

The Contributions of Micro, Small and Medium Enterprises Operations in the Selected Districts in Tanzania

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Abstract: *The purpose of this study was to assess the contributions of SMEs operations in the selected districts in Tanzania by using Explanatory Sequential Design. The sample size of the study constituted fifty (50) districts includes: Meru, Arusha, Karatu, Moduli, Ngorongoro, Bahi, Chamwino, Chemba, Dodoma, Kondoa, Kongwa, Mpwapwa, Buhigwe, Kakonko, Kasulu, Kibondo, Kigoma, Uvinza, Kwimba, Magu, Misungwi, Sengerema, Ukerewe, Busokelo, Chunya, Kyela, Mbarali, Mbeya, Rungwe, Kilwa, Lindi, Liwale, Nachingwea, Ruangwa, Kahama, Kishapu, Shinyanga, Biharamulo, Bukoba, Iramba, Singida, Manyoni, Lushoto, Pangani, Handeni, Muheza, Korogwe, Tanga, Movomero, and Iringa Districts. Probability sampling procedure was adopted for getting the full picture of the contributions of SMEs operations in Tanzania. The study revealed significant positive relationship between SMEs and jobs creations, income generations, standards of living status, cities status, innovations, and government revenue, availability of goods and services but negative statistically significant relationship with poverty reductions. Since the study have exhibited some of the positive contributions of the SMEs on social and economic well being of citizens, the government is therefore strongly advised to strengthening the SMEs through well-established policies and laws.*

Keywords: SMEs, contribution, Jobs creations, GDP, Government Revenue and Living Standards.

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1.1 Background of the study

More than 99% of the businesses worldwide are under SMEs. SME stands for Micro, Small and Medium Enterprises. Globally, SMEs occupy a large part of businesses because its easily ways of establishment since their requirements are not too demanding as it is the case of large enterprises. Not only is that but also in Tanzania, SMEs are easily established due to favourable government policies, technology, and settings. In Tanzania SMEs is considered as an important sector that can have contributions in country's long -term development includes job creations and income generating activities (Tanzania Development Vision, 2025).

Basically, SMEs sector includes manufacturing, mining, constructions, livestock farming, cash crop plantations, trade stores, service stations, real estates, restaurants etc (James, 2018 and SME Development Policy 2003). Principally, there is no universally acceptable definition of SMEs since each country has its own ways of measuring the SMEs sector. Usually, the definition of SMEs commonly depends on the number of employees, capital value and sales turnover and most importantly is also determined by the specific level of country's development.

Accordingly, Tanzania Small and Medium Enterprises can be classified into three categories which are Micro, Small and Medium Enterprises. In Tanzania, Micro Enterprises are those business engage up to 4 people with the capital of amounting up to five million shillings and majority of them are family based and fall under informal sector. Small Enterprises denotes business undertakings involving employees between 5 to 49 peoples with the capital amounting to Tshs five millions up two hundred millions and most of them are formalized. For the case of Medium Enterprises denotes business undertakings involving employee between 50 and 100 with capital amounting to two hundred millions to eight- hundred millions. Furthermore, any business undertakings with the capital above eight hundred millions Tanzania shillings and having more than one hundred employees falls under Large Enterprise, Tanzania SME Development Policy (2003).

Historically, the United Republic of Tanzania started to appreciate the role offered by the Small Business enterprises in 1960s. In 1966 and 1973 the government established various organs to take charge of SMEs which included the National Small Industries Corporation (NSIC) under the National Development Corporation (NDC) and the Small Industries Development Organization (SIDO). Despite the efforts made by the government to promote the development of SMEs in Tanzania, there are notable challenges which impair effective and efficient operations of SMEs which subsequently necessitated the government to formulate SMEs Development Policy in 2003, Danga, (2019). The main purpose of the policy was to strengthening the roles of SMEs through the improvement of legal and regulatory framework, physical infrastructure, business development services and access to finance services. Besides, the policy established institutional framework for SMEs development and rural industrialization in order to reduce persistent unemployment, to increase GDP and to reduce poverty (Tanzania SME Development Policy 2003). In addition to that globally the emerging of SMEs is due to; persistent increase of unemployment, staff retirement, poverty issues, access to finance, globalization of opportunities and obstacles as well as the act of government step out in doing business, these situations have also recorded in the respect of Tanzania Msemo, (2013) and Danga, (2011). Moreover, it is said that Small and Medium

Enterprises play an essential role in, government revenue, making services available and emerge of cities, Trade Current Journal, (2006).

Essentially the country is continuing to recognize the role played by SMEs since in its budget speech is stilling formulated strategies and policy that promoting the growth of SMEs includes continued to listen to and addressing complaints challenges facing SMEs, improve business environments, attracting investment, reduce income tax this has stipulated in the URT budget speech, 2020/2021.

1.2 Importance of SMEs in Tanzania

It is generally accepted that sustainable development of SMEs in Tanzania is an important factor for poverty reduction and economic growth. SMEs facilities ease exchanges of goods and services in both urban and rural areas. Tanzania has shifted from state owned economy into private owned economy where individual enterprises are legally allowed and encouraged to operate. The establishment of SMEs has yielded notable outcomes.

The establishment of SMEs facilitates timely access to various goods and services such as health, education, financial services countrywide Samuel Asirivei, (2019). SMEs is the one of the major employer due to their operations which demand different type of skills and labour to undertake its day to day activities such as production of cooking oil, rice and maize flour which are dominant in both urban and rural. In addition to that, SMEs have influenced urbanization where some villages have been transformed into townships. This is because the presence of SMEs tends to attract people looking for social services like health, education, and employment opportunities. Not only that but also SMEs is one of the income-generating undertakings which have contributions on poverty reduction strategy. In other words, SMEs improve economic status and enable people acquire amenities of life like food, clothing and shelters. Besides, some of SMEs have seen to be the sources of the growth of large corporations as the large corporations can outsource services rendered by SMEs not only that but also SMEs is the market place of large corporations.

1.3 Statement of the problem

Despite the importance of SMEs in the modern economy little attention has been paid to the study of the contributions of SMEs in Tanzania, as there are scant of literatures allows us either to discuss the importance of SMEs in the country since many of the SMEs studies dedicated on the factors affecting SMEs and neglecting the empirical study of the role played by SMEs. This therefore, calls for a comprehensive study on the contribution of SMEs in Tanzania.

1.4 Research Objective

1.4.1 General Objective

The general objective of this study was to assess the contributions of SMEs operations in the (50) selected districts in Tanzania.

1.4.2. Specific Objectives

The following were highlighted as the specific objectives:

- i. To find out the current situation of the operations of the SMEs in Tanzania
- ii. To identify contribution of SMEs operations in the (50) selected districts s in Tanzania.

1.5 Research Questions

1.5.1 General question

What are the significant contributions of SMEs operations in Tanzania?

1.5.2 Specific questions

The following are the research questions

- i. What is the current situation of SMEs operations in Tanzania?
- ii. What are the contributions made by SMEs operations in the selected districts in Tanzania?

1.6 Researches hypotheses

- i. Ho- There is no relationship between the SMEs and jobs creation in Tanzania
- ii. H1- There is a relationship between the SMEs and jobs creation in Tanzania
- iii. Ho- There is no relationship between the SMEs and household income generation in Tanzania
- iv. H1- There is a relationship between the SMEs and household income generation in Tanzania
- v. Ho- There is no relationship between the SMEs and goods and services availability in Tanzania

- vi. H1- There is a relationship between the SMEs and goods and services availability in Tanzania
- vii. Ho- There is no relationship between the SMEs and government revenue in Tanzania
- viii. H1- There is a relationship between the SMEs and government revenue in Tanzania
- ix. Ho- There is no relationship between the SMEs and status of living standards in Tanzania
- x. H1- There is a relationship between the SMEs and status of living standards in Tanzania
- xi. Ho- There is no relationship between the SMEs and the growth of large corporations in Tanzania
- xii. H1- There is a relationship between the SMEs and the growth of large corporations in Tanzania
- xiii. Ho- There is no relationship between the SMEs and poverty alienation in Tanzania
- xiv. H1- There is a relationship between the SMEs and poverty alienation in Tanzania
- xv. Ho- There is no relationship between SMEs and emerging cities in Tanzania
- xvi. H1- There is the relationship between the SMEs and emerging cities in Tanzania

1.7 Significance of the Study

This study was conducted in 50 districts in Tanzania for the period of three years starting from 2017 to 2019. The probability sampling was employed of which 50 districts were involved to presents other districts in the country. The study may provide useful contributions to the literature on the contributions of SMEs in the country and the world at large.

2.0 Theoretical perspective

2.1 Definition of SMEs

As described in the literature reviews that worldwide there is no single acceptable definition of SMEs, the definitions of SMEs to the context of Tanzania can be classified into three categories under the two aspects i.e. number of employee and amount of capital invested in the business as described in the table below.

Table 1: Definition of SMEs

Categories	No. Employees	Capital Invested (Tshs)
Micro enterprises	1-4	Up to 5,000,000
Small enterprises	5-49	Above 5,000,000-200,000,000
Medium enterprises	50-99	Above 200,000,000-800,000,000
Large enterprises	100+	800,000,000+

Tanzania SME Development
Policy (2003)

2.2 Empirical studies

Win, (2016) on his studies of the effectiveness of SMEs in Papua New Guinean revealed that SMEs are the sources of employment and government taxes. He noted that through SMEs many people have been employed in the SMEs since SMEs demand manpower for their smoothly business operations.

Msemo, (2013) on his study of the analysis of strategic factors hindering the performance of Small and Medium Enterprises textile industry in Tanzania revealed positive relationship between SMEs and income generations, jobs creations, goods and services availability, GDP, and Innovations. Apart from positive relationship he observed negative relationship between SMEs and poverty reductions had identified.

Department of National Planning and Monitoring, (2015) on its review of the effectiveness of SMEs in Papua New Guinean noticed that SMEs are the pioneer of employment and government revenue. The department added that through SMEs local residents can be employed by the existing SMEs and not only that but also local government as well as central can collect taxable revenue.

Papua New Guinea Ministry of Trade, Commerce and Industry, (2016) on its review observed that SMEs are the drivers of economic growth, job creation, and innovation. The review added that over 70% of jobs creations are due to the existences of SMEs while over 90% of household incomes are because of SMEs.

Apulu & Latham, (2013) on his study of achieving equitable and sustainable industrial diversification found that SMEs provides local capital formation for large corporations and also it contributes to the improvement of standards of living.

Rena, (2019) on her study of "Entrepreneurship and Development challenges in Papua New Guinea" identified that SMEs are the drivers of the innovation, revenue growth, goods and services availability and growth of country's economy.

Karadag, (2016) on his study of The Role of SMEs and Entrepreneurship on Economic Growth in Emerging Economies within the Post-Crisis Era an Analysis from Turkey Istanbul, found that the living standards of rural are poor than inner cities because the few availability of SMEs in rural area compared to the inner cities. Intuitively the study findings make sound since the existences of SMEs promote living standards of the people surrounding the SMEs since SMEs guaranteed goods and services availability.

2.3 Conceptual Framework

The study strongly concentrated on eight variables of which SMEs was considered to be the study independent variable while jobs creations, income generations, standards living status, cities status, innovations, government revenue, goods and services availability were considered to be dependents variables. The mentioned dependents variables were used as the model measuring the contributions of SMEs in the country.

3.0 Research methodology

3.1 Population and sample

The population of the study is the Tanzanian districts of which probability sampling was employed and the totals of 50 districts were regressed for the period of three years stating from 2017 up to 2019.

3.2 Data sources

The study used districts social-economic profile as secondary data of the selected districts to evaluate the contributions of SMEs operations in selected districts in Tanzania. The data extracted from the district social-economic profiles and were imported into the Microsoft excel sheet to calculated the needed data since secondary data contain vague information at once. Data exploration was done carefully to ensure the reliability and validity of the data. The study treated SMEs as an independent variable while jobs creations, cities emerges, income generations, government revenue, goods and services availability, status of living standards, and growth of large corporations as the dependents variables. The panel data analysis using the fixed-effect model was employed to analyze the relationship between SMEs and the mentioned dependents variables to evaluate the roles of SMEs in Tanzania social – economy. The selection of the fixed-effect model depends on the results of the Hausman test since the choice of whether fixed effect or random effect is determined by the Hausman test, not to the discretion of the researcher.

3.3 Empirical model

Model 1: Relationship between SMEs and Jobs Creations

Model one of this study used to verifying the hypothesis number one that there is no relationship between SMEs and jobs creation.

$$SMEs_{jt} = \beta_0 + \beta_1 E_{jt} + U_{jt} \dots\dots\dots 1$$

Where

$SMEs_{jt}$ = Micro, Small and Medium Enterprises in district j in year t

E_{jt} = jobs creations in district j in year t

U_{jt} =Disturbance term for SMEs in district j in year t

B_0 & B_1 = Parameters of Estimation

Model 2: Relationship between SMEs and Household Income Generations

Model two of this study used to verifying the hypothesis number three that there is no relationship between SMEs and house hold income generations.

$$SMEs_{jt} = \beta_0 + \beta_1 I_{jt} + U_{jt} \dots\dots\dots 2$$

Where

$SMEs_{jt}$ = Micro, Small and Medium Enterprises in district j in year t

I_{jt} = House hold Income Generation in district j in year t

U_{jt} =Disturbance term for SMEs in district j in year t

B_0 & B_1 = Parameters of Estimation

Model 3: Relationship between SMEs and Availability of Goods and Services

Model three of this study used to verifying the hypothesis number five that there is no relationship between SMEs and availability of goods and services.

$$SMEs_{jt} = \beta_0 + \beta_1 I_{jt} + U_{jt} \dots \dots \dots 3$$

Where

$SMEs_{jt}$ = Micro, Small and Medium Enterprises in district j in year t

G_{jt} = Availability of goods and services in district j in year t

U_{jt} =Disturbance term for SMEs in district j in year t

B_0 & B_1 = Parameters of Estimation

Model 4: Relationship between SMEs and Government Revenue

Model three of this study used to verifying the hypothesis number five that there is no relationship between SMEs and Government revenue.

$$SMEs_{jt} = \beta_0 + \beta_1 R_{jt} + U_{jt} \dots \dots \dots 4$$

Where

$SMEs_{jt}$ = Micro, Small and Medium Enterprises in district j in year t

R_{jt} = Government revenue in district j in year t

U_{jt} =Disturbance term for SMEs in district j in year t

B_0 & B_1 = Parameters of Estimation

Model 5: Relationship between SMEs and Status of Living Standards

Model five of this study used to verifying the hypothesis number nine that there is no relationship between SMEs and status of living standards.

$$SMEs_{jt} = \beta_0 + \beta_1 L_{jt} + U_{jt} \dots \dots \dots 5$$

Where

$SMEs_{jt}$ = Micro, Small and Medium Enterprises in district j in year t

L_{jt} = Status of Living Standards in district j in year t

U_{jt} =Disturbance term for SMEs in district j in year t

B_0 & B_1 = Parameters of Estimation

Model 6: Relationship between SMEs and growth of large corporations

Model six of this study used to verifying the hypothesis number eleven that there is no relationship between SMEs and the growth of large corporations

$$SMEs_{jt} = \beta_0 + \beta_1 GL_{jt} + U_{jt} \dots \dots \dots 6$$

Where

SME_{jt} = Micro, Small and Medium Enterprises in district j in year t

GL_{jt} = Growth of Large Corporations in district j in year t

U_{jt} =Disturbance term for SMEs in district j in year t

B_0 & B_1 = Parameters of Estimation

Model 7: Relationship between SMEs and Poverty Alienations

Model seven of this study used to verifying the hypothesis number thirteen that there is no relationship between SMEs and poverty alienations

$$SME_{jt} = \beta_0 + \beta_1 P_{jt} + U_{jt} \dots \dots \dots 7$$

Where

SME_{jt} = Micro, Small and Medium Enterprises in district j in year t

P_{jt} = Poverty Alienations in district j in year t

U_{jt} =Disturbance term for SMEs in district j in year t

B_0 & B_1 = Parameters of Estimation

Model 8: Relationship between SMEs and Emerging of Cities

Model eight of this study used to verifying the hypothesis number fifteen that there is no relationship between SMEs and emerging of cities

$$SME_{jt} = \beta_0 + \beta_1 C_{jt} + U_{jt} \dots \dots \dots 8$$

Where

SME_{jt} = Micro, Small and Medium Enterprises in district j in year t

C_{jt} = Emerging of Cities in district j in year t

U_{jt} =Disturbance term for SMEs in district j in year t

B_0 & B_1 = Parameters of Estimation

4.0 Findings and discussion

4.1 Pairwise correlation

Table 3 indicates the pairwise correlation of the variables included in the study. The study revealed positive relationship between SMEs and Jobs creations, House hold Income Generation, Availability of goods and services, Government revenue, status of living standards, growth of large corporations and Emerging of cities but negative relationship with Poverty alienations. The study result suggests that the government may improve Jobs creations, House hold Income Generation, Availability of goods and services, Government revenue, status of living standards, growth of large corporations and Emerging of cities by strengthening the SMEs operations in the country. Not only have that but also the study results had suggested that the strengthening of SMEs may reduce poverty of the esteemed citizens since through SMEs household income could be uplifted.

Table 3: Pairwise correlation

	SMEs	E	I	G	R	L	GL	P	C
SMEs	1.0000								
E	0.7396	1.0000							
I	0.3739	0.7950	1.0000						
G	0.5096	0.8948	0.6519	1.0000					
R	0.8433	0.8345	0.4346	0.6419	1.0000				
L	0.9370	0.7904	0.4200	0.5888	0.9051	1.0000			
GL	0.7881	0.8226	0.4799	0.6084	0.9712	0.9053	1.0000		
P	-0.6289	-0.4600	-0.0858	-0.3071	-0.6779	-0.5935	-0.6254	1.0000	
C	0.6105	0.4819	0.1179	0.3410	0.6758	0.5775	0.6233	0.9748	1.0000

4.2 Correlation Analysis

I employed panel data analysis using fixed effect model analysis to evaluate the contributions of SMEs socially and economically. The fixed-effects model is the best model than pooled ordinary least squares (OLS) since it yields robustness results though it eliminates anything that is time-invariant. In model one up to eight, I regressed the fixed effects estimate to analyze the relationship between SMEs and Jobs creations, House hold Income Generation, Availability of goods and services, Government revenue, status of living standards, growth of large corporations and Emerging of cities. The fixed-effects estimates indicated a significant positive relationship between SMEs and Jobs creations, House hold Income Generation, Availability of goods and services, Government revenue, status of living standards, growth of large corporations and Emerging of cities with the coefficient of 0.00326, 0.04341, 0.217082, 0.8765, 0.008645, 0.08059 and 0.0040390 respectively. These suggest that the increase of the number of SMEs is associated with the increase in the Jobs creations, House hold Income Generation, Availability of goods and services, Government revenue, status of living standards, growth of large corporations and Emerging of cities. On the other hand the study revealed significant negative relationship between SMEs and Poverty alienations with the coefficient of -0.001239 and this implies that the increase of the number of SMEs is associated with the decline of the Poverty alienations. The results above allow the researcher to reject the null hypothesis by accepting the alternative hypotheses. Hence, the study results confirm to Msemo, (2013) findings that SMEs usually have a positive impact on Jobs creations, House hold Income Generation, Availability of goods and services, Government revenue, status of living standards, growth of large corporations, emerging of cities and poverty alienations. The study results suggest that the more the number of SMEs are the higher the Jobs creations, House hold Income Generation, Availability of goods and services, Government revenue, better the status of living standards, growth of large corporations, Emerging of cities, and the lower poverty.

Table 4: Correlation Analysis Fixed effects, for the contribution of SMEs Model 1-8

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	FI	FI	FI	FI	FI	FI	FI	FI
	E	I	G	R	L	GL	P	C
SMEs	0.00326***	0.04341**	0.21708**	0.8765**	.000864**	0.08059**	-0.001239***	0.0040390**
	(0.0549)	(0.0562)	(0.0967)	(0.0217)	(0.0466)	(0.0483)	(0.0684)	(0.0162)

5. conclusion

The study results had confirmed literature reviews acknowledge that worldwide SMEs are the drivers of socio- economic development due to their role in Jobs creations, House hold Income Generation, Availability of goods and services, Government revenue, status of living standards, growth of large corporations, emerging of cities and poverty alienations since the study has come up with the positive relationship between the SMEs and Jobs creations, House hold Income Generation, Availability of goods and services, Government revenue, status of living standards, growth of large corporations, emerging of cities and poverty alienations. Henceforth the government is insisting to continued in formulation of policy and strategies that fostering the operations of SMEs.

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