Improving Competitiveness for SMEs to Harness Available Trade and Investment Opportunities: The Case of Tanzania

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Abstract: *Less developed countries' capability to face global economic challenges depends so much on the stage of development of their small and medium enterprises (SMEs). Nevertheless, SMEs competitiveness in Tanzania and other developing countries face a number of encumbrances hindering their success in both local and international markets. This paper undertakes a thorough review of the factors affecting SMEs competitiveness in Tanzania. Factors affecting SMEs competitiveness include: the remaining investment climate impediments, inadequate innovation, poor infrastructure and high transactions cost. There are also hindrances related with information asymmetry, shortages and/or insufficient supply of factors of production and the poor economies of scale and scope. Based on the findings, policy recommendations for the improvement of SMEs competitiveness are made. Among others: the government should continue instituting environment conducive for businesses, promote the use of research and development outputs, emphasise business agglomerations and sharing of capacities, and continually propagate entrepreneurial attitudes and skills.*

Keywords: SMEs, competitiveness, opportunities, investment

INTRODUCTION

With continuing globalization, developing countries and African countries in particular, face challenges on how to strengthen their capacity to benefit from emerging trade and investment opportunities. Less developed countries (LDCs) capability to face global challenges does not depend much on the development of large scale enterprises because those are scanty in these countries. They rather depend on the stage of development of small and medium enterprises (SMEs), of which human and institutional strengths are a reflection of the respective country's capacity to compete for trade and investment opportunities available.

There is no precise and universally accepted single definition of SMEs. In Tanzania SMEs which include micro enterprises and small-and-medium scale enterprises are defined as those employing from 1 to 100 employees, with capital investment not exceeding TZS 800 million. Following privatisation drive and the civil and public service reforms in Tanzania which began in the early 1990s, the country witnessed a significant increase in the number of SMEs over the last one decade (Morwa, 2006).

The civil and public service reforms reduced the government employment size from about 6 million in the 1990s to around 2 million in 2005. A large proportion of the people who were formerly employed by the government but retrenched in the reforms era moved to SMEs sector. This industry therefore creates employment for quite a reasonable part of the Tanzania's population, that being authenticated by the number of SMEs which rose sharply from around 0.1 million in the early1990s to 1.7 million in 2008. About one-third of the country's GDP originates from small and medium enterprises and the sector employs approximately 20% of the Tanzania's work force (United Republic of Tanzania, 2008).

The challenge that SMEs face in Tanzania is about how to make the best in the competitive business world to reap the benefits of investment and trade opportunities at hand. Nowadays foreign firms venture into the country to undertake small businesses; alas, even in the areas with no need for rare expertise. Influx of foreign garages, shops, restaurants and so forth indicates inefficiency or inadequate competitiveness of domestic firms in provision of such goods and services, hence permitting an opportunity for foreign investors who can take advantage of that situation.

This paper aims at identifying factors constraining SMEs competitiveness in LDCs, with Tanzania taken as the case study, and then recommending measures for improving SMEs entrepreneurship, innovation and competitiveness. To achieve this purpose, Section two presents conceptual framework and the background, while Section three states the problem, study objectives, and the approach. Relevant literature is reviewed under Section four where the success case of Jamaica's SMEs is also presented. Discussion of the findings is placed in Section five, while conclusion and policy implications are found in Section six.

AN OVERVIEW OF EXISTING OPPORTUNITIES

The current world runs economic system we can refer to as *digital economy*, whereby the world becomes smaller and integrated though visually dispersed. Export and investment opportunities for developing countries are many. For instance, in these countries SMEs have potential benefits in:

- *growing e-commerce*. The problem which limits the use of internet for stocking, advertisements, communication, and so forth, is not that these facilities are typically too unaffordable to SMEs but actually, most of the SMEs are not familiar with how beneficial these could be;

- *opportunities in the labour service area*. Off shoring to developing countries is now an ample chance for developed countries' investors because they have advantages of abundant and relatively low cost labour, indicating that LDCs have a comparative advantage in the labour service;

- *integrated regional markets*. Most of developing countries are associates of various regional integrations, economic groupings and they are the beneficiaries of diverse international programmes including among others, African Growth Opportunity Act (AGOA) and Generalised System of Preferences (GSP), for Africa especially. Nevertheless, involvement of Tanzania and many other LDCs in these groups/facilities is still unsatisfactory;

- *internationalized trade.* While some analysts have argued against globalisation and opening up of the economies of developing countries, the view that these have opportunities in terms of the accruable benefits from quality improvements, experiences sharing, and expansion of markets is nowadays widely acceptable;

- *trade fairs and exhibitions participation opportunities.* Most of the SMEs in developing countries have not harnessed advantages associated with international trade fairs and exhibitions. This is because some of them can't afford participation costs, and for several others it is because they don't have exposure to its potential participation gains;

- *investment joint-venturing opportunities.* There are opportunities in production and distribution of non-traditional products produced in developing world. SMEs could therefore dynamically invite and join with investors from other countries to produce together; and

- *abundance of natural resources*. Tanzania for instance has a huge endowment of natural resources which are useful in the production of tradable goods. The country is within great lakes region with sufficient water resources, minerals, vast fertile land, and in addition, is non-landlocked, to mention a few.

Conceptual Framework

Conceptual Framework

Competition in economics is a term that encompasses the notion of individuals and firms striving for a greater share of the market. Merriam-Webster defines competition in business as the effort of two or more parties acting independently to secure the business of a third party by offering the most favourable terms (Wikipedia, 2007). Businesses competition exists under certain approving conditions. If the necessary provisos are non-existent or the business environment is essentially counter competition, other forms of firms than competitive organisations will exist instead.

Organization of economic cooperation and development (OECD) Bologna conference (2000) emphasised four preconditions for development of competitive

SMEs that qualify to engage in cross-border business: (i) there must be provision of effective business support services; (ii) long-term finance should be available; (iii) there must be a good state of information and communication technology infrastructure; and (iv) the existence of suitable social capital is vital. These four broad conditions touch important areas of the policy concern, institutional framework, and business performance.

Competitiveness is a term derived from competition and is here defined as a comparative measure of the ability of the firm or sub-sector to produce/sell in a given market. Competitiveness in the context of international trade has been theorised in a perspective of the county's position in relation to the international markets, and this position is determined by the rate of creation and dissemination of technology (Marcovitch and Silber, 1996). Technology transfer and acquisition through research and development (R&D) activities is identified as a major means by which firms can raise their competitiveness in the international markets. This should be of course supported by appropriate policies and institutional development. In the international economics theory, there is an interface between technological innovation, competitiveness and international trade. SMEs are not nowadays restricting their international activities to exporting alone; they extend their interactions with other forms of international market dealings in such areas as foreign direct investments (FDI), strategic alliance, joint ventures, licensing and so forth (Oman, 1984; Young, 1987).

Some of Initiatives Made to Promote Business in Tanzania

Following problems facing business sector in general and SMEs in particular, Tanzania has made some initiatives to promote export sector and investments. A highlight of these initiatives is here provided at a glance. We start with the government initiative to issue micro-business loans, notably from 2006/2007, which intends to help available entrepreneurs, those with small business ventures and in need of start up capital. Even so, it is still very early to assess achievement of this government scheme in accelerating SMEs performance.

In the endeavour to promote exports, the Board of External Trade (BET) was established in 1978 charged with: international markets searching; coordinating foreign businesses wishing to trade in Tanzania; organizing and facilitating participation in overseas trade fairs, exhibitions, and missions; and undertaking R&D on external trade. BET has since been coordinating and conducting training programmes in all areas of international trade, holding specialised exhibitions, and market research (BET, 2007).

Other initiatives that need to be acknowledged include: the Mini-Tiger Plan 2020, which is fed into the National Strategy for Growth and Reduction of Poverty (NSGRP). The plan aims at fostering competitiveness of Tanzanian products on the global markets, promoting exports, and creating special economic zones. These types of initiatives are several, comprising inter alia: Tanzania Export Processing Zones, established by the parliament Act of 2002 and Zanzibar Free Trade Economic Zones Authority (ZFTEZA), created in 1992. To facilitate export trade, the government of Tanzania through the central bank launched SMEs' Export Credit Guarantee Scheme in 2003; which is among the schemes geared to supporting SMEs in line with the National SMEs Development Policy (BOT, 2006). In addition to these government initiatives, there are many non-governmental and private organisations, facilitating businesses development in the country.

Nevertheless, the question that remains is, given these initiatives, why development of SMEs capacity remains low in Tanzania? Taking for example, SMEs export guarantee scheme, its take-off has been slow and for the past 8 years only 48 guarantees worth TZS 3.5 billion have been issued. With these opportunities readily available, the reasons for the failure need to be explored.

Constraints Facing SMEs Operating in Tanzania

As indicated earlier, SMEs contribute significantly to the economy by employing about 20% of working Tanzanians and producing one-third of the GDP, however, the sector operates under a number of constraints. According to the assessment by the government of Tanzania in SMEs policy document (2002), the following problems are identified: (i) legal and regulatory framework is bureaucratic, costly and centralised; (ii) physical infrastructures including working premises, power, water supply, communication warehouse, roads, and others, are poor; (iii) the ability (entrepreneurship) to transform enormous Tanzania resources into goods and services is still very low; (iv) inadequate business training and skills; (v) little access to information; and (vi) SMEs in Tanzania have limited admission to technological developments partly due to lack of relevant information.

The array of problems besieging SMEs in the country is wide including in addition to the foregoing: (vii) marketing difficulties on account of poor quality, inadequate promotion skills and stiff competition; (viii) there is limited access to finance owing to lack of collateral, high costs of SMEs loans administration, and absence of specially dynamic SMEs credit windows; (ix) institutions supporting SMEs sector are weak, fragmented and uncoordinated, and are concentrated in urban areas; (x) HIV/AIDS pandemic is a threat to the whole world, Tanzania inclusive. It has affected labour force as regards supply, skills and productivity; (xi) women are a significant part of labour force in Tanzania, but are streamlined aside lacking land, credits, and education largely due to cultural barriers; (xii) agricultural sector accounting for over 50 percent of the economic activity face shortages of farm inputs, extension schemes, low processing capacity and many other challenges.

The Study Concern and Objective

The main question is, given the great importance of SMEs in the country, and regarding their operations amidst the wide range of challenges already identified in a number of studies and policy documents, what must be done in LDCs and Tanzania in particular to revamp SMEs competitiveness. We need to respond to this question from a critical analysis of the factors behind SMEs limited competitiveness. The implication we get from the enormous economic role of SMEs to the national economy is that, if we are able to increase their performance, then we are in the right way to alleviation of poverty for development. Otherwise, existence of limiting constraints render SMEs in Tanzania surpassed by those in other countries, and this is an important economic problem. The country continues to lag behind in exports though incessantly accommodates foreign investments, even to opportunities in which domestic investors could do.

Status of Tanzania and most of its neighbouring countries as well as some few other non-East African countries are illustrated in Table 1. In terms of the use of trade opportunities, Tanzania is one of countries remaining relatively non-competitive. While Malawi and Rwanda are smaller than Tanzania in all respects, during 2004 for instance, and with regards to the volume of trade in AGOA and GSP arrangements, they rank higher than Tanzania. Tanzania had only 0.1 percent of the total volume whereas Malawi and Rwanda each had 1.3 percent respectively, and Kenya 5.6 percent of the total volume of the illustrated countries.

Table 1: Total USA Trade with Some Selected AGOA Countries (Million US$)

Country	USA Exports 2003	USA Exports 2004	USA Imports 2003	USA Imports 2004	AGOA Including GSP 2003	AGOA Including GSP 2004
Angola	482.6	588.6	4,176.4	4,475.7	N/A	4,314.9
Botswana	24.7	51.6	13.6	73.0	6.3	20.1
Ethiopia	407.3	458.2	30.5	41.2	2.9	5.3
Ghana	204.4	300.3	83.6	140.5	40.6	74.0
Kenya	193.0	387.0	249.1	352.2	184.4	286.7
Mauritius	23.7	18.3	298.1	370.4	143.1	160.1
Rwanda	7.9	11.1	2.6	5.4	6.0	67.0
Tanzania	63.6	124.7	24.2	23.8	1.6	3.6
Malawi	16.5	21.5	80.1	79.4	59.3	64.4
Uganda	42.2	62.7	34.9	25.8	1.5	5.1
Mozambique	62.3	75.9	8.7	9.9	7.9	8.0
Zambia	19.0	26.1	12.4	32.5	0.5	2.6
Congo (DRC)	30.4	60.2	173.9	112.3	119.5	79.3

Source: *AGOA Competitiveness Report (2005)*

This paper aims at undertaking a thorough review of the factors affecting SMEs competitiveness in Tanzania, and then to recommend the ways out of those hurdles through formulation of appropriate policies. We want to explain why SMEs have lagged behind in utilisation of trade and investment opportunities available in both domestic and international markets. The intention is to sensitise policymakers to see the areas which need quick intervention for SMEs to thus be able to harness the accessible opportunities.

METHODOLOGY

This study is based on the library research. Appropriate existing literature is reviewed to unearth both theoretical and empirical facts on the problem. To substantiate some arguments raised in this paper on SMEs competitiveness encumbrances, analysis of descriptive statistics from the East Africa Business Development Services dataset and some others from the World Bank statistics is done. Also a case of Jamaica's SMEs success is drawn for some lesson. Most of the work is accomplished qualitatively. Nonetheless, there are various quantitative examinations to bring into the discussion the supporting information/statistics.

Review of Library Information

The current business environment in developing countries is typified by fierce global competition and rivalries, more sophisticated and ever-changing final markets, and the profound transformations in production technologies and supply organisations (Wattanapruttipaisan 2002). The literature overall makes argument that SMEs are important source of social and regional stability in terms of jobs creation for women and those others with limited skills and capital. Wattana[1] assesses capabilities and competitiveness of SMEs in South East Asia, concluding that there is a need to reduce chronic data and information problems as a way to enhance SMEs competitiveness.

The relative position of a country in the international trade has been attributed to creation and dissemination of technology, (Silber, 1983; OECD Bologna Conference, 2000; Lu and Beamish, 2001). Empirical analysis of relationship between technological innovation and international trade competitiveness in Latin America as done by Silber, shows that government policy is a decisive element for the competitiveness of any region.

Tesfayohannes (2005) looks at the elements of SMEs policy implementation is sub-Saharan Africa and acknowledges that the countries in the region recognise the pivotal role of SMEs in their sustainable development. However, the wide spread SMEs failure is observed due to poor policy designs and implementation. In line with the conclusions, Tsfayohannes recommends proper schemes, action programmes and regulatory frameworks supportive to SMEs development.

The literature generally (Nelson, 1995; United Nations, 1995; Selber, 1983; Erzan and Yeats, 1992) confirms that among the main factors constraining competitiveness in the globalised economy is the "country cost". This is a set of inhibitors which cancel out competitive advantages of the country's production. Typical examples are archaic tax systems, high domestic interest rates, poor transport and communication infrastructures. Another important factor behind high competitiveness in the recently industrialised countries is education. That means availability of well qualified labour at lower costs than in the western countries attract investments both domestic and foreign.

Prominence of internationalisation phenomenon has captured interests of researchers in strategic management, entrepreneurship and international business (McDougall and Oviatt, 1996; Lu and Beamish, 2001; Burgelman, 1983; Coviello

[1] Wattana in this study being an abbreviated form of the name Wattanapruttipaisan

and McAulry, 1999). SMEs internationalise businesses by either exporting or extending FDIs. Lu and Beamish establish the best strategy to combat deficiency of international resources to SMEs as seeking alliance with domestic firms, those with local knowledge; this necessitating SMEs' configuration of their international settings.

According to Zahra, Ireland and Hitt (2000), broadening customer base by extension to foreign markets is among the strategies SMEs use to achieve their growth. Geographic expansion to leveraging resources in different markets is done by taking advantages of market imperfections in other areas. Among the challenges in extending to foreign markets is a need for development of new strategies to fit in the new markets especially where the target markets are dissimilar to original ones. In addition to building latest resources, internationalising SMEs face political risks of foreignness and those reinforce entrepreneurial capacity, particularly when striving to overcome them (Delios and Henisz, 2000).

Jarillo (1989) presents raison d'être for insufficient competition resources as being: internal shortages of information, deficiency in management experience, and constraints facing SMEs due to their vulnerability to business environment changes. To enhance the likelihood of existence in international market, Jarillo emphasises alliance strategy because coalition partners represent an important source of the host country's knowledge.

Now looking specifically into the Tanzania's case, Saiguran (2007) examines the role of research and technology organisation in SMEs development. The paper makes an observation is made on constraints facing SMEs in realisation of their development goals, and those are impairing factors which avail SMEs with little competitive capacity. Among them are: (i) lack of appropriate information, knowledge and skills; (ii) inadequate and inefficient infrastructural facilities; (iii) the challenge of small and competitive domestic market; and (iv) multiplicity of taxes. We should also be aware that the Tanzania SMEs development policy paper of 2002 identifies the same challenges, among others.

Olomi (2006) looks particularly at the rural SMEs development constraints in Tanzania and highlights twelve factors restraining growth of small and medium enterprises. Difficult access to finance, unsatisfactory awareness and capacity of business operators, little access to business development services, poor infrastructures, and inadequate facilitation are among the challenges he presents. Constraints are multifaceted, from policy and institutional frameworks to technical, financial and ideal entrepreneurial matters. Olomi provides some policy recommendations including: a need to build on the role models and continue to innovate; boosting investment promotion and enterprise support; enhancement of entrepreneurship skills; and capacity building at grassroots level.

It is note worth saying that competition aligns with capacity to overcome strategies posed by others in the business arena. University of Dar es Salaam Entrepreneurship

Centre (UDEC, 2002) scrutinises women entrepreneurship in Tanzania, and confirms there is a hindering business environment in the country. At micro level, capacity problem and lack of motivated attitudes to SMEs development are the main cited factors. Meso-level restraining factors comprise limited access to support services and management capacity among women; while at macro-level there are policy and regulations restraints. The same are articulated by Chijoriga et al. (2003), who establish that though women entrepreneurs show willingness to improve their job quality in managing SMEs, they are besieged by many limitations notably financial constraints, little access to business support services, gender related nuisances, and marketing complications.

Because of those limitations, Tanzania exports growth - especially for SMEs, has lagged behind the country's potential. Taking an example of AGOA, Mwamunyange (2006) reports that though Tanzania government and American Embassy in Dar es Salaam have tried to educate local entrepreneurs to understand and penetrate into the United States market, exports growth under AGOA scheme remains unsatisfactory.

In order to help minimise obstructions affecting SMEs competitiveness in the country, the government and private non-governmental organisations (NGOs) have organised workshops and seminars to sensitise and educate people on how to cope with the current global challenges. SMEs Competitive Facility (SCF) of Tanzania, for instance, in 2006 organised a course with jingle "Track IT, Trace IT Tanzania: Competitiveness for Tanzania". SCF is a matching grants opportunity for businesses that wish to develop or increase their ability to trade and export (SCF, 2006). On this ground, we continue to acknowledge that there are some efforts going on to prop up SMEs competitiveness in developing countries almost everywhere.

There are many Business Development Service (BDS) providers in East Africa, with database from which information on various issues concerning SMEs facilities in the region can be obtained. Those BDS provide services directly to SMEs (SCF, 2006). Notwithstanding efforts made by all stakeholders, Kelly et al., (2006) remark is, SMEs development in Tanzania has continued to deteriorate over time. They operate at the lowest rank of cash economy striving for survival *vis* à *vis* their low quality outputs, low prices of goods they produce and the inherent business instability. They cite a number of difficulties faced by business entities comprising loans inaccessibility, lack of social and business insurance, insufficient professionalism of business operators, and market associated inconveniences.

The Case of Jamaica's SMEs Success

Jamaica is one of emerging economies which have made commendable steps in SMEs exports promotion through competitiveness enhancement over the last two decades. Under this section we highlight this case of Jamaica, a tropical country with export activities similar to those undertaken by SMEs in most of the LDCs including: agro-business, art and crafts, beverages, minerals, and so forth. Jamaica is referred to because among the other reasons, it is one of the exemplary cases in SMEs development policy implementation. This is supported by several studies including that of UNIDO committee (1999).

During 2006 for example, exports (most of which from SMEs) accounted for around 35% of the Jamaica's GDP. Total merchandise exports rose by 29.5% to approximately USD 1,983.5 million (JTI, 2006)**.** Compared with Tanzania (which has population of about 11 times that of Jamaica), in the same year exports were around 20% of GDP and merchandise exports grew by 2.8% to USD 1,723.0 million, the rate which was relatively low and mostly non-SMEs.

In line with trade policy of Jamaica, in 1988 the merger of three entities, namely: the Jamaica National Investment Promotions, the Jamaica National Export Corporation, and the Jamaica Industrial Development Corporation, gave birth to the Jamaica Promotions Corporation (JAMPRO), now known as Jamaica Trade and Invest (JTI). In 1990, the JAMPRO Act was passed in the parliament to establish the company as a statutory body. Today, the agency is a leading institution charged with investment promotion in the island while facilitating development of exports in targeted sectors. JTI provides assistance to local and international businesses seeking to invest in Jamaica, and also serves SMEs and large locally-based companies producing particularly for export.

The Government of Jamaica's trade policy is underscored by the drive to improve competitiveness of Jamaican firms and to increase market penetration globally. In its agenda, JTI has provisions for investors: (i) business research support and market intelligence; (ii) business facilitation services; (iii) incentives and permits; (iv) technical and financial assistance; (v) business networking services; and (vi) investment promotion. Similarly, it has specific provisions for exporters: (i) export registration and trade facilitation; (ii) facilitating access to funding, incentive and technical assistance; (iii) market intelligence; (iv) market penetration, i.e. access to international markets; (v) business development services; (vi) trade policy advocacy; and (vii) library service. On the basis of these provisions JTI undertakes:

(i) Development of strategies geared to the modernisation of non-traditional industries, those with the highest external market threshold and/or high drive towards export readiness.

(ii) Trade negotiations, programmes and activities focused on increasing international markets access by local enterprises.

(iii) Attraction of high impact investment projects from other countries, which ultimately enhance/promote exports.

(iv) Facilitation of increased export development, export promotional activities and development of supply industries.

(v) Support of the companies that are export ready by providing services to help them to build competitiveness; and this is done through employing a project based approach to export development, export clustering, and networking.

(vi) Facilitation of cross-border industry-clustering through partnerships, strategic alliances and joint ventures to improve supply chain relations.

(vii) Identification of various opportunities for international firms to build trade relationships with local businesses.

Lessons from the Jamaica's Experience

There are lots of things that developing countries can learn from the experience of Jamaica. The first is, serious government policy is crucial for achievement of business competitiveness. The government should organise and forge efforts-like Jamaica-to form one strong/capable agency for promotion of trade and investment in the country.

Another lesson is, the government must play a role in identifying potential investment opportunities for both domestic and international investors. However, increasing markets access and opportunities for the local firms must be a priority set in the fore front.

Export oriented SMEs need special support of the government agency in terms of assistance in networking, strategic alliance, partnerships solicitation and joint venturing. Some of small businesses have the potential to venture into the international trade arena but they lack capacity to liaise themselves.

In a nutshell, the paramount strategy according to Jamaica's experience is to focus on: improvement of investment climate conditions; enhancement of export promotional activities; creation of international market accesses; and development of supply industries. If SMEs don't grow to withstand competitive global business environment, it will be difficult for them to harness benefits of both available and potential opportunities.

DISCUSSIONS

There are many constraints to SMEs development in Tanzania. Among the major constrictions impacting their competitiveness, that which are also accentuated in different ways in the literature are:

(i) Limited access to financial services:

It is observed that most of SMEs can't easily borrow from commercial banks mainly due to high credit risks associated with lack of collateral and high SMEs credit administrative costs. Moreover, there is no enough variety of reliable and competitive financial services providers in the country and this hamper business competitiveness as cost of funds (interest) becomes unbearable. From Table 2 below, the number of institutions listed in BDS database as finance and insurance services providers was about 210 by July 2007. Out of those institutions, around 64.8 percent of them were in Kenya, 23.3 percent in Tanzania and 11.9 in Uganda.

Table 2: The Number of Services Providers in BDS Database for East Africa (*By July 2007*)

	Tanzania	Kenya	Uganda	Total
Finance and insurance services	49	136	25	210
Travel and logistics	25	149	8	182
Production services	30	43	12	85
Trade support services	30	39	3	72
Marketing services	46	31	22	99
Capacity building services	115	35	104	254
Business management services	111	79	63	253
Standards and certification services	8	4	5	17
ICT services	35	14	12	61

Source: From E. Africa BDS database

If one had to come to invest or trade in East Africa (EA), would most likely go to Kenya to enjoy the assortment of financial services available, *ceteris paribus*. Tanzania and Uganda would lag behind by this criterion. We thus expect in this context a wider market base for Kenya than that of the rest of EA countries. Business success needs healthy financial institutions, and which are well known as existing in the country's environment. AGOA Competitiveness Report (2005) explains that though financial sector of Tanzania is liberalised, it is still not well developed hence strangulating business competitiveness.

(ii) Limited production capacity

Literature overall cite a problem of poor technological progress for most of SMEs. This is mainly due to low education and inadequate technical and management skills. Knowledge and capability of managers and entrepreneurs are important factors for firms' competitiveness. Low productivity coupled with towering production costs arising from high expenditures on raw materials and tariff expenses render Tanzania among the poor performers with regards to SMEs development. As a response to solving these troubles, Tanzania has a highest number of small and medium enterprises capacity building institutions compared to other EA countries, followed by Uganda and then Kenya.

(iii) Inadequate infrastructures

Physical infrastructures in Tanzania are poorly developed, notably roads, electricity, water supply, and telecommunication networks, especially for the fixed lines. Because of infrastructures state, shipping cost of a container from Dar es Salaam to Arusha is almost equal to shipping cost of the same from Europe to Dar es Salaam. This obviously implies relative high prices of goods produced in the country and so small and medium producers are unable to price-compete internationally, even where there are open markets accesses like AGOA and GSP arrangements.

(iv) Information barriers
Most of the studies point out asymmetric market information as a limiting factor to producers in Tanzania and costs of acquiring information on preferences and quality from overseas for example, are prohibitively high. Participation in trade fairs and sending samples overseas for quality assessment, advertisement and promotion purposes are unaffordable for most of SMEs in Tanzania, thus denying them some business opportunities.

(v) Little economies of scale and scope
In Tanzania SMEs are not operating in consortiums which could give them wider capital base, higher negotiation power, and sharing of experiences and skills. In this respect, SMEs in the country are small in size and competitively disadvantaged in production, marketing and advertising within the respective sub-sectors. Because strappingly effective advertisements are often made by large firms alone, small and medium enterprises continue to be adversely affected in terms of their competitiveness.

(vi) Problems associated with supply of factors of production
SMEs in developing countries and Tanzania in particular have limited supply of factors of production or the factors are available at high prices, markedly, in the cases where they are imported. Some of those factors cannot be quickly changed (like supply of skilled labour), or can be changed only in the long-term. Reliability of inputs availability in the production process is crucial. With recurrent electricity voltage fluctuations and frequent blackouts like it happened in Tanzania during 2006 due to drought, SMEs cannot be competitive in international trade. Because of diseconomies of scale they can hardly facilitate their own power generation as the majority of large firms can do. Similarly, the use of intellectual inputs from tertiary education institutions, in terms of human capital and R&D products is not yet as effective as it could enhance high productivity of SMEs in the country.

(vii) High transactions cost
The largest proportion of SMEs transaction costs is on the enforceability of contracts. Tanzania formulated commercial division of the high court (the Commercial Court of Tanzania) in 1999 in order to facilitate a quick resolution of commercial cases in the country. Finnegan (2005) brings the following lawyers survey findings: 61 percent of surveyed lawyers said the costs of resolving cases in the commercial court of Tanzania are too high to majority of SMEs. If this continues, commercial court remains of little advantage to local business community and it fails to meet its objective of bringing the favourable business climate.

Most of disputes were found to be related with payment defaults, and that does not only affect trade but also capital side of the firms. For instance, in the first year of commercial court of Tanzania, commercial banks were plaintiff in 37 percent of all cases filed and were involved as parties in about 45 percent of all those cases. This typify an obvious problem of high credit risks as well as soaring loans administrative costs to banks, which cause big negative impacts on businesses performance.

(viii) Inadequate innovation

In Tanzania there is mushrooming of homogenous kinds of businesses because a good majority of domestic investors venture into copying investments they count as "what has worked", without much effort to innovation and products differentiation. Individualisation of consumer requirements plays an integral role to SMEs market availability. Consumers in the western world especially are moving from massively produced goods to specialised ones. In essence, what matters is not only daring to do business but also daring to do much more of what has not yet been widely done by others.

(ix) Remaining Investment climate impediments

Tanzania managed to somewhat improve its investment climate in the recent past but still there are lots of things to be desired. These contain besides others the legal and regulatory issues, not forgetting the whole question of bureaucracy costs. Appendix 1 (with a number of tables and so placed outside the text) presents indicators of investment climate for Tanzania and also includes an overall average for the AS-Region[2] and that of OECD countries for comparisons. The indicators portray Tanzania for most cases being below the regional average, though for some few indices, it is on the average or above. To start a business in Tanzania it needs around 13 procedures which are more than the AS-Region average of 11 procedures and 6 procedures for the OECD countries. It would take 313 days from the time one applies for a business license to the time he/she gets it in Tanzania while it takes 230 days as regards AS-Region average and 149 days for OECD. Other impairing issues include difficulty of employing people which for Tanzania is at maximum (100 percent), while for sub-Saharan is at 44 percent.

(x) Unfavourable international trade interrelationships

This competitiveness encumbrance is integrally aligned with complications emanating from political economies of the world economic blocs. Tanzania being one of the poor countries, it finds itself as a source of raw materials to the rich countries. Considering agricultural products category for example, the country traditionally exports raw coffee, tobacco, tea and cotton just to mention a few. The argument easily made for these kinds of raw exports is, if coffee was processed in Tanzania for instance, it wouldn't meet the required standards for advanced countries market. Nevertheless, all of Tanzanians who have travelled abroad can testify that when they go to developed countries the foremost items their hosts request from them are coffee and tea processed in Tanzania. It is not due to the reason that in those countries coffee and tea are not available in their supermarkets, but indeed, because coffee or tea processed and packed in Tanzania is of the best quality and taste. Although this is conspicuous even to policymakers in the western countries, they still rate those superior processed products from developing

[2] AS here abbreviates Africa South of Sahara

countries low. Whether one buys this fact or not, it remains a crucial problem affecting fairness in the world trade, thus rendering SMEs of LDCs non-competitive in the international arena. Generally, this means the terms of trade have remained unfavourable to developing economies.

In the light of the abovementioned factors affecting competitiveness, there are both internal (within the firm) and external factors (those outside the firm). Notable internal factors include: limited production capacity; little economies of scale and scope; and inadequate innovation. External factors, which comprise the array of the majority of hindrances comprise: limited access to financial services; inadequate infrastructures; information barriers; problems associated with supply of factors; high transactions cost; unfavourable international trade interrelationships; and other investment climate impediments. Part of hindering factors can be changed just by addressing the problems and instituting the solutions. However, there are those which may take time to change either because they need advocacy and designing of government policies for reform or they require a prior change of the present knowledge. Those which cannot be changed are like economies of scale, which entail a technical change and they take time to vary.

CONCLUDING REMARKS AND POLICY IMPLICATIONS

With continuing internationalisation, Tanzania and other developing countries need to build capacity in order to face global challenges zealously. SMEs competitiveness in Tanzania like in other LDCs face a number of constraints, of which some are internal to them and others, are external. Cognisant of those constrictions, the government and other stakeholders have tried to address critical questions related with investment climate, trade policy, as well as small and medium enterprises development policy. All those were longed-for; nonetheless, there remains an array of factors affecting competitiveness in the country. Among critical concerns are: the remaining investment climate impediments, inadequate innovation drive, poor infrastructural base and high transactions cost. In addition to these factors afflicting competitiveness of SMEs in the country, various researchers have also pointed out hindrances arising from information asymmetry, problems related to shortages and/or insufficient supply of factors of production plus the poor economies of scale and scope. Other outstanding SMEs competitiveness encumbrances comprise limited access to financial services, unfavourable terms of trade and the low production capacities.

Despite all these constraints, SMEs in Tanzania and other developing countries have the potential to successfully compete and reap the benefits of the fast expending international trade. Even so, developing economies must recognise that they need reformation through their policies and a call for the strong advocacy to establishment of new terms of trade in the world market.

In order to mitigate problems associated with investment climate the government should continue to set up institutional framework conducive for business development. In those areas where Tanzania ranks low like in procedures to start business, dealing with licenses, employment processes and tax payment bureaucracy, the government must reform its policies pertinent to the contemporary efficient systems in the world. The conduct of public sector officials specifically, must be strictly in tandem with values and ethics code for the public service founded on good governance. This will eliminate all sources of delays, including corruption, inefficient services provision, laxity in regulation, bureaucracy, and agenda manipulations.

The government and business firms in particular need to propagate and advocate a culture of using research findings in assessing what to do and how to do it. Very few private business firms invest adequately in research and development activities or at least consume information from research outputs to help them strategise their activities dynamically. The minds set up of the people must be led to understanding that sustainability is never achievable if no continuous improvements, new lines of activity, and relentless learning. Financing R&D should be conceived as a rewarding deal to firms, both internally and externally.

Formation and strengthening of cooperatives or consortiums of respective channels of businesses can exert a significant impact on competitiveness enhancement. SMEs undertaking business in a certain line of activity can be in touch with others doing similar activities so as to sometimes pool resources together to effect outcomes which are difficult to achieve individually. One of the mentioned competitiveness hindrances are the limited economies of scale and scope. Among the best business strategies in the environment where firms are resource-constrained is forming agglomerations and sharing of the available capacities to eventually win the markets. Expensive R& D activities can be done in partnership of two or more similar firms which ultimately can share the fruits of their findings.

On the access to financial services, risks mitigation through creation of reputable credit information bureau is central. Most of SMEs are not able to access loans from banks owing to high credit risks, poor accounting, inadequate information on firms' credit worthiness and lack of satisfactorily registered collaterals. The government must thus deliberately take on the property formalisation and citizens identification and registration. Otherwise, financially constrained entrepreneurs can't outweigh their well-organised competitors from sound environments.

The government effort toward roads construction and supply of other basic infrastructures should be enhanced for SMEs to realise reduced costs of production. Those SMEs located in the rural areas particularly, can hardly meet transport costs to their respective town centres let alone to abroad. Information and communication technology (ICT) development is central to production and trade facilitation; hence development of its necessary infrastructure is quite imperative if Tanzania and other LDCs want their SMEs to emerge competitive in the international markets. Presence of the national ICT policy is not enough; the government needs to propagate awareness on the importance of using ICT, and this to be done through education and training, primarily from the lower levels of our schools.

I want to insist that the government should prioritise improvement of its human capital by specifically expending and strengthening tertiary education to build domestic expertise in order to eventually reduce knowledge dependence. The real economic freedom must start with liberation of the minds set up for the people to think, analyse and solve problems in their best interests. Incapacitation of local experts by using them and protecting their operations is one of the ways Tanzania can tread to ensure growth of knowledge in business and other sectors of the economy.

As indicated earlier, one single developing country cannot solve problems affecting competitiveness of its domestic firms entirely. Mindful of this, all countries including developed ones must be at a position to know they are supposed to strongly support development agenda of the poor economies.

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