

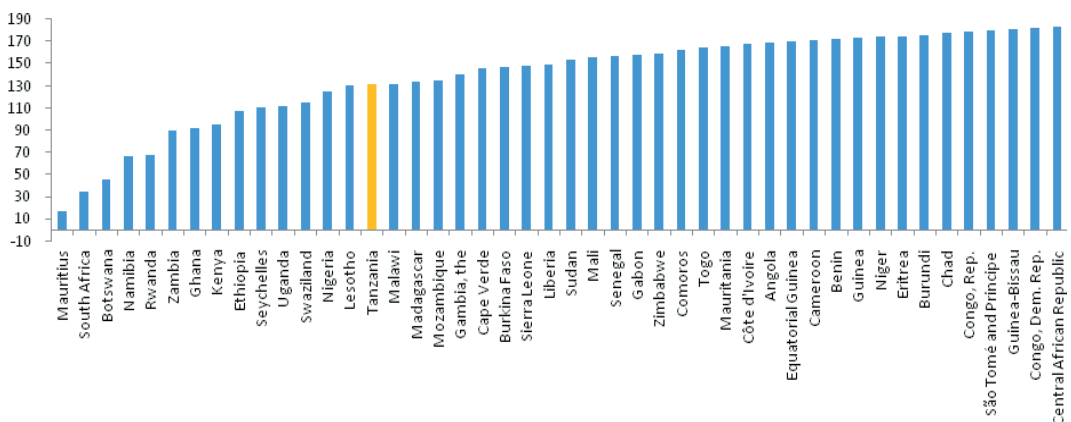
Is Less More?

Business Environment from the Bottom Up

1. Introduction

Tanzania does not rank high on international business environment indices. On the *Cost of Doing Business Index* for instance, Tanzania ranks 131st, behind Zambia, Kenya, Nigeria and Uganda, at par with Lesotho and Malawi and far behind successful African economies like Mauritius, South Africa and Botswana. Worse still, the direction of change suggests that things are deteriorating. In 2009, Tanzania's ranking on the *Cost of Doing Business Index* declined for the second year in a row. This means that from an international perspective Tanzania is becoming less competitive.

Figure 1: 2010 Cost of Doing Business Index for sub-Saharan Africa



Source: World Bank: Cost of Doing Business 2009.

The *Cost of Doing Business Index* has its limitations as it is based on information for limited liability companies operating in the economy's largest business city. And the indicator does not capture aspects such as the quality of infrastructure services, security of property from theft, whether rules and regulations are applied in an impartial manner, or the underlying strength of institutions.

These limitations imply that the realities experienced by the majority of self-employed Tanzanians, who work as smallholder farmers, fishermen or livestock keepers are ignored, just like the experiences of those operating micro and small enterprises. This is unfortunate as it is in these occupations that the majority of people work.

Millions of rural households earn their income in smallholder agriculture, while in towns the majority of people earn an income in small and often informal enterprises that typically have only one employee: the owner (see Figure 2). Because of the high degree of self-employment, the Tanzanian business environment clearly matters for its citizenry. A conducive business environment offers opportunities for income growth, rewards productive activity, fosters innovation, risk taking and the ability to invest, encourages people to specialize and thus to progress in life. A non-conductive business environment puts a high (implicit or explicit) tax on productive activity, imposes high transaction costs, inadvertently encourages households to diversify rather than to specialize, makes people avoid investments in fixed assets and pushes them to remain ‘invisible’.

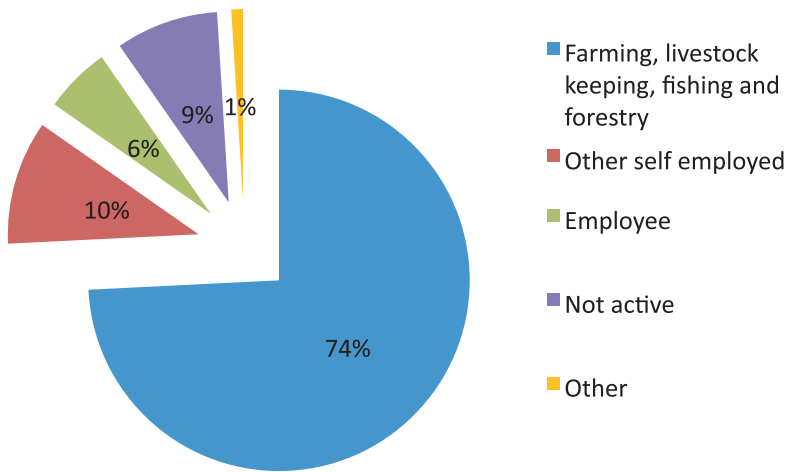
Figure 2: Number firms and number of people working in Dar es Salaam



Source: National Bureau of Statistics: Census of Business Establishments 2003-2005

For poor households in particular, self-employment is important: 84 percent of poor households in 2007 were self-employed obtaining their main source of income from farming, livestock keeping, fishing and forestry or running a business. As can be seen in Figure 3, only 6 percent of poor people worked as an employee.

Figure 3: Distribution of Poverty by main source of income



Source: National Bureau of Statistics: Household Budget Survey 2007.

This leaflet provides a picture of the business environment complementary to the one presented in international comparisons. It focuses on the experiences of ordinary Tanzanians who eke out a living by engaging in a wide range of activities by presenting eight testimonies from researchers, field workers and staff on field trips collected between November 2008 and September 2009.

2. Testimonies from the Ground

2.1 Pottery in Shinyanga

Mrs. Anastasia Libe¹ lives with her 28 year old son and 16 year old daughter and two grandchildren in Shinyanga district. Agriculture is the main source of income for the household but Mrs. Libe is also an experienced potter. She is skilled and was invited to participate in the Dar es Salaam trade fair in 1998. This was the first opportunity she had to visit the city. In her village, Mrs. Libe has worked as a trainer at workshops organized by Action Aid and the village council.

Pottery is a labour intensive process. Clay is obtained after sieving soil dug out of one of the gullies not far from Mrs. Libe's house. The clay is then cleaned and 'walked' before the actual pot is made. Once the pot has dried it is baked in a home-made oven fired with wood.

¹ To respect respondents' privacy, names of people and some locations are pseudonyms.

Pottery is a side activity but in the past Mrs. Libe used to make many pots for sale. She quit when the village's environmental officer accused her of causing soil erosion. Since then Mrs. Libe no longer sells her pots but simply exchanges them for food. The price is determined by the amount of maize a pot can hold. And though her pots are still in high demand, she avoids producing too many.

Mrs. Libe's training activities have also come to an end after the village council refused to pay her for her services: "The council received money from Action Aid to organize a workshop in the neighbouring village. The council approached me and asked to teach. After the training had been successfully concluded, they refused to pay me. I asked for my money on several occasions, but they persist in their refusal." Asked whether she could not seek recourse anywhere else she explains how Action Aid has offered to speak to the council on her behalf. "But I pleaded them not to do so", she says, "as one never knows what will happen next."

2.2 Cotton in Maswa

In Maswa district, Mr Chacha grows cotton. He recalls how liberalization has benefited him by pointing to his house made of compacted mud walls which now has a roof made of metal sheets.

The people who seem to have benefited most from liberalization, however, are traders. They stay with Mr Chacha in his village but their houses do not only have roofs with iron sheets, they are large and have walls made of baked clay.

For farmers like Mr Chacha there remains much to be concerned about. Official prices set by the Cotton Board of Tanzania (CBT) are not always paid: "When traders offer less than the official price, we turn to the village authorities. Sometimes they help; often they do not and we are forced to sell at the low price".

Last year traders only offered Tshs 360 per kg, while the official price was Tshs 440. After some time the authorities responded and forced the traders to make a second payment. Yet few received their money. "It is not clear what criteria the authorities used to distribute the money. All I know is that I did not receive any", Mr Chacha explains.

Not selling cotton because traders offer less than the official price is less of an option. "We need the cash. Besides, next year we will deal with the same traders", Mr Chacha observes. Another reason for farmers to sell quickly is that

cotton is highly flammable. There have been cases where entire harvests have been lost due to fire and most farmers do not want to run such a risk.

The price of seed is also an issue. “Yesterday the village executive officer announced that the price for cotton seed is Tshs 100 per kg. We were told to keep our receipts because we will have to buy the seed at Tshs 200 per kg till the Government is able to reimburse us our money. I hope this time it is true”, adds Mr James Charles who, like Mr Chacha never received the second payment for his cotton.

Another issue facing farmers has to do with the quantities sold. The Cotton Board tests all scales of the traders, but in practise there is great variation between them. As a result farmers take their cotton from one trader to the next and sell to the one whose scales indicate the highest weight. Still farmers are not convinced the weights are correct. When asked why farmers don’t first put a 50kg bag of cement on the scales to test its accuracy, Mr James Charles smiles. “Sometimes it is better to stay quiet”, he confesses.

The facts bear him out. A year ago, Mr Charles’ neighbour asked tough questions at a village meeting. Shortly thereafter the police discovered a firearm in his pit latrine and to avoid a court case Tshs 200,000 had to be paid to the police to drop the case.

2.3 Fisheries in Lake Victoria

Mr Rusobya is a subsistence fisherman. He owns a net and a small boat. Every time he sets sail to fish in Lake Victoria, he prays that he gets a catch sufficient for meeting his large family’s food needs, for bribing public officials who use their minions to select the best fish as soon as he docks at dawn and if lucky, to sell a few fishes to hawkers to get a little cash to meet other basic needs.

Bribery is a serious concern of Mr Rusobya. “Today it can be the police, tomorrow the Fisheries Officer; the next day, the Village Executive Officer – they have all made us their slaves”, he says. “They are all corrupt and greedy and instead of working for us they exploit us and ensure we do not rise out of poverty”.

All fishing done in Mr Rusobya’s village is illegal. The nets used have a mesh size below the 3.0 inches set out by the Tanzania Fisheries Act and Regulations as a measure to prevent fishing on breeding grounds or capturing immature fish. “We use illegal nets because we cannot sail deeper to the lake. It is dangerous and impossible with our small boats.”

Mr Rusobya is aware that the government regulations help protect breeding grounds and immature fish but he feels trapped because he lacks the resources to purchase a bigger motored boat that would allow him to venture further into the lake where mature fish thrive. “To survive we must continue fishing illegally because that is what our ability can allow”, he explains.

Because fishing is done using illegal methods, it makes the community vulnerable to corrupting relationships with state authorities who do not try to address the practice but who exploit it to their own benefit. In the words of Mr Rusobya: “We must fish from the lake even if the officials call it illegal because it is our resource. Instead of enabling us to attain the set requirements so that we all benefit from better fish stocks, all they are interested in is to corruptly benefit from the little we have. We are also interested that small fish and breeding grounds are not destroyed, but what can we do when no one is supporting us?”

Mr Rusobya clearly has lost faith in the ability of the authorities to be of help. “Maybe, God will help us someday”, he laments.

2.4 Coffee in Kilimanjaro

Mr Francis Kiwanga is an elderly man who stays with his wife in a small metal sheeted house in Kilimanjaro. The house looks old and it is clear that there is not much money going around.

Outside the house three goats walk around freely. Mr Kiwanga is a coffee farmer and coffee can be found to dry on a mat outside the house. The coffee is grown on a quarter acre plot surrounding the house. The coffee is mixed with banana plants which are the responsibility of his wife.

Mr Kiwanga has just returned from a meeting convened by the village authorities. He is visibly disturbed: “For years we have been selling to the coffee cooperative, and they have never done a good job. We were excited when we heard that a new buyer had started operating in the neighbouring village as we expected he would come to our village too. Today we learned that the village committee chased him away”.

Asked why the buyer was chased away, Mr Kiwanga says. “They [the authorities] say he cheated with his scales. But everybody cheats. A cheating buyer may still give you more than the cooperative.”

Asked whether he could not go and sell at the neighbouring village, he looks at me in surprise: “I do not have a bicycle and it’s too far to walk. I am not that strong any more”.

“I don’t understand”, Mr Kiwanga says, “why can’t the authorities allow competition? We hear about *Soko Huria* (liberalization), but it seems to bypass us. I want the cooperative to stay, but I also want choice! If the buyer cheats I want to be able to sell to the cooperative. “

2.5 Kilimo Kwanza in Kahama?

Mr Bakari Mwaijonga is a cotton farmer in Kahama. He and his uncle own an ox driven plough, but otherwise they use traditional hoes. There is no irrigation except for some small fields that are watered using buckets filled with water from a well and nearby pools.

In the past seasons rains were poor, and Mr Mwaijonga harvested only 700kg which he sold at Tshs 440 per kilo. He indicates that that the money “did not pay” (*hailipi*) and that once one took away the costs of pest and weed killers and labor, there was little left. The lack of profitability is the reason why he decided to switch to tobacco last year. Others had done so and received Tshs 4,500 per kilo.

He decided not to plant the tobacco in his fields near the main road, because government officials had declared cotton the official cash crop, and in the past unofficial crops had been uprooted by the authorities. “The yield was low”, he narrates, “because the soil is ‘tired’ after decades of growing cotton”.

Mr Mwaijonga tells how his fields could really use some fertilizer, but that he cannot afford it. In all his years of farming he indicates that he never received any government subsidized fertilizer, nor does he know of anyone in his village who has. Asked whether he has ever received extension advice he says there is an extension officer that no one goes to see because he is “useless and of no help”. There is a livestock extension officer however who does help upon request.

When asked about Kilimo Kwanza, and the government policy and budget commitment to agriculture, he responds: “We live in Tanganyika, you [coming from Dar es Salaam] live in Tanzania. Tanzania ends at Morogoro, if even that”.

2.6 Shop keeping in Ruvuma

Mr and Mrs. Lugello run a little ‘shop’ from their home. The shop is in fact a cupboard in their *sebule* (living room), from which they sell cooking oil, toothbrushes, soaps, matches, condoms, exercise books, pencils and other non-perishable items. When asked why they did not locate the shop in a more public place where it might attract more customers they indicate that having it in the living room means they do not have to ‘man’ the shop. Mr and Mrs. Lugello can

do other things at home and respond to clients at the same time. “And”, they say, “this way the authorities do not harass us for licenses and other favors”.

The Lugello family also owns a brand new motorcycle, Chinese brand, with less than 3,000km on the meter. The motor cycle is rented out virtually every day for Tshs 10,000 per day to a young man who uses it to run a taxi transport service. The young man takes care of all costs (largely fuel), and bears all the risk should there be an accident.

When asked about insurance, Mr Lugello indicates the motorbike is insured, “but”, he says “I don’t think it will do anything”. “It is just another fee that has to be paid”. He looks surprised when told that insurance could help him if the motorbike got into an accident or was stolen. “Perhaps in Dar es Salaam”, he murmurs, “but here you’d never get paid”.

His real worry is traffic police on the main road to the district capital, who constantly ask for small bribes. “They always find something you don’t have, and I don’t have a way of knowing whether I am supposed to have what they say or whether they are just making it up”. When asked why not resist paying, he responds: “It’s less trouble to just pay”.

2.7 Fertilizer vouchers in Iringa

Mrs. Rose Palapala (43) is poor. She lives in a mud walled house with a thatched roof some 7 km from the centre of her village in Iringa. She is a single mother and takes care of her two daughters and her elderly father. Her daughters attend primary school and Agnes, the eldest will finish this year. “My dream is for Agnes to attend secondary school but I fear I won’t be able to afford it”, Mrs Palapala confesses.

Mrs. Palapala owns no livestock and has 2 acres of land, one which is rented out for Tshs 20,000 per year. On the other she grows maize and sweet potatoes. Last season she was able to apply fertilizer and she harvested eight bags of maize. Of these she sold three in July not long after the harvest for Tshs 30,000 to a passing trader. “I would have preferred to sell at the market, but the cost of transport is too high: Tshs 500 each way.” The remaining five bags will feed the family. Occasionally when there is an urgent need for cash Mrs. Palapala will sell a bucket of maize at Tshs 5,000
“This year I did not have the money to put fertilizer”, Mrs Palapala says. “Fertilizer prices went up too much and I can only pray that we will harvest enough to sustain us throughout the year”.

Mrs. Palapala indicates that she had heard about the Government's fertilizer voucher scheme and says that she did not receive any vouchers because the scheme was not designed for her. "Only farmers who could top up [with money] got vouchers. All the vouchers went to the wealthy farmers". Mrs. Palapala says she tried to raise the issue at the village meeting, but: "they only talk politics and education, not about agriculture".

Asked whether she could not have teamed up with people that could have contributed so as to benefit from the subsidy, she smiles and says: "Nobody wants to be in a group with a poor person: poor people don't form groups".

2.8 Starting a business in Dar es Salaam

Dr. Mkuu is a retired lecturer from the University of Dar es Salaam. Following his retirement his ambition was to start a profit making consultancy firm that would facilitate citizens in transforming their ideas into products. "I knew starting a firm would not be easy, but I was determined to do it properly," he says. "And, as I am well-educated and have a friend in one of the top law firms who offered to assist me, I thought it could be done".

The company being for profit had to be registered as private Limited Company. The first step was to clear its name and to prepare articles of association. "I was told that the envisaged name: "Public Development" was not allowed, since this was a *Private* Limited company. It did not matter that the objective of the firm was to work with the general public. So I registered a firm called "Development Limited", Dr. Mkuu laughs.

Registration took two months and involved the preparation of a 35 page document with Articles of Association and spending Tshs 500,000 in taxes and fees. "This excluded lawyers' fees, as my friend insisted on working for free", Dr. Mkuu says.

"I thought this was it and that the process had been quite doable, but then it turned out that I also needed a Tax Identification Number (TIN)". What followed was a bizarre sequence of events. "I don't recall exactly what happened when and in what order, but I do recall that requirements seemed to change every time I contacted the Tanzania Revenue Authority (TRA)".

Before providing the TIN number TRA insisted on visiting the business premises. The office was found to be in order, except that it lacked a receptionist. "Apparently a business has to have a receptionist", Dr. Mkuu smiles.

As the business operated from Dr. Mkuu's premises he had to show the lease agreement for his house. TRA wanted to check whether the landlord had paid stamp duty and withholding tax. Since he had not, Dr. Mkuu was given the option to pay in the Landlord's behalf, plus a fine for late payment and interest.

This settled, "I was asked for a business licence -- even though the firm would focus on consulting work, bank statements of the directors and a letter from the local council recognizing me as a trustworthy person. At this point I became exasperated because every time I met one requirement, another cropped up", says Dr. Mkuu. "I repeatedly asked TRA whether they could give me a list of all requirements, but I was never shown such a list. Nor does the TRA website provide it".

Despite the setbacks, Dr. Mkuu did not give up and went after the business licence. TRA could not tell where to obtain the licence, but suggested going to the Ministry of Finance. At the Ministry it was said that the business, even though for profit, looked more like an NGO and Dr. Mkuu was told to go to the Vice President's Office only to find out that the NGO division had moved to the Ministry of Community Development, Gender and Children. "There I was told I was starting a for profit business which could not be registered unless it was compliant with the NGO Act. And compliance meant I had to let go of the profit motive". After 6 months, Dr. Mkuu was finally stuck.

"I was advised to try the Ministry of Industry and Trade because it was thought that their licensing processes were more straightforward", Dr. Mkuu recalls. "But I've had enough. I wonder now whether I should just do my business informally, without any official licenses, taxes, permits, etc., because it's just not worth all the trouble".

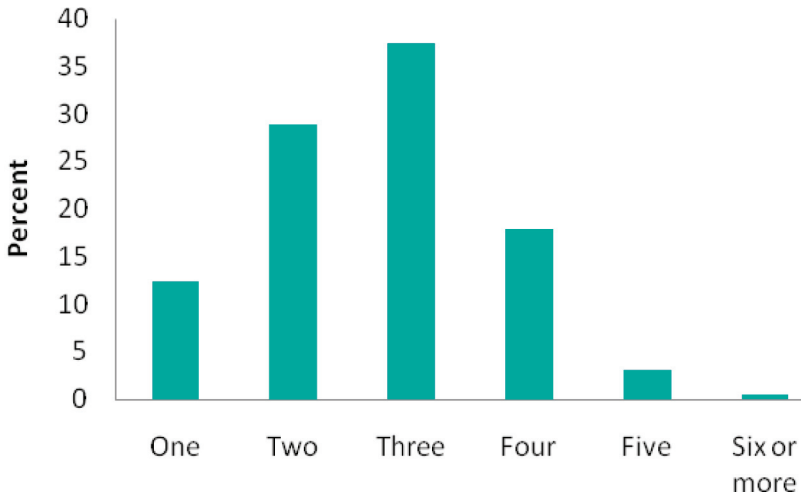
3. Conclusion

The testimonies presented in this document depict a business environment that is not conducive to income growth and poverty reduction. Rules, regulations and licence requirements are unclear and applied in an arbitrary manner; services are poor or not provided at all; competition is restricted rather than promoted and basic market supporting functions such as price information or checking weights and standards are not provided.

The findings of these testimonies are borne out by data. The pattern observed in Figure 2 with many micro and small enterprises and very few larger ones finds an explanation in the rational decision of households to diversify rather than to specialize, a suggestion that is supported by findings from the 2008 *Household*

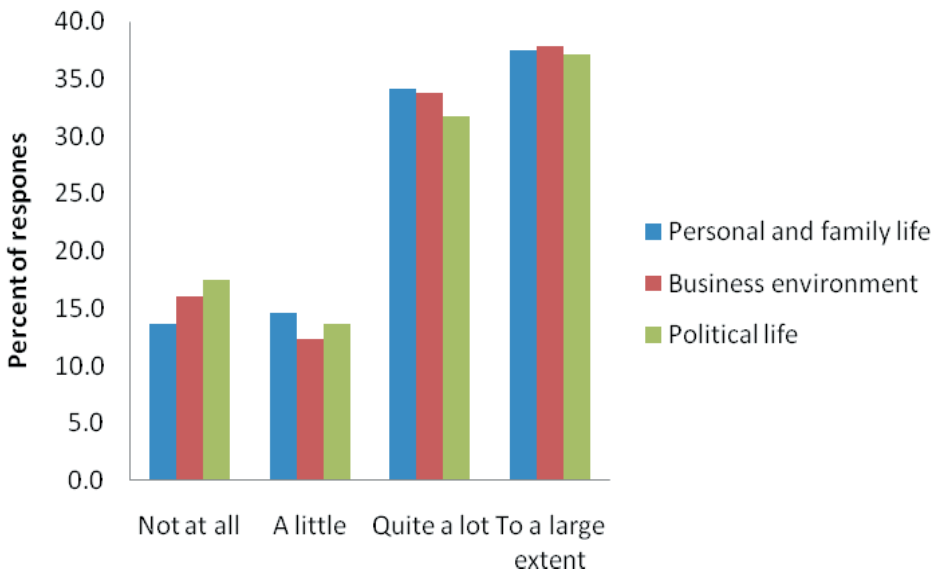
Budget Survey and *2007 Views of the People Survey* that show the degree to which households in Tanzania engage in multiple activities as can be seen in Figure 4, and the extent to which citizens are affected by corruption in their personal and family life as well as the business environment (Figure 5).

Figure 4: Number of incoming earning activities of the household



Source: National Bureau of Statistics: Household Budget Survey 2007.

Figure 5: Degree to which farm households are affected by corruption in different spheres of life



Source: Views of the People Survey, 2007.

With over 80 percent of poor citizens self-employed, poverty reduction starts with creating a business environment that is conducive to growth, investment, specialization and risk taking. Many official documents and policy statements attest to this need. The 2009 *Poverty and Human Development Report* for instance states: “[it is] imperative to prioritize interventions that raise agricultural productivity” and there is need to develop programs “to nurture and sustain household capabilities for successful diversification”.

The testimonies may suggest otherwise.

Instead of the State doing more, given the historical nature of State interventions, the testimonies herein suggest that doing less might be more appropriate. The ingenuity and drive of Tanzanians to succeed in their enterprises does not require further support from formal capacity building programs. It may be that it requires foremost the removal of unnecessary and at times illegitimate obstacles created by the authorities. It is these obstacles, sometimes labelled sins of commission, that make it rational for ordinary citizens to keep their enterprises small, informal and invisible, even if it implies that only limited income can be earned from them. Is less not truly more in this case?

This brief has been produced by Policy Forum, in association with Twaweza.



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