3	6.9	12.6	45.2
University	63.5	3.6	2.3	30.6

The corresponding business characteristics of the surveyed MSMEs are shown in Table 10.4:

Table 10.4: Business characteristics by level of access (%)

	Formal	Semi-formal	Informal	Excluded
Formal enterprises	41.3	10.6	6.7	41.4
Informal enterprises	6.5	10.9	12.8	69.8
Trade	12.2	12.4	11.6	63.8
Services	8.6	8.3	14.5	68.7
Manufacture	9.1	10.2	8.9	71.8
Others	0.4	21.5	0.9	77.2
TIN number	59.7	6.6	4.7	28.9
Keeping accounts	19.6	14.5	12.2	53.6
Association members	22.6	31.5	23.8	22.1

10.3 Banking

Table 10.5 shows the number of small business owners with bank accounts in various banks:

Table 10.5: MSME owners with bank accounts by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
CRDB	46,427	11,885	21,921	12,621	0
NBC	43,884	12,408	20,235	4,763	6,478
NMB	143,286	22,712	77,945	39,262	3,367
Exim Bank	7,969	1,154	6,245	570	0
ACB	8,575	6,770	1,804	0	0
Twiga Bank	1,604	1,604	0	0	0
Barclays Bank	2,620	802	1,200	0	948
Umoja	2,585	2,089	0	496	0
Postbank	6,734	2,657	1,758	267	2,052
Stanbic Bank	1,705	428	1,277	0	0
KCB	589	0	589	0	0
EFATA Bank	732	0	732	0	0
MCB	3,329	0	1,934	1,395	0
BOA Bank	183	0	183	0	0
BW Tandahimba	0	0	0	0	0

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Azania Bank	2,399	0	2,399	0	0
MuCoBa	1,863	0	690	1,174	0
SACCOs	164	0	0	164	0
TWB	428	428	0	0	0
POZ	4,210	0	0	0	4,210
None	4,435	1,394	1,525	945	471

Small business owners who were bank customers reported the following usage of various banking services:

Table 10.6: MSME owners' usage of bank services (#)

	Aware of services	Currently using services	Previously used services	Never used services
Savings account	253,110	208,403	7,219	37,488
Current account	199,500	43,112	12,484	143,903
ATM card/ Debit card	244,723	206,086	8,772	29,865
Fixed deposit account	154,159	2,032	5,646	146,481
Mobile banking	225,190	48,048	4,431	172,712
Internet banking	110,982	428	767	109,787
Overdraft facilities	111,895	4,314	263	107,317
Postbank account	213,322	5,294	14,512	193,516
JK funds	208,862	1,008	2,604	205,250

Small business owners in Dar es Salaam and other urban areas reported the shortest time (in minutes) to get to their bank from their business location. While the overall average was 49.25 minutes, MSME owners in Dar es Salaam reported that their commute to a bank was 29.70 minutes; those in other urban areas took 29.91 minutes. In rural areas, the average commute to the bank was 104.13 minutes, while in Zanzibar, it took owners an average of 53.39 minutes.

Small business owners with formal access operated bank accounts (by definition), and where thus asked about their perceptions of bank services. Their responses are shown in Table 10.7:

Table 10.7: Perception of bank services by MSME owners with formal access (%)

	Agree	Don't agree	Don't know
The bank charges are very high	53.0	43.4	3.6
The people at my bank are very helpful	84.9	14.5	0.6
The bank explains how things work	76.7	20.3	3.0
It takes very long for the bank to process my request	33.4	65.1	1.5
Queues in my bank are too long	72.8	26.6	0.6
Banks have products and services designed for businesses like mine	45.5	42.3	12.2
Banks are only interested in big business	29.8	65.0	15.2
It is difficult to open a bank account	17.2	82.6	0.1
You have a good relationship with your bank	86.0	11.4	2.5
You would like to change to another bank but you don't know if they would accept you	21.7	73.3	5.0
Banks are not understanding when you can't make your repayments	58.7	29.3	12.0
You could manage fine without a bank account	35.9	62.5	1.6
Staff at banks have a good product knowledge	82.5	12.5	5.0
Bank provide good services	83.8	14.7	1.5
You trust banks	95.4	3.8	0.8

Those MSME owners (semi-formal, informal, and excluded owners) who had never had a bank account for the business gave the following reasons for not having one:

Table 10.8: Reasons for not opening a bank account (%)

Reasons	%
My business income is not regular or too small	77.9
Banks are too far from where I work	12.7
I don't have a permanent address for my business	0.4
I don't qualify to open a bank account	3.1
Bank charges on a business account are too high	1.4
I can't afford the minimum balance for two accounts (personal and business)	1.1
I can't afford the bank charges for two accounts (personal and business)	0.9
My business does not generate enough money to justify a separate account	5.0
I didn't register my business	0.7
It is too complicated to have a business account	3.9
I don't need a business account, personal account satisfies my needs	1.5
Bank forms are too difficult to understand	0.8
Business and personal money are the same	10.4
I have not planned to join a bank	4.1
I don't need a bank account because my money is always in circulation	1.5
I don't know how to open a bank account	2.2
I am now aware about the importance of a bank account	2.8
Others	2.0
I don't know/ refuse to answer	4.2

All small business owners were asked how banks could assist them. Their responses are shown in Table 10.9:

Table 10.9: MSME owners' expectations of bank services (%)

Service	%
Help me to understand benefits of different business products	5.0
Help me to understand how to invest money	8.9
Simplify loan conditions	16.8
Give me tips on running my business	18.5
Give me loans	76.8
Link me to other customers	5.7
There is no role they can play	1.6
To give education on the use of loans in business	0.5
To give me a place to do business	0.7
Open bank branches that offer credit in villages	0.5
Others	3.2
I don't know	5.5

10.4 Credit and Loan

During startup, 9.8% of small business owners took a loan from different sources (9.7% were micro enterprises and 12.5% were small enterprises). Of the formal enterprises, 21.1% received a startup loan, as did 40.6% of semi-formal enterprises, 25.4% of informal enterprises, and 0.1% of excluded enterprises. By broad sector, 10.9% of enterprises in trade received a startup loan, compared to 9.9% in services, 5.6% in manufacturing, and 1.3% in other sectors.

Small business owners received loans from a variety of sources, corresponding to the access strands described earlier:

- Loan from bank (10.3%)
- Loan from microfinance institution (29.2%)
- Loan from former employer (0.0%)
- Loan from SACCO (14.3%)
- Loan from Village Bank (0.3%)
- Loan from local government (1.2%)
- Loan from family and / or friends (35.3%)
- Loan from savings club (1.5%)
- Loan from money lender (3.1%)
- Loan from supplier (1.6%)
- Loan from donor / NGO (7.5%)
- None (1.1%)

MSME owners reported the following main purposes for taking out startup loans:

Table 10.10: Purposes for taking out startup loans by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Purchase of tools, machines	13.3	10.5	15.2	27.3	0.0
Restocking products	18.5	19.6	17.8	11.9	100.0
Rent	0.9	0.7	0.6	4.3	0.0
Expansion to new location	18.7	17.7	19.6	23.0	0.0
Running expenses	9.6	7.0	17.2	0.0	0.0
Repay a loan	0.4	0.6	0.1	0.0	0.0
Purchase land	1.2	1.9	0.0	0.0	0.0
Increase capital	15.6	20.5	8.9	2.4	0.0
Increase equipment	1.4	1.2	1.0	4.4	0.0
Relocate business	0.2	0.1	0.5	0.0	0.0
To start business	29.3	32.1	26.1	20.5	0.0
Begin farming	0.8	0.8	0.3	3.1	0.0
None	3.7	2.8	5.7	3.5	0.0

About one in five small business owners reported that they had taken out a loan in the last 12 months before the MSME survey, while one in two had tried to do so:

Table 10.11: Loan applications and usage in last 12 months by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Taken a loan	19.2	19.7	20.1	14.5	45.0
Tried to get a loan	51.5	52.2	48.0	52.5	97.9

About 4.8% of small business owners reported that they did not experience any problem getting a loan. Those that did reported facing the following main difficulties when they tried to borrow money:

- I didn't know where to go (0.1%)
- I didn't have the right documentation (2.2%)
- I didn't have collateral (6.7%)
- There was nobody to help me to apply for a loan (4.0%)
- They would not give me the amount I needed (9.7%)
- It took long time (28.6%)
- I didn't understand the process/forms/language (3.3%)
- I was asked for a bribe (4.4%)
- High interest rates (2.2%)
- Short loan repayment period (0.4%)
- Cost of following up/getting a loan is high (2.2%)
- Hard / many conditions for getting a loan (5.0%)
- Unfaithfulness of bank staff (0.9%)
- Others (0.1%)
- None (5.5%)

About 57.5% of small business owners had to offer some security when they requested a loan. They offered a variety of securities, as shown in Table 10.12.

Table 10.12: Security offered for loans (%)

	Yes	No
My land	12.4	87.6
My house	26.9	73.1
My car	2.0	98.0
My business	14.6	85.4
My word / promise	7.0	93.0
My shares	8.5	91.5
My television	3.4	96.6
My cupboard	2.4	97.6
Cash money	17.3	82.7
My radio	0.4	99.6
My sofa sets	2.0	98.0
My cattle	1.1	98.9
Salary information	0.1	99.9
My bicycle	0.7	99.3
Group guarantee	0.7	99.3
Others	0.1	99.9
None	10.9	89.1

Small business owners who had never borrowed money for their business gave the following reasons:

Table 10.13: Reasons for not borrowing by access strand (%)

	Formal	Semi-formal	Informal	Excluded
I don't need a loan	18.5	8.7	9.4	8.7
I am afraid to borrow because business is slow	25.5	32.2	37.1	30.2
I tried and was turned down	2.0	2.8	2.8	1.4
I don't qualify	5.0	7.8	7.4	5.3
I don't have collateral	6.4	7.5	6.1	5.7
I don't want to risk my collateral	6.9	2.5	0.6	1.6
My earnings fluctuate every month	5.0	6.6	16.1	6.5
I am scared	30.0	17.3	27.1	22.9
High interest rate	5.0	3.4	1.5	2.5
I had my own capital	1.4	5.3	0.8	0.7
My capital is small	0.6	0.4	0.7	1.6
I don't know where I can get a loan	4.4	5.5	3.8	6.8
I hate the disturbance	1.8	0.2	0.2	0.6
I fear debts	1.3	0.0	0.5	0.4
I don't have education on loans	2.6	4.3	2.2	3.3
Difficult loan conditions	3.8	3.7	1.5	3.5
I have not found good location	0.3	0.7	0.6	1.1
There are no loan institution	1.1	7.4	6.1	12.7
I need to understand my business before I take a loan	1.1	4.7	1.3	2.6
Others	0.8	2.1	1.5	1.8
I don't know	4.1	6.6	4.4	5.1

It is interesting to note that very few small business owners have actually been refused a business loan, even by banks. The question "Have you ever been refused a loan?" was answered affirmatively by a relatively low percentage of small business owners (Table 10.13).

Table 10.14: MSME owners refused a loan by access strand (%)

	Formal	Semi-formal	Informal	Excluded
By a bank	8.1	6.3	1.1	0.3
By a MFI	2.0	2.9	2.0	1.3
By a SACCO	1.7	1.4	1.7	0.5

In about 80% of cases, those refused loan applicants were not given the reasons for loan refusal. Other respondents reported a variety of reasons for not getting a loan that they were either told or that they believed (Table 10.14):

Table 10.15: Possible reasons for loan refusal (%)

	Yes	No
They never told me the reasons	20.9	79.1
I didn't have the right documents	18.1	81.9
I didn't have collateral	25.0	75.0
I didn't have a deposit	2.4	97.6
I didn't have a (good) track record	3.3	96.7
I had no business plan	1.1	98.9
Business is not registered	7.5	92.5
Business was said to be too risky	5.3	94.7
The loans section had run out of funds	3.1	96.9
I don't have a bank account	0.6	99.4

	Yes	No
There is no bank where I live	1.0	99.0
Loans are given with a lot of discrimination/nepotism	3.6	96.4
I did not have the required qualifications	5.3	94.7
The conditions were difficult to meet	7.8	92.2
None	14.6	85.4

The need for business loans among the surveyed owners was very high. Notably, the need for loans for ongoing businesses were different from the needs associated with starting the business. About 81.5% of small businesses reported needing a business loan for the following purposes:

- Purchase of machinery/tools (9.0%)
- Restocking of products (52.2%)
- Payment of rent (0.7%)
- Expansion to new location (45.6%)
- Payment of running expenses (8.0%)
- Repayment of another loan (0.2%)
- Purchase of land (1.2%)
- To find another business (3.8%)
- Increase my capital (14.4%)
- Improve my business environment (2.6%)
- For agriculture (1.5%)
- Others (1.0%)
- None (1.0%)

About 87.1% of small business owners perceived loans as the best way to grow a business. When asked specifically about their perceptions about loans, MSME owners responded that:

Table 10.16: MSME owners' perceptions about loans (%)¹³

	Yes	No	Don't know
My business does not need a loan	17.3	82.6	0.1
I don't like taking loans	15.5	84.2	0.3
I am afraid of taking a loan due to stress	28.8	70.6	0.6
I am afraid of taking loans because I don't want to lose my collateral	25.4	73.8	0.8
I don't take loans because I don't want to risk my collateral	18.1	81.1	0.9
I will not take a loan because I do not believe in paying interest	19.5	79.2	1.3
Before I apply for a loan I work out how much I can afford to borrow	90.2	8.0	1.7
I don't take loans because I don't have collateral	20.2	78.4	1.4

¹³ Numbers do not sum to 100% due to non-response.

10.5 Saving and Investment

A large number of small business owners reported that they saved for business purposes. This was true across all access strands, although the mode of savings varied, as seen in Table 10.16:

Table 10.17: Mode of savings by access strand (%)

	Formal	Semi-formal	Informal	Excluded
Purpose of saving				
Saving for business	97.0	85.8	89.9	72.6
Where do you save?				
Bank account	90.3	0.0	0.0	0.0
With SACCO	3.5	16.7	0.0	0.0
With MFI	0.1	5.4	0.0	0.0
Give to household member to keep	3.9	11.1	5.7	8.3
Give to somebody else to keep	0.3	1.2	1.4	1.5
Keep in secret place	22.3	51.4	60.4	76.4
Kibubu	5.2	22.8	28.4	24.5
Naweka katika mchezo ¹⁴	4.3	7.0	38.3	0.0
Others	0.2	2.2	0.9	1.2
None	0.0	0.7	0.4	0.4

Naweka katika mchezo¹⁴

Most small business owners used the money that they made in the business for meeting households expenses, but many also invested it back into their business.

Table 10.18: Purposes for saving by access strand (%)

	Formal	Semi-formal	Informal	Excluded
Pay household expenses, school fees	85.2	86.4	84.5	85.3
Buy stock in advance	52.8	35.4	45.8	40.6
Invest in business equipment	1.5	3.7	0.2	0.9
Invest in houses, land	14.0	12.5	12.3	6.3
Buy shares	0.5	1.1	0.2	0.1
Invest in other or new business	8.5	2.9	4.4	1.7
Invest in Treasury Bills	0.1	0.0	0.0	0.1
Invest in pension/retirement plan	1.2	0.1	0.2	0.2
Invest in cattle, livestock	6.8	8.9	8.2	8.8
Expand business	22.9	22.2	17.8	17.0
Invest in somebody else's business	0.1	1.0	0.0	0.1
Invest in agriculture	4.1	4.4	7.0	4.0
Save	3.9	1.3	0.6	1.3
Personal use	0.2	1.6	0.1	0.7
Others	2.7		2.3	0.9
None	0.1	0.1	0.0	0.2

¹⁴ Swahili phrase that translates to, "Put the money into merry-go-round."

About 10.8% of small business owners were members of a savings club. Savings clubs were mainly perceived positively by those with semi-formal and informal levels of access, as shown in Table 10.18:

Table 10.19: Reasons for being a savings club member by access strand (%)

	Formal	Semi-formal	Informal	Excluded
For getting cash	44.6	38.3	48.4	0.0
It is the only loan facility available for my business	38.5	37.9	29.1	0.0
It is a requirement for businesses at my location	7.1	2.3	0.5	0.0
For supporting each other	53.2	62.7	55.3	0.0
For saving my business money	0.9	2.2	4.5	0.0
For having regulations that I can meet	0.0	0.0	0.6	0.0
For educating on how to do business	0.0	2.1	0.0	0.0
For giving advice	0.9	0.5	0.5	0.0
For expanding my business	0.0	1.4	1.1	
For getting funds to pay house rent	0.0	0.0	1.8	0.0
None	2.1	1.3	2.1	0.0

10.6 Insurance

Small business owners identified various risks that could affect their business as follows:

Table 10.20: Business risks by broad sector (%)

	Risk perceived	No risk perceived	I don't know
Theft	66.3	32.7	1.0
Flooding	16.5	81.2	2.3
Accidents	49.9	47.3	2.7
Fire	46.9	50.7	2.4
Drought	29.7	66.0	4.3

Only 4.4% of small businesses had ever bought an insurance policy (formal access). Of those who had, a variety of types of policies were held by small business owners, as shown in Table 10.20:

Table 10.21: Types of insurance services used by formal MSME owners (#)

	Have now	Used to have
Fire	36.6	47.5
Workman compensation	5.9	53.6
Retirement pension	8.9	53.6
Property (machines, premises)	11.9	53.6
Comprehensive vehicle insurance	67.9	7.2
Loan	8.6	45.0
Vespa	3.2	0.0
None	0.0	41.6

Small business owners who had never had an insurance policy gave the following reasons:

- I don't know about insurance (34.1%)
- I don't how to go about buying insurance coverage (33.2%)
- I never thought about it (20.7%)
- I don't believe in it (4.0%)

- The insurance company makes excuses for not paying claims (0.8%)
- I don't have anything that justifies the expense of insuring (12.6%)
- There is no insurance product that meets my needs (1.0%)
- I have money saved for it, in case something goes wrong (0.7%)
- The cost of insurance is more than the anticipated risk (3.6%)
- My business is not exposed to risks that demand insurance (6.8%)
- Insurance companies are not trustworthy (0.2%)
- My business is small (4.8%)
- I don't have money to pay for insurance coverage (1.3%)
- Insurance services are not available in my area (0.8%)
- I am not educated about insurance (1.1%)
- Others (1.7%)
- None (0.8%)

As only very few small businesses were insured, small business owners were asked how they would cope with a risk situation if it occurred:

- I would sell my business or some business assets (2.6%)
- I would sell personal assets or dispose of agricultural crop or livestock (11.4%)
- I would cut down on business expenses (3.1%)
- I would ask for donations from church/mosque (2.6%)
- I would apply for a government grant (4.1%)
- I would borrow money from relatives/friends (42.6%)
- I would borrow money from other small businesses (5.5%)
- I would borrow money from the bank (4.6%)
- I would borrow money from other sources (e.g., saving club) (4.6%)
- I would take my savings from the bank or other financial provider (5.2%)
- I would take my savings from my secret hiding place (28.6%)
- I would draw cash from financial instruments (shares, bonds, etc.) (0.3%)
- I would postpone plans to pay for something else (0.7%)
- I don't have anything in place (15.7%)
- I would start afresh (0.9%)
- I would do casual work and save (0.7%)
- I would be given money by my spouse (1.1%)
- I would involve myself in other activities like farming, fishing, rearing cattle (3.5%)
- Others (2.8%)
- I don't know (3.3%)

10.7 Hire Purchase / Leasing

Hire purchase of machinery, leasing of machinery, hiring machinery for cash (renting), or hiring for exchange with other products/services were practices not commonly used by small businesses, as seen in Table 10.21:

Table 10.22: MSME owners' usage of hire purchase and leasing (%)

	Currently use	Previously used	Never used
Hire purchase	1.7	3.3	95.0
Leasing	0.9	2.2	96.9
Hiring for cash	2.5	4.1	93.5
Hiring for exchange with another service or product	1.0	3.3	95.7

10.8 Money Transfer

Many small businesses reported that they had sent or received money for business purposes. The method of transfer varied with the access strand as follows:

Table 10.23: Methods of money transfer by access strand (%)

	Formal	Semi-formal	Informal	Excluded
Transfer of money	46.3	34.8	20.0	7.4
Method of transfer				
Through post office	5.5	0.0	0.0	0.0
Through mobile phone	22.2	63.4	0.0	0.0
Through voucher transfer	7.2	13.3	0.0	0.0
Through money transfer companies (Western Union)	2.6	0.8	0.0	0.0
Through bank transfer	65.4	0.0	0.0	0.0
Through bus or public means	10.3	13.1	55.0	0.0
By sending someone with the money	24.3	41.7	74.8	97.8
Others	0.0	0.0	0.1	0.1
None	0.0	0.9	0.7	1.9

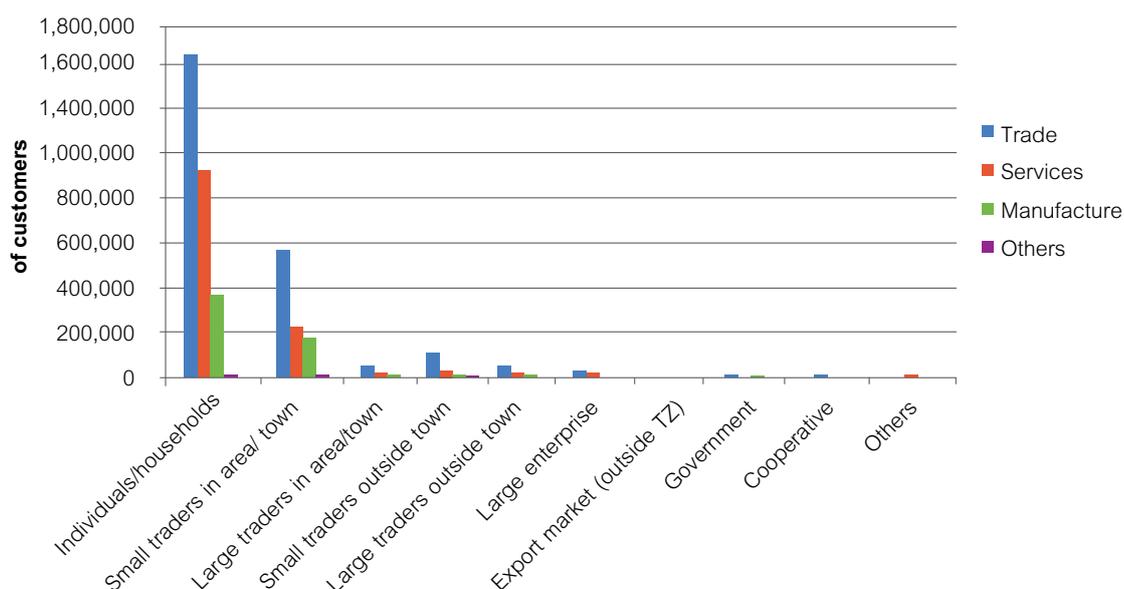


11. MSME Markets

11.1 Customers

The customers of small business were mainly individuals, households, and farmers. They also traded with other small traders and to a lesser extent with large traders or large enterprises. Government and cooperatives were not important customers for the small businesses surveyed. Export was quite insignificant.

Figure 11.1: Types of MSME customers by broad sector(multiple answers)



In fact, most small business customers came from the local area or ward; very few customers came from outside of the district or region (Table 11.1):

Table 11.1: Location of MSME customers by broad sector (%)¹⁵

	Total	Trade	Services	Manufacture	Others
Local area/ward	74.5	69.6	81.6	80.5	26.4
District/ region	22.1	26.4	15.4	17.9	66.0
Throughout TZ	2.2	2.6	1.9	1.3	7.6
Outside of TZ	0.3	0.4	0.4	0.1	0
None	0.9	1.0	0.7	0.2	0

Most small businesses sold directly to final consumers (95.5%). Only a few businesses used an agent or sold through partnerships with other businesses or through cooperatives.

Most customers (80.3%) came to the business. About one in ten (8.9%) small businesses visited their customers. About 10.8% of businesses were both visited by and visited their customers. When visiting customers, small business employees primarily went by foot (45.1%), by bicycle (27.9%), or by bus (15.5%).

¹⁵ Numbers do not sum to 100% as multiple answers were possible.

Small businesses took payment primarily in the form of cash (99.8%). There were a very few exceptions when in kind payment in the form of products or food were accepted in lieu of cash.

Many small businesses reported that they did not know much about their customers. For example, more than 26% of small business owners did not know how many customers they had per day on average, and 89.3% could not tell how many costumers they had per month on average. To the best of their knowledge, small business owners believed that only 25.8% of their customers were repeat customers.

Over half (56.8%) of all small businesses did not advertise at all and those that did relied mostly on word of mouth (41.4%). Only about 4.3% used other advertising tools, although they did offer a variety of promotional tools, such as:

Table 11.2: Promotional tools used by MSMEs by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Sale on credit	50.9	49.4	51.9	54.5	56.6
Discount on volume	40.8	44.0	33.5	45.0	22.7
Training on product	0.8	0.9	0.8	0.6	0.0
Advice on product	1.8	2.2	1.2	1.6	0.0
Replace bad products	1.0	1.4	0.2	0.9	0.0
Bags for carrying	1.6	2.1	1.1	0.2	0.0
Others	1.4	1.1	1.6	0.0	0.0
None of these	27.6	26.4	31.5	24.1	23.9

Small businesses that offered sale on credit reported that they had experienced bad debts in 31.1% of all cases. They reported that when that happened, they took the following actions:

Table 11.3: Action taken to recover bad debts (%)

Action	%
I do nothing	50.8
I refuse to give credit in future	23.5
I borrow money to meet the shortfall	2.4
I hold back paying workers and other expenses	0.4
I sell assets	0.3
I make an effort to remind them	6.2
The customer pays interest	0.1
I report them	5.9
I use products until he pays	0.9
I continue requesting for repayment	6.1
I use saved money	1.1
Others	0.1

In terms of their credit policy, small businesses claimed to apply the following principles (although these statements are somewhat contradictory to the actions listed in Table 11.3):

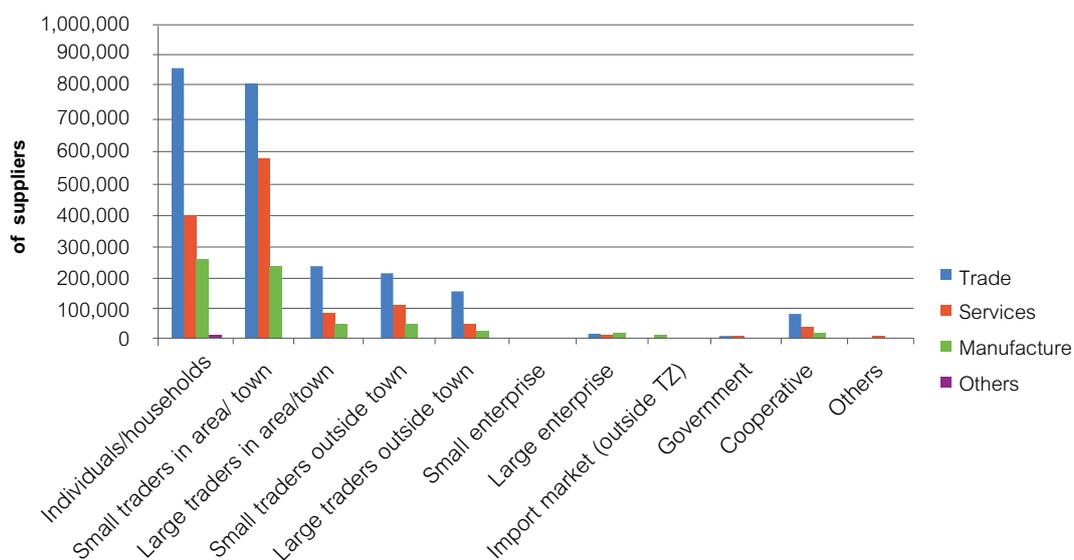
Table 11.4: MSME owners' statements on their credit policy by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Strictly cash/ No credit	34.4	33.8	36.3	32.9	28.8
Credit only to trusted customers	64.3	64.6	63.0	66.0	71.2
Credit only to customers with collateral	0.5	0.5	0.3	0.9	0.0
Others	0.6	0.9	0.2	0.2	0.0
None	0.2	0.1	0.2	0.0	0.0

11.2 Suppliers

Most suppliers of small businesses were individuals or households and small traders, but large traders also played an important role, as seen in Figure 11.2:

Figure 11.2: Types of suppliers to MSMEs by broad sector (#)



Just like customers, suppliers also mainly came from the same ward, district, or region as the small business. Thus, local and regional markets were the most important for MSMEs.

Table 11.5: Location of suppliers to MSMEs by broad sector¹⁶ (%)

	Total	Trade	Services	Manufacture	Others
Local area/ward	49.4	38.7	62.1	62.9	80.4
District/region	46.1	55.1	35.9	33.5	14.8
Throughout TZ	4.3	5.9	2.0	3.3	4.8
Outside of TZ	0.2	0.3	0.0	0.3	0.0

¹⁶ Numbers do not sum to 100% as multiple answers were possible.

Small business owners identified suppliers in rather traditional ways, mainly through referral by friends and colleagues. Media, internet, and business associations did not play an important role (Table 11.6):

Table 11.6: Sources of information on suppliers by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Referral by small business	54.9	56.9	50.6	56.2	61.0
Referral by friends	52.1	51.6	51.6	54.8	63.3
Radio, TV, newspapers	1.4	1.4	1.6	0.8	0.0
Internet/website	0.1	0.1	0.0	0.1	0.0
Business association	0.4	0.6	0.1	0.2	0.0
I searched myself	6.2	6.4	6.6	3.9	8.9
I got it from my neighbor	0.7	0.7	0.9	0.2	0.0
I knew from the start	1.2	0.7	1.8	1.5	13.9
I saw suppliers	3.2	2.7	4.3	3.8	0.0
Others	0.6	0.6	0.8	0.0	0.0
None	1.1	0.5	1.8	1.4	10.8

About 15.2% of MSMEs suffered delivery delays by their suppliers. The reasons for the delays were manifold, as given in Table 11.7:

Table 11.7: Reasons for delay in supply by broad sector (%)¹⁷

	Total	Trade	Service	Manufacture	Others
Supplier had no stock	72.6	71.0	73.3	78.7	90.5
Supplier had no transport	30.2	32.6	29.0	17.9	75.7
I was unable to pay in time	3.3	2.2	4.7	6.4	0.0
Lack of communication	8.1	10.8	3.3	3.3	0.0
Poor roads	5.9	7.2	3.2	4.4	0.0
Products are insufficient	2.1	2.6	0.4	2.4	0.0
Supplier has too many orders	1.0	0.8	0.6	2.4	9.5
Increase in prices	0.5	0.6	0.5	0.0	0.0
Supplier not faithful	0.9	1.2	0.3	0.8	0.0
Others	0.4	0.4	0.7	0.2	0.0
No apparent reason	4.9	5.3	5.2	3.0	0.0

MSMEs' response to delays was rather passive, as many small business owners did nothing or got products from other suppliers, even at higher costs. Their behavior could partly be attributed to their weak market position.

About one in four small businesses had received discounts on inputs and purchased inputs on credit. It should be noted that small businesses extended more services to their customers than they received from their suppliers.

¹⁷ Numbers do not sum to 100% as multiple answers were possible.

Table 11.8: Services offered to MSMEs by suppliers by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Discount on volume	30.6	34.9	24.5	27.7	7.1
Purchase on credit	9.2	8.4	11.5	7.3	1.8
Additional services are included in price	1.6	2.2	0.8	0.4	4.8
Advice/training	2.6	2.8	1.9	3.1	0
Maintenance of products	1.7	1.6	1.2	3.1	0.4
Small loans	3.8	3.9	3.9	1.9	30.8
Take back damaged or expired products	1.7	2.1	0.6	2.7	0
Provide transport	1.2	1.5	0.9	0.4	0
Others	0.7	0.7	0.6	0.2	30.4
None	58.1	54.7	62.1	62.7	57.7

Most small businesses (94.5%) bought their products directly from manufacturers or dealers (Table 11.9). Only a few bought through agents or were in partnership with other businesses. About 98.7% of small businesses paid in cash and the rest through other means.

Table 11.9: Supply channels of MSMEs by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Directly from manufacture dealer	94.5	95.2	93.6	94.3	81.8
Buy through agents	3.9	4.2	3.0	4.4	0
Buy in partnership with other business	6.1	6.2	6.1	6.0	0
Member of cooperative	0.2	0.3	0.1	0	0
Others	0.6	0.7	0.2	1.1	5.1
None	0.3	0.1	0.3	0.7	13.1

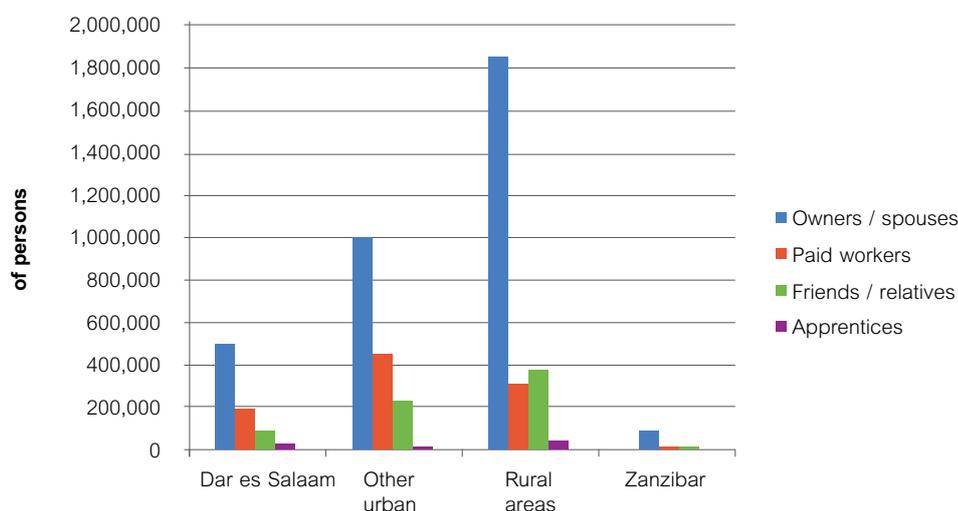


12. Employment in the MSME Segment

12.1 MSMEs' Contribution to Employment

According to the MSME survey, the small business segment employed more than 5.2 million people in Tanzania, as shown in Figure 12.1. Employees were categorized as owners/spouses, paid workers, friends and relatives, and apprentices.

Figure 12.1: Type of employment in MSMEs by area(#)



The majority of employed people in MSMEs belonged to the inner family circle (owners and spouses) or the wider circle of the extended family (relatives), emphasizing the importance of small businesses to the survival of families. Further, most employees were personally related to the owner of the business at which they worked.

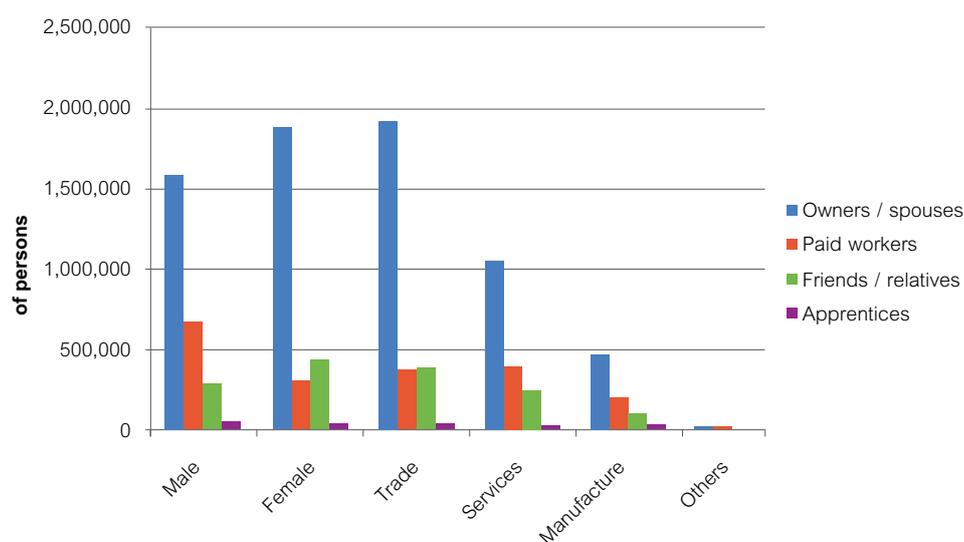
Table 12.1: Employees related to MSME owners by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Related	74.3	88.0	60.7	83.0	60.7
Not related	25.7	12.0	39.3	17.0	39.3

Compared to neighboring countries, the number of apprentices was relatively low (e.g., it is estimated that there are more than 700,000 apprentices in Kenya, although the exact number is unknown). The reason for this shortfall is probably that the inadequate education and skill levels of owners do not enable them to share their skills and knowledge with apprentices. Another reason might be that Tanzania does not have as much of a culture of apprenticeship as other countries in East and West Africa. In any case, the low number of apprentices decreases the ability of the MSME sector to build its own capacity and dynamism for development from within.

More women than men owned and ran a small business. Fewer women than men were employed as paid workers, but more women than men were friends/relatives of the small business owner (Figure 12.2). Most people were employed in the trade and services sectors.

Figure 12.2: Type of employee by gender and broad sector (#)



On average, about 20% of MSME workers are employed in formal enterprises. Paid workers are distributed almost evenly between the formal (46.8%) and informal (53.2%) sectors, though (Table 12.2).

Table 12.2: Type of employee in formal and informal employment (#)

	Formal	Informal
Owners/spouse	452,186	2,995,280
Paid workers	451,403	512,843
Friends/relatives	124,526	593,537
Apprentices	19,606	59,787
Total	1,047,721	4,161,447

These tables indicate that the MSME segment made considerable contributions to employment in Tanzania:

- Not including agriculture, in 2010 the MSME segment employed more people than the large companies in the private sector and the public sector together.¹⁸ If the NBS definitions were used here, employment in the MSME segment would comprise about 82% self-employed persons and 18% paid workers; the reality, though, is that the number of paid workers alone makes up about 45% of all paid workers including the entire private and public sectors.
- An additional analysis estimated that the MSME segment contributed about 23.4% to total employment (including agriculture) in Tanzania. As employment in agriculture is largely self-employment of smallholder farmers, from a statistical perspective, employment in Tanzania can be considered largely self-employment.

It must also be pointed out that NBS projections on self-employed owners and unpaid family members in the MSME segment are largely under estimated. This is probably caused by the inadequate statistics on the MSME segment.

¹⁸ Refer to Economic Survey 2010, page 102.

12.2 Underemployment

Only 79.9% of MSME proprietors ran their business on a full-time basis, while the other 21.1% worked part-time in the business (Table 12.3):

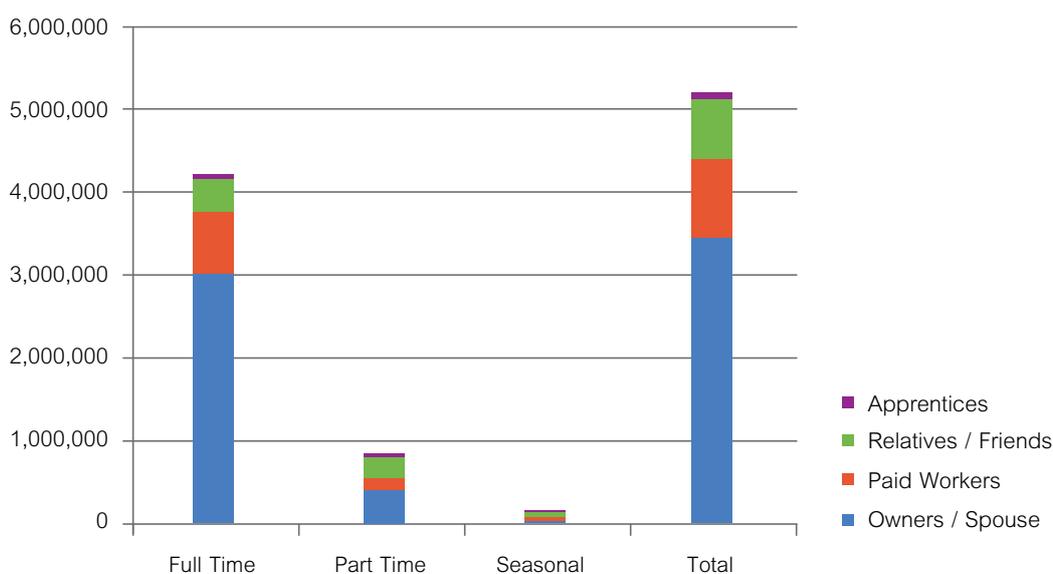
Table 12.3: Part- and full-time involvement of MSME owner by gender (%)

Mode of running business	Male	Female	Total
Full-time	83.5%	76.8%	79.9%
Part-time	16.5%	23.2%	21.1%

Those small business owners who operated part-time cited business reasons (about 27.5%), family commitments (34.7%), other income commitments (19.1%), and other reasons (19.4%). The NBS would consider those with “other income commitments” as underemployed; if so, the MSME survey would find about 526,000 small business owners underemployed.

About 80.9% of the total MSME work force was full-time employed for 8 hours per day (Figure 12.3). Another 16.0% of the total workforce was employed part-time, for a maximum of 6 hours per day, while a small percentage (3.1%) of the total workforce worked on a seasonal basis:

Figure 12.3: Type of employee working full-time (8 hours), part-time (6 hours), and seasonally (#)



12.3 Business Growth

Business growth can be measured in several ways, and employment can be considered a measure of sector growth. Comparing the number of employees in the MSME sector at different times gives a mixed picture. In all regions, the number of employees at startup was relatively low. MSMEs in Dar es Salaam, rural areas, and Zanzibar reported having the highest number of employees at the time of the survey. In urban areas, however, MSMEs reported having had more total employees in the past, suggesting that urban areas have seen better times.

Table 12.4: Aggregate employment over MSME life cycle by area (#)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Number of employees at startup	4,561,638	715,851	1,430,793	2,205,358	104,818
Highest number of employees	5,507,929	803,861	2,058,055	2,438,878	103,317
Number of employees now	5,209,168	819,911	1,696,573	2,575,664	117,020

Almost nine in ten business owners believed that their business had stayed the same in terms of number of employees. This opinion was consistent across regions (Table 12.5) and broad sectors (Table 12.6):

Table 12.5: Opinion about business growth (as measured by employment) by area (%)

	Total	Dar es Salaam	Other Urban	Rural areas	Zanzibar
Increased	8.3	11.2	8.1	7.7	5.3
Stayed the same	88.7	84.2	89.1	89.8	92.9
Decreased	3.0	4.6	2.9	2.6	1.8

Table 12.6: Opinion about business growth (as measured by employment) by broad sector (%)

	Trade	Services	Manufacture	Others
Increased	8.5	8.1	7.6	19.3
Stayed the same	89.5	88.4	86.8	75.4
Decreased	2.0	3.5	5.6	5.3

12.4 Qualifications of MSME Work Force

About one-quarter of the work force employed in MSMEs had not received any training. For those who had, most of the training was technical, particularly in urban areas outside of Dar es Salaam:

Table 12.7: MSME employees' training by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
No training	25.0	37.6	19.7	24.0	48.3
Business training	7.0	14.2	8.3	3.5	8.2
Technical training	68.0	48.2	71.9	72.4	43.5

Most employees reported that they did not have employment contracts. Those who did received them regardless of their skill level. The lower part of Table 12.8 shows the skill levels of the contracted persons.

Table 12.8: Contracts and skills of work force by broad sector (%)

	Total	Trade	Services	Manufacture	Others
No contract	79.1	83.6	97.8	79.6	55.1
	Contract with				
Skilled	16.3	10.0	18.1	25.4	91.3
Semi-skilled	21.9	21.6	24.7	16.8	8.7
Unskilled	61.8	68.4	57.2	57.8	0.0

The formal skills training of employees enabled them mostly to attain a semi-skilled level. Most of the training was formal off-the-job training

Table 12.9: Attained skills level and method of training by broad sector (%)

	Total	Trade	Services	Manufacture	Others
Skilled, trained formally	14.7	14.5	7.9	36.3	0.0
Semi-skilled, trained formally	85.3	85.5	92.1	63.7	100.0
Formal on-the-job training	20.9	19.4	15.6	41.3	8.7
Formal off-the-job training	79.1	80.6	84.4	58.7	91.3

12.5 Payment of Work Force

Monthly payment of salaries was most common in trade and services, while in manufacture, payment per piece dominated.

Table 12.10: Form of payment to employees by broad sector (#)

	Total	Trade	Services	Manufacture	Others
Daily basis	133,861	45,282	69,234	17,501	1,843
Weekly basis	21,160	6,656	8,867	5,123	514
Monthly basis	189,633	91,024	78,000	20,609	0
On commission	20,505	10,102	3,594	6,809	0
Per piece	63,048	23,709	4,725	33,924	690
I don't pay them	473,360	265,792	157,910	42,923	6,736

Paid workers were paid primarily in cash. Relatives, friends, and apprentices were often not paid any fixed salary or were paid in kind (Table 12.11):

Table 12.11: Method of cash payment to employees by broad sector (#)

	Total	Trade	Services	Manufacture	Others
In cash	413,100	174,532	159,034	77,177	2,357
By cheque	0	0	0	0	0
By bank transfer	589	0	0	589	0
By money transfer	117	70	0	47	0
In kind	20,144	8,220	8,365	2,868	690
I don't pay them	461,766	255,631	156,782	42,617	6,735

12.6 Problems in the MSME Work Force

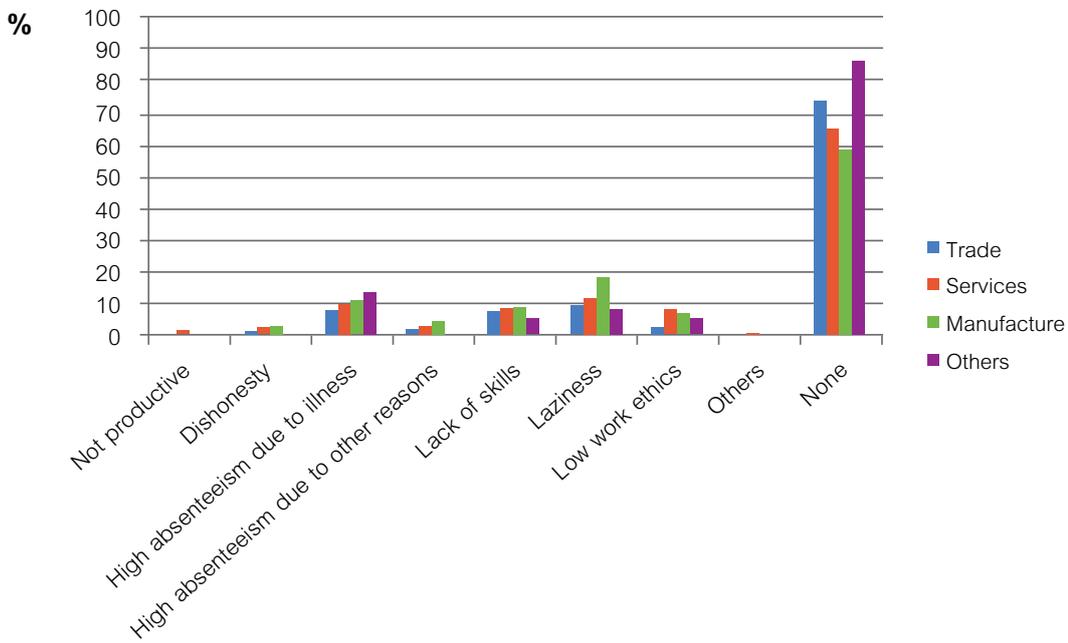
MSME owners reported that high absenteeism due to illness, lack of skills, and laziness were the most common problems encountered in their work force (Table 12.12).

Table 12.12: Problems in the work force by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Not productive	0.7	3.3	0.0	0.3	0.0
Dishonesty	2.1	2.2	1.9	2.1	2.3
High absenteeism due to illness	9.2	18.1	8.1	6.8	4.8
High absenteeism due to other reasons	2.7	0.6	3.9	2.7	4.9
Lack of skills	8.1	14.7	8.7	5.7	8.1
Laziness	11.7	9.1	16.0	9.9	5.7
Low work ethics	5.1	6.3	7.7	2.9	1.4
Others	0.4	0.4	0.7	0.2	0.0
None	68.6	57.7	62.2	76.4	76.0

It must be remembered that the work force of a small business often comes from the same family, perhaps partly explaining the high percentage of missing answers. Understanding work force problems by sector helps to pinpoint critical problem areas (Figure 12.4).

Figure 12.4: Problems in the work force by broad sector (%)¹⁹



¹⁹ Numbers do not sum to 100% as multiple answers were possible.



13. Estimated GDP Contribution of MSMEs

The MSME survey attempted to estimate the contribution of MSMEs to the GDP of Tanzania.

The main difficulty was that only 44.7% of small business owners kept written financial records, and of the 55.3% that had kept accounts, about 70.9% mainly focused on recording sales.²⁰ Although information on sales and various expenses was collected, respondents could often not refer to written accounts and were therefore only able to report estimated figures from memory. Similarly, the household-based portion of the survey did not give small business owners the opportunity to refer to their written accounts even if they existed.

Four important changes were made to the structure of the production accounts of individual MSME producers and entire sectors:²¹

1. As it was not possible to collect data on the opening and closing stocks of goods, stocks were left out altogether. In practical terms, this means that it was assumed that MSME producers had identical opening and closing stocks of goods, and that no stock variation occurred.
2. The lack of proper records also meant that there was probably significant unrecorded own consumption in the households surveyed. The degree of own household consumption was approximated by introducing payment in kind, and adjustments made to the individual production accounts accordingly.

The modified individual production accounts can thus be expressed notionally as:

Table 13.1: Modified individual production account

Purchase of goods and services	Total sales
Labour cost	
Paid in cash to employees	
Paid in kind to employees/owners/ friends/relatives	
Other costs (rent, power, water, etc.)	
Gross added value	

3. Although an attempt was made to establish sales and purchases of goods within the MSME sector, the respective data were unreliable and too inconsistent to be considered; therefore, no provision was made for aggregation.

Given these caveats, the MSME sector production account (in TSh millions) was specified as follows:

Table 13.2: Production account of MSME sector in Tanzania (including Zanzibar) (TSh millions)

Purchase of goods and services	8,640,216	Total sales 21,965,380
Labour cost		
Paid in cash to employees	695,123	
Fictitious wages	2,280,122	
In kind wages	2,104,403	
Other costs (rent, power, water, etc.)	1,358,792	
Gross added value	6,886,772	

20 Recall Table 7.8.

21 Recall the discussion in Section 4.2.

Given how sales were recorded, it is reasonable to believe that the sales figure in Table 13.2 is probably close to reality.²² Labour and other costs are probably underestimated, however, as:

- The wages paid to workers result in an annual average wage of TSh 720,900 per worker. While the average might be low, it does not include any remuneration of owners (and to some extent, their spouses, relatives, and friends). It is therefore necessary to correct labour costs for these labor groups in the “Fictitious” and “In kind” wages line items.
- In the MSME survey, a relatively high percentage of own consumption was reported.²³ The corresponding amount of TSh 2,104,403 million is considered here as a payment of labour inputs in kind to business owners/spouses (and to a lesser degree, to their relatives and friends).²⁴
- If owners received on average another TSh 720,900 per year in cash (equivalent to the cash income of paid workers), they would receive a total annual average remuneration of TSh 1,295,400 per small business. The additional total cash payment would amount to TSh 2,280,124 million.
- The annual average costs of TSh 358,004 per MSME (calculated by dividing the original other costs by the number of enterprises) are probably underestimated, considering that this figure should also include rent, electricity, water, etc. To account for this, this figure was inflated by 20%²⁵, and multiplied by the number of MSMEs to obtain the total of TSh 1,358,792 million.

In spite of these weaknesses, the estimated GDP contribution of the MSME sector was estimated at about TSh6,886,772 million (Table 13.2). In 2009, the GDP of Tanzania at basic prices was about TSh 25,510,000 million, so the contribution of the MSME sector was estimated to be about 27.0%.²⁶

The GDP contribution in Zanzibar was estimated to be about TSh 107,386 million, or about 1.5% of the total GDP contribution of MSMEs in Tanzania.

Table 13.3: Production account of MSME sector in Zanzibar (TSh millions)

Purchase of goods and services	195,984	Total sales 401,457
Labour cost		
Paid in cash to employees	17,206	
Fictitious wages	11,543	
In kind wages	38,181	
Other costs (rent, power, water, etc.)	31,157	
Gross added value	107,386	

22 See comments on previous page.

23 In the HBS of 2007, a much lower percentage of in kind payments was established. However, this might be attributed to the fact that the MSME survey focused on the households with businesses, not on the general population of households.

24 Survey results indicated that there were 3,447,469 owners/spouses and 718,063 relatives and friends (see Section 12). If it is assumed that relatives and friends received only about 30% of the in kind payment of owners/spouses, a total of 3,662,888 beneficiaries received labour payment in kind.

25 The percentage was estimated based on other secondary data

26 A simple calculation of the percentage of MSME contribution might be misleading because the official GDP calculation includes an unknown percentage of MSME contribution.



14. MSMEs and Livelihoods

The MSME survey attempted to identify the contribution of the MSME segment to poverty reduction. In this context, it is important to establish how much small business owners contribute to family welfare.

4.1 Position in Household

About 58.5% of small business owners were the head of the household or the spouse of the head of household (32.8%). Small business owners reported that they contributed most to household income (71.3%). This dependency was highest in rural areas and lowest in Zanzibar.

Table 14.1: Contribution of small business owner to MSME household income by area (%)

Person contributed most to household income	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Yes	71.3	63.7	65.0	76.8	56.1
No	28.7	36.3	35.0	23.2	43.9

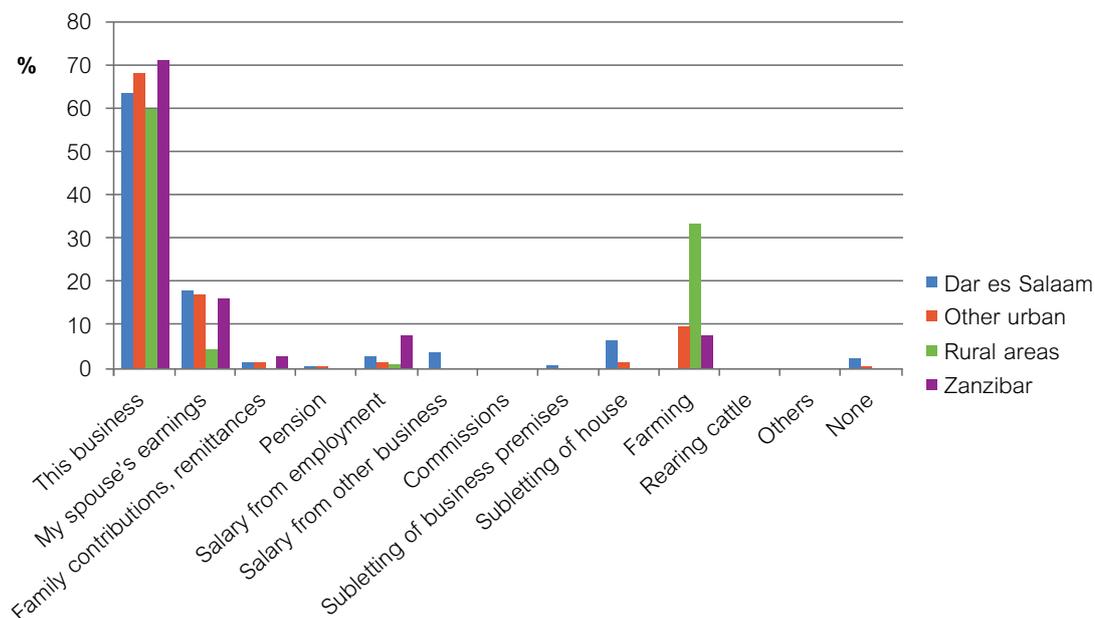
In 90% of households, other family members depended on the income from the small business. Other sources of family income were mainly income from agriculture (38.5%) (particularly in rural areas), the earnings of a spouse (19.1%), and the salary from another business (14.5%).

Table 14.2: Sources of income for MSME households by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
No other sources	34.1	45.3	41.0	27.2	51.9
My spouse's earnings	19.1	25.2	27.0	13.0	23.2
Family contributions, remittances	4.1	6.6	4.7	3.0	9.0
Pension	0.3	0.5	0.5	0.1	0.9
Salary from employment	3.2	5.0	4.1	2.3	4.8
Salary from other business	14.5	17.0	16.5	12.7	4.6
Commissions	0.0	0.0	0.1	0	0
Subletting of business premises	0.4	0.9	0.4	0.3	0.1
Subletting of house	2.5	8.7	3.0	0.5	0.3
Farming	38.5	1.6	19.4	59.3	12.5
Rearing cattle	0.6	0	0.1	1.0	0.0
Others	1.0	1.0	0.8	1.1	0.1

The main source of income for six out of ten households was income from the small business (62.7%). Figure 14.1 displays the main source of income as perceived by the household (which may differ from the true main sources shown in Table 14.2). Other main sources of income were income from agriculture (22.8%) and earnings from a spouse (9.7%).

Figure 14.1: Main sources of income of MSME households by area (%)



14.2 Welfare Situation

The starting point of any poverty assessment is to establish the extent to which households lack basic commodities. Households of small business owners reported that they lacked the following:

Table 14.3: Welfare conditions of MSME households by area (%)²⁷

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Households lacked enough to eat					
Never	66.5	74.0	66.0	64.8	73.6
Rarely	25.2	17.4	27.9	25.8	17.3
Sometimes	5.2	4.8	4.3	5.7	8.4
Always	3.0	3.3	1.7	3.7	0.8
Don't know	0.1	0.4	0.0	0.1	0.0
Households lacked enough clean water to drink and cook					
Never	61.8	76.3	62.9	57.3	38.6
Rarely	21.3	13.7	24.2	21.8	43.8
Sometimes	8.4	3.2	7.6	10.2	14.4
Always	8.3	6.7	5.1	10.5	3.1
Don't know	0.2	0.2	0.2	0.3	0.1
Households lacked medicines/medical treatment that was needed					
Never	54.2	69.0	55.7	49.3	26.8
Rarely	27.6	21.6	29.7	28.1	37.0
Sometimes	11.6	5.5	9.4	14.1	27.2
Always	6.6	3.9	5.0	8.2	8.3
Don't know	0.2	0.1	0.2	0.2	0.7
Households lacked electricity or fuel for lighting in the home apart from power cuts					
Never	56.4	65.2	51.6	56.8	26.8
Rarely	16.4	14.7	19.7	15.0	42.6
Sometimes	6.8	4.3	8.0	6.9	15.8

²⁷ Numbers do not always sum to 100% due to non-response.

Always	11.5	7.8	11.7	12.4	5.4
Don't know	8.8	7.9	9.0	8.9	9.5
Households lacked enough charcoal/fuel to heat the home or cook food					
Never	70.6	73.8	66.4	72.0	58.8
Rarely	18.5	13.9	22.7	17.3	26.2
Sometimes	5.9	5.0	6.0	6.0	11.6
Always	4.4	6.7	4.4	3.7	2.8
Don't know	0.8	0.6	0.5	1.0	0.5
Households lacked cash income					
Never	36.9	49.5	39.3	32.2	27.4
Rarely	36.6	26.1	38.4	38.5	34.7
Sometimes	16.4	14.1	15.3	17.7	30.3
Always	9.5	9.5	6.9	11.0	7.2
Don't know	0.5	0.8	0.2	0.5	0.4
Households lacked shelter/house to stay in					
Never	96.0	93.2	95.5	97.0	96.8
Rarely	2.9	4.1	3.8	2.0	1.9
Sometimes	0.6	1.3	0.5	0.5	0.3
Always	0.2	0.7	0.2	0.1	0.2
Don't know	0.3	0.7	0.0	0.3	0.7
Households is unable to afford to send children to school					
Never	66.5	72.0	66.0	65.2	65.1
Rarely	18.2	13.1	20.7	18.2	21.0
Sometimes	6.0	4.4	5.1	7.0	6.8
Always	3.6	3.3	3.2	3.9	0.5
Don't know	5.7	7.2	4.9	5.8	6.6

14.3 Dwelling Conditions

Small business owners reported that their dwellings had the following number of rooms:

Table 14.4: Number of rooms in MSME owners' dwellings by area (#)

Rooms	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
1	327,975	150,175	116,450	61,350	211
2	540,197	77,158	197,716	265,322	991
3	732,296	60,439	178,839	493,018	7,074
4	623,242	74,337	163,046	385,858	21,917
5	383,101	36,901	122,568	213,633	24,510
6 or more	556,075	67,039	198,702	300,336	31,493

Although this might be an interesting piece of information, it only becomes a useful poverty indicator if one calculates the average number of persons per room. For small business owners, the average occupancy per room was slightly higher than in the general population (Table 14.5).

Table 14.5: Average number of persons per room by area

Households of:	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Small business owners	2.50	2.46	2.26	2.65	1.73
General population	2.26	2.10	2.22	2.29	n.a.

General population²⁸

The types of materials used for the roof, walls, and floor of a residential house are indicative of the income of the house owner (or the tenant) over a longer period of time. Small business owners

28 Source: Household Budget Survey 2007, page 11.

owned or occupied houses with the following quality of materials:

Table 14.6: Building materials of dwellings of small business owners by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Roof					
Tiles	0.4	0.2	1.0	0.0	0.0
Asbestos	0.1	0.1	0.4	0.0	0.0
Cement	0.3	1.3	0.4	0.0	1.7
Iron sheets	80.5	98.3	93.1	68.5	85.0
Mud, grass	4.9	0.0	1.6	8.0	0.8
Leaves, grass	13.8	0.0	3.5	23.4	12.5
None	0.0	0.1	0.0	0.0	0.0
Walls					
Stones	0.9	0.3	1.1	1.0	18.5
Cement bricks	33.5	93.6	42.9	11.9	66.6
Sun dried bricks	33.3	5.0	27.9	44.0	0.1
Poles, mud	18.7	1.1	12.3	27.1	14.5
Timber	0.3	0.0	0.1	0.5	0.0
Clay bricks	13.1	0.0	15.6	15.2	0.3
Grass	0.2	0.0	0.0	0.3	0.0
Iron sheets	0.0	0.0	0.0	0.0	0.0
Floor					
Tiles/ Marmar	0.9	3.2	1.1	0.1	1.1
Concrete	54.6	91.2	74.8	33.3	80.2
Earth	44.4	5.6	24.0	66.5	18.5
Others	0.1	0.0	0.0	0.1	0.1
None	0.0	0.0	0.1	0.0	0.1

Compared to the general population,²⁹ the dwellings of small business owners were constructed with significantly better building materials. It can thus be concluded that small business owners can afford better houses. In this respect, small businesses contribute to poverty reduction.

14.4 Distance to Public Facilities

Access to public facilities may also be taken as an indicator of welfare. Table 14.8 shows the extent to which small business owners could reach various public facilities on foot within one hour:

Table 14.7: Various public facilities within one hour walking distance by area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Police station	49.5	81.1	78.9	24.1	47.6
Primary school	82.8	81.2	77.3	86.4	21.2
Formal bank	38.5	75.2	66.8	12.6	70.3
Health center/dispensary	71.2	83.5	76.3	65.0	30.4
Post office	39.2	54.4	72.1	16.4	74.0
Secondary school	65.9	80.3	76.2	56.2	21.3
Hospital	36.4	59.1	61.1	16.2	70.4
Produce market	56.1	76.0	77.6	38.5	39.5
Main tarmac road	46.3	81.0	72.3	22.2	28.5
Place of worship	82.7	80.4	77.3	86.4	19.7
NGO office	42.4	69.4	65.8	21.7	66.4

²⁹ See Household Budget Survey 2007, page 10.

Table 14.7 describes the typical situation of many Tanzanians, and the proximity to public facilities did not appear to be related to the business activities of small business owners.

14.5 Monthly Income

The distribution of the monthly personal income of MSME respondents indicated a wide range of incomes, from less than TSh 35,000 per month to over TSh 4 million per month.

Table 14.8: Monthly personal income of small business owners by area (%)

TSh/month	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
100,000 and below	41.1	34.3	34.6	46.8	39.0
100,001 to 500,000	41.9	42.9	46.6	38.3	48.7
500,001 to 1,000,000	7.0	8.0	7.6	6.3	7.2
Over 1,000,000	6.5	9.3	6.9	5.4	5.4
Answer refused or uncertain	3.5	5.5	4.3	1.0	0.1
Average income	334,900	466,400	355,700	290,400	283,100

The overall average monthly personal income was about TSh 334,900; small business owners in Dar es Salaam enjoyed the highest monthly income (TSh 466,400). The lowest was in Zanzibar (TSh 283,100). The average monthly income per earner in the general population was far lower for all regions³⁰, indicating that small business made a considerable contribution to poverty reduction.

The distribution of the average monthly income of small business owners' households is shown in Table 14.9:

Table 14.9: Monthly income in MSME households by area (%)

TSh/month	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
100,000 and below	27.0	17.8	18.0	34.6	17.4
100,001 to 500,000	46.7	40.7	55.4	43.4	66.0
500,001 to 1,000,000	8.1	6.6	9.2	7.8	7.2
Over 1,000,000	9.7	15.4	9.4	8.3	9.2
Answer refused or uncertain	8.5	19.5	8.0	5.9	0.2
Average income	444,200	635,545	474,300	390,700	408,300

The overall average monthly household income in MSME households was TSh 444,200. This amount was far in excess of the general population's average household income (TSh 145,000)³¹ and confirms the point that small businesses have made a considerable contribution to poverty reduction.

³⁰ See Household Budget Survey 2007, table on page 94.

³¹ See Household Budget Survey 2007, page 93.



15. Closed MSMEs

In total, about 571,417 small businesses closed in the two years prior to the MSME survey. About 45.4% of the households that had closed a small business did not own or run another small business during the survey (designated Group N), whereas 54.6% did start another small business (designated Group B). An almost identical questionnaire was administered to both groups of owners of closed enterprises; Group B owners also completed the questionnaire for the currently operating business. The regional distribution of closed small businesses is shown in Table 15.1.

Table 15.1: Closed enterprises by group and area (#)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Group B	312,182	69,422	108,778	108,879	25,103
Group N	259,235	58,328	94,102	90,214	16,591
Total	571,417	127,750	202,880	199,093	41,694
Number of enterprises	3,162,886	405,902	814,557	1,459,167	75,071
Group B+N as % of all enterprises	18.1%	31.4%	24.9%	13.6%	55.5%

Closed enterprises constituted 18.1% of all enterprises. This percentage was highest in Zanzibar (55.5%) and Dar es Salaam (31.4%) and lowest in rural areas (13.6). The overall percentage is probably low, perhaps due to the low level of formal registration; small business owners who had not registered their business probably did not bother to formally close it when they stopped operations. In other words, there were probably a large number of dormant (unregistered and not operational) small businesses at the time of the survey.

The years in which each business was opened and closed were used to calculate the lifespan of each small business. The average lifespan of closed enterprises for both groups combined was about 4.1 years.

The distribution of closed small businesses by broad sector is shown in Table 15.2:

Table 15.2: Sector of closed enterprises by group and area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Group B					
Manufacture	3.5	0	7.3	1.9	4.1
Retail	65.7	59.5	62.8	72.2	59.9
Services	28.2	36.7	30.0	21.6	34.9
Wholesale	2.4	1.1	3.3	2.1	2.1
Agriculture	0.5	0	0	1.3	0.4
Agricultural processing	0.7	0	0	1.9	0.9
Fishing	4.3	0	1.2	8.8	0
None	1.0	4.7	0	0.9	0
Group N					
Manufacture	2.6	0.2	5.3	1.3	3.4
Retail	69.6	61.8	67.2	74.9	62.0
Services	26.5	37.7	28.9	20.1	35.4
Wholesale	1.1	1.0	1.3	1.1	1.0
Agriculture	1.0	0	0	2.2	0.7
Agricultural processing	2.1	0.2	0.3	5.4	1.9
Fishing	0.0	0	0	0.1	0
None	0.5	2.2	0.1	0.3	0

Before their closure, small businesses operated in the following locations:

Table 15.3: Location of closed enterprises by group and area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Group B					
In the homestead	31.9	47.5	24.6	30.3	66.2
Traditional market	28.3	10.2	24.3	42.5	14.5
By the roadside	17.2	28.0	15.3	12.9	12.7
Commercial district/site	6.7	3.7	9.8	5.3	3.1
Mobile business	15.8	10.5	25.3	9.0	2.3
By the beach	0.6	0	0.2	0.1	1.2
Group N					
In the homestead	47.7	56.3	34.8	44.1	78.9
Traditional market	19.6	8.9	20.7	29.2	10.1
By the roadside	17.4	29.1	15.7	11.9	10.8
Commercial district	2.9	1.3	4.8	2.5	1.4
Mobile business	9.0	10.8	15.3	4.4	1.9
Other locations	3.4	2.5	3.7	3.3	3.4

It is interesting to note that many more enterprises of Group N operated from home than did enterprises from Group B.

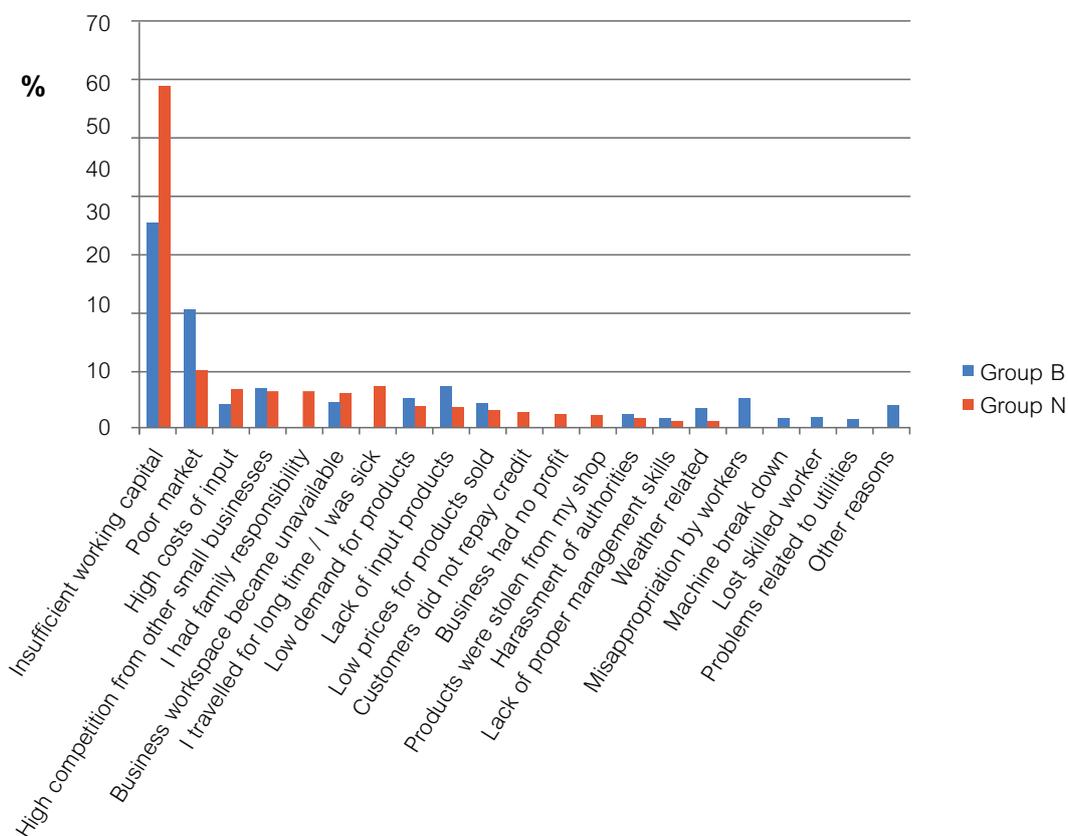
Most small businesses were established and run by one owner. In Group N (93.3%), the percentage was higher than in Group B (85.0%). However the few partnerships in Group N had more mixed gender groups.

Table 15.4: Ownership of closed enterprises by group and area (%)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Group B					
One owner	85.0	90.5	87.7	79.1	89.9
More than one owner	15.0	9.5	12.3	20.9	10.1
All male	52.9	56.0	47.1	55.5	49.0
All female	13.1	9.3	26.5	6.3	43.1
Both male and female	34.0	34.7	26.5	38.2	8.0
Group N					
One owner	93.3	95.5	94.3	88.7	92.8
More than one owner	6.7	4.5	5.7	11.3	7.2
All male	22.4	30.9	9.2	30.1	9.4
All female	25.5	17.3	47.6	14.3	81.2
Both male and female	52.0	51.8	43.2	55.6	9.4

The perceived reasons for business failure varied between the two groups as well, as evidenced by the responses of small business owners of both groups:

Figure 15.1: Reasons for closure of enterprise by group (%)



There were some notable differences in the reasons for closure that might be systematically related to the fact that one group started another business while the other group left business.

The aggregate employment levels of small businesses in Group B at the time of startup, at the peak of operations, and at the time of closure are shown in Table 15.5:

Table 15.5: Employment levels in Group B closed enterprises by area (#)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Owners/spouses					
At start	312,182	69,422	108,778	108,879	25,103
At highest	312,182	69,422	108,778	108,879	25,103
At closing	312,182	69,422	108,778	108,879	25,103
Paid workers					
At start	57,285	20,091	20,319	15,747	1,128
At highest	81,977	36,970	27,513	17,494	1,128
At closing	59,564	24,680	18,172	16,172	1,229
Relatives/friends					
At start	44,330	16,359	13,796	12,535	1,639
At highest	72,818	33,552	24,531	12,994	1,741
At closing	49,401	17,061	18,965	11,915	1,460

Apprentices					
At start	17,348	11,574	4,905	768	101
At highest	41,562	29,829	10,318	1,314	101
At closing	17,863	11,240	4,905	1,618	101
All employees					
At start	431,145	117,515	147,798	137,929	27,971
At highest	508,539	169,773	171,140	140,681	28,073
At closing	439,010	122,403	150,820	138,584	27,893

Comparable aggregate employment figures for small businesses in group N are shown in Table 15.6:

Table 15.6: Employment levels in Group N closed enterprises by area (#)

	Total	Dar es Salaam	Other urban	Rural areas	Zanzibar
Owners/spouses					
At start	259,235	58,328	94,102	90,214	16,591
At highest	259,883	58,474	94,337	90,439	16,633
At closing	259,727	58,438	94,281	90,312	16,696
Paid workers					
At start	28,594	6,434	10,380	9,951	1,829
At highest	33,804	7,606	12,271	11,764	2,163
At closing	24,990	5,623	9,071	8,696	1,600
Relatives/friends					
At start	26,779	6,025	9,721	9,319	1,714
At highest	32,508	7,314	11,800	11,313	2,081
At closing	28,749	6,468	10,436	10,005	1,840
Apprentices					
At start	2,618	669	950	911	88
At highest	4,070	915	1,577	1,516	62
At closing	3,593	818	1,404	1,344	27
All employees					
At start	317,226	71,456	115,153	110,395	20,222
At highest	322,129	74,309	119,985	115,032	20,939
At closing	317,059	71,347	115,192	110,357	20,163

Group N respondents were engaged in the following activities during the time of the survey):

Table 15.7: Activities of Group N respondents (%)

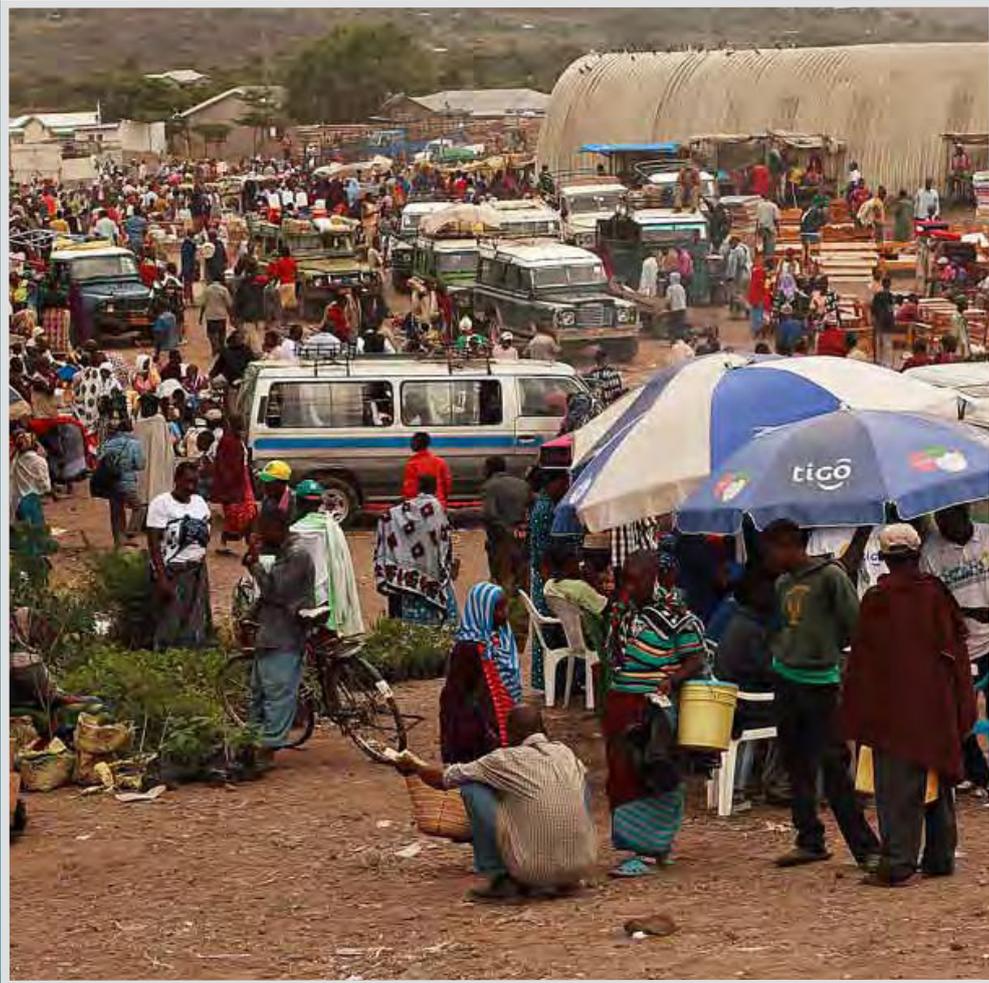
Activity	
Agriculture	69.1
House maker/housewife	10.6
I am working for somebody	6.1
I got employment	5.1
I am not employed but I am also not looking for it	1.6

Group B small business owners migrated from their original sector of operation (seen in first column) to new sectors (second to sixth columns) as follows:³²

Table 15.8: Shift in operations of Group B owners by broad sector (#)

	Total	Trade	Services	Manufacture	Others
Manufacturing	11,077	9,414	785	879	0
Retail	205,185	131,973	55,098	17,433	722
Services	88,036	45,761	38,323	3,791	161
Wholesale	7,370	4,601	1,678	439	652
Agriculture	1,608	1,522	86	0	0
Agro Processing	2,283	1,928	0	356	0
Fishing	12,103	11,995	0	108	0
None	2,947	150	2,797	0	0
Total	312,182	207,344	98,767	23,006	1,535

³² The classification used in column 1 was different from the ISIS classification in columns 3 to 6. It was therefore assumed that all owners changed to a “new” sector even if they stayed in their original sector.



16. Segmentation of MSMEs

In marketing, segmentation divides the market into homogenous groups of customers who can then be more effectively addressed by the respective marketing tools. For segmentation to work well, it is important to select group-defining criteria that are related to those tools. For example, for making segmentation for product quality, effective criteria must be found that somehow are related to product quality and can be used to define customer groups.

Segmentation can also play an important role in MSME development. This is obviously the case for business development services and financial services, which are already geared towards effective marketing. But segmentation may also be applied for MSME development measures that relate to business environment, legality, and other issues. For example, if one would like to improve the quality of apprentice training in MSMEs, segmentation could identify which MSMEs are better suited to benefit from it.

To demonstrate the benefits of segmentation, the MSME data were used in a segmentation model called the Business Sophistication Model (BSM). The BSM was developed by FinMark Trust and has been applied in South Africa and Zambia. The aim of using the BSM as to segment MSME owners into a greater number of clusters using several variables of the dataset. The BSM segmentation model thus complements and enriches the analyses of this report.³³

Based on a Principal Component Analysis and further computation of 526 variables of the MSME dataset, seven statistically significant clusters of MSME were identified:

1. The first cluster comprises about 21% of all MSMEs located in rural Western Tanzania around Lake Victoria; it includes more women than men, and younger persons who are single or divorced/separated. Enterprises in this cluster mainly buy and resell goods, or buy, add value, and then re-sell goods.
2. This cluster comprises 13% of MSMEs in urban areas in most parts of mainland Tanzania and Zanzibar; it includes more women than men, and groups of both younger and older persons. These enterprises mainly buy goods, add value, and resell.
3. This cluster covers about 16% of MSMEs in rural areas in the Southern Highlands and central Tanzania; it includes more women than men, mainly of older age. Enterprises here mainly add value to existing goods or make something.
4. This cluster covers about 23% of MSMEs located in the Southern Highlands and Western Tanzania; it includes more men than women, married or living with partners, and middle aged. These businesses are mainly in the retail sector.
5. This cluster covers about 9% of MSMEs located in urban areas in Dar es Salaam and Central and Eastern Tanzania; the cluster includes more women than men, and its group members are middle aged. These enterprises add value and sell something or provide a service.
6. This is an urban cluster of about 11% of MSMEs that includes more men than women, mainly single and middle aged. Its enterprises are in retail and repairs.
7. The last cluster comprises 7% of MSMEs in Eastern and Northern Tanzania and Zanzibar; it includes more men than women, mostly married and middle aged. Its enterprises provide services or are in retail.

³³ Unpublished report: AfricaScope, Tanzania BSM, Segmenting the MSME Sector in Tanzania into powerful stories: Application of the Business Sophistication Measure

Complete results are included in a separate report, but the following examples highlight the usefulness of the approach for MSME development:

- The different clusters faced different problems when they started their business. While the first two groups did not report any major problems, the others reported problems mainly with transportation (cluster 4), getting premises (cluster 6), and obtaining licenses and permits (cluster 7).
- Although cluster 6 represents only 11% of MSMEs, it had the most closed enterprises in the last two years. MSME owners in other clusters gave different reasons for closing an enterprise than those in cluster 6. Although overall insufficient working capital was one main reason, its importance varied across clusters.
- Reasons for starting a business also varied across clusters. While family concerns and entrepreneurial motivation were present in all clusters, more entrepreneurially motivated MSME owners were found in clusters 6 and 7.
- An analysis of what MSME owners agreed or disagreed with showed considerable variation across clusters. Related to their higher entrepreneurial motivation, MSME owners in clusters 6 and 7 showed a more determined attitude to deal with problems and competition in a systematic manner.
- The skills of business owners were considerably higher in clusters 3 and 6, and to a lesser degree in cluster 7. This finding corresponds to more owners in those clusters having received business or technical training prior to starting their business.

The BSM approach suggests that business and financial services should not necessarily be aimed at MSME business owners as a homogenous group; instead, a differentiated approach that recognizes the differences between specific clusters might be more effective.

As the BSM segmented enterprises based on the information available in the MSME dataset without any specific purpose for the segmentation, it had two key limitations that affect its ability to satisfactorily answer more detailed segmentation questions:

1. This national baseline survey of MSMEs provides only a limited base for segmentation. To be able to segment enterprises in a more useful way for BDS or other purposes, additional information from other sources would be needed.³⁴
2. The segmentation purpose informs the identification of potential segmentation criteria. For example, segmentation to define MSMEs with growth potential would likely be different from segmentation to define a market for insurance for MSMEs. As such, any additional survey modules designed should carefully specify the appropriate data required to address the particular research need.

Organizations that would like to offer private or public services to the MSME sector are thus encouraged to develop their own segmentation models suited to their own purposes. The data from this MSME survey can provide an excellent starting point, but additional information needs to be collected to complement these data.

³⁴ Some questions were added to the baseline survey to facilitate the demonstration of the BSM.

17. Lessons and Recommendations

The intense discussions held during the preparation and implementation of the MSME survey led to many insights and resulted in many lessons learnt. These are useful for making recommendations for MSME development, and include the following:

- During the survey preparation, the option of widening its scope to smallholding farm and livestock business was discussed extensively. Due to financial and organizational constraints, this was not possible. Given the importance of agriculture in Tanzania, it is recommended that the next MSME survey be extended to agriculture to more realistically establish the importance of small enterprises in Tanzania.
- The advantage of a household-based approach was that it would provide a complete and representative picture of the small business activities in which a large portion of the Tanzanian population is engaged. However, this approach had its limitations:
 - Some business data could not be accurately collected because in some cases those data were either not collected by the business at all (e.g., accounting data) or they could not be referred to during the interview because the interview was administered in the household rather than at the business premises.
 - The sampling method used did not result in an adequate representation of businesses that do not occur frequently in the universe of small businesses. For example, very few medium scale enterprises were identified. Although other research suggests that there are in fact not many medium scale enterprises in Tanzania,³⁵ it is regrettable that this survey could not add useful information on this sector.

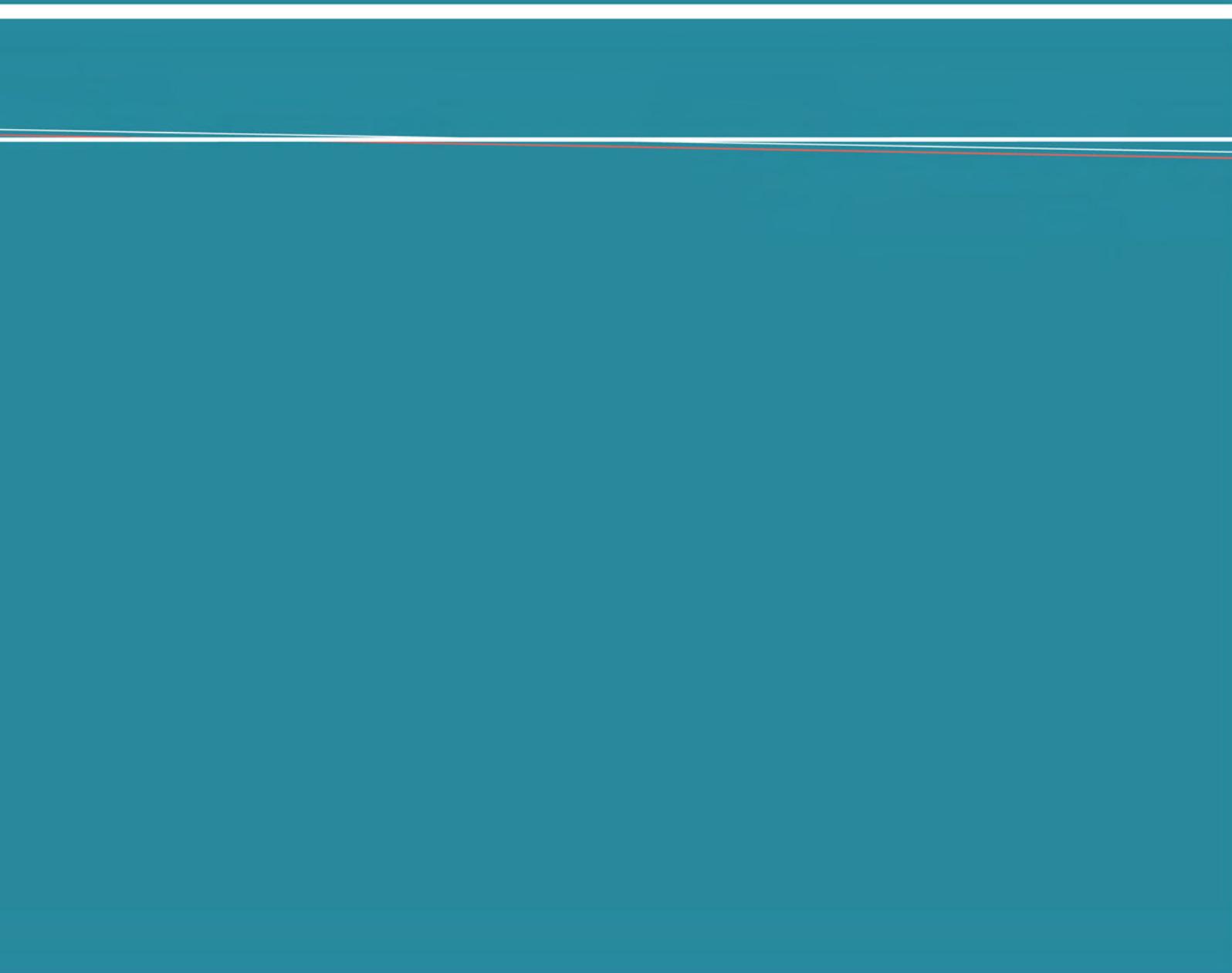
Therefore, it is recommended that an establishment-based survey of small and medium scale enterprises be conducted. The MSME survey identified the limited potential of micro enterprises to grow into medium or even large enterprise; an establishment-based approach should provide more accurate data for identifying the real growth potential in the private sector.

- Although the full magnitude of the challenges of small business was not known at the time of the formulation of the Small Business Promotion Policy, that policy clearly proposed actions to address some challenges. For example, comprehensive action plans for developing technical skills, business skills, and entrepreneurial skills were developed
- By the government concurrent with the formulation of the Small Business Promotion Policy. As the MSME survey confirms the magnitude of this problem, and the urgent need to address skills deficiencies, it is recommended that the government, led by MIT, place more importance on skills improvement.
- The survey also showed that efforts to reduce business informality have not yet yielded favorable results. However, business formality is an essential prerequisite for private sector actors to enter and provide financial and business development services to small business. It is therefore recommended that the government review its efforts for increasing business formality.
- It is recommended that the government review the criteria for defining micro and small enterprises. It is not clear what the employment criteria are supposed to differentiate, and the investment criteria do not adequately consider the actual levels of investment in the MSME segment. The dominance of the investment criteria is also questionable.
- Historically, the interest of governments and donors in the informal sector started with an ILO study of metal workers in Shauri Moyo in Nairobi in 1972 (the term “informal sector” was coined then). In the following years, many governments realized the importance of the informal sector and introduced departments for developing the informal sector in their respective Ministries of

35 Some researchers call these the “missing middle” found in many developing countries; i.e., those enterprises that fall between small and large business.

Labour. However, many governments later realized that informal sector development is more effectively dealt with by other ministries with mandates more closely related to private business development, and consequently shifted their informal sector departments to those ministries. In Tanzania, the responsibility for informal sector development is still with the Ministry of Labour, while MIT is responsible for small business development. This rather artificial separation does not allow the government to efficiently focus on the small business segment as a whole. It is therefore recommended that the entire responsibility for small business promotion be shifted to MIT.

- During the analysis of the MSME survey data, it became apparent that even NBS faces challenges in obtaining appropriate data for its small business statistics (e.g., the national accounts and labour statistics). It is recommended that NBS establish a pool of about 300 small enterprises, based on the MSME baseline survey, for routine collection of data on income, expenses, and work force. After the identification of enterprises for the pool, additional research into the financial situation of selected MSMEs should be carried out, and MSME owners should be given special bookkeeping training.



Implementers

