

Roadmap Study of the Informal Sector in Mainland Tanzania

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EXECUTIVE SUMMARY

In 1999, three United Nations agencies, the United Nations Development Programme (UNDP), the International Labour Office (ILO), and the United Nations Industrial Development Organization (UNIDO) together commissioned the present Roadmap Study of the Informal Sector in Tanzania.

The Study was conceived of following the earlier USAID Tanzania Investors' Roadmap. This had revealed that a hostile regulatory environment was driving foreign and large-scale investors away. The Roadmap Study of the Informal Sector set out to identify the main regulatory constraints on micro and small entrepreneurs (MSEs), most of whom operate informally in Tanzania; to analyze their coping strategies; and to assess the cost of coping and the impact this had on their formalization and growth. The justification for both studies is to help a Tanzanian private sector capable of delivering the Tanzania Development Vision 2025 to emerge. In this respect, the Informal Sector Roadmap complements the government's draft Small and Medium Enterprise Development Policy.

The Roadmap of the informal sector adopted a methodology which borrowed, in part, from that used in the Tanzania Investors' Roadmap. In this first part of the study, potential entrepreneurs or field researchers attempted to register and license a future business, recording the procedure, time taken and costs incurred. A second part of the study consisted of a qualitative study monitoring a sample of 96 entrepreneurs over a period of 4 months, recording both the regulatory and non-regulatory constraints they encountered during this period, and the impact this had on their businesses. The 96 entrepreneurs were selected to provide a cross section of urban and rural, micro and small, just-starting and fully operational, and male and female-owned businesses, in 12 subsectors identified for their employment generation, contribution to GDP, value-added and growth potential. The fieldwork was preceded by a desk study.

Findings

The Informal sector Roadmap describes experiences of entrepreneurs that illustrate and confirm the truth in findings of other surveys and reports that the regulatory and policy environment is a definite handicap to the upgrading and growth of MSEs, who thus tend to remain informal. It found that insurmountable regulatory hurdles turn attempts to operate formally into an obstacle race that only the most determined - and better off - MSEs attempt and finish.

Regulatory constraints were identified in: reporting, the regulatory environment, business locating and employing. All except employing (whose regulations are not enforced) were experienced as a severe negative constraint on micro and small businesses envisaging formal status, and even on their operations.

Where business registration is concerned, there is only one office for the whole country: an entrepreneur in Kigoma wanting to run a small catering business legally would first have to travel to BRELA in Dar es Salaam to license it. Where business licensing is concerned, in most cases the potential entrepreneur has to shuttle back and forth between different offices at regional and district level, trying to fulfil various time-consuming and complicated procedures, while information and assistance are not readily forthcoming from the bureaucrats. Entrepreneurs complain over the upfront

payment of tax as part of the licensing requirement, before the business has started running, let alone making a profit. This is assessed arbitrarily by Tanzania Revenue Authority officials.

On the technical front, many legal requirements are a leftover from colonial times or the previous socialist economic model, which only envisaged large enterprises. The reality of substantial, important and valuable economic activity taking place in small firms has not yet been reflected in the legal, regulatory and policy framework to any great extent. Both the TRA and the local government authorities are more preoccupied with the short-term objective of maximizing revenue from small firms than in strengthening their performance in the regional, national and local economy, the source of long-term prosperity.

Similarly, many government officials encountered in the course of the Roadmap study hold the attitude that entrepreneurs are a source of personal revenue. Officials request bribes to do most things within a reasonable period of time, and even then the entrepreneur is not guaranteed to come away with a license or registration at the end of the day. The examples of frustration circulate, discouraging other entrepreneurs from such a risky undertaking and undermining the credibility of the government in its role of economic guide.

Typical non-regulatory or operating constraints not only affect the operation of the business, they also have regulatory implications. Lack of start up finance prevents the potential entrepreneur from accessing the premises, equipment and facilities that would be required in many cases for approval of a business license. Lack of training keeps many unaware of the legal requirements for doing business, or where to go to get information. While it is urgent to lift the regulatory constraints preventing a Tanzanian private sector from emerging, efforts to remove non regulatory-constraints should continue and increase.

Whether in monetary terms (direct cost or income foregone), or in terms of time and energy, the cost of compliance turns out to be too high for most starting businesses, who are therefore obliged to start informally. It can also take a significant chunk out of the monthly sales of an already operating business (up to 75 percent). The weight of constraints was found to be one aspect explaining why such a large proportion of enterprises are operating informally. Differing motivations among MSE operators was found to be another. The Roadmap found that MSE operators could broadly fit into two categories: survivalists and entrepreneurs. Survivalists tended to want to remain small and invisible and to avoid compliance. Entrepreneurs were split again into broadly two types: those who tended to comply to avoid harassment and be free to pursue their growth, and those who, while pursuing their growth, refused to comply with the demands of a corrupt bureaucracy.

Recommendations

The goal of these recommendations is to assist the process of equipping Tanzania with a private sector of robust and dynamic small firms, delivering hundreds of thousands of decent jobs and a larger output of quality goods and services to the domestic as well as export markets. The Recommendations were finalized at a workshop held in Dar es Salaam in November 2001, bringing together practitioners of MSE promotion.

Recommendation 1 suggests that in navigating a market economy, Tanzania should enlist the assistance of professional marketing expertise to chart out promising subsectors which hold medium-term growth prospects for MSEs. When these subsectors have been identified, the scarce resources for small enterprise promotion should be concentrated on them as a matter of priority, to attract MSEs to these subsectors, to rapidly lift regulatory and non-regulatory constraints, and to help promote their products in-country and abroad. Research complementary to the Roadmap having showed that it is when small firms see market prospects that they hire and improve working conditions, the quantity and quality of employment in small firms should start to rise following the implementation of these measures to give them sustainable market prospects.

Recommendation 2 takes into account the fact that the informal sector is not only a seedbed for small enterprise, it is a solution of last resort for many, in particular for poorer female heads of households, who cannot find a job to pay them a living wage. This recommendation also recognizes that the demand for small firms' goods and services needs to increase, if MSEs are to have something to turnover. Accordingly the recommendation proposes a series of measures through which a cash-strapped government can organize income transfers to the poorer population and increase incomes and spending in the population at large, to prime a widespread takeoff of sustained economic activity within the next 10-15 years.

Recommendation 3 proposes a new pact between central and local government and MSEs. It details the kinds of measures that would re-establish the credibility of the government in the eyes of the small business people and reassure them that the government is doing everything it can to support their efforts to create livelihoods for themselves. It also details the efforts the MSEs would have to make to hold up their end of the bargain, including strengthening their voice so as to play a greater role in policy formulation, implementation and monitoring, and educating entrepreneurs to their legal and civic responsibilities.

Recommendation 4 acknowledges that one of the reasons driving corruption and informality among government officials (and thus throughout the whole system) is the poor working conditions in the public sector, including indecent wage levels. This recommendation contains proposals to improve the working conditions in the public sector. It aims to promote recruitment and training of new officials who have not acquired a habit of corruption; and to give officials "brought up" under a socialist system exposure and training to enable them to understand that MSEs have a social and economic role, to think of how they can assist them in the market economy context, and to implement their solutions.

Recommendation 5 proposes the setting up of a stakeholders' forum, to consult over, coordinate and commission where necessary the above recommendations, and to monitor and their implementation and impact on enterprise development, job creation and poverty reduction. The stakeholders' group will also monitor the impact of the various other government policies on this process of intensifying and distributing growth more equitably through to the people of Tanzania, by means of the MSE sector.

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LIST OF ABBREVIATIONS

BRELA	Business Registration and Licensing Agency
CRB	Contractors' Registration Board
DISS	Dar es Salaam Informal Sector Survey
EMS	Expedited Mail Service
FINCA	Foundation for International Community Assistance
ILCS	International Conference of Labour Statisticians
ILO	International Labour Organisation
LGA	Local Government Authority
MIT	Ministry of Industry and Trade
MRALG	Ministry of Rural Administration and Local Government
MSE	Micro and small enterprises
NMB	National Microfinance Bank
NSSF	National Social Security Fund
PML	Primary mining license
PPL	Primary prospecting license
ROSCA	Rotating Saving and Credit Association
SEDA	Small Enterprise Development Agency
SIDO	Small Industries Development Organization
SIDP	Sustainable Industrial Development Policy (1996 - 2020)
SME	Small and medium enterprises
SMEDP	Small and Medium Enterprises Development Policy (2001 - 2011)
TAFOA	Tanzania Food Association
TAFOPA	Tanzania Food Processors Association
TANESCO	Tanzania Electricity Company
TBS	Tanzania Bureau of Standards
TCCIA	Tanzania Chamber of Commerce Industry and Agriculture
TRA	Tanzania Revenue Authority
Tshs.	Tanzanian shillings
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
UPATU	Swahili term referring to credit schemes
USAID	United States Agency for International Development
VAT	Value-added tax
VIBINDO	Umbrella organization of associations of MSEs

GLOSSARY OF KISWAHILI TERMS

Mama lishe	Informal food vendor, usually a woman
Mitumba	Imported second hand clothing
Nguvu kazi	The business license issued by local government authorities, also called the 'small license' by entrepreneurs
Vitenge	Tie and dye and other typically African fabrics used for tailor-made clothes

Chapter 1 Justification and background

1.1 The Tanzania Development Vision 2025

The statement of the long-term objectives of Tanzania's development effort foresees that by 2025,

'Tanzania should have created a strong, diversified, resilient and competitive economy, which can effectively cope with the challenges of development, and which can also easily and confidently adapt to the changing market and technological conditions in the regional and global economy'.

The type of economy envisioned can only be the result of a more robust, more diversified and more inclusive economy, with strong domestic supply and demand and greater capacity to add value. Only such an economy will produce more of the revenue with which the government can finance more poverty reduction, social progress and national development.

The Economic Reform Program (ERP) undertaken to achieve this goal has been redefining the roles and responsibilities of the government and the private sector. Through various policy measures, the Government is adopting the roles of producer of public goods and regulator and facilitator of the economy, and it is promoting the private sector to take charge of creating incomes, employment and growth.

1.2 The Tanzania development reality 2002

Tanzania's starting position is, however, a weak, uncompetitive economy, polarized into a small, modern, export-oriented sector at one end of the economic spectrum and a large informal sector occupying the rest of the spectrum with low productivity, low value-added activities having an almost exclusively domestic focus.

The most recent data on the size of the informal sector is from 1991, the National Informal Sector Survey, which showed that there were about 2,370,000 people engaged in informal production of goods and services at any time in the year. The origin of this informal sector, which was a marginal part of the previously state-run economy, lies in the closure and privatization of a large number of publicly-owned large enterprises and the reduction in the payroll of the government, following on from the ERP. These meant that suddenly tens of thousands of people lost their government-related jobs and could find no other work because the formal private sector barely existed and has not been able to absorb the retrenched and the new job seekers. Unsurprisingly therefore, the growth of businesses operating informally in Tanzania has been high as people do whatever they can to ensure their survival.

Between 1991 and 1995, the increase in the number of people engaged in the informal sector in Dar es Salaam was around 9.5 per cent¹. The growth has been characterised by an increasing number of young female operators, who dominate the 10-39 years old age group of operators and are mostly found in the trade/restaurant/hotel subsector². Reflecting a regrettable straining in gender relations, a significant proportion of these are single heads of households with children and dependants, implying that they are the poorest households, for whom participation in the informal sector is the only means of survival.

Tanzania's starting position is also a high rate of poverty, as evidenced by the poverty and social indicators in Table 1.

Table 1 Comparison of poverty and social indicators between Tanzania and averages for developing and developed countries.

Indicators	Unit	Tanzania	Average for developing countries	Average for developed countries
GDP per capita	US\$	240	970	16394
Population below poverty line	Per cent	51	n.a.	n.a.
Under-five mortality rate (1997)	Per 1000 live births	160	88	9
Maternal mortality	Per 100,000	200-400	384	28
Literacy rate	Per cent	76	85.5	99.8
Primary school enrolment	Per cent	74	77	100
Secondary school enrolment	Per cent	7	35-47	n.a.
Doctor-patient ratio	Patients per doctor	23,000	5767	344
Severe malnutrition	Per cent	29	30	n.a.
Average life expectancy	Years	52	63.3	74.5
Families with water supply at home	Per cent	11	70	n.a.
People living in temporary settlements	Per cent	60-70	30-60	n.a.

Source: Do decent jobs require good policies? A case study of MSEs in Tanzania, Country Report, ILO SEED, December 2001

¹ Government of Tanzania, *The Dar es Salaam Informal Sector*, Planning Commission and Ministry of Labour and Youth Development, volume 1, 1995

² *Taxation of the Informal Sector in Tanzania*, Final Report, Research and Policy Department, Tanzania Revenue Authority, Dar es Salaam January 2001

These indicators show that Tanzania is poorer than the average developing country where most social indicators are concerned, apart from severe malnutrition rates and primary school enrolment. Tanzania is poorly equipped in infrastructure, a majority of people do not have a permanent place to live, and half of the population lives below the poverty line. GDP per capita works out at around US\$20 a month.

1.3 Going from today's reality to the 2025 Vision

For Tanzania to go from this state of economic weakness and poverty to making the vision its reality, will require:

- a sound growth-promoting macroeconomic policy
- more investment that reduces poverty and creates jobs
- better governance and institutional reforms
- higher productivity and a greater capacity for trade.

The trends, particularly where macroeconomic expansion is concerned, are positive. In his budget speech in June 2001, the Honourable Minister for Finance informed the government that GDP grew by 4.9 per cent in real terms in 2000 compared with 4.7 per cent in 1999, with inflation falling, foreign reserves growing to a record level in the history of Tanzania and government revenue collection set to increase by 6 per cent over the original target for 2000-2001. Clearly the Government is on the right track. Macroeconomic stability is ensured, and growth, though constrained is positive.

While the macro economic trend is encouraging, the Minister expressed the need for the economy to “grow at more than 8 per cent per annum in real terms” for Tanzania to be confident of a sustained basis for reducing poverty. This presupposes a revival of agriculture which supports 80 per cent of Tanzanians, and the promotion and strengthening of the private sector, both domestic and foreign. The challenge in both cases is great. Promoting the private sector is a new activity for a Tanzania in the process of moving from a socialist, controlled economy to a market economy. At the formal end of the economic spectrum, large and foreign firms are increasing in number but their share in total employment has been decreasing - to less than 10 per cent. It is estimated that only a few tens of thousands of new jobs a year are being created in the formal part of the economy, and this at a period when new entrants to the labour force number about 600-700,000 every year, at least 500,000 of them being primary and secondary school leavers with little or no skills. By the year 2025, over 55 per cent of the population will be urbanized. The government faces the challenge of sustaining urban development and employment creation also³.

The economy not only needs to grow faster, it needs to grow in such a way that all able and willing can participate in the creation of wealth and share in the wealth created.

³ *Do decent jobs require good policies?* Country Report, SEED, ILO Geneva, December 2001

1.4 Previous efforts to bridge the gap focus on large enterprises

Since 1993, the GoT has certainly made headway in its transition. It passed a new Tanzania Investment Act in 1997 and has taken several important measures to make it simpler for foreign and big investors to invest in Tanzania, of which the setting up of the Tanzania Investment Centre. An important milestone in this process was the 1996 USAID report, the Tanzania Investor Roadmap⁴, which examined the trials and tribulations foreign investors (and large private investors) went through in trying to do business in Tanzania. The report was carried out at a time when investment applications had dropped from 365 in 1991 to 123 in 1995, and enquiries had fallen from an average of 150 a month to approximately 20 in 1996.

The Tanzania Investor Roadmap had a big impact, demonstrating that the regulatory and tax environment in Tanzania was among the most discouraging in the sub-region. The final assessment carried out in 1999⁵ concluded that the GoT had made significant progress on the macroeconomic and administrative fronts - at least where big and foreign investors are concerned.

The small, mainly Tanzanian, investors have not been so lucky: as they cannot simply take their investment elsewhere, it has been more difficult to focus on the difficulties they are facing. As the Tanzania Investor Roadmap stated in 1996:

‘While the current regulatory environment is difficult for medium and large scale formal sector firms, it is largely inappropriate and irrelevant to micro and small scale informal businesses. ... It is virtually impossible for small businesses to operate legally. ... Consequently, the current environment encourages businesses to remain small, informal, and operating outside many of the constraints faced by large more visible operations. Although informal sector entrepreneurs, by being informal, may operate outside some of the constraints faced by larger enterprises, they face multiple obstacles of similar and different nature. Besides the fact that informal sector entrepreneurs often cannot operate without permits and do face regulatory constraints, they also have to deal with insecure and inappropriate working places, harassment by authorities and limited access to utilities and other inputs and services.’⁶

Nonetheless, changes to promote micro and small firms are already under way or planned. There has for instance been a significant change in the regulatory environment which has gone largely unnoticed by both institutions and micro and small business operators. In July 2000, the Tanzania Revenue Authority (TRA) introduced a new simplified tax schedule for small taxpayers⁷ (as well as simplified balance sheets and tax declaration forms), as part of a drive to make it easier for informal sector operators to formalize and start paying taxes. TRA has also carried out a comprehensive and up-to date (2001) survey of the informal sector in 15 districts of Tanzania⁸.

⁴ *The Tanzania Investor Roadmap*, USAID/Tanzania, 1996

⁵ *The Tanzania Investor Roadmap*, Final Assessment Report, USAID/Tanzania, 1999

⁶ *The Tanzania Investor Roadmap*, 1996 op cit

⁷ See Chapter 4

⁸ *Taxation of the Informal Sector in Tanzania*, Final Report, January 2001, op.cit.

Other efforts to ‘mainstream’ the informal sector through regulatory and other types of support are at different stages. The Ministry of Industry and Trade’s Sustainable Industrial Development Policy (SIDP 1996-2020) mentions MSEs but remains at the stage of policy without any particular implementation mechanism where they are concerned. The Ministry’s draft SME Development Policy (SMEDP 2001 - 2011) recognizes that ‘despite their importance, micro, small and medium enterprises have not benefited sufficiently from the economic reform programme.’ It aims to correct this oversight through measures to:

- foster job creation and income generation,
- promote the creation of new SMEs and
- improve the performance and competitiveness of existing SMEs.

The SME Development Policy (SMEDP) states that the Government will promote the micro, small and medium enterprises because they account for a significant share of businesses and employment in Tanzania; and because they represent the emerging private sector in the country and form the base for private sector led growth. There is a consensus that this will be achieved by helping them to upgrade, i.e. by removing the obstacles and providing the support to enable them to grow out of the informality, poor working conditions and low productivity and quality, that have characterized their status and operations until now. The policy focuses on small and medium enterprises, as its name indicates.

The SMEDP is in the final stages of a consultative design process which has led to it being presented very strategically as a series of programmes. The new tax schedule of the TRA is however not yet reflected in it. The Ministry of Industry and Trade expects to present it to Parliament for approval in 2002.

1.5 Paying attention to the micro and small Tanzanian entrepreneur

Clearly, though there are prospects for change, the reality of the majority of Tanzanian businesses, which are mostly informal micro and small businesses, has not changed significantly since the start of the economic reform process.

What regulatory and other constraints does an MSE in Tanzania face in starting up, during operation, when wanting to formalize? What exactly are the operating conditions of the emerging Tanzanian private sector? While a company in the formal sector may have to spend a considerable amount of time and money in gaining access to certain permits, rights and utilities, an informal sector entrepreneur may be totally excluded from having access to these services at all.

In order to smoothen the growth path of the Tanzanian MSE, the United Nations Development Programme (UNDP), the United Nations Industrial Development Organization (UNIDO) and the International Labour Organization (ILO) in Tanzania, commissioned a Roadmap for the Informal Sector, to:

- a) inform the current policy formulation and implementation processes with the actual situation of the micro/small entrepreneurs;
- b) identify the ways in which factors under government control are constraining the development of the small business sector; and
- c) propose specific, practical measures for removing the identified constraints.

This Informal Sector Roadmap complements the USAID Tanzania Investor Roadmap which focussed on the formal sector, and it represents an attempt (and in certain cases a first attempt) to:

- Identify the principal regulatory (and non-regulatory) constraints informal sector entrepreneurs face
- Examine the strategies entrepreneurs are adopting to deal with these constraints
- Examine the underlying motivations of entrepreneurs for the way they choose to deal, or not to deal, with different constraints
- Determine the costs and time spent in dealing with constraints
- Assess to what extent the constraints affect the growth potential of enterprises.

The Tanzanian consultancy company, Enterprise Development Centre (EDC) of Dar es Salaam was contracted to carry out the research. EDC drafted an initial report, which has been rewritten and supplemented by an international consultant, K. Dixon-Fyle.

Chapter 2 Approach and Methodology

A number of good and excellent quantitative studies⁹ are already available on the need to raise the level of operation of micro and small Tanzanian businesses currently operating informally, and the policy and practical measures to achieve this. They all recognize that this is a precondition for the informal sector to graduate into the modern private sector which will yield development and competitive advantage for Tanzania. The Informal Sector Roadmap therefore focuses on:

- a) informing the decision making process with useful qualitative information on the actual experience of micro and small entrepreneurs as they may attempt to go through this growing/graduation process, and,
- b) describing the heavy constraints and numerous obstacles as seen from the entrepreneurs' point of view, just as the Tanzania Investor Roadmap did for large and foreign investors.

2.1 Approach

The same approach has been adopted as for the USAID Investors' Roadmap. The draft report of the Informal Sector Roadmap Study was widely circulated among practitioners working with the informal sector, who came together to review and strengthen the Roadmap findings and recommendations at a workshop on 28-29 November 2001 in Dar es Salaam. This 2001 Informal Sector Roadmap is thus the outcome of research and consultations. It is expected that, as with the USAID Investors' Roadmap which produced its final report after 3 years, there will be a follow-up to monitor the implementation of the recommendations of the Informal Sector Roadmap.

2.2 Definitions of the informal sector and of constraints

The working definition of the informal sector/enterprise used in the Informal Sector Roadmap is drawn from the 1993 International Conference of Labour Statisticians (ICLS) resolution¹⁰ on statistics in the informal sector, adapted to the Tanzanian context (Box 1).

Recent studies on the informal sector have identified a number of constraints hindering enterprise development in the informal sector. These constraints have been put into two broad categories, adopted by the Roadmap:

⁹ - *Report on the informal sector and regulatory framework in mainland Tanzania*, ILO, Dar es Salaam 1994

- *The promise of growth: Tanzania's microenterprise and small business sector*, Commonwealth Secretariat and Ministry of Industry and Trade, Dar es Salaam 1997;

- *A Strategic Plan to develop Tanzania's national Policy Framework for small business*, Commonwealth Secretariat and Ministry of Industry and Commerce, Dar es Salaam 1998;

- *Small-scale manufacturing sector in Tanzania, Business development services & the regulatory and tax framework*, Catholic University of Leuven Center for economic studies, October 1999

- *Small-scale enterprise in Tanzania: driving forces*, Catholic University of Leuven, Centre for economic studies, december 1998

¹⁰ Also known as the ILO definition of the informal sector.

- **Regulatory constraints:** include factors such as labour legislation (e.g. employee benefits and rights); location-related factors (e.g. processes such as acquisition of land, site development, obtaining utility connections, environmental laws, etc.) and reporting requirements (registration, licensing, taxes and duties, property rights, etc.).
- **Non-regulatory or operational constraints:** include availability of public utilities and infrastructure (water and sanitation, telephone, roads, power); public information (rules and regulations) and private information (advice, investment opportunities, market and market situation for both inputs as well as products) and financing (availability of capital and credit).

Box 1. Working definition of the informal sector for Tanzania

The informal sector is regarded as a group of production units which form part of the household sector. Household enterprises are units engaged in the production of goods and services, which are not constituted as separate legal entities independently of the household or household members that own them. They do not have a complete set of accounts which would permit a clear distinction between the production activities of the enterprises and the other activities of their owners, or the identification of any flows of income and capital between the enterprises and owners.

The informal sector comprises:

- Informal own-account enterprises ('self-employed')
- Enterprise of informal employers (employing one or more employees).

The upper size limit of enterprises of informal employers is set at a maximum of 10 paid employees on a continuous basis.

Household employees that are exclusively engaged in non-market production are excluded from the scope of the informal sector.

Agricultural activities, e.g. fishing, bee-keeping, are included in the informal sector when the purpose of production is the market, on the condition that the other requirements mentioned above are fulfilled.

2.3 The legal requirements for operating a business

The law in Tanzania does not distinguish between businesses of different sizes where regulation is concerned, with the difference that the Tanzania Investment Act of 1997 creates more favourable conditions for big and foreign investors in Tanzania¹¹.

The law requires any business of any size in Tanzania, prior to operation, to obtain a business license, a process which is meant to ensure that the proposed business will:

- take place in authorized areas;
- on premises at which the authorities can reach the entrepreneur for inspection and at which legal standards of safety, hygiene, employment and production are respected; and

¹¹ The Tanzania Investment Act, 1997, p435-470

- that the enterprise will return to the collective body part of the returns it makes from it, in order to sustain the basic physical and social infrastructure of which the enterprise benefits.

In practice, this involves two processes, 1) a process of registration of the business name, and 2) a process of licensing with a competent authority. In sub-sectors dealing with the extraction of natural resources, i.e. mining and quarrying, fishing, firewood and charcoal making, there is ‘apparently’ no registration requirement, but permits or licenses are required from the relevant sectoral ministry. For all other sub-sectors, registration is required, but is currently only available at the Business Registration and Licensing Agency (BRELA) in Dar es Salaam. This implies that entrepreneurs from the rest of the country either have to entrust their applications and payment to the postal system and to the diligence of BRELA officials, or they have to travel to Dar es Salaam, take out accommodation and see to it that their business is registered.

In sub-sectors dealing with the extraction of natural resources, permits are required from the relevant sectoral ministry, which may or may not be represented at the decentralized level. For the other sub-sectors, the Ministry of Industry and Trade’s ‘Lines of business list of schedules’ stipulates whether licensing takes place at the district, town/municipal or county council; the regional licensing officer/committee, or at the licensing officer/committee at the Ministry of Trade in Dar es Salaam. Completing the licensing procedure requires in all cases the payment of income tax and other taxes to be paid to central government.

A registered and licensed business is said to belong to the formal sector according to the legal definition. Being formal confers a number of advantages to a business: the business can operate confidently and openly; it gains access to all markets and, in particular, to public markets, freeing its potential for growth; it can benefit from different kinds of assistance, e.g. credit, training, etc., to turn its potential into a reality; and of course, compliance with the law spares the entrepreneur sanctions and harassment.

There is a third category of businesses which are neither formal, nor informal, because they acquire what is called an *nguvu kazi* license. The *nguvu kazi* licence is issued by local government authorities under the Human Resources Development Act, and its purpose is to provide a limited legal status for microenterprises which are really too small to envisage what is often called the ‘big’ licence, i.e. the MIT licence. In practice, small business operators find that having a *nguvu kazi* licence does not completely spare them harassment or even demolition from the very local government that issued the licence, or from other government instances whose requirements they also have to comply with. Furthermore, when the local authorities inspect the MSEs, they decide, on the basis of observation and their own guidelines, whether the MSE still qualifies for an *nguvu kazi* licence or not - for instance, if an MSE possesses more than 2 sewing machines, the local authority is likely to insist that it applies for the big licence.

The law requires all businesses to pay a variety of local government and other taxes and levies to remain legal. Local government taxes are fixed by the local authorities, and can have a wide range of objects: property tax, development levy, and so on.

2.4 Methodology

The research phase of the Roadmap has consisted principally of two data collection exercises, carried out by a team of eight field researchers under the supervision of the EDC research coordinator:

- a formalization exercise in which eight attempts were made, by bona fide entrepreneurs or the field researchers, to register and license different types of businesses in each of the survey locations.
- a diary method survey in which a total of 96 informal operators were requested to record their experiences for a period of four months. They were visited by the eight field researchers who, after discussions and reading the diaries, transcribed the information on the constraints entrepreneurs faced, and their strategies in dealing with them, into a structured questionnaire (Annexes 1-2). The researchers summarized the information on each entrepreneur in their field reports. The researchers also visited the institutions mentioned by the entrepreneurs to cross-validate the information obtained (Annex 3).

2.5 Sample selection

The first data collection exercise consisted of attempts by selected entrepreneurs, or persons recruited for the purpose, to 1) go through the process of registering and licensing a business in the food processing, casual construction, carpentry, cloth making, and retail trading sub-sectors; and 2) obtain a sectoral license in three further 'extractive' sectors: fish trading, mining and stone quarrying. All survey locations were covered.

In the second data collection exercise, in order to reveal the variables influencing the constraints a given entrepreneur faces and the way in which he or she might deal with them, the 96 entrepreneurs were selected using a sample selection questionnaire (Annex 4) so as to segregate constraints faced and strategies applied by:

- Male and female entrepreneurs
- Urban and rural entrepreneurs
- Entrepreneurs in different sectors and sub-sectors.

The sub-sectors were chosen from among the sectors in the national economy which have attained a high degree of informalization, and through which informal operation contributes significantly in terms of:

- Numbers of people employed
- Income generated at the national level
- Value added
- Recent growth or growth potential.

Each sub-sector was studied in two different locations. There were four (4) urban locations and two (2) rural locations selected from the six regions of mainland Tanzania.

The selection of entrepreneurs in the sub-sectors was made so that enterprises in different development stages were covered:

- Starters of small and micro enterprises going through the process of obtaining permits/licences and other services
- Enterprises already operating in the informal sector, facing barriers in their day-to-day operation (including the process of renewing licences and permits) and
- Micro-enterprises/single person businesses, and small enterprises employing several people on a continuous basis.

At every location, the sample of enterprises for a given sub-sector included

- at least one starting enterprise
- at least one fully operational enterprise
- at least one enterprise with more than 5 employees
- at least one woman-owned enterprise.

Table 1 contains the summary description of the sample.

The institutions mentioned by the entrepreneurs at a given location were also visited, to complete the picture with the complementary institutional viewpoint of the situation, and to obtain clarifications on the official procedures to be followed.

2.6 Limitations of the research approach adopted

The aim of the research phase was to provide illustrative evidence in support of existing, statistically representative, information on the state of informal enterprises and the constraints weighing them down. As such it adopts a case study approach supported by limited quantitative data. It therefore acknowledges the element of subjectivity present in the interpretation of the findings. Minor problems were encountered with the field application of certain concepts in the research, but the necessary adjustments were made.

Table 1: The Key Characteristics of the Studied 96 Cases

Case characteristics Sector	Region	Starting	Fully operating	Above five employees	Gender		Location		Marital status of the owner		
					Male	Female	Rural	Urban	Single	Married	Widow
Market and street sellers	Mwanza	1	3	0	2	2	0	4	1	2	1
	Dar es salaam	1	3	0	2	2	0	4	0	4	0
Food vendor	Dar es salaam	1	3	1	1	3	0	4	1	3	0
	Arusha	1	3	0	2	2	0	4	1	3	0
Food processing	Dar es salaam	1	3	0	0	4	0	4	1	2	1
	Mwanza	1	3	0	1	3	0	4	0	3	1
Mat making	Mbeya	1	3	0	0	4	0	4	0	4	0
	Mwanza	1	3	0	1	3	0	4	0	3	1
Carpentry	Dar es salaam	1	3	1	4	0	0	4	0	4	0
	Arusha	1	3	2	3	1	0	4	0	4	0
Cloth making	Dar es salaam	1	3	0	2	2	0	4	1	3	0
	Mbeya	1	3	2	2	2	0	4	0	4	0
Fishing	Mtwara	1	3	2	3	1	4	0	0	4	0
	Mwanza	1	3	1	4	0	0	4	0	4	0
Firewood and charcoal	Mtwara	0	4	0	4	0	4	0	1	3	0
	Dodoma	1	3	0	2	2	4	0	0	3	1
Brick and tiles making	Arusha	1	3	0	3	1	0	4	0	3	1
	Mbeya	0	4	2	3	1	0	4	0	4	0
Casual construction	Mwanza	1	3	2	4	0	0	4	1	3	0
	Dar es salaam	0	4	1	4	0	0	4	0	4	0
Small scale mining	Dodoma	1	3	1	2	2	4	0	0	3	1
	Mtwara	0	4	1	3	1	4	0	1	3	0
Stone quarrying and sand mining	Mwanza	1	3	2	2	2	0	4	1	3	0
	Dodoma	1	3	0	2	2	4	0	2	2	0
	Total	20	76	18	56	40	24	72	11	78	7
	Percentage	20.8%	79.2%	18.8%	58.3%	41.7%	25%	75%	11.4%	81.3%	7.3%

Chapter 3 Coping with regulatory constraints

The Roadmap first of all elicits several observations with important implications for designing policies and fixing priorities where the informal sector is concerned.

3.1 The informal sector extends to the public sector...

The first observation is that of an almost complete break in faith between the government and ordinary business people. In a market economy, the relationship between the government and the business people is supposed to be based on the deal that the government ensures a conducive social, economic, regulatory and physical environment within which an entrepreneur who takes the right risks and makes sure s/he has the right skills, has a reasonable chance to operate a successful and profitable business. In exchange, the entrepreneur complies with the rules and laws regulating business and employment and pays taxes on his or her profits to maintain the conducive business environment that enabled him or her to earn these profits.

The Government and business people in Tanzania do not yet have such a deal. While the Government has started delivering an economic environment within which enterprise can prosper, when it comes to the regulatory framework the problems have not yet started to be tackled. It is extremely complex, with unhelpful institutional arrangements, and gives rise to many opportunities for corrupt practices on the part of both the civil servants dealing with informal owner managers directly, and the entrepreneurs. All of this creates a straitjacket of constraints around the informal business, barring it from operating legally and optimally, stifling growth and killing off positive attitudes.

Box 2 Disenabling conditions

Part of the problem lies with the abysmally low salaries and demotivating working conditions of civil servants, including in the institutions dealing with the micro and small businesses. While civil servants were voted a modest pay rise in the 2001 budget, the minimum subsistence income is estimated to be around \$100. The category of civil servant in direct contact with entrepreneurs earns less than the median salary (estimated at \$10-15 in 1994), and thus continues to have a significant shortfall to make up for every month. Sometimes, civil servants and members of their family make up for part of this shortfall by themselves engaging in informal business activities. The Roadmap is instructive about the extent to which civil servants make up for the other part through systematic exploitation of those entrepreneurs who attempt to fulfil their part of the deal. While poor working conditions are at the origin of this coping mechanism, it has also led civil servants to acquire in many cases a habit of corrupt practices.

An important contribution of the Roadmap to the process of finding solutions to upgrade MSEs into a decent private sector consists of having documented actual experiences of MSEs as they tried to formalize their businesses. The carpentry business formalization attempt in Arusha (Box 3) is typical of the experiences would-be entrepreneurs reported as they encountered the administration, and reflects experiences related by the other 96 entrepreneurs interviewed in the diary part of the survey. The potential carpenter-entrepreneur first licensed the business and then went to register the business name.

Box 3 Carpentry business licensing case study

Venue: Tanzania Revenue Authority, Income Tax Department

1st visit: The entrepreneur arrives around 9.00am and asks for an application form.

1st Official: What kind of business do you want to license?

Entrepreneur: Carpentry

Official : You will pay 200,000/=. Go to the office next door.

Entrepreneur goes to the office, is given a form and told to make a photocopy and return the original. He pays 100/= for the photocopy, and is told to fill the form very carefully and to return it the following day.

2nd visit, same office, two women are chatting. The entrepreneur wants to return the form and is directed to another office. Here they take his form, and he is told to pay 50,000/=. He goes home to get the money.

3rd visit, the entrepreneur returns with the money and he is told that his tax number is missing because he was supposed to pay the money on the same day, and that it will take a day to find his tax number. The entrepreneur decides to wait on the spot. After a while, he is given his tax number, but told that the signatory is not around. The entrepreneur says that he will wait for him. After another bout of waiting, the very same officials finalize the process, and tell him to go to the Municipal Council Office.

Venue: the Municipal Council Office

1st visit, the entrepreneur is asked for the form he had filled in at TRA. He replies that it remained with TRA and is told that he was supposed to bring it with him. He is given a form and told to fill it and come back the next day.

2nd visit, the entrepreneur returns to the Municipal Council Office: the officer responsible is not around.

3rd visit, the entrepreneur returns to the Municipal Council Office, gives in his form, and is directed to the health office. **Official :** You are required to pay Tshs 30,000, but I am being nice to you, pay only Tshs 4,000. Beware of the trade officers, they might want to charge you a lot of money.

The entrepreneur pays the Tshs 4,000 and returns to the Municipal Council Office.

Official: The officer responsible is not around and we cannot see your form, so please fill in another one and come back tomorrow.

The entrepreneur takes the form for the second time and goes home to fill it.

4th visit, the entrepreneur returns to the Municipal Council Office: the responsible officer is not around.

5th visit, the entrepreneur returns to the Municipal Council Office: his form is still being processed .

6th visit, the entrepreneur returns to the Municipal Council Office and is given his form and told to pay Tshs.61,500. A trade officer tells him that he is only supposed to pay Tshs. 41,000 and that he should come back with the amount he was told and she will help him.

7th visit, the entrepreneur returns to the Municipal Council Office.

Official: You are now supposed to pay Tshs.55,000 but I will help you so that they will lower the amount.

The entrepreneur gives the official Tshs.55,000 she takes it to another office and comes back, with his license stamped for a payment of Tshs.48,000, but without any change.

Venue: BRELA, Dar es Salaam (Registration of business name)

1st visit: The entrepreneur goes to the Municipal Council Office and asks about registration procedures. The secretary tells him that registration is done in Dar es Salaam but directs him to see her boss. The boss tells the entrepreneur to collect the form from the secretary. The potential entrepreneur collects the forms from the secretary who to fill it in and return it the next day.

2nd visit, the entrepreneur returns to the Municipal Council Office. The responsible officer checks and stamps the form, and tells the entrepreneur to take it to BRELA.

3rd visit, the entrepreneur has travelled to Dar es Salaam and booked into a hotel. At the BRELA office he is told the cost is Tshs 6,000. The entrepreneur pays and asks if the process can be finished early so he can go back to Arusha and avoid paying further hotel expenses.

Official: If you want things to go faster, you will have to pay Tshs 15,000. The money will be given to those who are facilitating the process. If they do not speed it up, I will give you your money back. Come back tomorrow. The potential entrepreneur pays.

4th visit, the entrepreneur returns to BRELA.

Official: Your name was similar to someone else's, but we helped you to cross that obstacle. Come back in the afternoon, the responsible officer has gone to a meeting. The entrepreneur returns in the afternoon.

Official: Are your business premises in the measured area? They need to know the plot number.

Entrepreneur: No, they are not.

After a while the lady gives him the form, telling him that the business registration process is complete.

3.2 Measuring the constraints informality imposes

An informal, microbusiness that does not become formal is going to have to forego some or all of its possibilities for growth into a small or medium-sized business.

Where only a minority of enterprises in an economy are operating informally, this does not represent much of a problem. Where a significant number are operating informally this is the sign of a serious problem; and where the majority of enterprises are informal, then this is the sign of a grave deficiency in the system. The situation is similar to that of a class taking an exam. If only a few fail, then the paper was alright, since the majority passed. If the majority of students fail, chances are that there was something wrong with the paper or the teacher, or the educational system.

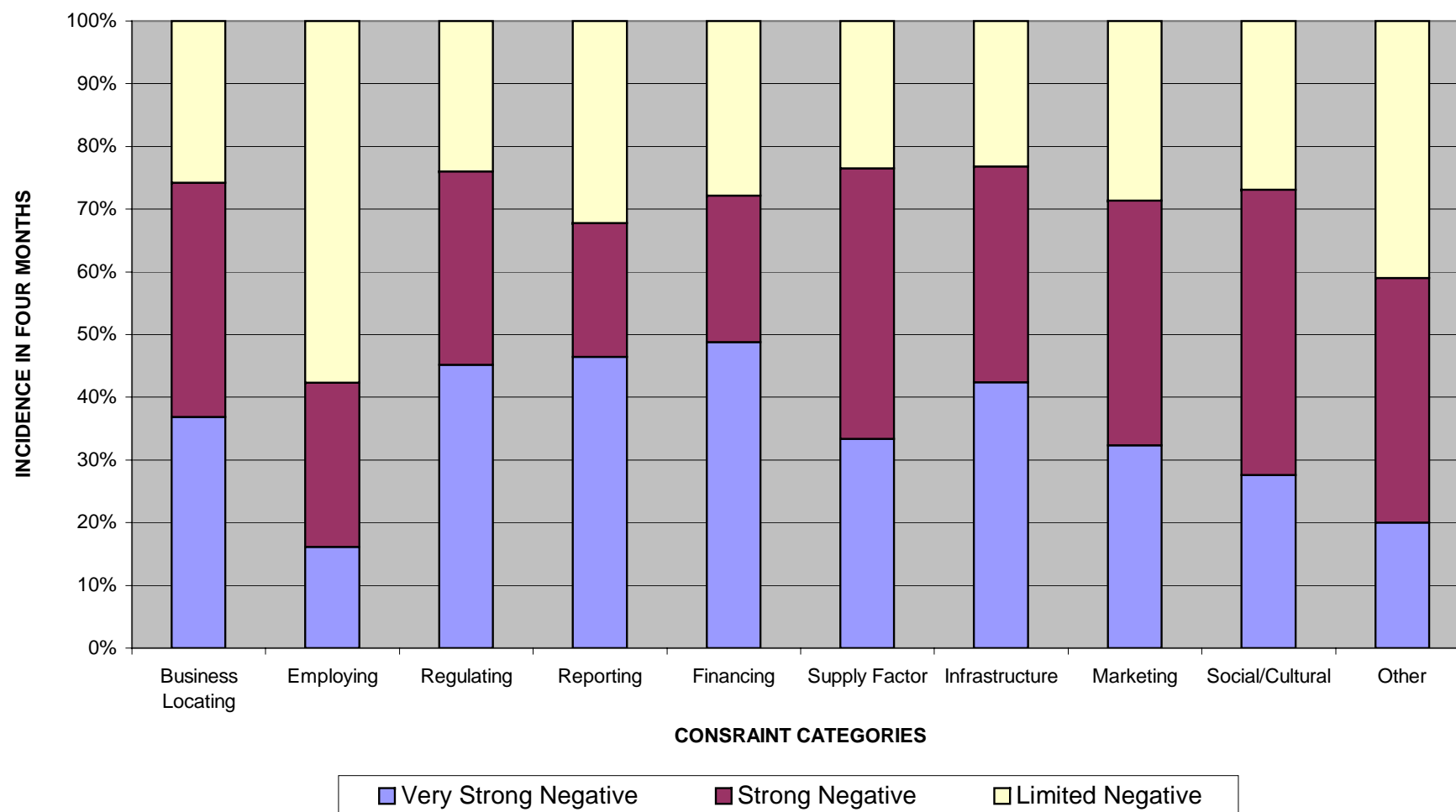
In Tanzania, the majority of enterprises are starting out informally and continuing to operate informally. The Roadmap has focused on identifying the constraints on their growth, their coping mechanisms and the impact of the constraints on their businesses, with an emphasis on regulatory constraints. The categorization is given in Table 4.

Table 4 Constraint categories

Type of constraint	Category
Regulatory	<ul style="list-style-type: none">- Employing: labour legislation- Regulatory: absence of a policy for the informal sector, ineffective police and commercial courts, etc.- Reporting: registration, licensing, taxation- Business locating: land tenure, site development, utility hookups
Non-regulatory or operational	<ul style="list-style-type: none">- Financing- Infrastructure: transport and communications, municipal services, etc.- Supply-related: access to raw materials, technology, training, etc.- Market: competition, lack of demand- Socio-cultural: social functions or responsibilities affecting business.

The effect of a constraint on the business was classified as a limited negative, strong negative or very strong negative effect. This was an assessment by the field researcher who would evaluate for example if dealing or not dealing with a certain constraint had cost the business, e.g. a day's sales, a few days' sales, or several days' sales. During the whole period of the study, the 96 informal owner-managers surveyed experienced regulatory (and non-regulatory constraints) whose impact was seen to be on the whole, strongly negative and very strongly negative. Figure 1 shows the distribution of constraints by type of constraint and their severity.

Figure 1. SEVERITY OF CONSTRAINT BY TYPE OF CONSTRAINT



The incidence of most severe constraints occurs in 3 broad bands:

- 1) Financial constraints are most often reported as having a very strong negative impact on the business, but regulatory, reporting and infrastructure constraints also had a very strong negative impact more than 40% of the time;
- 2) Business locating, marketing and supply factor constraints are the second most frequently reported constraints;
- 3) Socio-cultural constraints more often have a very strong negative impact on the enterprises than employing constraints which are reported as having the least negative impact.

This chapter focuses on the regulatory categories of constraints (reporting, regulatory, business locating and employing) while Chapter 4 will investigate the operating constraints, including operating constraints with regulatory implications.

3.3 Reporting constraints

Three important stages in the process of formalizing a business come under this heading:

- Business name registration
- Business licensing
- Payment of taxes (part of the licensing process).

Except for businesses in the primary sector, (mining and quarrying, charcoal making and firewood selling, etc.), all three stages have to be completed before a business obtains a business license.

The case studies on the formalization process give a sobering picture of the difficulties awaiting micro and small operators who make an effort to comply with the law in these areas. They established exactly what steps were required to register and/or license a business in the 8 sub-sectors investigated, gave indications as to the institutions involved and the duration of the process. They also permitted comparison between official costs and actual, incurred costs, which will be looked at in detail in Table 7.

A complicated process

Three examples are given in Figures 2-4, showing the varying levels of complexity of the process and illustrating how the three stages can link up. The most complicated processes were for food vending, food processing (Chart 2) and fish trading, involving 5-7 institutions and 25-27 steps. Carpentry, cloth-making (Chart 5) and construction involved on average 4 institutions and slightly fewer steps. Small-scale mining and firewood/charcoal (Chart 7) required the shortest steps.

Chart 2 FLOW CHART FOR THE FORMALIZATION OF A FOOD VENDING BUSINESS

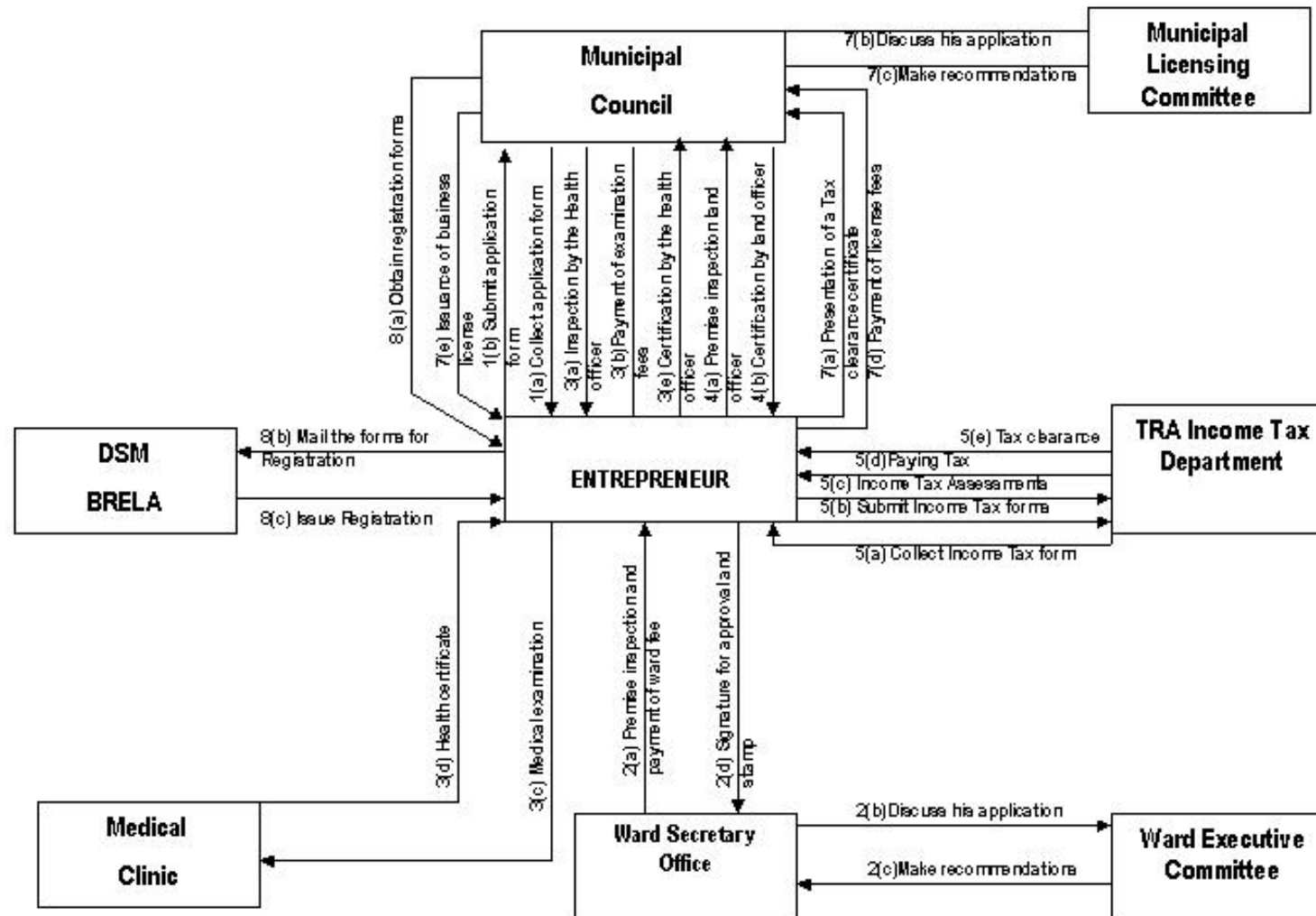


FIGURE 2

Chart 5 FLOW CHART FOR THE FORMALIZATION OF A CLOTH MAKING BUSINESS

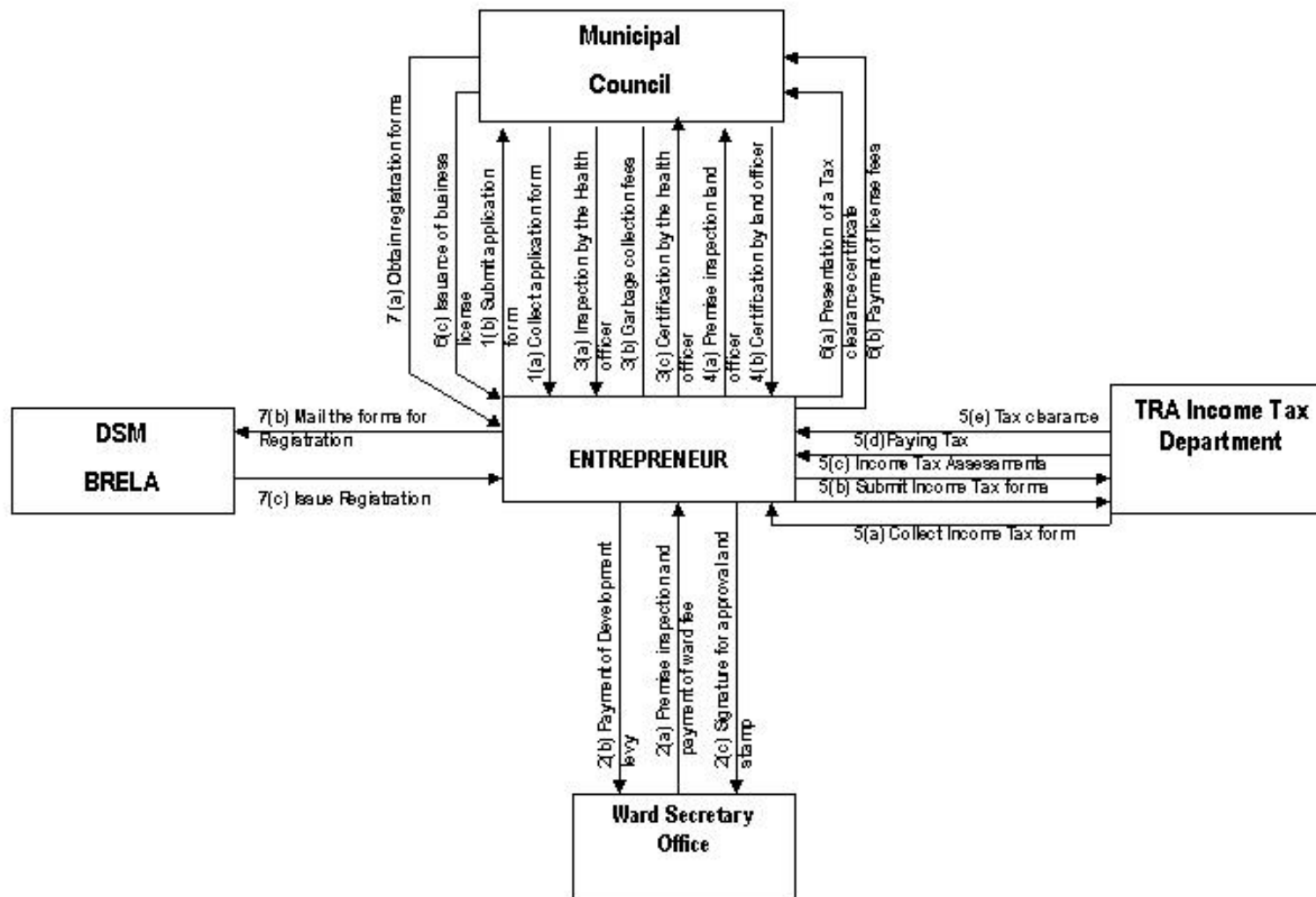


FIGURE 3

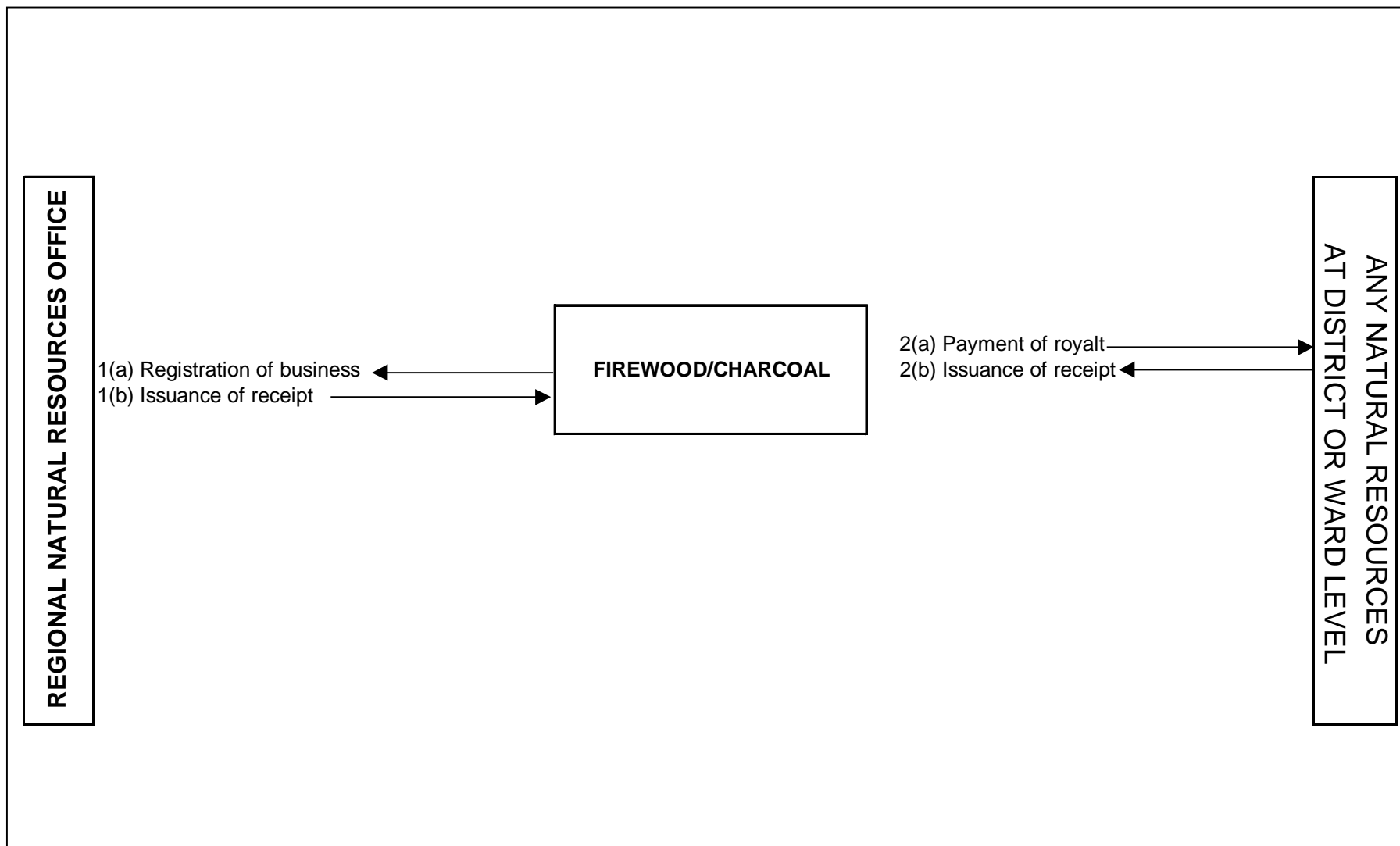


FIGURE 4 FLOW CHART FOR THE FORMALIZATION OF A FIREWOOD/CHARCOAL BUSINESS

The information in these flow charts is not available for the typical MSE operator, and in general, he or she is only TOLD to what to do and where to go, one step at a time. The complexity of the procedures and the ignorance of the entrepreneurs creates conditions for rent-seeking and exploitation of the latter. Let us now look into the different stages in detail.

3.3.1 Reporting constraints: business name registration

The main problem here is that there is only one business registration office in the whole of Tanzania: BRELA in Dar es Salaam.

This implies that any businessperson in the rest of the country wanting to register a business, has to make a trip to BRELA to follow the procedure through and incur additional costs, which are a disincentive. Table 2 gives the outcomes of the attempts made to register a business under the formalization exercise.

The table shows that registration is an expensive exercise for a business from outside Dar es Salaam and a time-consuming one for a business in Dar es Salaam that does not bribe officials to speed up the process. For potential entrepreneurs from the regions, travel, accommodation in Dar es Salaam and bribes to speed up the process typically increased the total cost of registration 6-7 times, from about Tshs.10,000 to 60-70,000. The actual fee is Tshs.6,000.

On the one occasion when the potential entrepreneur (from Mwanza) paid Tshs.4,200 to send the application form and a cheque for Tshs.6,000 to BRELA through the Tanzania Postal Authority's EMS service, a month passed without him receiving any communication from BRELA. After making several unsuccessful phone calls to try to trace his application, he ended up travelling to the BRELA office in Dar es Salaam. There he learnt that the application forms had been received but that the money could not be traced. BRELA could not disclose the state of the envelope when it was received. He was told to follow the issue up with the EMS service, or to pay again to receive his certificate. Two months and Tshs.73,000 in expenses still did not manage to produce a business registration for a retail trading shop in Mwanza.

When other bodies are involved in the registration, for example the Contractors' Registration Board, this can lengthen the process considerably. In the Roadmap example, the CRB could not find the time to put admission of new members on its meeting agenda.

Table 2 SUMMARY OF THE BUSINESS REGISTRATION ATTEMPTS

Activities	Institutions	Legal cost	Experienced expenses		No. of visits made	Outcome
			Time	Total Cost ¹²		
Business name registration						
For a food processing business based in Dar es Salaam	BRELA	6,000/=	21 days	9,000/=	7	Obtained
For a construction business based in Dar es Salaam	BRELA CRB ¹	6,000/=	5 weeks	11,000/=	9	Obtained
For a carpentry business based in Arusha	Arusha municipal council BRELA	6,000/=	1 week	75,000/=	4	Obtained
For a cloth making business based in Mbeya	BRELA	6,000/=	3 days	60,000/=	3	Obtained
For a trading business based in Mwanza	Mwanza municipal council BRELA (mailed through EMS)	6,000/=	2 months	73,000/=	3	Not obtained by survey end, still tracing where the money went

¹ Contractors' Registration Board

¹² Actual payments (for example transport, telephone, etc.) i.e. not including business foregone

3.3.2 *Reporting constraints: business licensing*

Business licensing takes place at the offices of the Ministry of Industry and Trade, MIT. Licensing may be done at district, regional or national level, according to the business activity, and the level is determined by the MIT 'Lines of business schedule' available in Swahili. The businesses informal sector operators typically go into can usually be licensed at the district and regional levels. In the latter case, the entrepreneur again incurs added costs of travelling to the regional headquarters of MIT to follow up on the process.

Six attempts were made to license businesses in the formalization exercise, two in Dar es Salaam and the remaining four in the regions. Licensing a business implies a changed status reflected in the name of the activity, for all sub-sectors except construction (See Table 3).

Table 3 Change in status of a business upon licensing

Informal business activity	Licensed business activity
Street or market selling	Retail trading
Food vending	Restaurant
Food processing	Processing industry
Carpentry	Manufacturing workshop
Cloth making	Tailoring mart

Table 4 summarizes the attempts to obtain a business license in the course of the formalization exercise.

Table 4 SUMMARY OF THE BUSINESS LICENSING ATTEMPTS

Activities	Institutions	Official cost	Experienced expenses		No. of visits made	Outcome
			Time	Total Cost ¹³		
Business & sectoral licensing						
For a food processing industry based in Dar es Salaam	Municipal council Dsm TBS, TRA TUKUTA Medical clinic	Depends on the tax estimate	3 months	397,400/=	16	Not obtained by survey end, pending fulfilment of TBS requirements
For a construction business based in Dar es Salaam	Municipal council TRA CRB	Depends on the tax estimate	3 months	36,300/= license fees not paid, Tax not yet paid		Not obtained by survey end, pending CRB approval of application forms
Business license for a carpentry business based in Arusha	Arusha Mun. Council Arusha TRA Regional Natural Resource Office	Depends on the estimate	17 days	119,400/=	10	Obtained
Business license for a tailoring mart based in Mbeya	Mbeya Mun. Council TRA Ward secretary	Depends on the estimate	11/2 months	112,135/=	17	Obtained
Business license for a retail trading business based in Mwanza	Mwanza Mun. Council TRA Ward secretary	Depends on the tax estimate	6 days	124,980/=	7	Obtained
Business license for a fish trading business based in Mtwara	Mtwara District Trade Office TRA District Fisheries Office Ward secretary	Depends on the tax estimate	1 month	85,000	12	Obtained

¹³ Actual payments (for example transport, telephone, etc.) i.e. not including business foregone

The two attempts in Dar es Salaam, to register a processing industry and a construction business were still not successful after 3 months, for different reasons. For the construction business, the industry body, the Contractor Registration Board (CRB), could not find time to include the processing of new applicants on its agenda, and therefore the end of the study came without the process being finalized.

The processing industry attempt (Box 3) indicates that the formalization of the food processing and food vending businesses, i.e. setting up a processing industry and opening a restaurant, is virtually impossible for an MSE.

Box 3 Your business is too small to be licensed

On November 24th, the potential entrepreneur, who had already paid Tshs.300,000 to the Municipal License Office (and Tshs.20,000 to the TRA) was told that the license was ready but that one document was missing, the TBS product standard verification certificate. She was directed to the Tanzania Bureau of Standards where she was asked about the planned production capacity per batch. When she told them a hundred bottles, they laughed and said that they did not deal with small-scale producers. They said that she was supposed to have a large factory with machinery and facilities that met international standards. She was advised not to waste her time if she was from the informal sector or small-scale industry.

So she went back to the Municipal Licensing Office where she told that it was impossible for her to recover the money she had previously paid because the license had already been written, and that she was the one who had failed to produce the required documents.

The food vending and processing subsectors thus represent simultaneously a situation of emergency and one of great potential if handled right. They are subsectors in which Tanzania operators are very active, and for which there is high demand, particularly among the low income market segments. Food vending, for example, is a sub-sector on which many women fall back to meet their families' needs, so much so that competition is driving profits/income down in certain locations, while the operators are unable to attract new categories of clients and expand their market/income base.

Most of these operators, known as *Mama lishe* (Mama nutrition), currently operate outside the law, because these are easy subsectors to enter informally: capital requirements are small, skills easy to acquire and a spot by the roadside can suffice. To operate in these subsectors legally, the law requires a separate kitchen from the one for family use, premises with toilets and running water, food conservation equipment, health inspection of employees, etc. Few *mama lishes* can afford to comply with these specifications and standards, and certainly not at start up.

Thus, it is on the one hand absolutely necessary to safeguard the health of the general public with appropriate measures, and indeed, from a purely commercial viewpoint, it is difficult to attract customers from the middle income brackets to eating venues and

products which do not respect these standards. Yet between informality and excessively high formal standards there is hardly any middle ground. On the other hand, by maintaining unrealistic standards or interpreting standards unrealistically and unimaginatively, the current regulatory set up a) fails to meet objective of ensuring quality control for the majority; and b) traps the entrepreneurs in low quality settings, puts their upgrading and growth too far out of reach and limits the contribution of the subsector to poverty reduction and national growth.

To make matters worse, food vending and processing are also coming under increasing competitive pressure from imports and foreign ventures at the middle to top end of the market. In making it too difficult for small Tanzanian businesses to upgrade, the hostile regulatory environment is therefore putting them at a disadvantage to the larger and foreign businesses in this domain. More reasonable regulation and more innovative support have to be found for this vital sub-sector, in the interests of the population as well as those of the food vendors and processors.

Hyper-regulation is also a constraint the Roadmap encountered, e.g. with two or more licences required for one activity. Thus one license is required to go fishing and another for trading in fish. Fishing businesses can therefore only sell their catch illegally if they cannot afford the much more expensive trading license. One entrepreneur interviewed pretended to be selling wood instead of fish. A similar situation prevails in the mining sub-sector, where different licenses are issued for prospecting and for mining.

The rules and requirements are so many that entrepreneurs do not know where to begin, particularly as there is sometimes contradiction between the rules at local and central government level. Sometimes also, statements are made by high-ranking politicians which are then not implemented by the officials, confusing the entrepreneurs.

Box 4

Keketo is a casual constructor in Dar es Salaam. He had built a number of houses included a one-storey house. While he was building it, the Land Officials in Dar es Salaam discovered that he did not have the business license. They therefore advised him to get one. He approached his Ward Secretary to begin the licensing procedure. When he went to the Ward Executive Secretary, the Secretary demanded Tshs.30,000 as 'money for papers'. Keketo did not pay the money and decided to continue operating without a license.

If costs during the formalization exercise are compared to initial capital of surveyed businesses, costs of formalization are out of the reach of most businesses starting out (Table 5).

Table 5 OFFICIAL AND EXPERIENCED COSTS OF FORMALIZING A BUSINESS IN TANZANIA							
Sub-sectors	Registration		Business License		Total		Initial capital of entrepreneurs in sub-sector (Tshs)
	Official	Actual	Official	Actual	Official	Actual	
Food Processing*	6,000	8,100	388,900	406,700	394,900	414,800	20,000 - 50,000
Casual Construction*	6,000	8,800	14,000	36,700	Process ongoing	45,500	36,000 - 150,000
Carpentry	6,000	70,000	109,000	119,400	115,000	189,400	96,000 - 1,000,000
Cloth Making	6,000	56,000	106,335	112,135	112,335	168,135	10,000 - 300,000
Trading Business	10,200	73,000	88,340	91,640	98,540	164,640	10,000 - 350,000
Trading in fish **	-	-	85,000	86,000	85,000	86,000	9,300 - 16,000,000
Mining* **	-	-	20,000	460,800	20,000	460,000	0 - 6000
Stone Quarrying* **	-	-	200,000	238,700	200,000	238,700	15,000 - 97,000
* License was not obtained ** Registration not necessary							

The strategy most MSEs adopted then was avoidance of what they call the ‘big’ license. Often they opted to start (and sometimes stay) with a ‘small’ license from the local government unit, known as the *nguvu kazi* license. This license, which local government authorities are authorized to deliver, was created under the Human Resources Deployment Act, to respond to the reality that people were creating their own employment in microenterprises and to confer on them a minimum of legal identity.

While some unscrupulous informal sector entrepreneurs may be found trying to run big operations under a ‘small license’, the indications seem to be that there is a definite gap between the requirements for a *nguvu kazi* license and a ‘big’ license, and a business that grows beyond a *nguvu kazi* license may have to spend some time in a grey zone before being able to envisage the expenditure of money and time required to obtain a big license. This subject deserves further investigation. In the meantime, growing informal sector MSEs will probably have to resort to bribing officials or negotiating with them better terms of payment.

3.3.3 Reporting constraints: taxation

Two institutions are involved in tax collection: the Tanzania Revenue Authority (TRA), which collects taxes and duties on behalf of central government, and the local government authorities, LGAs, which collect taxes, fees, dues on their own behalf. Both are very present on the ground: TRA has offices at district level, while LGAs go down to the village/ward level.

Business in general is subjected to a bewildering multiplicity of taxes, levies, duties, from central and particularly from local government.

Central government taxation of the informal sector

Central government imposes through the TRA:

- Stamp duty: provides for a duty rate of 5 per cent of total monthly sales
- VAT: 20 per cent of the taxable value, applicable to any person whose taxable turnover exceeds or is likely to exceed Tshs 20,000,000. The VAT rate is high for struggling MSEs which have to pay the tax on inputs they purchase.
- Income tax.

Paying income tax and obtaining a taxpayer's identification number is a requirement for obtaining a business license. Tax rates perceived as being too high would therefore act as a disincentive to formalize.

The recent TRA study on 'Taxation of the Informal Sector'¹⁴ was presented at the Informal Sector Roadmap workshop. Having observed a declining trend in the revenue-GDP ratio and a trend of steady growth of the informal sector after trade liberalization, TRA is seeking to bring more informal sector businesses into the tax net. To this end it has introduced a number of measures to reduce 'small tax payers problems with respect to licensing and tax collection.' Among these measures include a new, reduced tax schedule¹⁵ shown in Table 6 below, and simplified tax return and balance sheets in English and Kiswahili. The nil band was introduced in 2001 as one of the outcomes of this study on taxation of the informal sector, which noted that women were more present in the sector than men, and had lower earnings.

Since this information is not disseminated (though it is meant to be posted on the notice board in all offices), informal sector operators are not aware of it and are at the mercy of officials.

Table 6 The new TRA income tax schedule for 'small taxpayers'

Annual income band (Tshs)	Yearly tax payable (Tshs)
0 - 6,000,000	0
6,000,001 – 7,000,000	50,000
7,000,001 - 14,000,000	165,000
14,000,001- 20,000,000	385,000

In practice however, the Roadmap picked up that informal operators, who are in fact small investors, still have several issues with the TRA requirements in the licensing

¹⁴ Taxation of the Informal Sector, TRA Dar es Salaam 2001, op. cit.

¹⁵ The Income Tax Act No. 33 of 1973 revised (principal legislation) 30.6.2000.

process. The first disincentive is the requirement for tax payment up front, before the business even starts. TRA is considering introducing the possibility of payment after 3 months of operation, but in maintaining the requirement to pay tax from the moment the business is licensed. A second issue is that for now, the informal owner-operator is allowed to pay in quarterly instalments only at the discretion of the tax assessor, and cannot request a more frequent payment plan. Finally an issue in the becoming: during the Roadmap study, TRA assessors, with the exception of Arusha, did not mention the new, reduced tax schedule for small taxpayers to the potential entrepreneurs undertaking the formalization case studies which took place in 2000. Tax assessors are not telling entrepreneurs about the simplified tax schedule.

Box 5 Three months after the new tax schedule became effective

On September 7, the potential tailoring mart entrepreneur went to TRA in Mbeya and met with an assessor. She was asked whether she had ever had a licence before, the type of business she wanted to do, how many sewing machines she owned. On replying 'three', she was asked why she decided to formalize and have a license for such a small business. She answered that she wanted to be free of harassment by the authorities.

The tax assessor did not tell her about the new income tax schedule (under which she was to pay Tshs.50,000 on income less than 7m), instead she was told that the yearly assessment for her business was Tshs.80,000, but that since she was doing it for the second half of 2000, she would only be required to pay Tshs 40,000. She paid the stated amount and received a tax clearance certificate.

For starting up businesses to comply with TRA requirements means paying out of capital. The reason tax officials give for such an imposition is that micro and small entrepreneurs cannot be relied on to faithfully report their earnings. (Foreign and large firms on the other hand are granted a tax-free holiday while they establish themselves - it is assumed that the reason why they hire accounting firms is to enable them to more faithfully report their earnings...).

Local government taxation of the informal sector

The application of the Local Government Authorities Act No. 9 of 1982 means the existence of varying taxes which can be levied by local government authorities, including at village and ward level. While the taxes depend on the sub-sector, common local government taxes include:

- development levy
- garbage collection fees
- property tax
- sanitation fees
- tree planting fees, etc.

Local government authorities continue to see their role as that of controlling and policing business, and, lacking exposure, see taxing MSEs as the main way of meeting their revenue collection targets. Additionally, since local government officials tend to see MSEs as a source of personal income and have a vested interest in non-compliance, the conditions for stifling, instead of facilitating and stimulating local investment for local development, are united.

For larger businesses which can employ people to identify all of these central and local government taxes, and then carry out the monthly administration of returns, it is already a burden. For MSEs, avoidance of this maze is the main solution they adopt. TRA is opposed to local government taxes, which it calls 'nuisance taxes', and during the Roadmap workshop, disclosed a solution whereby licensing and registration would become the responsibility of a more local TRA, which would share the revenue with LGAs on an agreed to basis. On the other hand, the LGAs would like registration and licensing to come under their mandate.

There are more regulatory constraints on informal sector operators.

3.4 Business locating constraints

Entrepreneurs experience severe difficulties in securing the physical space to do business on. Since permanent premises are a requirement for business licensing, formalization becomes a problem - although some entrepreneurs reported that licensing officials did not necessarily check that they had premises, or had accepted bribes to issue them with licenses even though they did not have premises. The problem is most acute for sectors such as food processing and carpentry.

The shortage is no doubt linked to the multiplication of microenterprises, but is also a reflexion of the fact that the Land Act has not been implemented since it was passed in 1999. This omission continues to create enormous operational and reporting problems for MSEs in the informal sector who do not have access to premises; the TRA study on Taxation of the Informal Sector reflects the same findings.

Where food processing in particular is concerned, this very promising subsector of agro-industry is severely constrained by the legal requirement that the processing should take place in completely separate premises from the accommodation of the entrepreneur. The law enforcers interpret this to mean that if the processing facilities are in the same compound as the house, they should be separated by a wall or a fence with a locked gate. As industrial premises are not available, and are particularly absent from the rural areas, this in fact requires a food processing entrepreneur to construct a separate building on a separate plot of land before applying for a business license. It will be very difficult to realize the growth potential of this sector for MSEs under these conditions.

Trying to keep close to their markets, informal MSEs in other sectors are often found operating in areas where the local authorities do not want congestion or business activities. As a result they may be driven from these points, or if they have erected temporary buildings, these may be destroyed. Local government authorities are

usually very concerned with the appearance of an area and for this reason¹⁶ often demolish the temporary structures of informal businesses, or make them close down when the area is required to have a neat appearance. Coping mechanisms vary:

- The temporary structure of a food seller in Dar es Salaam, set in an open space, has been destroyed four times in the past eight years. He sets aside an allowance every month for the reconstruction of his structure, for whenever it will be demolished again. Several adopt this strategy.
- Carpenters are particularly affected by not having premises to stock their bulky raw materials and exhibit their finished products:

‘For us, we do not distinguish between what is official and unofficial. We possess local government licenses and we pay all the dues pertaining to our licenses. But when there is an official government visitor passing along the road where our businesses are situated, we are told to close our businesses. Our businesses may remain closed for a week or two. And this is now an ordinary occurrence. We do not know how these (government) people regard us; they do not seem to bother about how we live during the time when our businesses are closed.’

Sometimes, consultation and association leads to solutions that are acceptable all round.

- after being repeatedly driven from the pavement on which they sold, a group of street sellers came together to form an association to defend their interests: the UWAMBOMA Society, which became a member of the VIBINDO. VIBINDO helped them to negotiate with the Dar es Salaam City Council, which allowed them to continue operating if they replaced their mats and boxes on the ground with uniform, nicer looking stalls - which they did.

The informal owner-manager’s coping strategy which consists of investing only a little to build temporary structures only compounds the problem, because the more temporary the structure is, the more likely the local authorities are to demolish it. On the other hand, investing in a structure that looks acceptable is no guarantee that it will not be demolished... Both survival-type and growth-oriented types of business reconstruct their premises, if necessary/possible in another location.

From the operational point of view, without permanent business premises, the entrepreneur cannot usually envisage electricity and running water connections, and cannot easily be reached by potential clients. Utilities are not easily accessed by formal businesses, let alone businesses on makeshift premises. MSEs in the informal sector therefore often buy and store water and obtain illegal electricity connections and stop production when these are finished. Some may also do without completely, keeping their businesses at a rudimentary technology level.

¹⁶ In application of the Local Government authorities (Decoration of Buildings) Act, 1968 (as amended up to 31 December 1999)

Lack of premises also exposes informal operators to poor working conditions, theft and loss of productivity. Storage and exhibition space has to be rented from neighbouring residents or other entrepreneurs, a night watchman hired, and goods moved to and from the workplace every day. Typical cost of a watchman: Tshs.500-1,000 per night. When the informal owner-managers go to move their goods to their selling point, usually before daybreak, thieves may attack them so often they start the business day in groups.

A hidden consequence of being permanently temporary is that it puts a ceiling on growth for many entrepreneurs who, year after year, considering themselves to be temporary, do not invest in their business and do not innovate. Lack of premises thus constrains informal businesses from both the regulatory and operational points of view, making it difficult for them to formalize. It limits business development severely.

3.5 Employing-related constraints

Labour legislation is not perceived of as a constraint because Tanzanian labour laws only consider full time permanent employment and these provisions are so beyond what entrepreneurs can envisage, they are out of sight. Their coping strategy is thus one of almost complete non-compliance.

The legislation was drafted in the 1960s, for labour relations between large public and private employers and their employees. It offers employees many benefits and high protection, while keeping wages low. Provisions include 28 days paid annual leave (among the highest in the world), three months continuous sick leave at full pay and a further three months at half pay, paid maternity leave of 84 days (there is no paternity leave), a work week of 45 hours with overtime paid at 1.5 times the standard wage. The conditions for dismissing a full-time employee require 5 warnings to be given within a period of six months¹⁷.

Clearly, very few informal MSEs are going to be in a position to afford to provide this level of benefit to their employees. The recent study on the Influence of national policies, laws and regulations on employment in micro and small enterprises¹⁸ found that MSEs do tend to provide better working conditions to their employees when they can afford to, i.e. when the business is going well and has prospects for growth.

Otherwise, just as with larger enterprises, the time and difficulty involved in dismissing unproductive employees and the fear of costly and biased labour dispute resolution pushes informal MSEs to hire workers on a casual basis, to pay by output, or to employ relatives, all of which involve their own problems. The poor working conditions lead to lack of motivation, high turnover, and poor quality products, costs which the entrepreneur is not necessarily able to measure as constraints on the business. The current laws and rules for employing, which are in effect impossible to enforce in the informal as in the formal part of the economy, thus do not protect

¹⁷ Tanzania Investor Roadmap, Final Assessment Report, USAID Tanzania, January 1999

¹⁸ op. cit.

employees, neither do they help to increase productivity. They are largely irrelevant to the prevailing relations of production.

The realisation does however dawn on some entrepreneurs that it may be worthwhile to offer better conditions to get better work done.

Box 6 The culture of informality erodes family loyalty

Anna sells dried fish in Kariakoo market, Dar es Salaam. She invited her sister to join her in running the business and paid her a monthly salary. Unfortunately the arrangement did not work out since she lost Tshs 400,000. She had to sack her sister and now employs a full time employee whom she pays a monthly salary.

Box 7 Poor employment habits constrain business

The food vending entrepreneur couple who were making Tshs.1,650,000 a month, had three employees paid a fixed salary of Tshs.7,000 each, plus all meals and medical costs in case of sickness. During the four-month study, they dismissed two employees due to bad cooking performance. They felt the need of having more skilled and accountable employees, even if these demanded more pay. They decided to replace the dismissed employees with new ones with higher skills, and identified a supervisor paying him Tshs.25,000 per month.

3.6 Regulatory constraints

This category of constraints contains those in the regulatory environment not directly related to reporting, e.g.

- lack of dialogue between MSEs and the Government and
- the roles of the police and the judiciary.

Few of the informal owner-operators interviewed belonged to an organization which is engaged in dialogue with the government. Some of them recognized the effects of this lack of dialogue:

- the absence of a policy for promoting informal businesses to grow and formalize (e.g. absence of investment incentives, tax concessions, etc.),
- the constraining regulatory environment, and
- the absence of measures to counter the negative impact of policies (for example trade liberalisation) on the sector which provides a refuge to so many Tanzanians.

A number of MSEs, mainly it seems the larger ones, are aware that trade liberalisation is stiffening competition not only from larger local enterprises, but also from increased imports; the smaller ones are mainly feeling the effect. This development is echoed in the recent ILO survey of the influence of national policies and laws on employment in informal MSEs¹⁹, which noted that the liberalization of the economy had affected their performance by introducing unfair competition from more experienced foreign investors. It also notes that these companies enjoy five-year tax holidays which MSEs do not, and that the presence of many high taxes and harassment from tax collectors was mentioned to discourage visibility and hence growth of enterprises.

Some of the micro and small entrepreneurs interviewed, particularly the growth-potential ones, complained about lack of investment incentives for local Tanzanian businesses; the commercial and labour courts taking a long time to resolve disputes; and the inability to rely on the police after theft, a common hazard faced by MSEs.

Informal sector operators are however getting organized to defend their interests.

There are three associations representing them:

VIBINDO: an umbrella organisation registered in 1995 which currently has 284 group members with about 30,000 individual members

TASISO: Tanzania Small Industrialists Society

TAFOPA : Tanzania Food Processors Association.

These organizations receive support from SIDO and other sources such as international and bilateral agencies, and are starting to find their voice, as they are more and more consulted in policy formulation and issues that affect their members. They have been concentrating on providing services for their members, increasing their capacity, and negotiating strategic alliances.

¹⁹ *Report on the influence of national policies, laws and regulations on employment in micro and small enterprises*, ILO/SEED, Dar es Salaam 2001 (draft)

3.7 Conclusion of regulatory constraints

The amounts of time, energy and money the potential entrepreneurs participating in the research had to spend to formalize their businesses, with no success in three cases, confirms the strategies of those MSEs who choose to have nothing to do with the authorities unless forced to.

Box 8

John, in the cloth-making sub-sector in Dar es Salaam, refuses to formalize in any way because he says:

"Complying with regulations is to tamper with an activity that will cost you time, money, and due to bureaucracy you may still fail to get a license. Government does not have any initiative that will benefit my type of business."

In this case, the regulatory environment has deprived Tanzania of a potentially high performance formal business: John was one of the few found doing business as a team with his wife. They started out 7 years ago with capital of Tshs.3,000, average monthly sales of Tshs.250,000 and two household labourers; today they have built a house, capital has grown to Tshs.200,000, sales to Tshs.400,000 monthly and 4 seasonal workers work with the household labour. John and his wife prefer to remain informal.

The studies also confirm that the general public's perception of the situation is accurate (Figs. 4 and 5)

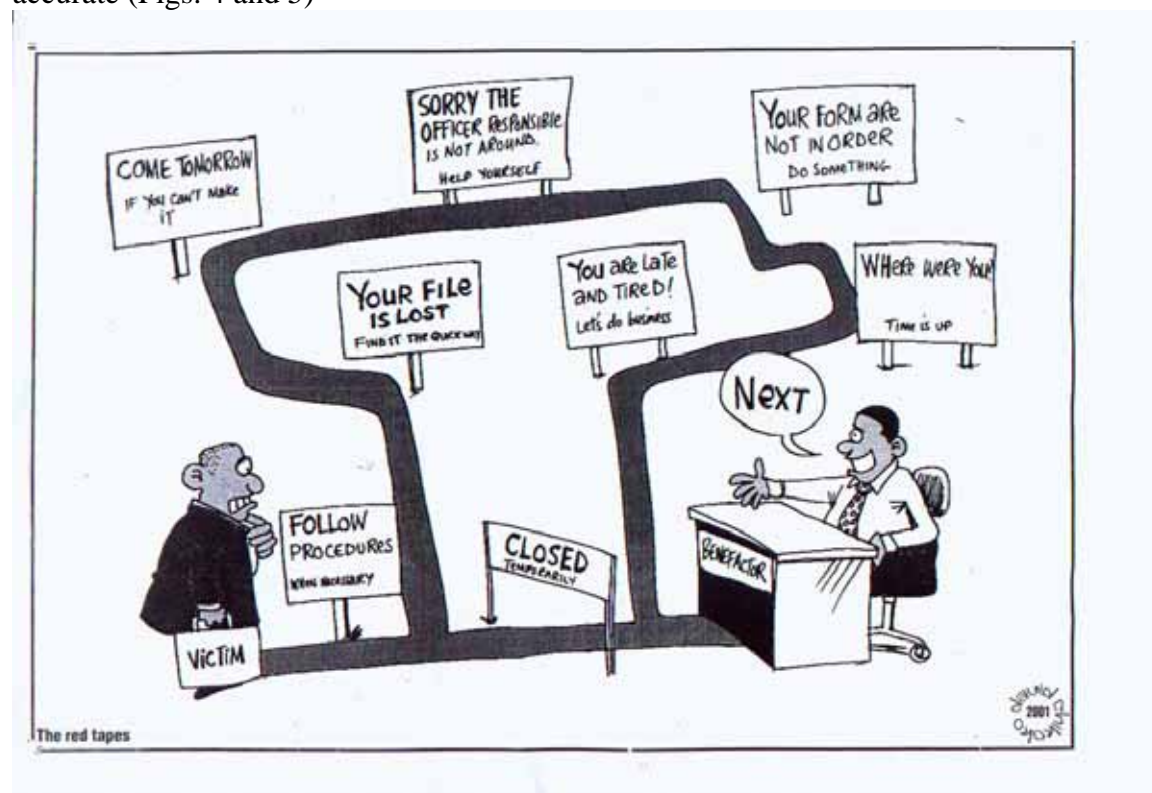


Figure 4 THE RED TAPE – The Guardian, 23.06.01

Are businessmen being taken for a ride?

Sir,

I would greatly appreciate if the authorities gave clarification on the following issues which are disturbing my mind to the bone.

The issuance of Business Licences for the year 2001/2 is the centre of my contention.

- Income Tax Clearance Certificate - to procure the licence, I.T.C.C. is an important ingredient and I understand in most cases this certificate is obtained from one's Accountant/Auditor and has to part with between 30,000/- to 80,000/-. Is this certificate for sale? Regular payment for the quarterly provincial instalment and submission of accounts, followed by final assessment is added to

clearance charges. Is this payment official as no receipt is issued?

- Business Licence - before securing the form, one has to part with 5,000/- (1,000/- for the form and 4,000/- for Health inspection?) (What inspection will the health officer perform in a small retail shop. By the way is the amount also equitably applicable to big enterprises/industries?). Oh what a parity? Is it not a cardinal function of City Council among others to inspect all the health facilities including business, why then create special fund?

- On Licence payment, again one has to dish more money apart from the Licence fees - the City Levy - 30% of the Licence value - before it was

0.03% of the sales and was payable after every three months.

Is there any legal base in form of approved legislation for the above and lots of other hidden expenses (Adult Education Fund, Tree Planting, etc.)? At times I strongly feel that various authorities are taking businessmen for a ride, not only that there are too many taxes and not equitably collected and disbursed. On the Waste collection the same problem is faced by various shops, a shop just producing a small bucket of refuse a week is charged the same as the one producing full big load a day where do we draw the line?

I would suggest that a thorough research be conducted before imposing any undue taxes.

One should not get up in the morning only to find that there is an increase on this and that without taking into consideration the income realised by entrepreneurs (who pay income tax, provincial tax in advance before earning anything taxable?).

All these and other 'vices' need to be scrutinized properly before instituting any relevant measures.

A. G. S. Businessman

Figure 5 A letter to the Editor, The Guardian 23.06.01

On the one hand, the government is certainly right that certain micro and small businesses are deliberately flouting the law and operating informally. On the other hand, in the course of the case studies, several micro or small businesspersons approached Government offices in good faith to formalize their business and, when they were lucky to meet the responsible Government officials at their workplace, these behaved with impunity and also flouted the law.

The entrepreneurs met with officials who:

- scorned and actively discouraged them from wanting to license such small businesses;
- seemed to be applying an unwritten rule that only one piece of information was to be given and only one action undertaken on any one visit,
- did not fulfil their duties of inspection but requested and pocketed the money for transport to do so;
- used government equipment and facilities to survey mining areas and charged the entrepreneurs without issuing a receipt;
- did not give the information on the new reduced tax schedules effective since July 2000 and charged higher amounts; and
- in all the case studies, in one way or another, required payments from the potential licensee for which no receipt was issued.

Box 9

The potential entrepreneur explained to the BRELA official that she had come from Mbeya and requested that the process be speeded up. She was told to report back the next morning, 9th November 2000, which she did at 8.00am. The officials were surprised to see her in the morning when her form was only deposited late the previous day. With unpleasant words she was told to go away until the afternoon.

Although the Government is in the process of formulating policies to helping the informal sector to evolve towards more formality, in practise, the micro and small entrepreneur attempting to formalize does not meet with efficient, competent services, but rather experiences contact with the Government as an unpleasant, time-consuming, frustrating and expensive experience. The SME development policy and the SIDP, to be effective, will need to explicitly address this presently unhealthy and crippling relationship between the public sector and the Tanzanian private sector struggling to emerge from within the informal sector.

Chapter 4 Operational constraints also have regulatory implications

But of course, regulatory constraints are not the only ones obstructing the emergence of a Tanzanian private sector: a variety of operating constraints also have a strong negative impact on the ability of informal MSES to grow and upgrade.

4.1 Operating constraints with regulatory implications

Limited start up and working capital had a high incidence of very negative effect on business. Although many the MSEs interviewed reported having received loans (from between Tshs.50,000 to Tshs.500.000) from microfinance institutions, many others did not know how to go about obtaining credit, others were disqualified because they did not have the appropriate business license, yet others were put off by the requirements such as to attend weekly credit meetings, etc.

Without adequate starting up capital, businesses find it difficult to meet the technical and regulatory requirements for licensing: they cannot afford to rent or purchase suitable premises, cannot equip these premises with facilities and technology, etc., and so cannot formalize immediately. The Roadmap tended to show that existing businesses find it easier to raise credit than businesses starting up. Most of the entrepreneurs quoted own savings and loans from family and relatives as sources of start up capital.

Sometimes, however, the interviews revealed that what the entrepreneurs called financial constraints were in reality a lack of business and management skills, an inability to consider the business as separate from the household/extended family income, to keep track of costs and profits, etc. Lack of business skills (and the generally low level of education) are also constraints to business from both the regulatory and operational viewpoints, although entrepreneurs are not always aware that they are lacking in these skills and need training. Ignorance of the basics of how to do business is partly behind entrepreneurs being exploited by government officials, and it is widespread because there is no tradition of doing business in the society and many people have been pushed overnight into doing business with no preparation for it.

The high incidence obtained by the financial constraint nonetheless signifies that although some headway has been made in improving informal businesses access to financial resources, a lot more still remains to be done in this area and efforts should continue alongside those for improving the regulatory environment. Effective implementation of the National Microfinance Policy, and extension of the activities of the Vocational Education and Training Authority (VETA) to include businesses operating informally, should help to alleviate these finance-related constraints.

4.2 Other important operating constraints

A final group of most severe constraints on informal sector businesses consisted of:

- infrastructure-related
- market-related,
- socio-cultural, and
- other, in particular environment-related constraints.

Infrastructure-related constraints

Infrastructure-related constraints covered municipal services such as garbage collection, and others such as transport and telecommunications. The physical operating environment is not built up and equipped in a way that facilitates business, and this often had a very severe negative effect on the MSEs surveyed. A frequently-cited problem was the cost of garbage collection: even where some entrepreneurs were paying waste collection dues to the municipality, they had to additionally out of their pockets for more frequent disposal. Lack of warehouses, roads, transport services, water supply, electricity, telephone and postal services were all reported as being serious problems.

Globalisation turns the domestic market into a global market

Market-related problems, experienced as stiffening competition, raises questions about just how long the informal sector can continue to serve as a safety net in a national economy that has been opened to global competition.

The ability of the informal economy to serve as a safety net is dependent on whether or not it manages to maintain its total share of the private consumption of individuals or households – its share of the total market. This market share in fact determines the total revenue flowing to entrepreneurs in this part of the economy. For a given number of enterprises, they will do well if they increase market share or become poorer if they lose market share to their competitors. Their income will also fall if market share remains constant but more enterprises are coming on board.

To maintain market share, informally produced products in an increasing number of subsectors would have to compete and win against the products of large enterprises and imports. How are the low-priced and poor quality goods typically produced in an informal context going to compete with the low-priced but high quality, image-enhancing alternatives made available by liberalisation? How are business people without entrepreneurial skills, who copy business ideas from each other and whose growth is severely constrained, going to compete with other more innovative, more resourceful and more advantaged players?

For instance, formal national businesses can use machinery to produce good, consistent quality, nicely packaged products that they can price advantageously because they benefit from economies of scale. When middle income people prefer to buy these products, the informal sector loses market share. If people reduce the number of meals they buy from *mama lishes* either because they cannot afford more, or they wish to save to buy a mobile phone, the informal sector loses market share. If a household moves from using charcoal to gas, which is desirable from an environmental sustainability point of view, the informal fuelwood and charcoal operators lose market share and become poorer. The income base supporting informal sector operators **can** shrink if fewer people with money are disposed to buy from them than before - while the number of operators is going up.

The Roadmap indicates that this is already happening (Box 10). *Mama lishes* in certain areas report reduced sales, to the point where they have to agree among themselves who will sell in the morning, at lunchtime and in the evening.

Box 10 The new rules of competition

Julia, Dar es Salaam has to price her home-made tomato sauce at around Tshs.800-1,000 to make a profit, whereas the same from Dabaga sells at Tshs.600-650. Trade liberalisation has also opened the door to imports similar to hers. In reaction, Julia has decided to sell her products at exhibitions and to do more direct marketing.

Another obvious case is the competition tailors are facing from *mitumba*, imported second-hand clothing. What is interesting is that the tailors have reacted positively, producing attractive new designs based on *vitenge*, the traditionally dyed cloth, adopting more aggressive marketing strategies (e.g. taking models round to offices to obtain orders) and several seem to be successful.

Certain subsectors are not affected, while others are more so: this requires careful investigation and the trends need to be monitored closely, to know what income base MSEs are struggling for and how this is being affected by the evolution of the market.

Enterprise and culture

A final category of factors that hamper business growth has been labelled socio-cultural. Many entrepreneurs (male and female) were also found closing their businesses for several weeks at a time to attend family functions such as weddings, funerals, etc. While this is of course a constraint on a business with growth ambitions, for a number of operators the end purpose was not the business itself, it was income. It was to meet all such needs that they had gone into business in the first place, therefore they did not perceive family obligations

as a constraint. The effect on the business is however, to make it lose customers/sales, and even lose capital.

Perhaps this is where Tanzania could develop its own brand of market economy that preserves values that its people consider very important. Rather than discouraging people completely from carrying out activities which are essential to their identity and culture in the name of competitiveness, some thought could be given to how to reconcile business viability and social imperatives. For instance, introducing entrepreneurs to making promotional offers on return to the business to attract customers again to the business. Also training for entrepreneurship for business run by extended families should be given to more than one family member, and not simply to one individual whose opinion will be in the minority when the time for decisions comes.

The Roadmap did not pick up major differences between male-owned enterprises and female-owned enterprises in the sample where regulatory constraints were concerned, except that slightly more male-owned business felt very severely affected by policy issues and ineffective police and commercial courts. It did record a number of female entrepreneurs whose business was negatively affected by constraining socio-cultural factors, such as a woman having to close her business to follow her husband transferred to another place for his job, or a husband exercising control over the proceeds from the woman's business. Women were more often found equating the business so strongly with the family income that they would use their business to obtain credit, use the credit to meet family obligations, and then use the business to struggle to pay back the credit.

Gender and enterprise with respect to regulatory and other constraints would therefore deserve to be the focus of a more in-depth investigation, to promote women's free access to enterprise if and when they need to, or want to, and their entrepreneurial success. Having said that, Tanzanian decision-makers need to be careful not to buy into the fallacy that self-employment will, by itself, solve the problems of female-headed households. The significant numbers of such households points to a deep malaise between the sexes, which is not permitting the solidarity and pulling together necessary for the family, the fundamental unit of society, to weather these very difficult times. It is urgent to help women in such situations to cope; it is also vital (though the Roadmap cannot help in this respect), to look to mending the strain in gender relations that is causing this disintegration of the institutions that sustain society, marriage and the family. Tanzanian men need Tanzanian women, Tanzanian women need Tanzanian men, and Tanzanian children need their mothers **and** their fathers.

Informal natural resource-based MSEs are often not sustainable

There are sectors coming under a lot of pressure for reasons of environmental sustainability: carpentry, fishing, fuelwood collection and charcoal making, and gold and lime mining are all examples.

There is an emergency in these subsectors. Gold mining puts mercury into the environment, and, surprisingly, the gold miners were found by the research to be the poorest of the poor. Lime and salt-making currently rely on wood as a source of fuel and need a technology upgrade to use other fuels. Fishing businesses still rely on destructive practices such as dynamite, poison and nets with too fine a mesh. Only a few fuelwood and charcoal-making entrepreneurs had made the link between their activities, the surrounding deforestation and drought, and the drop in the yield of their farming activities.

Box 11

In the past, we used to obtain firewood from mangrove, using the dried ones. It was the lime makers who started felling the trees until the place looked bare. We could see them being followed up and whenever they were caught they paid fines. We did not assist the government officials to identify the criminals because we did not understand why they were controlling them. It is only recently that we have realized that when the mangroves are allowed to grow, even the fish catch is improving.

Fisherman in Mtwara

Where carpentry is concerned, there is a ban on the sale of certain hardwoods, but neither the carpenters nor the law enforcers are always sure which, so the law enforcers usually confiscate all hardwood they find at the carpenters. Since some of their clients prefer hardwoods, carpenters have developed different backdoor strategies for continuing to produce hardwood furniture. While this argues in favour of commercial reforestation, it is also a fact that the technology used by most carpenters is wasteful and inefficient. As this is one sector in which competition from imports is unlikely to be felt for sometime, encouraging informal businesses to grow to small and medium would be to gain domestic competitive advantage. Many of the carpenters interviewed would like to progress towards having semi-finished and ready made items for sale, but are frustrated by lack of capital and the impossibility of accessing premises for showrooms.

The main conclusions about the fuelwood and charcoal making subsectors is that they are essentially survival-oriented businesses for the poorer and poorest rural people. Several of the operators interviewed were going to collect wood at odd hours of the night so as to escape being caught by the authorities; the women pretend to be collecting firewood for their own consumption.

Box 12 Sawing the very branch on which they are sitting

Mary lives in a village outside Dodoma. Her average monthly earning from firewood selling is Tshs.4,000. The maximum she can collect and sell in a day is Tshs. 200 for one headload, but she is required to pay a levy of Tshs.500 per head load and an annual license of Tshs.50,000. Demand for her fuelwood is weak, because the best trees have been cut, so she can collect up to 8 headloads without making a sale. Her family of 7 eats one meal a day and sometimes goes without food. During the research period she was ill for two weeks, so she slept at home because she was unable to buy medicines. She also spent 5 days caring for a sick relative; and attended a funeral.

At the time she started the firewood business, there were many trees. Now she has to walk 2 hours to where the trees are, spend 3 hours collecting one headload, and walk the 2 hours back. Her productivity is Tshs.200 for 7 hours work. She did try to start market gardening but was not able to pay the water bill, and the Water Resources Department did not allow the use of water for commercial gardening. So she went back to depleting the environment.

Mzee Albert is 54, he has 2 wives and 9 children, five of whom depend on him. He is not sending his children to school because he cannot afford to, on the earnings of the one bag of charcoal he manages to sell a week. His children feel bitter towards the government which they believe to be the source of their absence of a future, because the government officers confiscate their father's bag of charcoal when they catch him.

There is a dramatic need to look for and design environmental solutions that are compatible with rural people earning a livelihood, solutions that enable rural people to protect the environment and natural resource base. Presently, poverty is leading poor people to damage the environment on which their survival depends, and enforcement of environmental regulations without establishing income-earning programmes is sowing seeds of bitterness in the hearts of the poor rural population.

4.3 The situation is uniformly difficult

The Roadmap analyzed the above constraints by business size, gender, business status and rural/urban location. The results are in Figures 6-9 and show that for the sample of 96 entrepreneurs surveyed, these variables do not account for significant differences in the degree to which entrepreneurs are constrained. The exception is for rural entrepreneurs, much more severely disturbed by regulatory constraints than their urban counterparts. This suggests that removing the many obstacles in the path of rural entrepreneurs has to be given priority before the promotion of rural industrialization, as set out in the SMEDP, can go ahead.

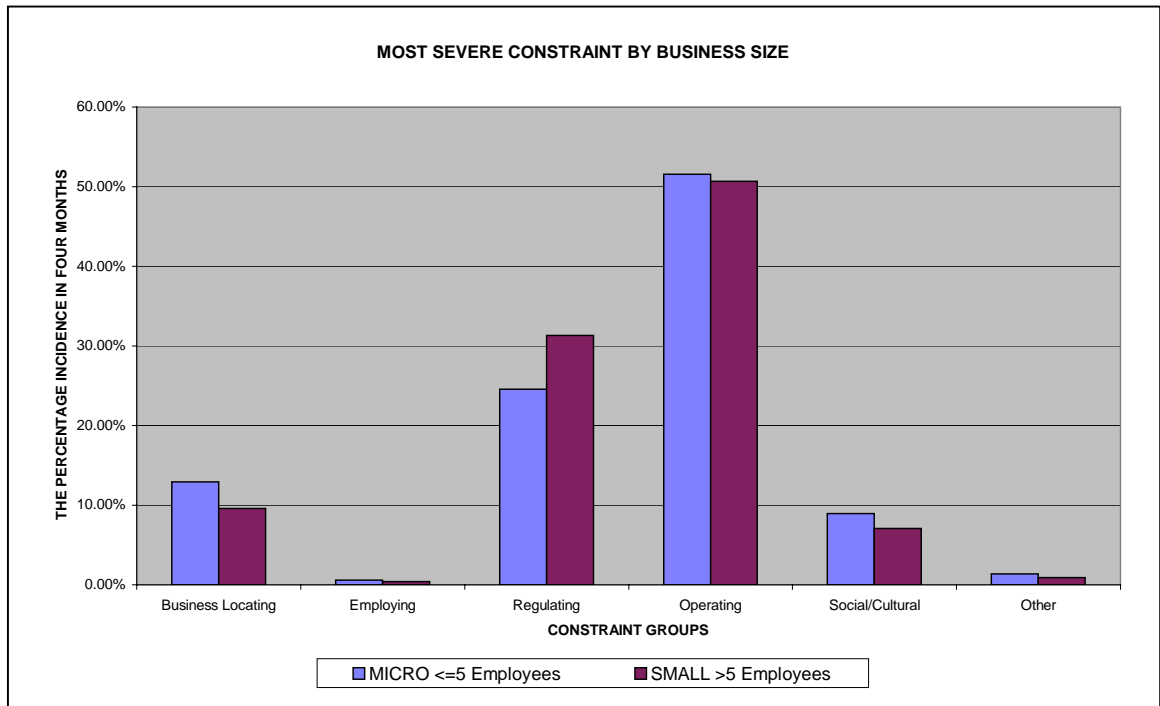


FIGURE 6

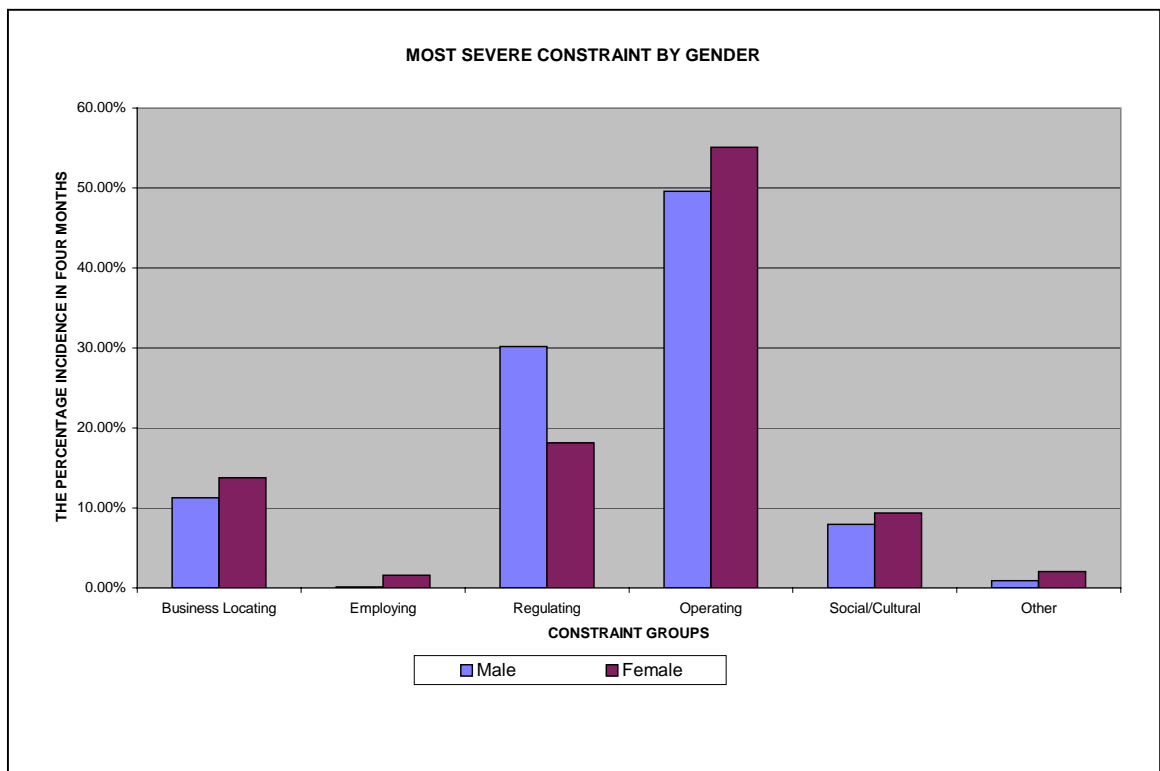


FIGURE 7

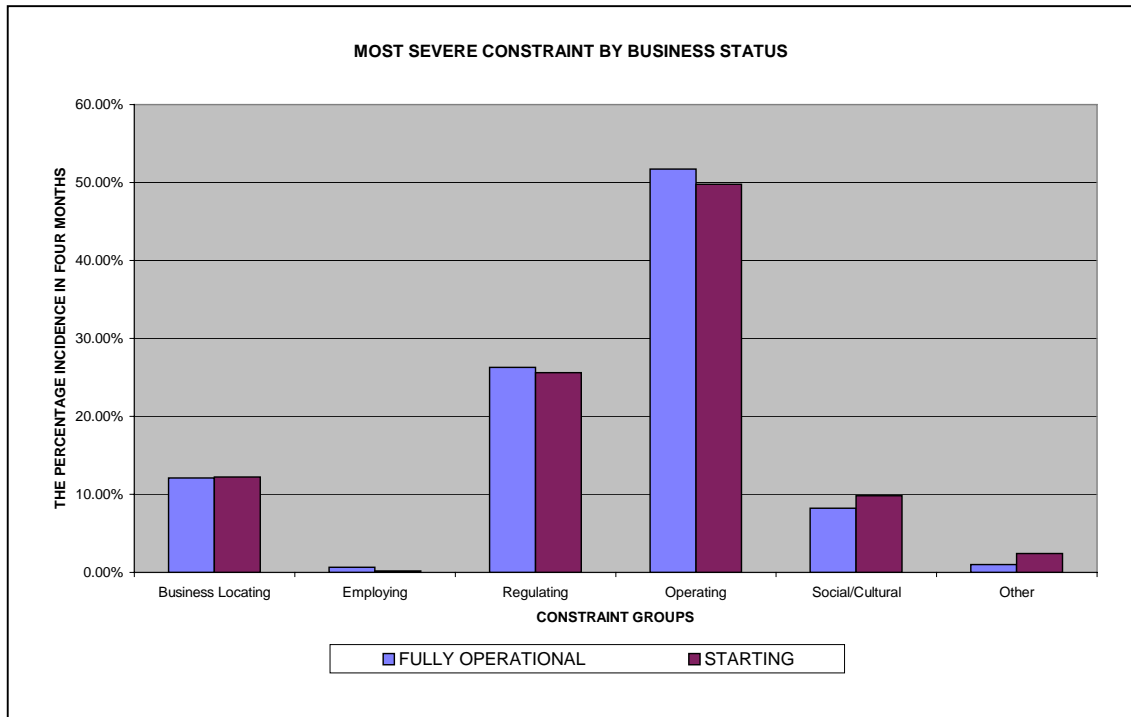


FIGURE 8

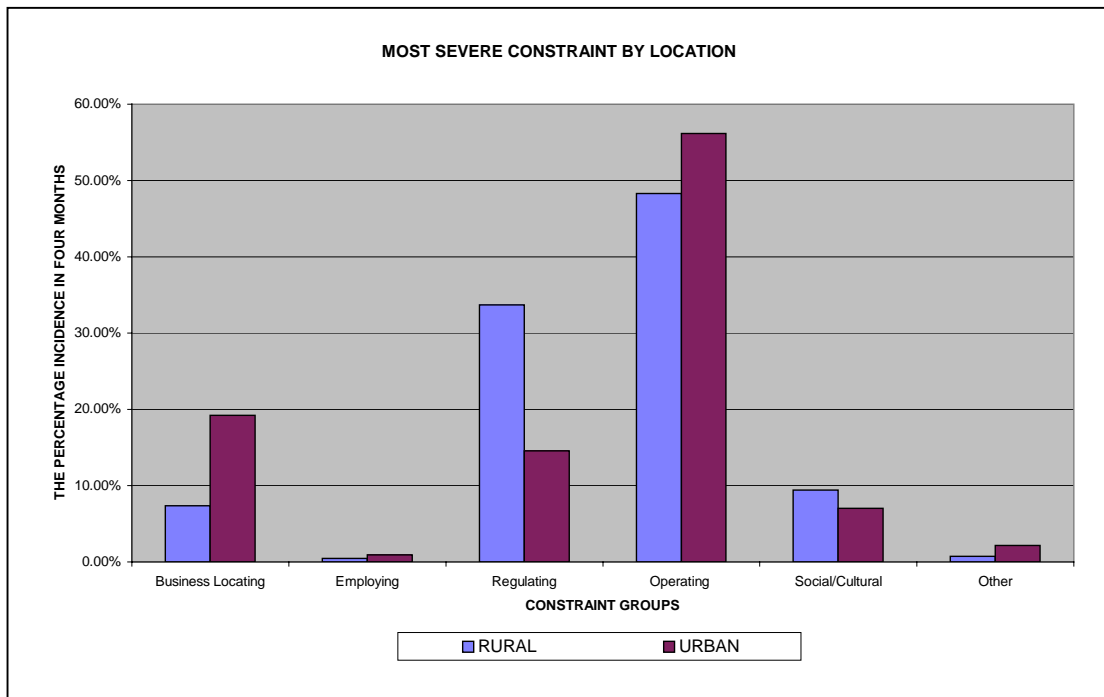


FIGURE 9

Chapter 5 Why MSEs fail to formalize

5.1 Weighing the costs

The two preceding chapters showed that informal MSEs are constrained on all sides. On the regulatory side, complicated, lengthy and unpredictable procedures, inadequate institutional arrangements, rent-seeking civil servants, unreasonable specifications and standards, a multiplicity of taxes and levies, etc., etc., discourage the entrepreneurs from formalizing their business. On the non-regulatory side, poor clients, lack of access to finance, poor infrastructure, unfair competition, etc., make the survival of the business a daily battle.

The Informal Sector Roadmap Study attempted to put some orders of magnitude to the cost of coping with these constraints, as an indication of their impact on the operations of informal entrepreneurs. Table 7 gives the costs of coping with regulatory and non-regulatory constraints for a sample of the subsectors surveyed. It is reminded that the data are of an illustrative nature only, given the sample size and its non-random selection.

To obtain the table, the total lowest and highest costs incurred during the survey period were averaged and compared to the average monthly sales in each of the sample subsectors. While some entrepreneurs saw the 4 months of the survey pass without incurring costs related to either regulatory or regulatory constraints, the table shows that regulatory constraints are often a source of direct costs, and that meeting these costs takes a sizeable chunk out of the business turnover. This again confirms that reducing the negative impact of regulatory constraints will be an effective means for improving enterprise performance.

The highest costs (75%) occurred in the subsector with the poorest entrepreneurs and smallest average monthly sales: firewood and charcoal selling. Coping with both types of constraints could absorb up to 50% of monthly sales, as was the case in the food processing and carpentry subsectors. In tailoring, only regulatory constraints brought about costs to the 2 entrepreneurs. On the whole, regulatory constraints (which are easier to quantify) cost the businesses surveyed more than non-regulatory constraints. It is interesting to note that the average monthly sales would place most of the entrepreneurs surveyed within the nil band for tax purposes.

Table 7 Average cost of coping compared to monthly sales

	Firewood and Charcoal		Food Vending		Food Processing		Brick and Tile making		Carpentry		Cloth Making	
	Cost per entrepreneur		Cost per entrepreneur		Cost per entrepreneur		Cost per entrepreneur		Cost per entrepreneur		Cost per entrepreneur	
Total Cost in 4 mths	Least	Highest	Least	Highest	Least	Highest	Least	Highest	Least	Highest	Least	Highest
Regulatory constraints	1,200	4,000	1,600	78,961	20	398,000	10,000	140,000	-	40,000	25,000	140,100
Non-regulatory constraints	400	8,000	300	10,300	1,500	25,000	200	5,000	1,500	60,000	-	-
Total of both constraints	1,600	12,000	1,900	89,261	1,520	423,000	10,200	145,000	1,500	100,000	25,000	140,100
Average monthly cost of constraints	400	3,000	475	22,315	380	105,750	2,550	36,250	375	25,000	6,250	35,025
Monthly sales	36,000	4,000	270,000	975,000	57,500	230,000	60,000	180,000	150,000	50,000	400,000	600,000
Average cost as % of monthly sales	1.1%	75%	0.2%	2.3%	0.65%	46.0%	4.25%	20.1%	0.25%	50.0%	1.6%	5.8%
Average monthly sales for the sector	40,200		585,000		337,333		200,285		252,500		331,428	

It would be useful to categorize the data in Table 7 according to the degree of formalization of the enterprises. This first Roadmap Study of the informal sector is not able to say which type of enterprises (more formal or more informal) incurred the most/least cost. What the Roadmap is able to point to however, is that the willingness of the entrepreneur to get involved with the government and formalize the business is also linked to entrepreneur's motivation for doing business.

5.2 Two faces of the informal sector: safety net and enterprise seedbed

The Roadmap research recorded a number of survival-type businesses, where the overriding motivation of the owner operator is to meet family needs for income.

Mohamed (Mtwara) aimed to produce 300 bags of charcoal by mid-December 2000, in order to be able to send his children to school in January 2001. He is 52 but can still manage the heavy labour inputs involved.

Box 13

Rosa, street-seller in Mwanza, obtained a first loan from a micro-credit institution of 200,000/= but most of the cash was used to settle family needs and very little was invested in the business. Sales from the business nonetheless enabled her to pay the loan back, though the business contracted.

The second type of business found in the informal sector can be called the growth-potential business, in which the owner-operator has an objective such as wanting the business to grow as much as it can, wanting to become rich, etc.

People call him Mr. "Tajiri" which means rich person, because though he is not rich, he is determined to get rich. He started fishing in 1982 with a capital of Tshs.105,000 and 3 employees and now has a capital of Tshs.1,150,000 and 18 employees.

Box 14

When I decided to go into the cloth-making business, I was determined to make sure it grew into a big tailoring mart. After close observation of the way in which the other unlicensed business operators were being treated, i.e. frequent harassment from different authorities and the way they kept paying them off, I realised that it was more costly to operate without a business license than what the process of formalization would require. With this notion I decided to apply for a business license right from the start, even though the process consumed almost 50% of my capital.

While some operators in the informal sector are clearly entrepreneurs, others are there because they have no other means of meeting their needs in the absence of jobs that pay a living wage - or of a social protection system that enables transfers to be made from the stronger and more able-bodied to the weaker and more vulnerable. This function of the informal sector as a solution of last resort was made clear in the findings of the 1995 Dar es Salaam Informal Sector Survey (DISS) which asked respondents for the main reason of their participation in the informal sector. 'Inability to find other work' was the main reason given by 35%, while 26.6 % were in the informal sector to 'add income as a family member'.

Thus, broadly speaking, the informal sector comprises:

- 1) entrepreneurs and
- 2) people trying to survive, including female-headed households.

Public and private sector workers and their family members may also be found running businesses informally. Many people in the second group would, for example, prefer to have reasonable jobs if they had the choice - not everyone is fired up by entrepreneurial ambition or willing and able to manage the risk involved in entrepreneurship.

Recent research on enterprise development in Tanzania²⁰ has studied the business motivations of entrepreneurs. The study 'Evolution of entrepreneurial motivation', found that when businesses are established for survival, the entrepreneur is not committed to the business and is just 'hanging on'. A common phenomenon among hangers is that they detest the experience and are not committed to business as a career. Other research²¹ has found that many would rather be employed in some formal establishment and are anxious that their children should be spared life in the sector. Often it is found that these survival-type MSE operators do not want their business to grow too big or too visible.

Box 15

Daniela is one of the most popular *mama lishe* in her locality. She started selling food with very limited capital. Currently her operating capital has reached Tshs.140,000 and her sales Tshs.180,000 per month. She operates without a permit because businesses are not allowed to operate in her residential area. But she gets many customers there, so whenever she gets a tip about the coming of the city militia, she closes the front door and operates from the back door. Her style of operation makes her suspect whoever approaches her business premises and this scares away potential customers.

The literature on the informal sector indicates that the survival-type motive is predominant among informal sector entrepreneurs. The Roadmap nonetheless encountered a number of more growth-potential type enterprises, particularly in urban

²⁰ *Evolution of entrepreneurial motivation: the transition from economic necessity to entrepreneurship*, D. Olomi and others, paper presented at the 2001 Annual Babson/Kauffman Entrepreneurship Research Conference, June 2001, Linköping International Business School, Sweden

²¹ 'Tanzania experience with SME development' by Toroka, E.B. and P.F. Wemga cited in *Evolution of entrepreneurial motivation*, op. cit.

areas. Growth-potential businesses often start off small, but are more willing to become formal and visible. They may formalize immediately, but more often than not, wait for the business to establish itself before they formalize. It can also be the case that a business started for survival succeeds beyond meeting basic needs, and the entrepreneur starts to take an interest in the business itself and in business as a career. For this to happen however requires business success which is escaping most of the survival motive operators in the present circumstances.

Jety is a food processing entrepreneur considered to be doing well. She produces fruit juices and 'bites' (snacks) and sells to a distributor of soft drinks to schools and hotels. Recently she felt that her level of operation deserved a legal license, but she did not know how to go about it and therefore approached the Ward Secretary's Office. She was asked to pay Tshs.30,000 by an official whom she subsequently could not trace. Now she is indignant and does not want to hear about licensing.

Box 16

Jedina is one of the fast growing cloth makers in Mbeya town. She decided to open her business immediately after completing her tailoring course in 1999. She invested her initial capital of Tshs.180,000 and secured business premises. Today her working capital has increased to Tshs.680,000 and she employs 3 workers whom she pays according to output. She feels that it is still too early to apply for a business licence, though she is operating with more than 2 machines. Whenever the licensing inspector comes, she hides the extra machines.

The Roadmap bears out the findings of other research²² which found that the average time between the start-up and the registration date of MSEs in its sample was 4 years - about the same length of time as the tax-free holiday granted to large and foreign enterprises... and that²³ there seemed to be a 'standard path to formalization: those who have more capital and profits in their enterprises are those who comply with more regulations'.

The explanation is that even growth-potential entrepreneurs are usually reluctant to go to all the trouble of registering their business while it is small and uncertain. Given the tremendous difficulties, investing the time and money required only makes sense to most entrepreneurs when the business is well established. In effect, growth a) raises the ability to cope with taxes and increased operating costs and b) makes the advantages of being formal (e.g. attracting larger clients) more important. This fits with the findings presented in the studies on entrepreneurial motivation, i.e. that if circumstances enable the survival-type business to be successful, the entrepreneur may become committed to business as a career and to the business itself.

²² *Small-scale manufacturing sector in Tanzania*, op. cit.

²³ *Report on the informal sector and regulatory framework in mainland Tanzania*, op. cit.

5.3 Policy implications

An effective informal sector policy thus has to distinguish between the two above groups of MSE operators and address their problems with equal priority. One priority (see Recommendation 2) would have a poverty reduction focus to create alternative income-earning opportunities for the MSEs whose owner-operators are simply looking for an income, not particularly wanting to be in business and preferring to remain small and informal.

The equal priority would be a focussed small enterprise development programme targeting subsectors in which informal sector enterprises can expand their business and grow to formality and competitive performance over the medium term. This component would specifically have to understand and remove the constraints on MSE growth, since growth appears as one of the pre-conditions of formalization. It should encourage active entrepreneurs to upgrade towards the kind of private sector required for the Tanzania Development Vision 2025 to become a reality (See Recommendations 1 and 3). As this group of MSEs grows, it will increasingly provide employment for the first group, gradually taking over from the direct poverty reduction action.

The policy option of sprinkling all informal sector operators with small amounts of resources in an uncoordinated way needs to be re-examined in the light of these findings, and assessed in comparison to the policy option consisting of dual action to a) rapidly raise incomes of the poor on a significant scale, while b) simultaneously strategically developing enterprise.

5.4 Concluding remarks

The informal micro and small businesses from which the domestic private sector of Tanzania is supposed to emerge are severely constrained. Some constraints are inherent to the entrepreneurs themselves, i.e. the low level of education, the lack of managerial, marketing and production skills, etc.; others are characteristic of the informal sector, e.g. the use of rudimentary technology, the low skilled and unmotivated workers, etc. Besides these constraints, however, other external constraints unnecessarily limit the growth of informal MSEs and restrict their full and formal participation in the economy. These constraints are on the one hand operating constraints, for example lack of access to credit and the tiny purchasing power of their clients; and on the other, regulatory constraints stemming from the many difficulties of obtaining a legal operating status.

The strategies of the entrepreneurs in dealing with these constraints depend on their business motivation. The Roadmap encountered enterprises with two main types of motivation: the survival-type operator, preferring to remain small and invisible and consenting even to eat into the business capital to meet family needs; and the growth potential-type business with entrepreneurial ambitions. Among the first type of entrepreneur can be found people who do not want to be entrepreneurs in the informal sector, and would prefer a salaried job if it were available. Enterprises with the

second-type of motivation (which can be encouraged) represent the Tanzanian private sector, presently trapped in the informal economy. Growth-potential MSEs may start small and invisible, but, wanting to grow to a certain size and experiencing success, they may formalize after a while.

The case studies in the Roadmap tend to reveal that successful entrepreneurs were usually found to have complied with a minimum of regulations, whereas the less successful ones had not, and the poorest ones survived by hiding their operations to the maximum extent possible. Several other studies have highlighted this relationship between business performance and regulatory compliance. The Survey on the Influence of National Policies and laws on Employment in MSEs found that it is growth or the prospect of growth that causes MSEs to expand and hire and improve working conditions.

The Roadmap suggests that the reasons why MSEs do not formalize at all, or wait before they formalize are:

- They rightly perceive the transaction and other costs of formalization as high and arbitrary
- They perceive the procedures as complicated and time consuming
- They perceive contact with local and central government officials as generally frustrating and humiliating and suspect them of corruption.
- They cannot perceive the benefits of formalizing their business under these circumstances.

Instead of setting the right example and stimulating local enterprise growth for higher employment, better services and improved standards of living, local and central government standards are sometimes as low as those of the informal sector which they are policing and harassing. Entrepreneurs are corrupt and Government officials are corrupt. Deprived of a conducive environment, the domestic private sector is characterized by low growth and employment, lack of innovation and uncompetitiveness, a poor prospect indeed for the attainment of the Tanzania Development Vision 2025. In fact, both the public and private sector are caught in a trap of informality representing one of the most serious obstacles to the medium-term prospects for a Tanzanian economy capable of financing its social obligations and of competing successfully within its subregion.

2002 represents a lose-lose situation. MSEs are failing to deliver sufficient jobs, goods and services of a decent quality, the government is losing revenue and credibility, and the people, particularly the elderly, children and women, are paying a heavy penalty for this state of affairs. The lost revenue for the government translates into poor quality services in education, health and infrastructure, perpetuating the operational constraints on the emerging private sector and reinforcing poverty.

How to move towards a win-win situation? The draft of the Roadmap study contained a number of recommendations which addressed the problem from several angles simultaneously, in order to lead to tangible results in the interests of all parties within a reasonably short time period. These draft recommendations were reviewed and refined at a workshop convened for this purpose in Dar es Salaam on 28-29 November 2001. Participants (see list in Annex 5), including representatives of central

and local Government, and of donors, NGOs, entrepreneurs' associations and small enterprise development organisations (including the University of Dar es Salaam), devoted the second day to working on the recommendations in groups (see the workshop programme in Annex 6). The recommendations are thus the output of this process of research, information sharing and consultation.

Chapter 6 Recommendations

These recommendations are based on the idea that a dynamic Tanzanian private sector lies presently trapped within the informal sector/economy, struggling to emerge like a butterfly from its cocoon. This particular cocoon of constraints, which is not of the butterfly's making, has to be loosened if it is not to become a death trap.

The recommendations address the fact that from now on, informal sector operators are operating in a domestic market that has been opened up to globally produced goods through trade liberalisation. They introduce the idea that the future for an emerging Tanzanian private sector which will contribute increasingly to equitable economic growth, income and employment generation²⁴ lies in a) identifying subsectors in which its outputs can be competitive in the shortest time, and b) focussing institutional support and inputs such as premises, training, credit and marketing support to these subsectors.

The recommendations integrate the findings that it is mainly when MSEs grow, or see the prospects of growth, that they employ additional people, improve working conditions or formalize. Since the ultimate aim is to create employment and eliminate absolute poverty, the recommendations promote attracting MSEs to subsectors identified as having strong growth potential over the medium-term so that they feel confident to expand employment and embrace formal status.

The recommendations also integrate the findings that entrepreneurial motivations differ, and that there are many people in the informal sector who would prefer to have a job rather than be (informal) entrepreneurs. Among these are the poorer, usually female heads of households, who go into activities such as stone-crushing, wood gathering, etc., for their family's survival. Thus, the recommendations suggest already-tested solutions for alternative and additional ways of expanding job and income opportunities for such people, which would have the positive effect of increasing their income security and purchasing power. This would in turn increase sales/profits in the businesses of those who are really entrepreneurs, who would then, hopefully, see reasons to hire more and under better conditions.

Finally, the recommendations make the link between the performance of the informal sector and the performance of the public sector, which is supposed to support and assist the informal sector to upgrade. They propose solutions for improving the currently dismal relationship between government and small business, and propose an interpretation of what it means for the government/public sector to play the role of facilitator and stimulator of a market economy.

The recommendations are intended to extend and complement the draft SME Development Policy, which has priority programmes and projects covering six impact areas. Under each recommendation it will be stated which of the SMEDP impact areas the recommendation is associated with.

²⁴ *Draft Small and Medium Enterprise Development Policy 2002-2012*, Ministry of Industry and Trade, Dar es Salaam, November 2001

Recommendation 1: Creating the conditions for MSEs to upgrade and generate more employment

The Roadmap makes the point that in turning the domestic market into a global market, trade liberalisation can put *Mama lishes* in competition with the likes of Steers and Domino's Pizza, but also with the Nokias, Erikssons and Motorolas. All are competing for the limited purchasing power of more or less the same Tanzanian consumers. If the market is divided into low income, middle income and high income segments, the importance of MSEs - informal or formal - continuing to attract middle income clients becomes clear. If they lose these clients, total revenue available to this group/type of enterprises will decrease, and poverty will increase to desperate levels. To keep these clients, informal sector enterprises will need to upgrade, improve quality, diversify and formalize, i.e. become more competitive.

In order to do this, the informal sector and MSEs need a strategy. They cannot however devise this strategy for themselves because they are unable to get an overview of the market and of consumption patterns. The Roadmap recommends that the Government and its partners in small enterprise development should devise this strategy for the group of micro and small enterprises, formal and informal, with the view to upgrading their performance, prospects and status.

Given the limited resources, it will be impossible to promote all enterprises in all sectors. While it is right to want to help everyone a little bit, the Roadmap suggests that a very helpful outcome would be to achieve a critical mass of growing businesses which will contribute to reducing poverty by employing more people. How can this be arrived at?

A first element of the strategic approach proposed is the identification of promising subsectors for MSEs. In today's market, the Roadmap found, low price is no longer as strategic an advantage as it used to be: low priced **and** good quality imports in several subsectors (e.g. food, clothing) are attracting customers away from the poor quality, poorly packaged or more expensive locally produced goods. The question needs to be asked: in which subsectors do growth- potential MSEs still have the possibility to expand their customer base, or even to proceed to export, if they improve quality, business skills, working conditions and legal status?

The Roadmap had identified cloth-making, mat-making and carpentry as promising subsectors. The participants at the workshop additionally identified agro-processing and agro-industries, as an important group of subsectors, particularly as these are sectors in which women entrepreneurs are already very active. Identifying other subsectors will require a market information collection exercise which can be done professionally by procuring the services of a market research firm²⁵. The role of this new partner will be to produce information on:

²⁵ The Guide to Market Assessment for BDS Program Design, SEED/FIT, ILO 2001, though focussing on the specific area of markets for business development services, contains a useful introduction to this type of collaboration.

- the size of the Tanzanian market, and the breakdown into segments with their consumption patterns
- the market share of informal sector enterprises and MSEs and the trends in market share: where are MSEs gaining or losing ground?
- the competitors of MSEs: other MSEs, large national enterprises, imports?
- the subsectors which have medium-term potential for micro-small entrepreneurs
- Products which could be produced by MSEs and find a ready market
- the factors that could give rise to competitive advantage for the different regions of the country
- Any other information necessary for strategic decision-making.

All the above information would be used to map out a strategy to enable Tanzanian micro and small businesses, as a sector of the economy, to secure markets and expand and grow. The Ministry of Industry and Trade would be the one to spearhead this strategic decision-making process, supported by the marketing expertise of the Faculty of Commerce and Management of the University of Dar es Salaam. The draft SMEDP already leans towards a sectoral focus in that it promotes rural industrialization as a priority.

Any reputable marketing research company should already have data on household consumption, disposable incomes in different market segments, total size of existing markets and other market-related information. (Large and foreign businesses in Tanzania already use the services of marketing research companies to monitor the market place and push their products and at least two international marketing research firms are based in Dar es Salaam: A.C. Nielson and Deloitte and Touche (has a marketing branch).) It will be necessary to monitor the trends in the market place(s).

A second element of the strategic approach proposed consists of attracting MSEs to the subsectors identified, of removing regulatory and other obstacles to these subsectors and of attributing resources and assistance to these subsectors/groups of MSEs as a matter of priority. For example, after the priority subsectors have been identified, roadmap exercises can be done for each one, and measures drawn up and implemented consultatively to support and promote enterprises guided towards these subsectors. The necessary support measures already figure extensively in the draft SMEDP, and were also detailed by the workshop participants. Different subsectors in different areas will require different combinations of the following:

- improved access to premises, including industrial parks;
- improved access to credit;
- improved access to technology
- improved access to market, including (depending on the subsector) development of subcontracting linkages, promotion of export processing zones, improvement of distribution channels, etc.
- improved business development services
- improvement of the regulatory environment, with provision of incentives to formalize
- special support to women-owned enterprises and those owned by the disabled

- promotion of the goods and services of the priority sectors to the domestic and export markets (including through advertising, fairs, events, etc.).

With a subsectoral focus, the Roadmap believes that the limited resources available can be put to their most effective use, to achieve a critical mass of growing, employing and performance-oriented micro and small businesses, which will contribute to creating better quality employment, reducing poverty, increasing the national revenue and improving the competitiveness of Tanzania in the subregion. As Harvard economist Michael Porter explains in *The Competitive Advantage of Nations*²⁶, whole nations do not become competitive: a nation becomes competitive in particular industries in which its firms can attain a high and rising level of productivity. In short, a nation needs to specialize in what its good at, and prepare itself to import what it is less good at producing, because productivity is the only source of economic growth, social progress and improved standards of living.

Recommendation 2: Priming the market place for growth and jobs

Policies and measures to develop micro, small and medium enterprises typically concentrate on what are called supply-side measures, such as those described in the above recommendations which looks at the supply of goods and services. What is increasingly being recognized is that despite this type of measures, there is no real take off of the informal sector because its customers are too poor, i.e. the demand (desire and ability to pay) for goods and services is too weak. The growth potential of a group of enterprises serving a poor market has got to be limited. One or two might make it big, but the group of enterprises as a whole will not grow. This is the reason why MSEs complain all the time that business is slow, that there is no demand. Where supply meets with low demand, there is a sickly, malnourished, anaemic market.

To increase demand means to put money into ordinary people's pockets so that they can spend to meet basic and other needs: this sends a signal to suppliers that there is a bigger 'cake' and raises their hopes of getting a slice of it. The Survey on the influence of national policies and laws on employment in MSEs has confirmed that it is when they have good reason to expect that their business will grow that MSEs place more orders and hire, leading to economic expansion with job growth.

Managing demand is the task of the government. It achieves this by first ensuring a conducive macroeconomic environment, but then it has to take action to boost demand so that enterprises can turn over their investments faster, be more profitable, grow, and employ more. How can governments increase demand? Richer industrialized countries faced with the prospect of a recession are acknowledging that the market has only part of the answer, and that public spending, tax cuts, huge construction projects, and job creation have to be part of the answer when the situation calls for maintaining consumer demand. The United States, the European Union, Japan, the South-East Asian countries are all using these mechanisms. African countries have known a state of economic crisis for two decades, but do not have the means of rich countries. What can they do? There are in fact several possibilities, four of which are outlined here:

²⁶ Porter, M. 1992. *The competitive advantage of nations*, The Free Press, New York

- Improving agricultural product pricing and marketing
- Making employment-intensive infrastructure investments and developing markets for the employment-intensive manufacturing sector
- Expanding microfinance
- Developing products and markets that extend the purchasing power of the poor person's shilling.

Improving agricultural product pricing and marketing

Since at least 50% of the population relies on agriculture for its livelihood, this measure will have an immediate and significant impact. The University of Dar es Salaam contributed the information from recent research that there is a very, very strong connection between the incomes earned by peasants in the rural areas and the survival and growth of local firms. Since recent research has also shown that markets have a very important influence on employment levels and conditions, a study is needed to investigate this further in order to inform policy and implementation.

Developing markets for the employment-intensive sectors like construction and manufacturing

The employment-intensive approach to construction investments says that part of already existing budgets with the Ministry of Public Works for example, can be directed at small-scale contractors trained to use properly organised labour teams in place of heavy machinery.

Developing countries have large workforces of low-skilled and often young people, and enormous needs for basic infrastructure and services in transport, health education irrigation, environmental conservation, etc., etc. It is in fact incomprehensible that there should be underemployment and unemployment when there is so much work to be done to raise living standards. The use of employment-intensive approaches in construction enables this work to be done, while saving on foreign exchange required to purchase heavy equipment, fuel and spare parts, **and** at the same time creating wage employment and incomes for tens or even hundreds of thousands of ordinary people. The approach, which opens up public markets to small-scale enterprises in the construction sector, injects millions of shillings of public investment into the economy at the bottom, as wages, where they have an enormous multiplier effect. If the appropriate supply-side measures are taken to strengthen MSEs to take advantage of the increased cash flow and improved operating environment, then this creates the conditions for expansion of a more robust and diversified domestic market.

Several of Tanzania's neighbours have already institutionalized these approaches to a greater or lesser extent - Mozambique, Kenya, Zimbabwe, Botswana, etc., and other countries in Africa and Asia also: for example Ghana and Thailand. Tanzania has already piloted this approach in both rural and urban areas (Hanna Nassif in Dar es Salaam). Rural areas stand to benefit from employment-intensive programmes in environmental protection and agriculture.

The same line of reasoning applies to the manufacturing sector - micro and small manufacturing enterprises typically employ more than those in services. If the small-scale manufacturing sector could be upgraded so that its products are accepted for central and local government procurement, e.g. furniture for schools and offices, etc., etc., and public procurement practices are adapted to allow this (see Recommendation 3), the effect would again be to give MSEs a new and stable long-term market, which would result in expanded wage employment and incomes.

Expanding microfinance

The Government has already adopted the Microfinance Policy, but an Act of Parliament is now needed to set up the necessary regulatory environment.

The problem is that the Act which currently applies, the Bank and Finance Industry Act (BFIA) of 1991, does not distinguish between big and small borrowers. The collateral arrangements permitted under the Act exclude many clients of microfinance institutions.

An urgent step would be for the Government to push through with the new Act which would help micro and small Tanzanian investors, just as it enacted the Tanzania Investor's Act for large and foreign investors. The Tanzanian Association of Micro Finance Institutions' (TAMFI) efforts in lobbying for the new Act should be supported.

Extending the purchasing power of the poor person's shilling

This set of actions has two aims:

- To develop and sell to poor people useful and affordable products with a high poverty reduction impact:
- To promote viable businesses, preferably run by poor people, to act as a private sector delivery channel for the products.

The Swiss Development Cooperation has developed and implemented this approach in Asia and Latin America²⁷. Products are developed with poor people and their needs in mind, and MSEs are the means through which the products are marketed. Successful products developed under this approach are: trees (marketed as an asset which can be chopped and sold in case of emergency); treadle and rope pumps for market gardening; grain silos which can be kept in a house, etc.

In Bangladesh, 650,000 families buy saplings for 10 US cents and are able to sell them for US 6 dollars after 5 years. In Central America, 170,000 maize silos have been sold by 600 artisans, avoiding losses of over 10,000 tons a year. This stabilizes prices, enabling families to eat more, and save up to 6 million dollars a year. Treadle

²⁷ SDC, 2000. Poverty alleviation as a business. The market creation approach to development. Urs Heierli, Swiss Development Corporation, Berne March 2000

pumps in Bangladesh allow a family to grow more crops and make an additional income of US100 dollars a year on half an acre (GDP per capita in Tanzania was US 240 dollars in 2000).

Under this approach, the government and the donor initially subsidize:

- The consumer market research,
- The product development
- The promotion and marketing so that the poor can learn about the existence of the products,
- The setting up of the distribution channels (capacity-building) which preferably involve MSEs in production, demonstration, servicing, after sales service, etc.

It takes between 10-12 years to achieve the documented critical mass which permits the market to be self-sustaining. The cost of launching activities such as consumer market research or product demonstration is clearly too much and too risky for the MSE sector to bear. This is why there is so little true innovation and breakthrough in the informal economy of developing countries, and why, without assistance, it cannot upgrade to compete with firms which can finance their own R&D and marketing.

To summarize therefore, the Tanzanian Government needs to facilitate better supply **and** deliver more demand. Without increased demand, there will be no ‘magic of the marketplace’; at best, a few pockets of growth will spring up here and there, but there will be little relief from widespread poverty. A good understanding of the marketing perspective and the effective use of marketing tools and instruments, that enable companies and countries alike to ‘work the market’ successfully.

Recommendation 3: A new pact between central government and small business people

In this new market economy era, central government and small business need a new understanding of their roles and responsibilities towards each other, and the commitment to work towards meeting these roles and responsibilities. On the part of the government, this commitment should be signalled by practical measures to upgrade the informal sector and facilitate small business. In the SMEDP, MIT commits itself to a new relationship between the government and small businesses. It will set up a new SME department, through which the government will undertake its responsibilities as set out in the policy, and lead and coordinate the efforts of the different partners to its implementation. An SME Forum will be set up for this, and a mechanism adopted to monitor and evaluate the implementation of the policy.

A more favourable tax regime

The Roadmap, the workshop participants, including the TRA, agreed that MSEs and informal sector operators should benefit from a more favourable tax regime. TRA had already taken some steps to improve its taxation of the informal sector. The most important elements presented at the workshop were:

- Presentation of the nil band for MSEs earning < Tshs.6 million/year, and

- The simplified tax return forms and balance sheets
- The end of advance payment of tax (but not of provisional payment), meaning that enterprises no longer need to pay before they start, they have to pay after 3 months operation.

While the TRA ruled out the possibility of tax-free holidays for MSEs, workshop participants felt that a tax-free holiday of a short duration would be a good thing, and that its administration should involve the Ministry of Local Government to prevent abuse²⁸. The Roadmap proposes that access to this incentive should be tied to business licensing, and that licensing should entitle entrepreneurs to some form of support: training, micro-credit, marketing assistance, etc. This would have the double effect of insulating starting up entrepreneurs from harassment and exploitation, while encouraging registration (appropriate income support measures for lower level civil servants would need to be taken when this is introduced - see Recommendation 4).

TRA is also considering the possibility of allowing payment of income tax at shorter intervals than the present quarterly instalments.

The working group on this question recommended that TRA officials should demonstrate a more sensitive attitude towards the small taxpayers, and that these should in turn be educated on their obligation to pay taxes.

Improved access to public procurement

The Roadmap proposed that public funds could be earmarked to create access to public procurement for MSEs who have obtained tax identification numbers (TINs). Again the idea is to give MSEs access to markets in which they can feel confident that they have medium-term prospects for growth and stability. As stated before, this is a precondition for them to formalize more and to expand employment. There is little cost associated with this measure for the government, it will involve mainly capacity building and administrative modifications. Subsectors that would benefit from these measures are small-scale contracting and manufacturing, as described under Recommendation 2.

More efficient and more practical institutional arrangements

While there is a consensus that one-stop service centres for registration, licensing and tax collection at the local level are the ideal solution, there are divergences as to whether these one-stop centres should come under the MIT, TRA or the Ministry of Local Government.

TRA has already piloted 31 district TRA offices, on which it proposes that these one-stop service centres should be based. It plans to set up a further 26 TRA district

²⁸ It is however unlikely that growth-potential MSEs will indulge in closing their businesses after the tax holiday to start another one just to avoid paying taxes - this would be more typical of the survival-type businesses which desire to remain small.

offices in 2002, and to reach the remainder in 2003. It proposed a collaboration with the Ministry of Local Government and a revenue sharing agreement under which it would collect all taxes and pay back an agreed amount to the local government authorities (LGAs). To the proposition that the one-stop centres come under the responsibility of the LGAs, the TRA replied that capacity in certain rural LGAs was insufficient.

The Roadmap workshop working group was in favour of the one-stop centres being with either MIT or the Ministry of Local Government. In the latter case, the Roadmap proposed that the LGA revenues from the process could be tied to the rate of formalization and licensing renewals as an incentive. The Roadmap also put forward for consideration a proposition which the Small Industries Development Organisation (SIDO) has already discussed with Dar es Salaam LGAs, namely that MSE/informal sector associations should be in charge of licensing and registration and collection of at least local levies. The associations and the LGAs would agree annually on the amounts to be paid. This is clearly an issue which will require extensive consultation and negotiation between stakeholders: the stakeholders' group proposed in Recommendation 5 would have to address it very early on.

Developing entrepreneurship, sectoral organisation and advocacy

There was a consensus that sectoral association and organisation are important means of action for MSEs, which need to be supported and strengthened.

In line with several projects under the SMEDP, notably under its Objective 3, the Roadmap recommends the promotion of entrepreneurship and the creation of entrepreneurship awards. These could reward best performance, best export performance, best working conditions, etc., and could be set up by MIT, the associations of entrepreneurs and the chambers of commerce.

The Roadmap recommends that entrepreneurship promotion be additionally disseminated to the general public through mass media and to MSEs (informal and formal) through direct contact with organisations representing them and bodies working towards MSE promotion. It also recommends that MSEs be educated about their obligations to pay tax, while stressing the benefits of paying tax. For the time being they do not receive much in return by way, for example, of basic operating conditions, but it can be pointed out that paying their taxes will give them the legitimacy to demand that the tax they pay should translate into benefits for them. An important objective of this information dissemination will be to re-establish in the people's minds the conviction that the government has the ordinary people's interest at heart, and that the Republic of Tanzania is indeed marching united into the 21st century.

Introducing decent work legislation

The Roadmap recommends a complete overhaul of Tanzania's labour legislation to adapt it to today's realities. The Roadmap workshop participants were in favour of the

minimum of legislation so as to keep the informal sector as a solution of last resort for the many who only find employment there.

The Roadmap thus suggests that Tanzania can turn this need to update its legislation to its advantage, to develop new legislation incorporating good practices that empower a society in a globalizing world. This could give it the means to acquire a strong position in the sub-regional economy as an excellent place to invest because the work ethic has improved consequent on new legislation that strikes the right balance between flexibility and security for employers and employees. Without competitiveness, growth and productivity, there will be no jobs, and without better working conditions, social dialogue and social protection, there won't be competitiveness, growth and productivity.

If the performance of informal and formal MSEs is to improve generally, and more particularly in the strategic subsectors, the quality of employment they offer will have to rise to levels that increase motivation and quality production. A first step might encourage MSEs to enter into indefinite contracts, with easier dismissal clauses and simplified benefits that do not require heavy administration on the part of the entrepreneur. Any measures will need to be negotiated through wide consultation and dialogue with all stakeholders, to alleviate fears of the future, while making it clear that Tanzania does not have the choice: no-one can just stay where they are anymore, you have to run very fast just to keep your place in today's world.

Recommendation 4: Enabling central and local government to perform better

The Roadmap puts capacity building as an important element of the answer at this level, and the working group on this topic agreed. The proposals are to develop skills starting from the level of the people with whom MSEs interact on a daily basis and going up to management levels. To be effective, capacity building must also be accompanied by incentives to increase motivation, and to improve working conditions. Practical measures proposed include salary rises, the introduction of incentive schemes based on performance, the introduction of credit facilities, etc. While most officials will respond positively to these measures, some will find it difficult to abandon a lifetime's habit of demanding bribes. It will also therefore be necessary to pursue the recruitment of appropriately qualified staff into managerial positions and other measures to speed up renewal and modernization of the civil service.

There was a consensus on the need to raise the awareness of LGAs of their new role in local development, and to change their attitudes towards the informal sector and micro and small businesses in general. In practice this could mean study visits, tours, etc., to expose Tanzanian local government authorities (they did not like being called local government managers) to local government units elsewhere which are successfully supporting, and initiating, local economic and social development. Other steps would include seminars, training of trainers and continuous training.

These activities would need to be tied in to the Public Sector Reform for their organisation and financing. The Roadmap would like to suggest that the Tanzanian public sector needs more resources for its public and private sector reforms than other

countries, because it is not simply improving the efficiency of its economy, it is undergoing a wholesale change in system philosophy, design and operation. When the World Bank and IMF first proposed reducing the government payroll as one of the steps to a more efficient economy, they also said that this would be accompanied by capacity building and improvement of the working conditions of the remaining staff. The Government of Tanzania can perhaps impress on its economic reform partners the dire need for rapid delivery on this essential part of the reforms, without which the Tanzanian private sector is going to find it almost impossible to emerge. Solutions to this problem need to be recognized and implemented, so as to avoid the informal sector growing further, and the economy remaining uncompetitive and unable to grow at a rate and in a way that reduces poverty and raises living standards.

With Tanzanian civil servants receiving a living wage and appropriate training, they will be able to apply their freed minds to the task of raising their country: they will take excellent initiatives, make wise decisions, innovate, follow up on objectives... and lift the heaviest of constraints on the emergence of a dynamic Tanzanian private sector.

Recommendation 5: A stakeholders' consultative and monitoring forum

Implementing the foregoing recommendations as a matter of urgency will require consultation, negotiation and coordination between a wide range of institutions: central and local government, entrepreneurs' associations, donors and international organizations, professional industry bodies, the University of Dar es Salaam, etc., etc.

Furthermore, in addition to the policy refinements the Roadmap proposes here, several other policies are being implemented, either directly addressing the informal sector (e.g. the Micro Finance Policy), or impacting more or less directly on its safety net and enterprise growth functions (e.g. Public Sector Reform, the Tanzania Investor's Act). There thus needs to be a commitment to continue the monitoring process started with this initial Roadmap of the informal sector in Tanzania and turn it into a regular process owned by local stakeholders to make sure that necessary steps are being taken. While the profile of the issue is already high, this commitment will be necessary to focus attention on what is actually being achieved on the ground and whether reforms are having an impact, first in streamlining the regulatory environment and secondly in reducing poverty.

In the mean time, the SMEDP, which provides for introducing an SME Forum to monitor and evaluate SME policy implementation is still in its draft stage, and the SME Forum has yet to become operational. The Roadmap therefore recommends the immediate putting in place of a framework for monitoring and evaluating the progress made on the recommendations discussed above and the impact of policies on the informal sector and MSEs, which can act as a forerunner for the future SME Forum.

A first function of the proposed forum would be to commission regular follow up studies to the present Roadmap. The next study would need to be a more quantitative one. It should investigate and monitor more closely aspects such as the relationship between regulatory constraints and business performance. While looking at what applies to all MSEs, the next study should also incorporate information on MSEs and

the domestic/export markets for strategic decision-making on the subsectoral basis described in Recommendation 1. Based on this information, priority promising subsectors can then be identified, on which efforts to negotiate the lifting of regulatory constraints more specifically and to provide promotional resources can be concentrated in the first instance. These priority subsectors can also be used to pilot certain measures such as one-stop service centres .

Subsequent follow up studies should measure the relationship between progress in removing bureaucratic obstacles and the performance of MSE sector of the economy; how well priority subsectors are performing, notably in terms of employment generation, exports, job quality, poverty reduction, etc.; and clarify which policies are supporting the desired processes and which are not. The Roadmap advocates (in Recommendation 2) action on the demand side, to raise incomes through measures such as agricultural pricing policy, which should have a direct effect on poverty reduction as well an indirect effect through stimulating MSE growth and hiring. Subsequent studies should measure these impacts and their trends, in coordination with the poverty reduction efforts. It will also be crucial to keep track of the impact of policies not aimed at micro and small enterprises but which nonetheless affect them.

Another key function of the forum would thus be to help MSEs and informal sector operators to advocate for their rights and to participate in policy dialogue, by providing them with adequate data.

When the SMEDP becomes law, the forum will thus have acquired a certain experience, and, to avoid duplication, can evolve into the SME forum proposed by the MIT.

Conclusions

Under the model of economic development towards which Tanzania is transiting, the government ceases to play the role of economic operator, but moves to play a more critical role as creator of the conditions within which enterprises in the emerging private sector can successfully supply the goods and services needed, while creating jobs and incomes at a pace keeping up with population growth. Government policies and regulations become important tools for shaping the business environment.

Currently, the policy supporting micro, small and medium enterprises is in draft form. While promising changes are taking place, the Roadmap observes that the bulk of regulations and institutional arrangements, carried over from a previous economic model, are cumbersome and inadequate, time-consuming and expensive. Furthermore, entrepreneurs do not perceive that compliance brings them any benefits apart from saving them from harassment by government officials. Many of these see enforcement of regulations as a means of supplementing their insufficient incomes. The result is that informality characterises the operations of both businesses, and those supposed to regulate and promote them.

The fact that the Tanzanian economy is in transition, undertaking several far-reaching reforms presents an opportunity for Tanzanian decision-makers to observe how other

countries have dealt with their informal sector and what they have been able to achieve, and to use this information to its benefit. Several levels of intervention and different entry points need to be taken up simultaneously for a system-wide change to be effective. Drawing on the insights provided by the fieldwork and the most recent research into entrepreneurship and informality in Tanzania, the recommendations in the Roadmap offer a wide range of practical options to permit the problem to be tackled from different angles, with the view of making the Tanzania Development Vision 2025 a reality for the ordinary people of Tanzania.

Annex 1

QUESTIONS TO GUIDE THE FIELD RESEARCHERS DURING THEIR WEEKLY MEETING WITH ENTREPRENEURS UNDER THE INFORMAL SECTOR ROADMAP STUDY

The field researchers will seek information, which will enable them to identify the constraints, which hamper the entrepreneurs when initiating the business and those hindering their day to day operations and their business growth.

They will seek for information which verify the existence of the constraints.

They will seek for information which measures the extent to which the said constraint affect the business in terms of business expansion and growth, loss of profit, reduction of the business capital, loss of customers and employees exodus.

To mark distinct features which are constraining the different entrepreneurs in relation to their location and gender e.g. Rural/Urban, Female/Male.

1. Know their initial capital investment compare with current capital investment in terms of:
 - a. Equipment/assets
 - b. Business premises
 - c. Operating capital
2. Mark the source of capital; Own ~ Borrowed ~ if borrowed, which source.
3. Mark their weekly investment trends.
4. Any attempt to increase capital? If yes what ways did they use?
5. Record their Weekly sales trends.
6. Note if they are winning competitors customers or theirs are won?
7. Note their sales forecasts and actual sales.
8. Note the level of customer's satisfaction. Determine the frequency of returned goods and the consistence of customers
9. Mark the level of capacity utilization?
Do they outsell the products: Before noon ~ Afternoon ~
Late in the evening ~
10. Note any failure to operate due to external interference.
9. Determine all Operational Costs. Note the time they spend outside the business.

10. Get to know if the business is making profit or loss. Determine the daily profit by considering the business costs
13. Note the way the profit is spent.
14. Note other costs such as bribes / time wastage
15. Record other costs such as;
 - a. Material waste
 - b. Defect product
 - c. Equipment damage during the operation
16. Note the costs in terms of taxes or levies.
17. Record other contributions/donations they contributed to other parties, charity organisation or churches.
18. Record the loss resulting from bad debts.
19. Determine any unattained endeavour and the reason for the failure
20. Determine the effect of any constraint in terms of;
 - a. Profitability
 - b. Business existence
 - c. Business growth
 - d. Business expansion
 - d. Time spent
21. Note any occurrence of environment degradation resulting from their operations.
22. Determine the factors that contributes to environmental degradation
23. Determine the occurrence of unpaid child labour, wife or husband and note the time spent on business.
24. Note any encounter with unplanned event e.g.
 - a. Flood
 - b. Food shortages/raw materials shortages
 - c. Loss of a relative/employee
 - d. Theft
 - e. Increase in rent
 - f. Business premises demolition
 - g. Epidemic
 - h. Land relocation
 - i. Competition
 - j. Lack of people to employ

Annex 2

Structured Questionnaire for the Informal Sector Roadmap Study

General information to be obtained from the Sample Selection Questionnaire or Locator form:

Name of the Field Researcher:

Date Completed:
.....

(Day)

(Month)

(Year)

Name of Entrepreneur:
.....

(Last Name)

(First Name)

(Other names)

Gender: Male ☐ Female ☐

Business of the Enterprise:
.....

Location of the Business: Rural ☐ Urban ☐ Region
.....

Year of establishment:

- To what extent have the following employment related factors affected the business of the entrepreneur (Use the following rating scale to mark the extent of the effect); Indicate the steps taken, the motivation and the cost incurred:**

No effect 0	Limited negative 1	Strong negative effect 2	Very strong negative effect 3
----------------	-----------------------	-----------------------------	----------------------------------

	Starting	Now	Explanation/in what ways	Steps(Strategies)	Motivation/Reason	Cost (Time, money, loss of customer)
Labour legislation procedures	()	()	
Minimum wages restriction	()	()	
Overtime payment	()	()	
Minimum age restriction	()	()	
Annual leave condition	()	()	
Maternity leave condition	()	()	
Dismissal procedure	()	()	

2. **To What extent have the following business locating related factors affected the business of the entrepreneur (Use the following rating scale to Mark the extent of the effect). Indicate the steps taken, the motivation and the cost incurred:**

No effect	Limited negative	Strong negative effect	Very strong negative
-----------	------------------	------------------------	----------------------

0	1	2	effect 3
---	---	---	-------------

Starting Now Explanation/in what ways Steps(Strategies) Motivation/Reason Cost
(Time, money, loss of

customer)

Land Law and Administration Procedure() ()

 Site development procedure () ()

 Electric Supply Installation process () ()

 Water Supply Installation process () ()

 Lack of Internal Security () ()

 Dangerous Working Environment () ()

 Lack of a permanent business premise () ()

**3 To what extent have the following reporting related factors affected the business of the entrepreneur
(Use the following rating scale to mark the extent of the effect). Indicate the steps taken, the motivation and the
cost incurred;**

No effect 0	Limited negative 1	Strong negative effect 2	Very strong negative effect 3
----------------	-----------------------	-----------------------------	----------------------------------

Starting Now Explanation/in what ways Steps(Strategies) Motivation/Reason Cost
(Time, money, loss of

customer)

Local government development Levy	(	)	(	)	.....	.....	.....
Fishing licensing procedure	(	)	(	)	.....	.....	.....
Fish Processing licenses procedure	(	)	(	)	.....	.....	.....
Registration & Licensing of Fishing Vessels (	)	(	)	.....	.....	.....	.....
.....							
Timber harvesting licensing procedure	(	)	(	)	.....	.....	.....
Industrial licensing procedure	(	)	(	)	.....	.....	.....
Factory inspection procedure	(	)	(	)	.....	.....	.....
.....							
Production standard verification procedure (	)	(	)	.....	.....	.....	.....
Hotel health inspection procedure	(	)	(	)	.....	.....	.....
Mining licensing procedure	(	)	(	)	.....	.....	.....
Business licensing procedure	(	)	(	)	.....	.....	.....
.....							
Income tax collection procedure	(	)	(	)	.....	.....	.....
VAT collection procedures	(	)	(	)	.....	.....	.....
.....							
Environmental compliance procedure	(	)	(	)	.....	.....	.....
Lack of coordination among the different involved institutions	(	)	(	)	.....	.....	.....
.....							
Cost of adhering to environmental							

regulations () ()

**4. To what extent have the following operating related factors affected the business of the entrepreneur
 (Use the following rating scale to mark the extent). Indicate the steps taken, the motivation and the cost incurred;**

No effect 0	Limited negative 1	Strong negative effect 2	Very strong negative effect 3
----------------	-----------------------	-----------------------------	----------------------------------

	Starting	Now	Explanation/In what ways	Steps(Strategies)	Motivation/Reason	Cost (Time, money, loss of
customer)						
A. Financial Factors						
Inflation	()	()	
.....						
Availability of cheap financial sources						
(Friends, Family members)	()	()	
.....						
High Interest rates on loan	()	()	
.....						
Depreciation of the domestic currency	()	()	
.....						
Corateral (Lack of access to credit)	()	()	
.....						
Banking services deficiencies	()	()	
.....						
Lack of credit schemes	()	()	
.....						
B. Infrastructure Factors						

Lack of Storage facilities	( ) ( )	.....	.....	.....
.....				
Inefficient legal metrology services	( ) ( )	.....	.....	.....
.....				
Unreliable roads and rail services	( ) ( )	.....	.....	.....
.....				
Postal services	( ) ( )	.....	.....	.....
.....				
Telecommunication deficiencies	( ) ( )	.....	.....	.....
.....				
Municipal services (garbage, sewage)	( ) ( )	.....	.....	.....
.....				
High Transport cost	( ) ( )	.....	.....	.....
.....				
Lack of other business support services	( ) ( )	.....	.....	.....
.....				
C. Supply Factors				
Lack of access to equipment and technology	( ) ( )	.....	.....	.....
.....				
Lack of access to trade related and business training	( ) ( )	.....	.....	.....
.....				
Lack of environmental related training	( ) ( )	.....	.....	.....
.....				
Lack of business skills & technical skills	( ) ( )	.....	.....	.....
.....				

D. Market Factors

Competition () ()

Lack of demand () ()

Lack of forward & backward linkages () ()

Non paying customers () ()

E. Other operating factors

Corruption problems () ()

Smuggling problems () ()

Sickness (HIV, malaria & other epidemic) () ()

5. To what extent have the following regulatory related factors affected the business of the entrepreneur
(Use the following rating scale to mark the extent). Indicate the steps taken, the motivation and the cost incurred;

No effect 0	Limited negative 1	Strong negative effect 2	Very strong negative effect 3
----------------	-----------------------	-----------------------------	----------------------------------

Starting Now

Explanation/In what ways

Steps(Strategies)

Motivation/Reason

Cost

(Time, money, loss of

customer)

Introduction of trade liberalisation policy () ()

Lack of policy for the informal sector	( ) ( )	.....	.....	.....
.....				
Intervention from state organs (Party)	( ) ( )	.....	.....	.....
.....				
Introduction of environmental policy	( ) ( )	.....	.....	.....
.....				
Inefficiency of the commercial law	( ) ( )	.....	.....	.....
.....				
Unstable business environment	( ) ( )	.....	.....	.....
.....				
Lack of investment incentive	( ) ( )	.....	.....	.....
.....				
Lack of dialogue between small entrepreneurs & the Government	( ) ( )	.....	.....	.....
.....				
Police and the ineffective legal system	( ) ( )	.....	.....	.....
.....				

6. To what extent have the following social cultural related factors affected the business of the entrepreneur
Use the following rating scale to mark the extent). Indicate the steps taken, the motivation and the cost incurred;

No effect 0	Limited negative 1	Strong negative effect 2	Very strong negative effect 3
----------------	-----------------------	-----------------------------	-------------------------------------

	Starting	Now	Explanation/In what ways	Steps(Strategies)	Motivation/Reason	Cost (Time, money, loss of
customer)						
Married	( )	( )	.....	.....	.....
.....						

Unmarried	( ) ( )	.....	.....	.....
.....				
Widow / widower	( ) ( )	.....	.....	.....
.....				
Divorced	( ) ( )	.....	.....	.....
.....				
Family size	( ) ( )	.....	.....	.....
.....				
Level of education	( ) ( )	.....	.....	.....
.....				
Customs and tradition	( ) ( )	.....	.....	.....
.....				

7. Which measures to be taken by the government and other responsible organizations are suggested by the entrepreneur to solve the problems facing the business. Mention the measure and the expected institution.

Measures	Institution
.....
.....
.....
.....
.....
.....

.....

.....

.....

.....

8. Specify the most important factors, which motivated the respondent to start this business;

.....

.....

.....

9. Note the Information about the following business growth indicators;

Indicators	Changes	
	Initial Year	Last week
Capital	Shs.	Shs.
	First Year	Last week
Sales Volume/Income	Units Shs.	Units Shs.
Number of Customers	No.	No.
Profit	Shs.	Shs.
Number of Employees	No.	No.
Cost of good/service sold	Shs.	Shs.

10. How is the business profit spent:
.....
.....
.....
11. How can you define the trend of the business (*tick the appropriate term*):
Expanding ☐ No change ☐ Contracting ☐
12. State main factors, which are contributing to the business trend:
.....
.....
.....
13. What measures has the entrepreneur taken to help the situation:
.....
.....
.....
14. Does the business contribute to environmental degradation in any way? Yes ☐ No ☐
If Yes, in which area:
.....
.....
15. Note the reasons leading him not to comply with given environmental conditions and regulations:
.....
.....
.....
16. Indicate any kind of social security or protection available to employees or the employer

.....

.....

.....

17. Is he / she a member of any Association, Community Based Organization or Civil Society Organization? Yes ☐ No ☐

If Yes, which one:

18. Any other comments:

.....

.....

.....

.....

.....

Annex 3

QUESTIONS TO GUIDE THE DISCUSSION OF THE FIELD RESEARCHER WHEN CONTACTING THE INFORMAL SECTOR RELATED INSTITUTIONS

1. Find out if the responsible officer can distinguish the different categories of entrepreneurs existing in his locality.
2. If he can distinguish them, ask him to mention them.
3. Ask him if he find any difficult in dealing with any category of the Entrepreneurs.
4. Ask about a specific group which gives him trouble.
5. Ask if the organization have a laid down procedure or policies in dealing with such matters
6. If it is there, ask for its details and request for a copy of the available forms.
Observe the areas where they are involved
 - In business establishment
 - In operating
 - In locating the business
 - In reporting the business, records etc.
7. Record all the costs involved (official cost)
 - Administrative costs.
 - Registration fees
 - Levies
 - Time spent
 - Obtain all application forms which are submitted by the entrepreneur to the institution
8. If the organization does not have any relation at the present time ask for their future plans.
11. If they don't have future plan ask about the hindering factor.
10. Ask if they perceive any problem occurring to the informal sector resulting from his organization being silent about the issues.
12. Ask for his opinion if the informal sector should be encouraged or discouraged.
12. Ask him to suggest the way he thinks the sector is to be supported.

13. Get to know the way the arising issue is attended (get the procedure and the reason for the procedure). Compare to what happened to the affected Entrepreneur.

Annex 4

THE SAMPLE SELECTION QUESTIONNAIRE

This questionnaire is part of the study undertaken by EDC on behalf of ILO, UNIDO and UDP to identify the constraint that deter the development and the operations of the Entrepreneur in the Informal sector in Tanzania. The outcome of this study will contribute to the creation of an enabling business environment for informal sector enterprises. Every information will be treated as confidential and names will not be disclosed in the final report.

A. Demographic Data:

1. Name of the respondent:
.....
(Last name) (First name)

(Other names)

Gender: Male ~ Female ~

Age:

Marital status: Married ~ Single ~

Size of the family

B. Business Data:

2. Own business ~ family business ~ employee ~

3. Type of business
.....
.....

4. Location: Urban ~ Rural ~
Street Name:..... House
No:.....

5. Is the business premise; own ~ rented ~ temporary ~

- 5b. In case I want to contact you during the next 4 months, will I find you here? Yes ~ No ~
If you are intending to change the location, where will you be, and what time will be more appropriate to you;
.....

6. How long are you in this business : Less than one year ~
- More than one year ~
- More than five years ~
- I have just stated ~

THE SAMPLE SELECTION QUESTIONNAIRE

7. Have you been conducting the same business throughout the above stated period: Yes ~ No ~
If no, give the reasons for changing:
.....
.....
.....
8. How much time do you spend on your business: less than six hours ~
 six to eight hours
 Eight to twelve hours ~
9. How many employee do you have? _____, Male _____ Female _____
Full time: paid, _____ unpaid _____
Part time: paid, _____ unpaid _____

C. Business Environment:

10. What are the problems you are facing in this business?
.....
.....
11. Is your business related to any of the following institutions? (*Put a tick where relevant*);
- | | | | |
|---------------------------------------|--------------------------|-----------------------------------|--------------------------|
| Ministry of land | <input type="checkbox"/> | Local government / ward/ district | |
| <input type="checkbox"/> Town council | <input type="checkbox"/> | TTCL | |
| | | | <input type="checkbox"/> |
| Police Authority | <input type="checkbox"/> | Licensing Board | |
| | | | <input type="checkbox"/> |
| Water Supply | <input type="checkbox"/> | Court of law | |
| | <input type="checkbox"/> | | <input type="checkbox"/> |
| SIDO..... <input type="checkbox"/> | | Donor organization | <input type="checkbox"/> |

Bank ☐
TANESCO

Institutions offering business training.....☐

☐ Any credit scheme ☐

Ministry of Industries and Trade ☐

12. Would you like your business to grow or you prefer to run a small business of this size

.....
.....
.....

13. Would you like to enjoy the benefits of the registered businesses?

Yes ~ No ~

If yes, what has hindered you from registering your business?

.....
.....
.....

THE SAMPLE SELECTION QUESTIONNAIRE

14. Would you like to be assisted in any way? Yes ~ No ~

Mention the kind of assistance;

.....
.
.....
.....

15. In case I want to meet you after the business time, where can I find you and from what time to what time?

Location:

Time:.....

Thank you for giving me your time, I may come back to you after next week for further assistance

**LIST OF INVITEES FOR THE
INFORMAL SECTOR ROADMAP WORKSHOP
28th – 29th NOVEMBER 2001, UNDP APEADU CONFERENCE HALL**

S/NO	NAME	INSTITUTION/DEPARTMENT
1.	Mr. David Kaali	Ministry of Labour and Youth Development P. O. Box 1422 Dar es Salaam
2.	Mr. Eustace J. Mukayu	Managing Director Enterprise Development Centre P. O. Box 10516 Dar es Salaam
3.	Mr. Joel Chidabwa	Master Trainer SIDO P. O. Box 2476
4.	Mr. Gastoni Kikuwi	Secretary General P. O. Box 2476 Dar es Salaam
5.	Mr. Adiel Nyiti	Director of Industry Ministry of Industry and Trade P. O. Box 9503 Dar es Salaam
6.	Ms. Grace C. Rubambey	Director of Microfinance Bank of Tanzania P. O. Box 2939 Dar es Salaam
7.	Dr. Adelhelm Meru	Director general VETA P. O. Box 2849 Dar es Salaam
8.	Dr. Paula Tibandebage	ESRF P. O. Box 31226 Dar es Salaam
9.	Mr. Godfrey Mandari	Executive Director CREW Tanzania P. O. Box 60358
10.	Mr. Altemius Millinga	Executive director CEMIDE Trust P. O. Box 10272 Dar es Salaam
11.	Mr. Peter Mashingia	Programme Coordinator Poverty Africa P. O. Box 78334
12.	Mr. Pius Wenga	Director-Training SIDO P. O. Box 2476 Dar es Salaam

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13.	Ms. Janet Minja	Director-Marketing and Advocacy SIDO P. O. Box 2476 Dar es Salaam
14.	Ms. Joyce R. B. Hamis	Executive Director PTF P. O. Box 7000 Dar es Salaam

15.	Mr. Iddi Nyundo	Municipal Director Temeke Municipal Council P. O. Box 45085 Dar es Salaam
16.	Mr. Masimbano	Trade Officer Temeke Municipal Council P. O. Box 45085 Dar es salaam
17.	Mr. John Lubuva	Municipal Director Ilala Municipal Council P. O. Box 15486 Dar es Salaam
18.	Ms. Martha Mayila	Trade Officer Ilala Municipal Council P. O. Box 15486 Dar es Salaam
19.	Mr. E. H. Berege	Municipal Director Kinondoni Municipal P. O. Box 9583 Dar es Salaam
20.	Mr. J. Ndomba	Trade Officer Kinondoni Municipal P. O. Box 9583 Dar es Salaam
21.	Mr. Paul Baruti	City Director Mwanza Municipal
22.	Mr. P. Masumbuko	Town Director Mtwara Town Council P. O. Box 92
23.	Mr. S. M. Nyimbi	District Executive Director Mbeya Municipal Council P. O. Box 599
24.	Mr. Moses Kabega	Municipal Director Arusha Municipal
25.	Mr. E. Omuyanja	District Executive Director Dodoma Municipal
26.	Mr. Peter Amani	Trade Officer Arusha Municipal
27.	Mr. Musa Igugu	Trade Officer Mtwara Town Council

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28.	Ms. Christine Owenya	Trade Officer Mwanza Municipal
29.	Mr. J. Mariki	Trade Officer Dodoma Municipal P. O. Box 1249
30.	Ms. Anna Alexandar	Trade Officer Mbeya Municipal
31.	Mr. Vedastus Rwechungura	The World Bank P. O. Box 2054 Dar es Salaam
32.	Ms. Jasmine Baghdellah	Equal Opportunity Trust Fund
33.	Mrs. Mary Mzeru	Executive Secretary Women's Finance

34.	Ms. Edine Mangesho	Director Women and Children Ministry of Community Development, Women Affairs and Children
35.	Mr. E. Musiba	Executive Director TCCIA Dar es Salaam
36.	Ms. Janeth Mkonyi	Entrepreneur
37.	Ms. Grace Sadiki	“
38.	Ms. Olive Luena	Gatsby Trust Fund
39.	Mr. Mwaimu	Entrepreneur
40.	Mr. Makere	“

UN Agencies and Technical Cooperation

43.	Ms. Allana Albe	DIFD Dar es Salaam
44.	Mr. Kevin Commons	Director CIDA Support Unit P. O. Box 1022 Dar es Salaam
45.	Mr. Ronan Covin	Charge d' Affaires Embassy of Ireland P. O. Box Dar es Salaam
46.	Mr. Detley Mey	Head Technical Cooperation GTZ
47.	Mr. Ray Kirkland	Director USAID P. O. Box 9130
48.	Mr. Omesh Khanna	Resident Representative FAO P. O. Box 2

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		Dar es Salaam
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Permanent Secretaries

49.	Ms. Rose Lugembe	Permanent Secretray Ministry of Labour, Youth Development and Sports P. O. Box 1422 Dar es Salaam
50.	Mr. Charles Mutalemwa	Permanent Secretary Ministry of Industry and Trade P. O. Box 9503 Dar es Salaam
51.	Ms. Mary Mushi	Permanent Secretary Ministry of Community Development, Women Affairs and Children P. O. Box 3448 Dar es Salaam

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UNDP, ILO and UNIDO

52.	Mr. Ali Ibrahim	Director ILO Area Office, Dar es Salaam P. O. Box 9212 Dar es Salaam
53.	Ms. Inyang Ebong-Harstrup	UNDP Resident Representative P. O. Box 9182 Dar es Salaam
54.	Mr. Felix Ugbor	UNIDO Country Representative P. O. Box 9182 Dar es Salaam
55.	Ms. Flora Nyambo-Minja	ILO
56.	Ms. Karin Sorensen	UNIDO
57.	Mr. Ernest Salla	UNDP

Resource Persons and Facilitator

58.	Ms. Kanyhama Dixon-Fyle	ILO, Geneva
59.	Mr. Gerhard Reinecke	ILO, Geneva
59.	Dr. Marcellina Chijoriga	Entrepreneurship Centre, University of Dar es Salaam
60.	Mr. Usi	Tanzania Revenue Authority
61.	Mr. Mchomvu	The Institute of Social Welfare

Informal Sector Roadmap Workshop – Preliminary Programme

Wednesday 28th November
Analyzing the constraints

9.00-9.45	Opening and Introduction <ul style="list-style-type: none"> - Permanent Secretary Min. of Industries - UNDP - UNIDO - ILO Dar es Salaam
9.45 - 10.15	Coffee break
10.15- 12.30	The IS Roadmap <i>I. Background:</i> <ul style="list-style-type: none"> - USAID Investor's Roadmap, TRA's study, etc - ILO-UNDP-UNIDO initiative IS Roadmap - Current MSE policy review processes (ILO/SEED) II. Presentation of the Roadmap findings <ul style="list-style-type: none"> - Methodology and implementation - First finding: the distinction between survival and growth MSEs - Second finding: the informal sector extends to the public sector - The ideal role of an enabling government
12.30-14.00	Lunch
14.00-15.30	Guest Presentations <ul style="list-style-type: none"> - TRA - University of Dar es Salaam - MIT
15.30 - 16.00	Tea break
16.00 - 17.30	Plenary discussion <ul style="list-style-type: none"> - Main constraints emerging - Main converging policy prescriptions

ANNEX 6

Thursday 29th November Discussing ways forward

9.00-10.30	Plenary session Introducing the recommendations: <ul style="list-style-type: none">• Competitiveness and growth• A new pact between government and small business• Opening up new markets• Enabling local governments• Recognizing the link between an efficient and competent public sector and a dynamic and competitive private sector
10.30-10.45	Coffee break
10.45- 12.15	Group work Discussion of the recommendations and strategies Presentation and discussion of recommendations in smaller groups
12.15-13.45	Lunch break
13.45-15.15	Group work (continued) Discussion of the recommendations and strategies Proposals for action
15.15-15.45	Tea break
15.45-17.30	Final plenary session <ul style="list-style-type: none">• Reporting back from the group work• Action planning• Concluding remarks