



Institute of Social Studies

GRADUATE SCHOOL OF DEVELOPMENT STUDIES

**The role of local government authorities in promotion
of non-farm enterprises in Tanzania; an analysis of
Iringa district**

A research paper presented by

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(Tanzania)

In Partial Fulfillment of the Requirements for Obtaining the Degree of

MASTER OF ARTS IN DEVELOPMENT STUDIES

Specialisation :

LOCAL AND REGIONAL DEVELOPMENT

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The Hague, December 2005

This document represents part of the author's study programme while at the Institute of Social Studies; the views stated therein are those of the authors and not necessarily those of the Institute.

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Dedication

To my wife, Aneth

Acknowledgement

I would like to express my sincere gratitude to my supervisor, Dr. Bridget O'Laughlin, for her untiring professional guidance since the inception to the end of this work. Her encouragement and comments made this work possible. Second to her is my second reader, Dr. Peter Knorringa. He was instrumental in putting forward constructive criticisms that improved analysis and presentation. God bless you

My appreciation also goes to officers and staff of the Iringa district council, especially those in the trade, education, community development and cooperative departments whom despite their busy schedule granted interviews and access to documents that form greater part of this work. Thank you all.

I owe a great deal to my wife, Aneth who endured sixteen months of my absence with great hope. Your emails and text messages fully of encouragements renewed my spirit in many ways. I love you

To *Local and Regional Development (LRD)* staff and participants, I appreciate your professional assistance throughout my stay in ISS. Allow me to mention program administrator, Cisca Vorselman on behalf of you all who made this academic journey possible. Stay blessed

To the Netherlands government, I say thank you for your financial support without which I would not have managed to pursue this course. Along that line, let me mention my employer, Tumaini University at Iringa, who granted me a study leave to come to The Hague to participate in the program. Your support is highly appreciated

Lastly, amidst all support rendered by different people and organisations, I remain solely responsible for any shortcoming in this work

List of acronyms

Business Environment Strengthening for Tanzania	BEST
Business Registration and Licensing Agency.....	BRELA
Cooperative and rural development bank.....	CRDB
District Executive Director.....	DED
District Commissioner.....	DC
District Administrative Secretary.....	DAS
Village Executive Officer.....	VEO
Gross National Product.....	GNP
Folk Development Centres.....	FDC
Gross Domestic Product.....	GDP
Information and communication technology.....	ICT
Local Economic Development.....	LED
Multi-national Corporations.....	MNC
Non-farm Enterprises.....	NFE
Property and Business Formalization Program.....	PBFP
Research on Poverty Alleviation.....	REPOA
Small and Medium Enterprises.....	SME
Structural Adjustment Programs.....	SAP
Savings and Credit Cooperative Societies	SACCOS
Tanzania Revenue Authority.....	TRA
United Nations Centre for Human Settlements.....	UNCHS
Vocational Education Training schools.....	VETA
Ward Development Committee.....	WDC
Ward Executive Officer.....	WEO

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Chapter I

Introduction

1.0 Preamble

This report presents findings and analysis of a study undertaken in Iringa district council of southern highlands in Tanzania. The purpose of the study was to assess the role of local authority in promotion and enhancing competitiveness of non-farm enterprises. Using documentary review, interviews and direct field observation, the study revisited selected programs that are presumed to have direct or indirect effect on competitiveness of non-farm enterprises in the district. It argues that local government intervention alone is not enough to stimulate non-farm enterprises; rather a multi-actor approach is required to produce the desired impact

The introductory chapter discusses the contribution of non-farm enterprises in the Tanzanian economy. It expounds on the relevance of the study into both policy and academics. Then, research problem, questions, and methodology are discussed to set boundaries and the scope of the study.

1.1 Non-farm enterprises and the Tanzanian economy

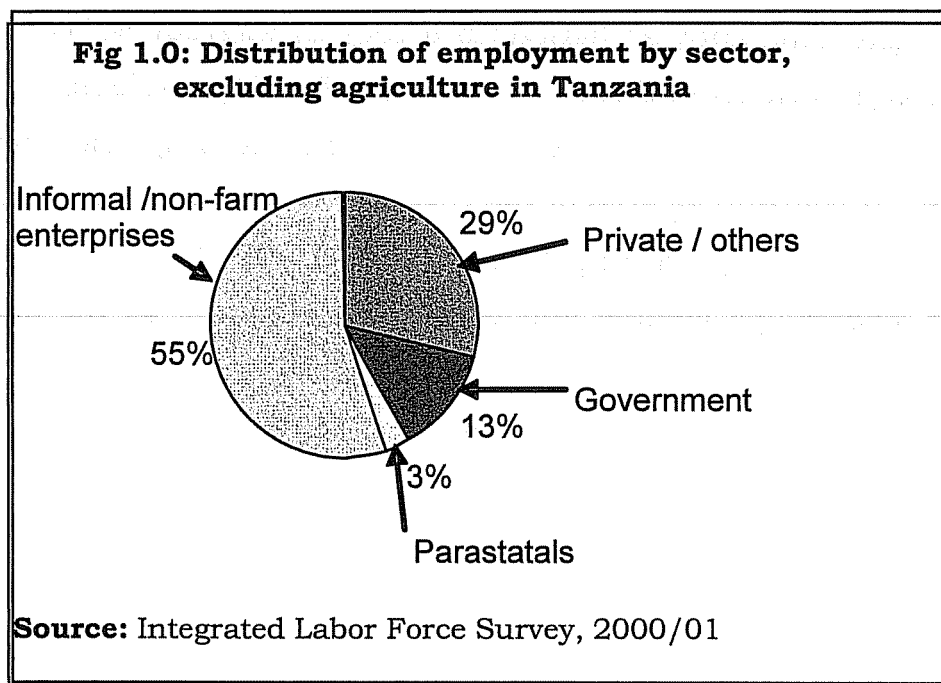
Tanzania is predominantly an agricultural country whereby 80% of its people live and work in rural areas engaging in farming. Agriculture is by far an important sector both for foreign earning and food production. "It contributes 40% of the GNP and earns more than 80% of the foreign exchange earnings" Lugalla (1995:39). This has made Tanzanian leaderships identify and prioritise agriculture as the only viable means for rural development

However, over the last fifteen years, proliferation of non-farm enterprises has generated interest both in policy and academic works. Growth of non-farm enterprises has turned out to be important income generating activity for the once full time farmers. The two *Integrated labour Force Surveys*, one carried out in 1991 and another

in 1991, show that informal sector and non-farm enterprises in particular grows fast while formal sector is shrinking. In 1991, only 21% of households in rural areas engaged in non-farm enterprises but in 2001 the percentage increased to 27%. This is an average of 0.7% growth annually. The same study reveals that there is a decrease in households engaging in peasant agriculture from 84% to 81% in 1991 and 2001 respectively.

According to the *National Integrated Labour Force Survey, 2001*, when agriculture is excluded, the informal sector, where many of non-farm enterprises are found, is the leading employer in the country followed by formal private sector.

The *Small and Medium Enterprises Development Policy (2002:4)* estimates that there are about 700,000 new entrants into the labour force every year in the country. Out of these, 500,000 are school leavers with few or non-marketable skills. The public sector has the capacity to absorb only 40,000 of the job seekers a year, leaving the rest to the informal sector. These statistics give a clue that formal sector has been overtaken as the main source of non-farm employment in the country. Figure 1.0 below summarises distribution of employment in Tanzania.



1.2 Theoretical explanations of non-farm enterprises

The proliferation of non-farm enterprises is generally attributed to “declining real farm income, increasing pressure on land and opportunities created by economic liberalisation”, Bagachwa (1997:137). Until recently many policy makers believed that non-farm enterprises were non productive and will wither away as the rural economy grow, but evidences show that in actual fact non-farm enterprises continue to grow and provide an alternative employment and income in most localities in rural areas, Lanjouw and Lanjouw (1995)

In their landmark work, *Farewell to Farms*, Deborah Bryceson and Vali Jamal (1997) coin the term *de-agrarianisation* to explain a trend in developing countries whereby rural dwellers shift from agriculture as the main occupation to non-farm activities. They write that *de-agrarianisation*, denotes “long term process of occupational adjustment, income earning reorientation, social identification and spatial relocation of rural dwellers away from strictly peasant modes of livelihood, Bryceson & Jamal (1997:4).

The *Deagrarianisation* trend has been observed in the whole of sub-Saharan Africa compelling some writes like Bryceson to challenge the long held belief that the future of African development lies in agriculture. Whether this hypothesis is valid or not it is beyond the scope of this paper. However, the obvious fact that could be gathered from this debate is that farmers in Africa and Tanzania in particular are not satisfied with farming and they are busy moving to other occupations or combining it with other activities, which they believe could lead to better lives.

1.3 Definition of concepts and terms

1.3.1 Informal sector

Informal sector cut across a range of non-agricultural activities taking place in rural areas with the aim of making profit and creating

employment. They include an array of service providers, shopkeepers, manufacturers and the like. In Tanzania, informal sector is defined as;

“Enterprise units engaged in the production of goods and services, which are not constituted as separate legal entities independently of the household members that own them. They do not have complete accounts, which would permit a clear distinction between the production activities of the enterprises and the other activities of their owners, or the identification of any flows of income and capital between the enterprises and owners”

The Roadmap Study of Informal Sector in Tanzania (2002:16)

Perhaps the best way to define the informal enterprise is to distinguish it from the formal enterprise. The later is one which is registered and operating with legally recognized license, with distinct ownerships. The size of an enterprise can not make it formal or informal. A very small enterprise with, say two employees is not necessarily informal; it may well be formal provided that it is registered, has distinct accounts and operates legally.

1.3.2 Non-farm enterprises and the small and medium enterprises

Traditionally, all non-farm enterprises are termed as *Small and Medium Enterprises* (SMEs). But to distinguish them from broad SMEs, this paper uses the term *non-farm enterprises*. The only difference it have with other small business operating in urban centres, is the fact that they operate in rural areas where farming is predominantly the main occupation.

Non-farm enterprises differ in size, type of activity undertaken, amount of investment and many other aspects. Four categories based on size and capital is distinguished;

- (i) *The survival activities of the poorest*- whereby participants have no other option for survival, Michael Farbam & Alan Lessik (1989:107).
- (ii) *Micro enterprises*- “...those engaging up to 4 people or employing a capital amounting to 5million Tanzanian Shillings¹, *Small and Medium Enterprises Development Policy* (2002:3)

¹1USD=1000 Tshs

- (iii) The *Small enterprises*- those engaging between 5 to 49 people or with operating capital ranging from 5 to 200 million Tshs, (ibid)
- (iv) *Medium enterprises*- those employing between 50 and 99 people or use investment capital from 200 to 800 million Tshs, (ibid)

Graduation of an enterprise from lower to higher category depends among other things, its competitiveness. In rural setting competitiveness depends *inter alia* on favourable business environment provided by local government authority. Michael Farbam & Alan Lessik (1989), argues that there must be specific policy targeting each category of enterprise; survival category would need more holistic community development strategies that increase aggregate demand, while the small and medium enterprises would require a kind of policy that reduce registration hurdles, over taxation and generally improve business environment. Beyene (2002:134) add that graduation needs to be facilitated by 'government strategy that combines entrepreneurial, technological and managerial competence with real marketing opportunities' However, Porter (1998) emphasize on the capacity of an individual enterprises to efficiently and effectively use existing opportunities to expand without much reliance on government handouts.

1.4 Statement of the problem

Rural Tanzania is teeming with growing micro enterprises which contribute significantly to the livelihood of people and the economy. However they find themselves working within the jurisdictions of local government authorities whose mandate *inter alia*, is to collect tax, promote, regulate local economy and provide social services. In discharging these duties, local government impact on competitiveness

and performance of non-farm enterprises in one way or another. Ellis and Mdoe (2002:21) write;

The creation of district councils represents both an opportunity and a threat. The opportunity is that local-level constraints are identified and acted upon quickly by local governments that are responsive to the needs articulated by their constituents. The threat is that cash-hungry local councils will be motivated to devise ever more complex and onerous means of raising rural tax revenues in order to create budgets over which they have their own control”

Therefore, by using Iringa district as an illustrative case study; this paper seeks to examine the role of local government authority in promotion of non-farm enterprises in Tanzania. Specifically it revisits various policies that directly or indirectly affect competitiveness of non-farm enterprises in the district

1.5 Contribution of the research

This paper is hoped to add to the ongoing academic and policy debate on the role of local government in promoting local economic development. Specifically it focuses on local government’s role in affecting competitiveness of non-farm enterprises in Iringa district of Southern Tanzania. It argues that there is policy gap existing in local government with regard to promotion of non-farm enterprises. It aims to identify appropriate policy actions to close that gap.

1.6 Research questions

Two main research questions guide this study;

1. What role does local authority plays in promotion of non-farm enterprises in Iringa district of southern Highlands of Tanzania?
2. What is the impact of such policies in proliferation, sustainability and growth of non-farm enterprises?

To further delimit areas of concentration, three alternative hypotheses were explored;

- i. Local government authorities’ regulations discourages growth of non-farm enterprises by impeding the harmony of the ‘diamond’
- ii. Decentralization has made it possible for local government to initiate programs that promote non-farm enterprises

- iii. Local government authorities' actions have little influence on the growth of non-farm enterprises

1.7 Methodology

Basically this paper uses documentary review, direct field observations and interviews in gathering required data. Most of the data gathered are qualitative in nature and in the form of life histories.

1.7.1 Sample selection

Iringa district in the Southern Highlands of Tanzania is used as a case study to understand the role of local government policies in promotion of non-farm enterprises. Three villages are chosen for the interviews; Nzihi, Kalenga and Kidamali. The first village has not yet covered by district council credit; the second village has received some loans but in a small scale while the last village has consistently been a beneficiary of district council loans.

The choice of the villages seeks to represent varied situations existing in the district; where there's visible local government intervention and where there's none. To get ten enterprises for interviews, a list of all non-farm enterprises in each village was obtained. Then, the researcher picked candidate for interview by looking at representation of leading activities; retailing shops, milling machines and wholesale stores. Other criteria such as the accessibility of an enterprise were also considered.

Interviews were complemented by documentary review and field observation. Lack of time in the field (the researcher had only four weeks) also necessitated the chosen sampling method.

1.8 Scope and limitations

Selected sample is too small to generalize the findings to the whole of Iringa and even less all of Tanzania. However, much care has been taken to make comparisons to other parts of the country and beyond in an attempt to accurately relate the situation in the district with other areas. This research thus raises issues about the role of

government in promotion of micro enterprises development but does not attempt to be exhaustive or representative.

The paper also unveiled the importance of public-private partnership as a means to ease resources constraints facing local government authorities but the researcher had no time to interview private sector agencies to explore the aspect further

1.9 Concluding remarks

Judged by its size, rate of growth and the number of people it employs, non-farm enterprises is an important sub sector in the Tanzanian economy. But its growth is affected by regulatory and promotional actions of local government authorities among others. This paper examines the extent that effect impacts on growth and sustainability of non-farm enterprises.

Chapter II

Success factors of non-farm enterprises

2.0 Introduction

This chapter develops a framework for assessing how local government promotes non-farm enterprises. It does so by adopting the framework developed by Michael Porter for explaining competitive success in industrial countries. Helmsing (2003) point out that local government is an important actor in local development. This has been given importance in this era of globalization as argued by Guimares (1998:23) that nation states has devolved much of their tasks and powers to local governments. Promotion of small enterprises is now considered an important task of local government. This raises questions of what it means to promote small enterprises in developing countries such as Tanzania and thus how activities of local government are assessed

2.1 Michael Porter's determinants of competitive advantage

Michael Porter's determinant of competitive advantage, popularly known as 'the diamond', is a model developed to explain why some firms within some nations succeed while other fails. It consist of four major elements and two supplementary factors which when working in harmony a firm or a nation is said to have attained competitiveness. Michael Porter (1990) defines competitiveness as ability to attain success; satisfying customer needs efficiently and effectively, and be able to sustain that advantage over a long period of time. Determinants making the *diamond* as explained by Porter (1990: 71) are;

1. *Firm strategy, structure and rivalry* – the context in which firms are created, organized and managed and nature of domestic rivalry.

2. *Demand condition*-The nature of home demand for industry's product or service
3. *Factor conditions*-the economy's capacity of factors of production such as skilled labour, land, infrastructure, necessary to enhance competitive advantage
4. *Availability of related industries*- the presence or absence in suppliers industries and related industries

The diamond model recognizes two extra determinants that greatly influence the performance of the core factors either positively, negatively or neutrally;

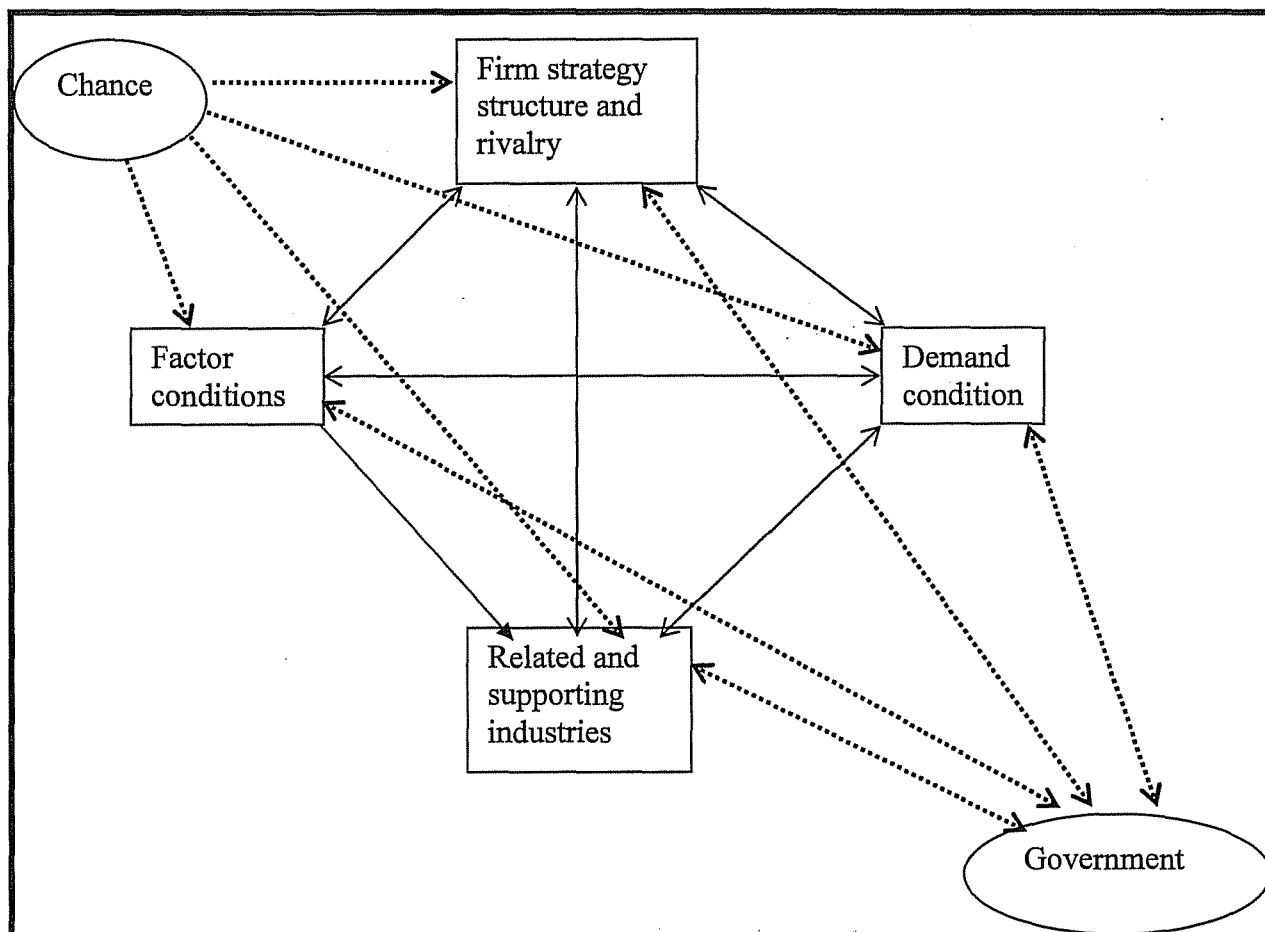
1. *Chance*- It may be fortunate or unfortunate events that give local firms an advantage. Such events may be wars or disasters that suddenly enhance demand of certain goods or services to the extent of pushing local firms to innovate
2. *Government*- "Government role in national advantage is in influencing the four determinants... Government can shape the circumstances of related and supporting industries in countless ways such as control of advertising media, or regulations of supporting services", Porter (1990: 128). In his later work, Porter add that proper role of government in determining competitive advantage is "as a catalyst and challenger, it is to encourage or even push companies to raise their aspirations and move to higher levels of competitive performance" (1998: 185).

Porter (1998) argues that when determinants in the diamond work in harmony as a system, they improve competitive performance of a firm or nation. Weakness in one or two constrains the performance of others. But also, diamond has the tendency of self reinforcing especially if strong determinants are domestic rivalry and geographic concentration.

Although Porter argues that government is just a minor part influencing the diamond, he also admits that its impact on competitiveness may be gigantic depending on the nature of intervention as well as its strategy. The example of Japan is provided

where government early acceptance of facsimile documents boosted production and made Japan firms leaders in that product, Porter (1990). Below, fig. 2.0 shows diamond model as developed by Porter.

Fig 2.0: Michael Porter's diamond model



Source: Porter, M (1990:127)

2.2 Michael Porter at local level, for non-farm enterprises

Michael Porter's diamond is applied to assess local government as it affects performance of non-farm enterprises. The decision is prompted by the fact that determinants of competitiveness are the same for big and small enterprises. Also, decentralization has devolved some of the nation state functions to local administration giving rise to locality as catalyst for development. Thus the regulatory as well as promotional role of state now lies partial within the powers of local authority. UNCHS (2001:58) argues that 'decentralization is pulling regulation

level of society downwards to regional, municipal and intra municipal level...”

Decentralization refers to “transfer of authority away from the national capital whether by de-concentration (i.e. delegation) to field offices or by devolution to local authorities or other local bodies,” Max (1991:79). The authority of the central government are somewhat transferred to lower levels with the aim of moving such authority close to the people. Other organizations define decentralization as “devolution of power, responsibilities, resources and legitimacy –to sub national levels, ranging from regional bodies to intra municipal structures” UNCHS (2001:59). Note that there are two major types of decentralization; de-concentration and devolution. The *de-concentration* according to Max (1991:78) is the delegation of the administrative powers of the central government to civil servants working in the field offices”. Local offices or field offices have no power to make their own decisions affecting policies. They act as branch office of the central government.

As for *Devolution*, it is a transfer of power and a certain degree of autonomy to local level. Allen (1990) says devolution empower local authority to make their own decision regarding development of areas under own jurisdiction but often the central government would like to have degree of control of what is happening at local authority. This control is exerted through regular inspection, approving of by-laws, and development grants that would require local authority to report proceeding to the central government.

In the case of Tanzania, the Constitution envisions *devolution* type of decentralization where people at local level would have real powers over their destiny. In Article 146 (i) it reads:

“The purpose of having local government authorities is to transfer authority to the people. Local government authorities shall have the right and power to participate, and to involve the people, in the planning and implementation of development programs within their respective areas...”

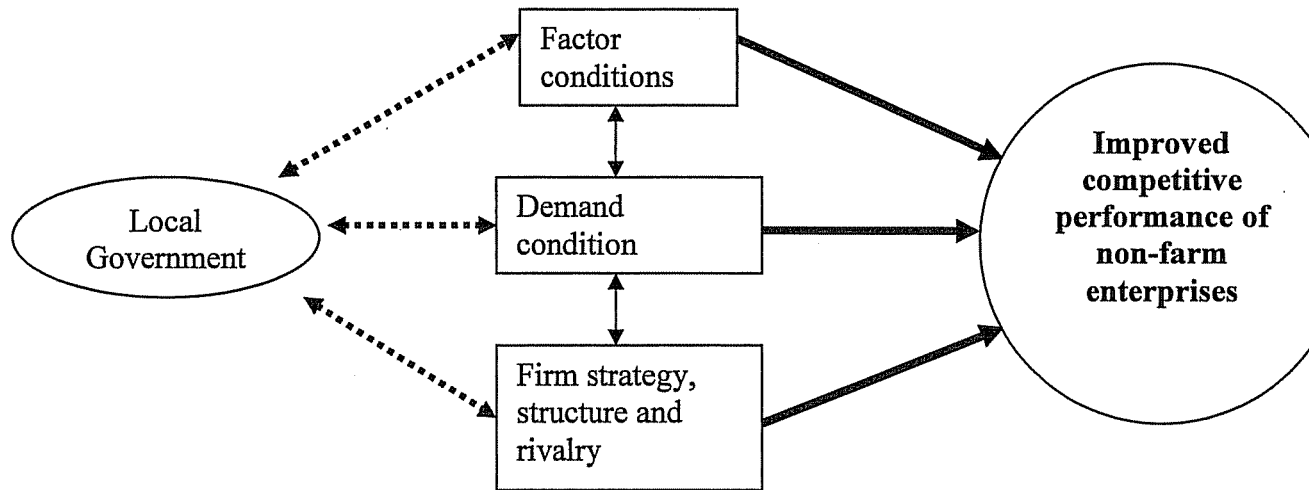
The use of Porter's model also is due to the fact that a mere presence of factors of production or institutions does not guarantee performance of enterprises. Porter quashes classical economy doctrine on comparative advantage that a mere presence of factors of production is an advantage to a nation. He writes; "a nation does not inherit but instead creates the most important factors of production" Porter (1998:172). He goes on to argue that a stock of factors of production a national has are less important than the rate of and efficiency with which it creates, upgrades, and deploys them" (ibid).

Activities of local government aimed at promoting or regulating enterprises impact on determinants of competitive advantage. An increase or reduction in tax for instance, may lead to changes in enterprises' strategy of doing business thus impact on their growth. The same way, building of new road may open up new opportunities as well as competition that would significantly affect the way enterprises are organized in a locality. Most of local government actions are inseparable with factors leading to growth, sustainability and competitiveness of non-farm enterprises especially at local level where private sector is weak. The World Bank (2005)² observes that decisions made by small entrepreneurs are influenced by behaviour and government policies that shape investment climate in each locality. Therefore, Michael Porter's model is an effective analytical tool that discerns actions of local government and the way they affect competitiveness.

Fig 2.1 below provides revised diamond for assessing non-farm enterprises against local government actions. The dotted lines shows influence of local government actions on determinants of competitive advantage while the heavy ones depict impact on non-farm enterprises.

² The World Bank Journal, *Development Outreach*, March 2005 edition

Fig 2.1 Revised Porter's framework for assessing non-farm enterprises competitiveness



Source: Based on Porter's diamond

2.3 Limitations of Michael Porter's model at local level

A number of challenges could be encountered when using Porter's model to non-farm enterprises.

First, the model was originally developed to deal with areas with strong private sector. Strong private sector tends to reduce the role of government in the economy. However at local level, especially in rural Tanzania, private sector is relatively weak and still in infancy stage which attract government intervention. Porter cautions excessive government intervention in the forms of subsidies, protections or monopoly that may lead to 'permanent erosion of competitiveness'

Porter (1998:184). Porter argues that government "cannot create competitiveness, it is industries that can do that" (ibid). However, Porter (1998) admits that careful and planned government intervention is critical in early development of industries, but that role should be confined to challenger and catalyst and not a direct player. This paper does not advocate for aggressive government intervention as a means towards improving competitive performance of non-farm

enterprises. Rather, it argues that governmental actions are inseparable part of broad competitive advantage in rural areas

Second, when applied to local level, not all determinants in the diamond can be useful. And since an attempt here is made to assess the diamond from point of view of local government actions, not all determinants have direct link with activities of local government. Such determinants are the *availability of related industries* and the *role of chance*. The former is a result of other linkages that has little to do with local administration. However this does not mean that these determinants are not affecting competitiveness of non-farm enterprises; they do but it is outside the scope of local government, which is the focus of this paper

Last, Porter (1998) argues that for the diamond to be effective, it has to work as a system. But in the rural area, it is highly fragmented. However, Pratten (1991:102) says local government intervention on small enterprises “provide a substitute for, or offset advantages large firms gain because of their size”. In other words, local government interventions reduce transaction costs thereby increases the chance of determinants of competitive advantage to work in harmony.

By looking at strengths and weakness of Michael Porter’s diamond as analytical tool to explain local government promotional policies, we find that limitations do not outweigh potentials. Determinants of competitive advantage for small and big enterprises are more or less the same. Therefore, Porter’s diamond is still an effective tool that would help us to break down components of competitiveness and classify activities of local government authorities in a view to assess their influence on competitiveness of non-farm enterprises.

2.4 Promotion of economic and social welfare of a locality

Form the work of Musgrave (1984) three economic roles of central and local government are identified; (a) The allocation- deals with how resources use are divided between private and public goods (b)

Distributive- taxation, expenditure, and regulatory interventions seeking to influence the distribution of wealth and income (c) Stabilization-measure aimed to economic growth and arrest disparities

Helmsing, (1991) and WB (1998), argue that local government is well suited to undertake distributive functions which concerns with provision of public goods than production responsibilities. However, through the concept of public private partnership, private sector is also involved in provision of public goods. That is why Mwakajinga (2003:8) argues that watertight distinction of functions between private sector, local and central government is not always possible. In most cases overlap of function from one tier of government or private sector is inevitable.

Proper provision of public goods in what Helmsing (2003:69) calls “the right mix of local public goods” is a prerequisite for stimulation of economic activities in a locality which in turn enhance ability of non-farm enterprises to grow and survive.

Although local authority is just one of many actors in local development, its role in promoting local economy is vital because supervises institutional framework necessary for other actors to engage in the socio economic life. Such frameworks include “economic regulation, infrastructure, social services, housing, and support services,” Helmsing (2000:301). These activities in themselves may not have great impact on what is happening at local level, but important aspect noted by Helmsing is the implication of the manner in which they are implemented. He note that often they become “a source of economic opportunity, or enhance or inhibit enterprises development and competitiveness,” (Ibid).

Whether aimed at regulating or stabilizing the playing field, local institutions and policies affect determinants of competitive advantage in one way or another. The effect may be neutral, positive, negative or none depending on the nature of policy and the effectiveness of intervention.

2.4.1 Local economic development (LED)

Contemporary literature place local authority's economic promotional role in the concept called *Local economic development (LED)*. This is "a process by which local government and or community based groups enter into partnership arrangement with private sector...to create jobs, and stimulate economic activity in the well defined area" Blakely (1998:58). It is a process not an end in itself. It is partnerships that continue shaping and reshaping itself after the initial impetus. Although LED is partnership sometimes local authority finds itself at the steering wheel especially in preparing favourable environment for other actors to play.

Three broad categories of initiatives are usually identified in an attempt to narrow down the concept; locality development, community development and enterprises development. In Iringa, the district council have directed most of its resources in community development and enterprises development. Community economic development entails facilitation of households to diversify economic activities so as to reduce poverty and vulnerability. Helmsing (2003:71) mentions four broad initiatives that may be incorporated in the community development; creation of local safety nets with the aim of reducing vulnerability, housing improvement and settlements upgrading, basic service delivery and stimulation of local community development.

With regard to enterprise and business development strategy, it targets cluster of enterprises or entrepreneurs with the aims of minimizing obstacles towards marketing. Some components of enterprises and business development include fiscal incentives to enterprises (new and old), business support services such as training, and consultative services.

2.5 The link between local authority actions and Porter's determinants of competitive advantage

(a) Firm strategy, structure and nature of rivalry

"National circumstances and context create strong tendencies in how companies are created, organized and managed as well as what the nature of domestic rivalry will be," writes Michael Porter (1998:179). 'Circumstances' include a wide range of promotional and regulatory role of state.

Specifically the effect of local authority's policies in this respect is seen in licensing regulations, property laws, type and mode of taxation. If for instance, tax is perceived to be too high, many enterprises may opt to stay small or informal to avoid being over taxed.

On property laws, if local authority doesn't have laws or policy that formally recognize or issue land titles, then that affects creditworthiness of enterprises and the way they deal with financial institutions. In the long run it determines whether they can get loans from financial lenders or not. De Soto (2000:35) argue that failure to institute and enforce property laws and formal recognition of small businesses has virtual turned properties worth thousands of dollars in the form of houses and real estates into useless 'acres of diamond' in the third world.

(b) Factor conditions

Factors of production are land, capital, labour and entrepreneurship. The influence of local government in these factors is as follows;

On factor *labour*, the influence of local government is seen in enforcement of labor standards such as prohibition of the use of child in child in production of goods and services and the supply of and demand of labor through training policies

Regarding factor *land* local government zoning regulations, which prohibit certain type of activities in one place and allow them in another, plays a crucial part in determining spatial distribution, type

of enterprises and activity undertaken within a locality. Also the ability of local authority to survey, document and issue title deeds to land owners greatly influence the strategy of non-farm enterprises.

On infrastructure, the kind rural roads built and maintained by local authority, marketing facilities such as functioning village 'open market' where various merchandise exchange hands are crucial in stimulating growth of non-farm enterprises.

With regard to *capital*, goods used to produce value such as machinery and finances, local authority's influence features well in policies that deliberately avail loans to small enterprises or specific groups such as women and the youths. Also local government taxes in profit influence strategy of enterprises.

On entrepreneurship, the local government is basically seen in provision of business training to entrepreneurs. An entrepreneur is "an individual, who takes risks and starts something new," Robert Hisrich & Michael Peters (2002:7). The question as to whether entrepreneurs are born or made is a subject of fierce academic as well as policy which is beyond the scope of this paper. However it is suffice to point out that entrepreneurship is a function of many factors, education and training, included.

(c) Home demand

Local government through its institutions such as primary schools, dispensaries, and offices, are therefore an important stimulator of local demand. In most cases they are the sole agents that have ability to buy in en mass, sub-contract small entrepreneurs and enhance environment that would foster local demand. The importance of local government regarding demand enhanced because demand non-farm enterprises in rural Tanzania mainly comes from "individual households and other informal sector enterprises." Bagachwa (1997:148).

2.6 Concluding remarks

Decentralization has given rise to locality as important promoter of local economic development thus, the role of the state, especially in economic promotion, is taken over by local governments. Economic promotion is viewed as enhancing the competitiveness of enterprises. Michael Porter's theory of competitive advantage is applied to examine the influence of governmental actions on enterprises. This paper argues that Porter's model can be adopted to look at why non-farm enterprises succeed and what local authority can do to help them do so.

Chapter III

Non farm enterprises in Tanzania: Historical development, problems and legal framework

3.0 Introduction

This chapter analyzes historical development of non-farm enterprises, legal requirement for establishing and running small businesses in Tanzania and general problems facing the sector in the country.

3.1 Historical development of non-farm enterprises in Tanzania

To full understand the dynamics of small and medium enterprises in Tanzania (whether rural or urban), one had to take into consideration historical context in which private properties and businesses have passed through. In early 1967 Tanzania decided to follow an African version of socialism, *ujamaa* whereby all private ownership, business included was abolished. Only state owned corporations, registered villages and cooperative societies were allowed to own business in the country.

Coupled with the fact most post independence African government stressed "large modern industrial policy as a way to achieve fast development and create employment and development," Bowen (2001:291), small enterprises were hard squeezed in Tanzania. The state was influenced by a *rural growth linkage* model which stipulates that agricultural growth stimulates linkages effects in the non-food commodities and services. A rise in rural income (caused by agricultural productivity) was thought to increase consumption, thus stimulate other activities in the rural areas, Opondo (2001:6).

As part of agricultural promotion, every village was encouraged to have its own *Ujamaa* farm where mechanization and modernization was supposed to take place. Maliyamkono & Bagachwa (1990: 32) write that in efforts to outlaw small private enterprises, penal code was amended whereby non-farm enterprises were branded 'unproductive' and those engaging in them 'lazy and disorderly'.

It was only after 1985 when large-scale agriculture and industrial policy showed all signs of failure that room for small private enterprises was opened. At this point most of rural agricultural mechanization projects had failed because of bureaucracy, lack of capital, obsolete technology and poor management. They simply failed to deliver the fruits of Ujamaa

The adoption of Structural Adjustment Programs (SAPs) in 1986 which came about as a result of 'failure of official economy', Sankhayan (1995:137), is generally attributed to massive proliferation of informal/non-farm enterprises. The structural adjustment *Inter alia*, encompassed privatisation of state-run companies, removal of subsidies in agriculture, and disbands all agricultural marketing bodies. These steps meant that newly privatised companies not only retrenched many workers but also trimmed their sizes to be able to compete in free market economy. The government on the other hand laid-off thousands of its workers to comply with reform.

The redundant workers had to find new income generating activities in the informal sector. Many returned to their hometowns in rural districts to start petty enterprises to survive. Also because of trade liberalization and adoption of free market even the middle class income earners, such as government employees saw the opportunity to supplement their dwindling income by engaging in small businesses. Until then formal sector was the main employer in urban areas while farming activities dominated the countryside.

In rural areas, Lugalla (1995: 103) says removal of subsidies for agricultural inputs such as seeds, fertilizers pesticides and less government expenditure on extension services meant that agriculture become very expensive and rural life became less attractive especially for youths; many sought income in non-farm enterprises.

These developments could be seen in Porter's Diamond as the role *chance* because in a span of less than ten years, triggered substantial

number of non-farm enterprises and to a larger extent changed the official line of thinking towards the sector.

3.2 Non-farm enterprises and the law

Any business operating within the Tanzania must be registered by obtaining an operating license. This requirement does not differentiate the size of an enterprise, location or type of activity undertaken. The purpose of registration, according to *Roadmap Study of the Informal Sector in Mainland Tanzania* (2002:16), is to make sure that the an enterprise will;

- Operate in the authorized area
- At premise where authorities can reach the entrepreneur for inspection and at which legal standards of safety, hygiene, employment and production are respected and
- That the authorities will be able reach the enterprise for tax collection”

This process according to the same study, involves registration of business name, which is done by *Business Registration and Licensing Agency* (BRELA). However, BRELA is not represented at district or regional level; its offices are in country’s commercial capital, Dar es Salaam. Therefore an enterprise in Iringa for instance, wishing to formalize by registering must first travel 500km or use often inefficiency postal services to access the service. Both options are hard and expensive for small non-farm enterprise to make.

Although registering with BRELA is a must for a business to become formal, yet the agency doesn’t conduct spot check patrol for defaulters. However, unregistered enterprises are severely restricted in terms of growth; they not allowed to open bank account (using unregistered business name), thus unable to participate in lucrative public procurement tenders.

The second process involves obtaining operating license from the Ministry of Trade and Industry. This is represented at local level by district’s Trade Department. The process starts with an entrepreneur

who owns a certain amount of capital and is ready to officiate his/her operations. He/she must first obtain a letter of introduction from Ward Executive Officer (the lowest central government officer responsible for maintaining peace and security in the locality) or village government. The letter should state the name of the entrepreneur, name of business and type of business, and physical address of both entrepreneur and the business.

Armed with such letter, an entrepreneur now goes to the *Tanzania Revenue Authority* (a government semi-autonomy agency responsible for collecting all revenue for central government). The TRA interview the entrepreneur to assess the size of the enterprise so as to determine the amount of tax the prospective entrepreneur would pay. (See figure 3.3 for different rates)

Fig 3.1: Tanzania Revenue Authority tax assessment schedule

Turnover	Tax payable where incomplete records are kept	Tax payable where complete records are kept
Where turnover does not exceed Tshs 3, 000,000 ³ .	Tshs 35, 000/=	1.1%of the turnover
Where turnover is between Tshs 3,000,001 and 7,000,000	Tshs 95, 000/=	Tshs.33, 000 plus 1.3% of the turn over in excess of Tshs. 3.000,000.
Where turnover is between, 7,000,001 and Tshs 14, 000,000.	Tshs 291,000/=	Tshs.65, 000 plus 2.5% of the turnover in excess of Tshs.7, 000,000.
Where turnover is between 14,000,001 and Tshs 20, 000,000	Tshs 522, 000/=	Tshs 260, 000/= plus 3.3% of the turnover in excess of Tshs14, 000,000

Source: *Press release by Tanzania Revenue Authority, July 13, 2004*

The law requires the entrepreneur to pay upfront tax before proceeding to the next step which is the district council's trade office. When the district trade officer is satisfied with documents supplied by an entrepreneur, then, a free license is issued. The license is usually referred to as 'free' simply because an entrepreneurs doesn't required to pay any fee as it were the case before enactment of *Finance Act of 2004*.

³ 1 USD =1,000 Tshs

3.3 Constraints facing non-farm enterprises in Tanzania

The *Small and Medium Enterprises Development Policy* (2002:1) cite “complex, bureaucratic and costly legal, regulatory and administrative environment” as the main problems facing entrepreneurs in Tanzania. Bureaucratic nature of governmental organization is not much about punitive systems; rather it is a combination of lack of facilities, lack of customer-care-like orientation in most of government departments and incompetence.

Second, often non-farm enterprises operate in areas with poor infrastructure such as communication facilities, roads and storage facilities. It is not common for enterprises as individual to build such overhead infrastructure, rather government in collaboration with umbrella organizations such as chamber of commerce are suited well to deal with such constraints.

Third, poor access to formal financial institutions is another bottleneck constraining non-farm enterprises in Tanzania. Much of non-farm enterprise’s capital comes from personal savings due to inability to raise capital in other sources. Wangwe and Van Arkadie, (2000:81) estimate that “over 95% of financing for small enterprises comes from personal resources and family friends.” This is due to the fact that most of the small entrepreneurs lack acceptable collateral such as surveyed plots, houses, or plots.

Fourth, lack of relevant information weighs heavily on cost of doing business for non-farm enterprises. “In absence of umbrella institutions offering information on financial services, many are unaware of the facilities that exist” (ibid)

Last, Bagachwa (1996:148) point out that poor demand is another constraint facing non-farm enterprises. He writes that often demand is highly localized, poor and export is practically non-existent in large parts of rural areas. Therefore purchasing power is too low to stimulate innovation.

3.4 The diamond in addressing factors hindering competitive advantage

Using Michael Porter's diamond model, we could group constraints to competitive into two major groups; those underlying weak government actions and those underlying weak private sector. For the former, wrong government intervention strategy is to blame. The government tries to create an environment of strong presence within industries through regulations, registrations, costly legal framework. But "government policies that succeed are those that create an environment in which companies can gain competitive advantage rather than those involve government directly", Porter (1996:185). That is to say, part of the solution is to aspire for guided government involvement which according to Porter is inevitable. The kind needed to "shape the context and institutional structure" for competitiveness, Porter (1996:184)

Wangwe and Van Arkadie, (2000:81) suggest that "graduation from informal to formal sectors needs to be facilitated with better access to credit, formal training, helpful tax incentives and more facilitative regulatory regime" However, Porter (1996) quashes the idea of giving more tax incentives since by doing so you create demand for more helping from the government. Less government involvement in provision of such services and room for mutual partnership between government and private sector is the middle way that may have profound impact.

Along those lines, a number of initiatives aimed at reducing the involvement of government and having organised private sector as prerequisite for competitiveness are underway in the country. They include the formulation of *Small and Medium Enterprises Development Policy (2002)*. This policy among other things lays a foundation for tackling constraints facing small enterprises within existing administrative structure. It expound on the roles of various governmental and non-governmental actors in the quest for enhancing performance of small enterprises. It aims for quality government

intervention at the same time recognizing existence of other important actors.

Another program is the *Business Environment Strengthening for Tanzania (BEST)*⁴ which focuses on identifying various constrains in business environment and means to solve them. Currently, five priority areas have been identified: regulation, commercial dispute resolution, strengthening of the Tanzania Investment Centre (TIC), government culture and private sector advocacy. It hopes to enable the government to “improve the legal and regulatory framework and administrative practices, which unnecessarily increase the cost of doing business in Tanzania”⁵.

The last of the series of efforts aimed at reducing hurdles in business environment in Tanzania is a program called *Property and Business Formalization Program (PBFP)*. It facilitates legal recognition of individual properties such as plots, houses, and farms into one formal ownership system. The strategy of small enterprises to become formal, register, and obtain operating licenses would be influenced greatly. The correct strategy of a firm such as to become formal according to Porter (1998), is pathway to growth through participation in public procurements and accessing financial assistance.

3.5 Concluding remarks

Government role in promoting small and medium enterprises, non farm included, suffers from registrations hurdles complicated by bureaucracy, distance from registration offices and infrastructural constraints. To grow they will have to manoeuvre through a mesh of problems. However, recent initiatives aimed at levelling business playing field not only affirm recognition of the authorities on the role of non-farm enterprises could play in the economy but also encourage enterprises’ strategy of becoming formal by lessening formality hurdles.

⁴ Paraphrased from: http://www.tz.undp.org/publications/GSB_summary.pdf

⁵ Direct quote from http://www.tz.undp.org/publications/GSB_summary.pdf

Chapter IV

Non-farm enterprises in Iringa: State of affairs and local government organisation

4.0 Introduction

This chapter provides social economic background of Iringa district, an overview of the main decision making bodies of the district, the implication of organisation structure on the performance of district council and main feature of non-farm enterprises in the district.

4.1 Background information

Iringa Rural is one of the seven districts forming Iringa Region of Southern Highlands of Tanzania. Other districts are Mufundi, Njombe, Kilolo, Ludewa, Makete and Iringa Urban. The district is headquartered in Iringa municipality, a city of 150,000 people which is also the seat of Iringa Region.

The district covers an area of 28,457 square kilometers out of those only 14,195 square kilometers are suitable for habitants. Ruaha National Park, forests, mountains and water bodies occupy the rest. Recently a new administrative district called Kilolo has been created within Iringa district but it is yet to be become fully operational although it has its own executive director who is working to prepare the official launch.

It has a population of 478,040 people (2002 census), out of which 254,678 are women, which is 53% of the total population. They live in 187 villages and about 102,019 households with average household size of 4.4 persons. Administratively the district is divided into 9 division, 32 wards, 187 villages and 1,114 hamlets.

The Iringa district council per capita income is estimated at Tshs 201,864/=. The national average per capita income is Tshs 600,000/=.

Major economic activities of the people in the district are farming, livestock keeping, fishing, forestry, mining, transportation and

trading. According to the *Iringa District Council Profile* (2003:3) these activities contribute to the district Gross Domestic Product (GDP) as follows;

□ Agriculture	-	81.7%
□ Livestock keeping	-	9.1%
□ Trades and industries	-	2.4%
□ Natural resources and tourism	-	2.6%
□ Formal employment	-	3.5%
□ Transportation	-	0.7%

4.2 The Iringa district council

Iringa district council is organized into three major decision making bodies; the Council, Ward development committee and Village councils

4.2.1 The council

The council is district's highest policy making and governing body comprised of popularly and democratically elected body of 48 councillors; 32 directly elected while 12 are nominated councillors representing women. The Council meets four times a year in the meeting called *Full Council*, a sort of local parliament whereby various matters affecting the district are deliberated. The Full Council may be called anytime of the year if there are important matters needing its attention.

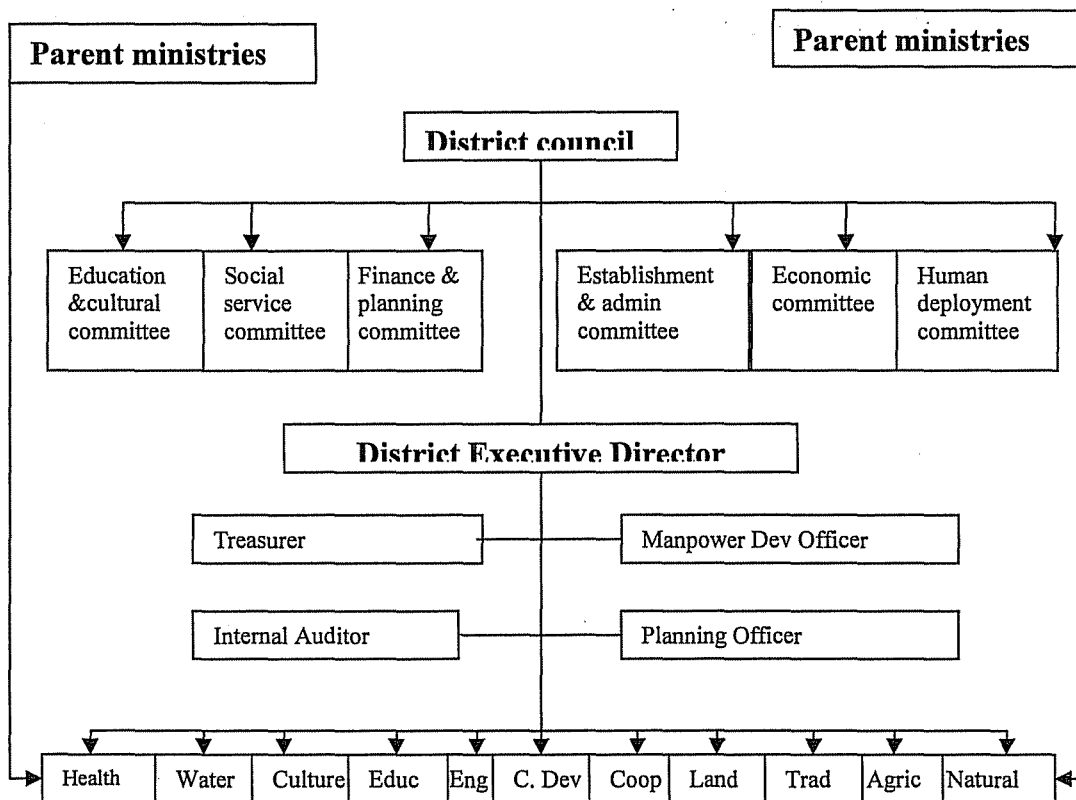
The Iringa district councillors are divided into six standing committee; *education and cultural, social service, finance and planning, administration, economic service, and human deployment committee*. A main duty of committee is to work with technical staff to advice the Full Council on various policy aspects. The economic service committee for instance advices the Council on district economic promotion policies, existing programs and propose new initiatives if needed.

In performance of its day to day duties, the Council is aided by an executive organ comprising of heads of departments, technical and

supporting staff. The head of executive organ is District Executive Director (DED). This officer is a presidential appointee and district's "chief executive officer for the council as well as accounting officer (ultimately responsible for the proper accounting of and managements of the council)", Semboja & Therkildsen (1991: 41) The DED is secretary to the district's *full council*.

The council is assisted by employed technical staff. These staffs are employee of parent ministries transferred to local government authority after decentralization (See fig 4.0).

Fig 4.0 District council organisational chart showing relationship with central government



Source: Semboja, J & Therkldesen, O (1991:13)

Parallel to district council government which is simply called 'local government', is a district commissioner (DC) who is also a presidential appointee. The DC represent central government and solely deals with matters pertaining to peace, justice and security but occasional involved in sensitization for development.

4.2.2 The Ward development council

A ward is a collection of several villages under one elected councillor. It doesn't constitute full government structure like the District or Village; rather it is a decision making council that brings together politicians and technocrats to deliberate on various issues affecting the locality. The Ward Development Committee (WDC) is the second level of decision making in the hierarchy of district council in Iringa. In total there are 32 WDC's in the district. Officers forming this body among others include the elected councillor, village chairpersons in the area and the Ward executive officer. All development plans and security problems are deliberated here before either implementation or forwarded to district's full council for further consideration. The Ward development committee (WDC) could be termed as 'where the rubber touches the ground' in the sense that it is a forum where district council development priorities are communicated to common men and women in the villages while at the same time villagers priorities are deliberated and if need be, forwarded to district level. Much of the promotional and regulatory role of district council takes place at this level.

4.2.3 The village council

The Village government is the smallest unit of authority in Iringa district council. Currently there are 187 village governments in the district. The village council has executive powers pertaining to all affairs and business of the village, including social economic development in the area. Village government is empowered to make by-laws, strategies development plans and enforce its own laws. However, all its plans and actions must first get approval of the ward development committee (WDC) and later by the district council. The Ward council may delegate some of the promotional and regulatory activities to village level such as sensitization of entrepreneurs to form income generating groups, inspecting premises where economic activities are taking place and collecting fines. It is normally done

through village chairpersons who are directly elected from among the people in the village. Just like at the Ward level, there's an executive officer who is there to represent broad interest of the central government. The officer is called Village Executive Officer (VEO) and is appointed by minister responsible for local government.

4.3 Implication of local-central government relationship in performance of the council and non-farm enterprises

The local government system in Tanzania generates conflicts in the performance of the Iringa district council; parallel structure where two officers, elected and appointed ones, share the same population and geographical area is problematic. These officers include the District Commissioner and District Executive Director; the Ward Executive Officer and the Councillor. They often duplicate duties and create tensions.

Appointed officers wield considerable powers than elected ones and apparently responsible only to the appointing authority, which in this case, Minister responsible for local government or the President. Comparatively, is not easy to remove them from office even if they misuse their mandate. Often these cadres of officers are the one enforcing tax, licensing regulations, or executing political decisions regarding development. The Ward Executive Officer (WEO), for instance may wish to approach issues with force (has power to arrest and detain) while the elected councillor may wish to use diplomatic means so as to please electorates. In this way WEO quickly turn out to be a sort of enemy of the people while the councillor becomes sort of local hero.

Another problem facing current local government authority is the fact that central government exerts great influence on what is happening at local level; budget, head of department recruitment and promotion, has to first get an approval of the minister responsible for local government before implemented. For recruitment of supporting staff permission from the minister has to be obtained first before hiring.

Each key ministry of the central government is represented at district council level in the form of departments. Personnel in these departments are employees of district council in the sense that some of them (supporting staff) are paid by the council. But in reality, they are employees of their respective parent ministries in the sense that they receive promotion, disciplinary measures and implementation policies directly from their parent ministries. The district council is only required to issue a recommendation.

If for example, district council through its full council decides on the project, it has to write to the minister responsible for local government first to seek approval. In the process, a lot of questions are asked which at times the whole projects end up completely changed to suit some political reasons before returned for implementation. This makes the whole decision making mechanism slow and prone to interferences.

At best these procedures make local authorities impotent in many aspects and at worse make local authority rubber stamp of the central government. It results into weakness of district council in planning and executing promotional and regulation function pertaining to local economic development. In absence of strong private sector to cater for their need, the worst affected group is non-farm enterprises.

4.4 Non-farm enterprises in Iringa district

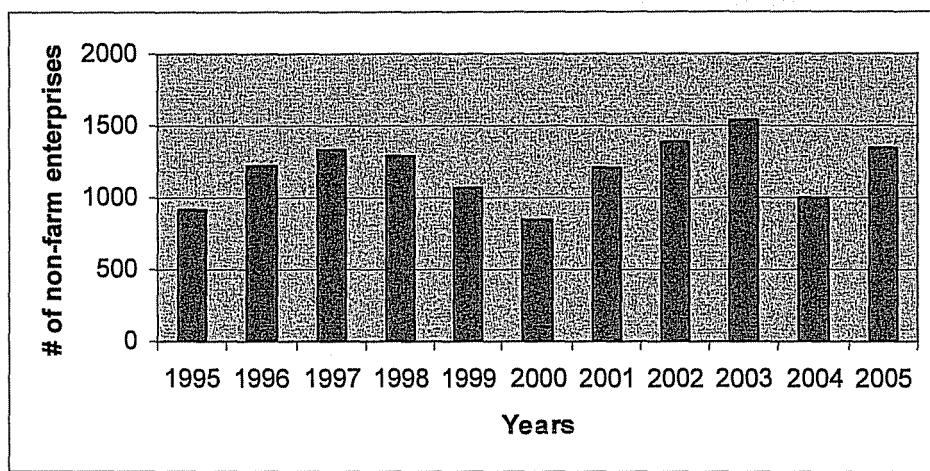
Although available statistics show that agriculture is still a leading sector in terms of employment and income generation, but a trend is emerging whereby full time farmers engage in a range of off farm activities such as retail shops, selling local brew, milling machines, carpentry, crop trade, meat vending (butcher) and many similar easy-to-enter kind of enterprises. In nearby Iringa municipality (town), new enterprises such as selling mobile phones or calling kiosks are booming but in Iringa Rural such kinds of enterprises are rare because only six villages have sporadic access to mobile phone

network. Also purchasing power is too low to attract entrepreneurs in such a new technology.

4.4.1 The extent of non-farm enterprises in the district

Over the years, the total number of registered non-farm enterprises in Iringa district has been fluctuating but exhibiting steady increase. Fluctuation in numbers reflects poor capacity of district authority to gather information on non-farm enterprises than death rates of enterprises. District council doesn't conduct census to establish the extent of enterprises, instead they only register enterprises when they visit their offices for new licences or renew the old ones. Table 4.2 shows the trend of non-farm enterprises in the district over the last ten years.

Fig 4.1 Trends of non-farm enterprises in Iringa, 1995-2005



Source: Iringa district trade department

Available data shows that as of 2005, Iringa district had a total of 1,346 registered non-farm enterprises. Out of these retail shops makes 55% of the total enterprises followed by milling machines, 33% wholesale stores, 5% and bottle stores, 2% of the total. Guest houses, petrol filling stations, bars and hotel share among others the rest 5%.

Based on the officially registered non-farm enterprises in Iringa district and average number of worker per enterprises (3 per

enterprise), we conclude that an estimated 4,038 people are officially engaging in non-farm enterprises. However, these figures should be taken cautiously because of many aspects. One is the fact that not all enterprises are registered, thus although they exist, do not appear in official district books. Secondly, many entrepreneurs in the district practice off farm activities as part-time occupation. At one time they are on and the next time off.

4.4.2 Average size and type of enterprises

The size of retail shops in terms of capital range from half a million to 3 million Tshs. With the exception of wholesale stores, rarely retail shops grow beyond the capital of 5 million Tshs. A segment of interviewed entrepreneurs in Kalenga and Nzihi Villages cite poor demand, difficulties in accumulating capital and apparently the strategy of the owner to remain small and informal to avoid perceived high taxes and harassments by authorities.

Shops mainly sell consumer goods such as food stuffs, salt, sugar, clothing, bicycles spare parts and other household items. Main market is households in villages although sometimes shop owners attend open market to sell some loose merchandize.

For milling machines, since the main foodstuff in Iringa consists mostly of cereals (maize, rice, and sorghum) milling machines operates year round with many more customers during harvest season than dry season. In dry season, most of household's grain reserves become low such that they resort to buying flour often from the same milling machine. Entrepreneurs running milling machine also retail grains. Main product of milling machines, in this case flour, is seldom sold outside the village.

4.4.3 Source of energy and machinery

The main source of fuel for milling machines is diesel. Less than 10 % of all milling machines are operated by electricity. Electricity has not yet reached all villages in the district. Diesel is fetched from nearby

trading centre mainly by using bicycles or Lorries into the villages. Currently the retail price of a litre of diesel is 1,200 Tshs.

Entrepreneurs running milling machines usually buy their engines from Iringa municipality (the seat of the district) at prices ranging from half a million to one million Tshs. Milling machine engines are mainly made in China, Japan and India and are brought in the district by wholesale agents based in Dar es salaam but with branches in Iringa.

4.4.4 Average workers per enterprise

The average number of workers in a milling machine is three; a night guard, one who weigh and prepares cereals for milling and the owner who actually operate the machine and collect money. In shops, there's also an average of three workers, a night guard and two sellers (mostly relatives; father and sons or uncles). The night guard in milling machine and shops are normally hired individuals with no close relationship with the owner.

The pattern of workers in other enterprises is more or less the same as above with exception of local brew bars, restaurants, and food vending. Here, the numbers of workers exceed three because there are those who prepare the beer or food, one seating at the counter and at least two waiters in each enterprise. In total you find that at least five workers involved. However due to stiff competition, local brew selling is organised in turn whereby if three household are allowed in a day, next day another three would be allowed and so on. This arrangement is done by owners to avoid putting too much beer on the market at the same time.

4.4.5 Skills level

Skills of entrepreneurs in the district vary greatly from one activity to another. In making and selling local brew for instance, the survey confirms that majority of entrepreneurs are mostly illiterate middle aged women. But as you move to retail shops, you get primary school

leavers as well as a few with secondary education. Carpenters seem to have post primary education vocational training. This is explained by mushrooming of Vocational Education Training schools (VETA) as a result of liberalization of training policy in the country in recent past. They offer courses ranging from iron works, plumber, wood works, and auto mechanics to cookery. Iringa district has three of these schools

Regarding specific business skill, only 30% of the interviewees confirmed to have attended some kind of training. The rest learned as apprentices before mastering the trade. Low business skills translate into poor innovation whereby majority of entrepreneurs concentrates in traditional enterprises such as retailing shops or milling machines which exhibit all signs of saturation.

4.4.6 Constraints to competitiveness

The major constraints facing non-farm enterprises in Iringa district is lack of capital, poor business skills, low rural demand, poor infrastructure and lack of information. In a situation for example where only 4 and 6 villages out of 187 have fixed telephone lines and mobile phone signals respectively, communication is really a problem. To complicate the matter further, although rural roads are relatively passable throughout the year, not all villages have regular bus services. They rely on cargo lorries and bicycles for transport.

The above constraints affect enterprises' strategy in a number of ways. They block growth path in such a way that entrepreneurs opt to engage in mini enterprises as a way of keeping them busy after harvesting crops rather than making it full time occupation. Low demand is direct result of poor linkages between other income generating sectors in the district. If for instance, agriculture or animal husbandry could generate sufficient income to practitioners, they could stimulate demand for non-farm enterprises and breaking the vicious circle of poverty.

4.5 Concluding remarks

Iringa district council is squeezed in complex bureaucratic relationship with central and regional government that results into weak local government intervention in non-farm enterprises.

On the characteristics of non-farm enterprises, there's no much different from common rural problems facing small businesses in Tanzania. They are dominated by lack of infrastructure, low demand and poor business skills.

Chapter V

Non-farm enterprises in Iringa and local government; Help or hindrance?

5.0 Introduction

This chapter is about finding and the analysis. It examines selected programs of Iringa district in relation to their affect on Michael Porter's determinants of competitive advantage. At the end of the chapter a synopsis of possible public-private partnership for local economic development is provided followed by a revision of hypotheses and research questions aimed at highlighting specific lessons from the study.

5.1 Iringa district policies as they impact 'factor conditions'

Three elements of factors of production are analyzed; land, capital and entrepreneurship. Labour isn't considered because local government has little effect on demand and supply of labour. Most of the labor and training policies are implemented by national agencies, which are not represented at local level. Also labour inspection is not very much clear in functions of local government

5.1.1 Capital

Iringa district council runs two major programs aimed at capital formation; provision of loans to youths and women and facilitate formation of Savings and Credit Cooperative Societies (SACCOS). Community development department coordinates the former and cooperative department coordinates the later

5.1.2 Special credit to women and youth

Provision of loans officially started in 1999 when a revolving fund was created. The chief aim of the fund is to supplement start up enterprises as well as giving boost to running ones. The fund is distributed to entrepreneurs in the form of loans with 15% interest rate. Target groups are women and the youth. The two groups are the

most vulnerable in terms of capital formation but at the same time they are the most active in small enterprises.

Before making loan available, the department of community development runs a series of sensitization campaigns and subsequently advice entrepreneurs to form groups in which they prepare project proposal. The district council then screens all requests to select a few for further consideration. The selected groups receive training on project formation, preparation of budget, running business, and dealing with financial institutions. Normally one group consists of five members, three female and two men (in youth loan) and all females in women loans.

So far the district council has managed to dish out loans to 83 youth groups (with estimated membership of 415 youths) with cumulative capital worth 32.2 million Tanzanian shillings. Repayment rate according to the community development department is at 80-90%.

On women, a total of 82 groups have been furnished with working capital in the last nine years. These groups have estimated membership of 410 women across the district. The circulating capital in women groups is 38.9 Million Tshs. The table below summarizes trend of women loans in the last nine years.

Fig 5.0: Trends of women loans 1996-2005

Year	Amount of loan per year	Loan + interests accumulated in the period	Number groups ⁶ benefited
1996	700,000	760,536	1
1997	3,750,000	4,421,500	14
1998	3,050,000	3,422,000	11
1999	3,900,000	4,425,000	13
2000	1,500,000	1,685,000	5
2001	500,000	575,000	1
2002	10,460,000	11,506,000	15
2003	7,800,000	9,480,000	11
2004/5	7,300,000	8,030,000	11
Total	38,960,000	44,305,036	83

Source: Department of community development, Iringa district council

⁶ An average group consist of five persons

The impact of this credit facility is widely felt especially in villages where several groups have managed to access it. It has triggered a kind of innovation whereby entrepreneurs move to new products which were not common in the village. This is done as old businesses such as retail shops, milling machines or selling local brew manifest all signs of saturation. Michael Best in his *theory of new competition* says innovative enterprises must “pursue continuous improvement in methods, products and processes” Best (1990:2). The strategy for innovation in this case has been triggered by continuous flow of credit to become what Porter (1990) calls “catalyst and challenger” for firms to venture into new product as a way to stay in the business. The story in *Box 01* below provides graphic account of a kind of innovation that has been made possible by continuous accessibility to credits.

Box 01: Ihemi tiles group⁷

My name is Mama Chavala. My husband and I started making tiles soon after he completed two-month course organized by the Evangelical Lutheran Church in 1994. In order to increase production, we decided to form production group called *Ihemi Tiles Group*. The group has a total of five members; two women and three men.

In 1999 we heard about financial credits offered by district council to small entrepreneurs. We applied and got one million Tanzanian shillings. With the loan we managed to source orders as far as Dar es Salaam. Our production capacity increased to a maximum of 150 tiles a day on average. One tile is sold at Tshs 150/- Therefore we earn an average of 22,500/- a day when have continuous order

By 2003 we had managed to repay our loan. That means we were qualified to apply for another round. When we got one, we decided to diversify our activities to include poultry keeping. We acquired pilot stock of 24 grown up chicken. Although they were producing, they were too old to be profitable. We sold them off by the end of that year to bought new ones.

In mid 2004, we applied again for loan from district council. Because they knew that we are hard working and always repaid in time, they approved our request. This time they agreed to advance 3 million Tshs.

With the money, we bought 270 young chickens. They produce an average of 5 trays of eggs per day, which we sell at 12,500/=. That means in a month we get an average of 375,000/= comparatively, that is substantial income in our village. Our neighbours consider us rich. But we don't think so. It is through credit facility and hard work that people hold us with respect.

Although the community development department doesn't impose limit on type of projects to be undertaken by group members, 90% of all loans are invested in non-farm enterprises. Beneficiaries cite

⁷ Field interview, 6 August 2005

agricultural activities as risk because they depend on weather which is not always favourable. Another reason put forward by the department of community development is what they call fashionable trend in rural areas which see a lot more peasants engaging in small businesses, first as a quick way to climb the ladder out of poverty and second as a livelihood diversification strategy.

Villagers investing loans in farming activities always do so in short time irrigated cash crops such as tomatoes, onions and assorted types of vegetables. Normally peasants cultivating these crops have greater degree of control over outputs because they depend less on erratic weather and take only a maximum of three to four months to harvest.

5.1.3 Limitations of credit to women and youths

Interviewed entrepreneurs concede that special loans are politicized in the sense that only areas where ruling party have supporters gets priority. There's a lot of reason for these sentiments. Chief among them is because the officer in charge of loans in the district is also a chairperson of the ruling party in the district. This means some entrepreneurs feel uncomfortable with the application procedures because at the end a political opponent will have to decide on whether they get loan or not. They say that youth groups in Wards, which supports opposition parties, are simply bypassed. They cite one Ward with five groups given loans while there are other Wards which have not even heard of the loans. The situation leads to the conclusion that special loans do not reach everyone

Also there's feeling that the amount of loans given to groups is too small to start anything substantial. Every group receives a maximum of 1 million Tanzanian shillings, meaning that in a group of five, every member gets something like Tshs 200,000/=. However, this argument is quashed by loan officers who say that loans are advanced to entrepreneurs who have running business and not start ups. The aim of the loans is to boost existing capital and not otherwise

5.1.4 Savings and Credit Cooperative Societies (SACCOS)

The Iringa district council role in formation of savings and credit societies is that of promotion, sensitizations, and facilitation in registrations. The last process gives way to legal recognition, which is very crucial for growth.

The council through the *Department of Cooperative*, identify potential areas or sectors that would best benefit most by having SACCOS and dispatch its own officers to run series of sensitization seminars. After seminars, if people are convinced that credit society is important, they are then facilitated to write constitution, connecting them with financial institutions dealing with SACCOS. At present one private bank, *Cooperative and rural development bank* (CRDB Ltd) offer financial services to registered credit societies. Cooperative officers then make regular visitation to make sure that SACCOS follows cooperative laws governing credit societies. SACCOS can be formed by a group of 20 people with minimum of 5 million Tanzanian shillings as initial capital. Unless if members decide to change objectives of the SACCOS, say decide to offer banking services, there's no upper limit of capital or members required to form a credit society.

Through such initiatives, the district has managed to help the formation of a total of ten SACCOS across the district with estimated capital base of 637.5 million Tshs. Total number of memberships in these SACCOS is 1625 (1065 men and 488 women).

It should be noted that SACCOS are not coherent group of individuals; rather it is like a loose cooperative society dealing principally with helping members to deposit their savings and access soft loans if in need. That means, SACCOS doesn't have other specific tasks to do but each individual member engages in his/her own separate work or enterprise. But because of problems of organization often SACCOS is formed by people united by common interests such as members of the same church, shop owners in a trading centre, teachers in a certain Ward or members of defunct primary cooperative society.

The implication of SACCOS in the non-farm enterprises has been profound. It is the only major source of credit, enhance savings, and in the long run help in the formation of much needed capital. Also in the process of preparation for loans, a lot of useful training such as managing finances, dealing with financial institutions, writing project proposal and running business impact a good number of people across the district. Interview reveals that training before and after receiving credit pushes for effective use of available capital. Porter (1998) says competitiveness does not depend only on presence of factors of production, rather how effectively and efficiently they are deployed.

Fig 5.1: Savings and credit cooperative societies (SACCOS) in Iringa district council

Name of SACCOS	Year registered	Total Members	Share	Savings	Deposit
Mfyome	1996	40	212,000	NA	NA
Iringa teachers	1997	607	235,055,597	164,538,917	47,011,119
Kitowo-Mtitu	1999	148	6,356,777	NA	2,933,894
Mazombe	2002	408	52,363,840	14,458,100	60,293,270
Dabaga	2002	136	3,657,000	NA	1,335,750
Chemba	2002	72	1,388,500	9,822,100	208,900
Mlowa	2003	56	280,000	260,000	54,000
Msosa	2003	36	74,000	450,000	50,000
Idodi	2003	40	4,345,000	NA	NA
Ruaha	1999	79	3,942,600	22,835,733	5,640,600
Total		1622	307,675,314	212,364,850	117,527,533

Source: Cooperative Department, Iringa district council

5.1.5 Land

5.1.6 Infrastructure

Infrastructure entails a range of facilities such as roads, water, telecommunications and postal services. It should be noted that provision of infrastructure is not directly aimed at promoting non-farm enterprises rather it is part of greater mandate of local government to enhance welfare of the people in the district. Some of these public goods lead to favourable condition for of non-farm enterprises. Therefore, this sub section highlights on existing water, roads and

telecommunication facilities and possible impact on non-farm enterprises.

The ability of Iringa district council to provide water for its residents is far from sufficient. Statistics show that the district is able to provide only 59% of the total population with piped water. The rest either take water from rivers or swamps. The implication of lack of such basic facility is very much felt in food related enterprises. Observation show that majority of entrepreneurs are unable to register food related enterprises because in absence of reliable water they cannot meet license requirements. That explains why there are only a few restaurants in district's register despite the fact that there's a lot of food vendors in almost every village and trading centres, yet in official statistics (licensed ones) shows that they constitute only 1% of all enterprises in the District.

Regarding roads, the district capacity to service existing road network is modest. Through the road maintenance fund with a budget of 150-170 million Tshs per year and donor funded project, *District Roads Development Program*, (DRDP), a total of 1150kms out of existing 1397kms of road network are paved and passable thought the year. This means movement of goods and services across the district is not a major problem. Interviewed entrepreneurs rarely mention lack of passable roads as one of the constraints.

However with regard to telecommunications and postal services only 4 out of 187 villages have fixed telephone lines. Six villages can receive mobile phone signals while none of the villages have fax facilities. Six villages have postal facilities also. The district council seems impotent with regard to improvement of telecommunications and postal services in the area simply because they are owned by private companies that have their own priorities and way of doing things. The solution lays in inclusion of private sector in district planning through the local economic development initiatives

5.1.7 Entrepreneurship

Business training for general trading community and trainings offered before and after accessing loans is the main initiative observed to stimulate entrepreneurship in the district.

The district council through trade department is tasked to conduct regular training to all entrepreneurs in the district, specifically small and medium enterprises. Training focuses on various aspects of business skills such as principles of buying and selling, bookkeeping, marketing, business management, costing, and office management. Training in the District does not follow specific individual needs rather a blanket approach. Effective business training, according to Liedhlo & Mead (1999:89), should build on existing individual skills rather than holistic approach.

The trade department keeps a roster of all enterprises and check their training needs regularly. Normally in each quarter of the year, the office conducts one session of training in one Ward. The number of entrepreneurs in each course is approximately 40. The courses are fully subsidized by district council. When choosing entrepreneurs for training, sector representation is considered to avoid over representation. Since there are 32 Wards in total, it means that in one year at least 4 Wards are reached.

However, due to budget constraints, business training has very minimal impact on the entire community of entrepreneurs. If we consider the total number of registered enterprises, 1,346 and if one training session takes an average of 40 entrepreneurs, it will take the department at least 34 sessions to be able to reach all registered entrepreneurs in the district which means it could take a total of eight years. Such time is too long to have desirable impact in the district.

Also entrepreneurship is a function of many other things other than training alone. Beyene (2002:132) argue that entrepreneurship is a function of “opportunities, technical skills, entrepreneurship spirit, finance, and infrastructure.” To promote entrepreneurship, one needs

to consider broad array of interventions that will see an improved operating environment.

5.2 Iringa district policies as they affect “firm strategy, structure and nature of rivalry”

The role of Iringa district council in this aspect is seen in licensing regulations, taxation, property laws, mode and type of taxation.

5.2.1 Taxation

The introduction of *Finance Act, 2004* has reduced taxation powers of local authorities substantially. It has scrapped local government of more than 19 types of taxes. The burden felt by non-farm enterprises as a result of over taxation no longer exists. Although it is only a year since the *Finance Act, 2004* came into force, a lot of impacts on non-farm enterprises have been observed. In Kalenga village for example, within six months a total of seven retail shops sprung up. Interviews show that easy entry facilitated by reduced tax and availability of credit facilities are attributed to the proliferation of enterprises in the area. This has led to stiff competition forcing some entrepreneurs to move into new businesses that were not common in the rural such as wholesale stores, specialized shops selling bicycles and spare parts and hybrid poultry keeping

However, the remaining taxation and regulatory powers of district council affect the way enterprises are organised in the area. Small entrepreneurs believe that revenue collected is not properly used for improvement of service delivery. For example, out of 1,260 respondents in a survey conducted in six district councils, Iringa included, revealed that more than 50% agreed that revenue collected were not used to provide services, REPOA (2004) A across section survey of enterprises in Iringa district council confirmed the same results. Entrepreneurs feel that their tax, fees and fines, especially those collected by local government is misused. They point out lack of visible improvement in infrastructure such as paved roads, tap water

and electricity as evidence that local government revenue ends up in wrong hands.

Such kinds of perception regarding tax and conduct of local government officials greatly affect enterprises' strategy to becoming formal. However, although there's no evidence that entrepreneurs in the margin of profit would happily pay taxes if feel that it is wisely used, tax mismanagement reduces motivation for paying. Entrepreneurs end up avoid paying by remaining informal. Licensing, registration and formalization is widely seen as a trap into paying more tax that will eventually be misused.

5.2.2 Licensing and regulations

Regulation is one of important area that affects enterprises strategy, restrict new entry but level the playing field. Since Iringa is a rural district, regulations regarding zoning or business location are not well pronounced. The district is sparsely populated thus land is apparently not scarce.

However enterprises dealing with food and liquor must satisfy the district public health department that they operate in safe environment, have toilets and separate kitchen facilities apart from owner's living house. For liquor, they must abide also to opening hours whereby they are not allowed to open before 14.00 hours and they must close by 23.00 hours. These opening and closing regulations, according to district authorities, are intended to give villagers ample time to work during morning hours while closing before midnight prevent criminal activities that could be organized in the local brew pub in the mid night.

Cross section of local brew dealers in three villagers reveals that the regulations are not strict; they thus don't affect business substantially. They argue that it is relatively easy to comply. However in food vending, entrepreneurs feel regulations more than in other type of businesses. For example, a simple food vendor wishing to register must make sure that s/he rent a spacious apartment (with

kitchen and toilets). After registration, s/he should comply with regular health inspection checks, which if do not conform have to face a closure. Also, after registration and licensing, even the name changes from a simple food vendor to a restaurant, tea room or a hotel. Therefore the probability of food vendors to graduate into a restaurant, tea room or hotel is therefore highly constrained by local government regulations, despite the fact that these regulations are important to check against outbreak of water bone diseases which are common in the tropics.

On licensing, the new law has relieved enterprise of time taken to apply for license. Field interview revealed that to obtain a license from the district trade officer for enterprise with less than 20 million yearly turnover takes less than four days if all the required letters and documentation are available. However, interviews also revealed that many entrepreneurs are not yet conversant with the new law and the District authority have got no program to make the new law known to the stakeholders, save for occasionally press releases in national newspaper which are not read in remote rural villages.

Regarding business name registration, the procedures and distance from the registration agencies; prevent many non-farm enterprises from becoming formal, thus impede growth. The District council in conjunction with the *Tanzania Revenue Authority* (which is represented at District level) issue operating licences but to become fully formal an enterprise is supposed to acquire and register official name. However the agency tasked to register business names, the *Business Registration and Licensing Agency* (BRELA), is not represented at district or regional level. The nearest office is 500km from Iringa District. (See earlier discussion in chapter 3).

Field interviews in three villages of Iringa district show that 90% of small enterprises have operating license but not officially registered business name. That means although they have license they still operate under certain degree of informality. The implication is that

their growth is highly constrained because they are not allowed to open bank account (using their business name), cannot access public tenders, and in general operate informally in the eye of the law.

5.2.3 Property rights

The Iringa district council implements a program called the *Strategic Land Use Plan* that will see all land and property surveyed, mapped, and ownership titles granted to lawfully owners.

Currently, a total of 29 villages have been surveyed and titles granted to owners out of 187 villages. Other 849 plots in various areas apart from the said villages are surveyed and leased and 145 farms surveyed and leased measuring 34,972 hectares.

Taking into consideration that surveyed land is only 16% of the total land in the district, there is no apparent impact on non-farm enterprises. Observations and interviews in the three villages confirm that entrepreneurs are not yet conversant with potential offered by having land title deed to access capital from financial institutions.

5.3 Iringa district council policies as they affect ‘the nature of home demand’

Policies that focus entirely on promotion of home demand are lacking in Iringa district. However, there are some elements of local demand promotion that can be seen in the two areas, procurement and promotion of open air markets as discussed below;

5.3.1 Procurement policies

Iringa district council has no procurement policy of its own. It implements a national procurement policy that requires that all tenders to be advertised nationally and prospect suppliers compete regardless whether they are local, regional or national. The trend has shown that all lucrative tenders are taken by outside firms. There’s little participation of local firms. To complicate the situation further, district council doesn’t break tenders into small units to favor local small enterprises because in doing so they would be violating the law.

However, the District Executive Director says normally large firms find it uneconomical to participate in small tenders especially if they are located in remote rural areas. It gives opportunity for smaller enterprises to participate. Such tenders include manufacturing of primary school furniture, catering services and stationeries.

But of recently, the district council in collaboration with *Danish international development agency (DANIDA)* have started a program that focus solely on local petty contractors in rehabilitating rural roads. The purpose of the program is to empower local petty contractors but at the same time use cheap methods to upgrade rural access roads. These contractors are labour based and rarely apply machinery. Under this program, small petty contractors are selected by a means of tender from among many applicants, given training on how best to use labor. They are then tested before approved. If they prove competence, district authorities facilitate their registration with the national *Contractor's Registration Body (CRB)*.

5.3.2 Village open-air markets

Village open-air markets are gatherings facilitated and regulated by district council that brings together buyers and sellers together often in open space or under tree sheds. Normally there's no permanent structure; toilets, fences, offices, and market stalls are all temporary. District council through trade department organizes the market in rotational form whereby each Ward organizes it at least once in a while.

The open-air market is the only way most local entrepreneurs come face to face with expanded demand for their merchandise. They act as small movable town that brings with it buyers, new technology, relatively sophisticated orders and innovations. Normally, entrepreneurs attend open-air markets from all nearby towns and municipalities. These gatherings act as catalyst for learning as well as room for expansion for many firms in the locality.

In every three months, the department of trade operates a total of 35 open-air markets across the district. That means all 32 Wards host an average of one market in three months. According to the district's department of trade, these markets attract a total of 1,270 enterprises. Taking into consideration that there are a total of 1,346 registered non-farm enterprises in the district, each and every one has at least one chance of attending an open-air market once in every three months.

Open air markets run throughout the year with low attendance during planting season and with full capacity during harvesting season. An assorted type of merchandise ranging from cattle, grains, clothing, and vegetables are sold. In some areas, such as Ilula, Nzihi and Pomerini Wards traders from as far as the capital Dar es Salaam flock in to buy tomatoes, tobacco and maize while in turn they bring clothing, cooking oils, bicycle spare parts and spices. Farmers' retail farm produce to obtain the much needed cash to buy consumer items while at the same time entrepreneurs use the opportunity to buy wholesome items to stock their shops.

Interviews reveal that open air markets play a role similar to that of trade exhibitions since many orders arise and new ideas are tested. However, demand created by the district council through open air markets is far from being 'sophisticated and demanding'. The present demand promotes sales but is yet to trigger much innovation. Innovation according to Best (1990) is a function of skilled labour, flexible multiple use of equipment, among others. Taking into consideration that on average only 30% of entrepreneurs have some sort of formal business skills and the fact that power in terms of electricity is very scarce in the district; the possibility for serious innovation is far from realistic. Save for simple innovation such as moving from one kind of business to another or introduction of more specialized shops. Potential areas of innovation that could revolutionize enterprises include professional packaging of

agricultural products, and preservation methods that will see more perishable crops into distant markets.

5.4 Public-private partnership for local economic development

Both non-farm enterprises and Iringa district council experience problems that make them relatively weak when it comes to economic promotion. Contemporary literature provides a framework for partnership between public and private sector with the aim of supplementing each other and foster development in the locality. LED initiatives may range from contractual arrangement, joint operations, exchange of knowledge through discussion forums and contracting out service provisions to other actors.

Iringa district council has many other potential actors whom could enter into partnership with district council to foster local economic development. For example, instead of district council with only two personnel to run business training to more than 1,346 entrepreneurs, that function could be done better by training institutions present in the district with much efficiency and low cost. The university or vocational training schools has manpower and other related facilities specialized in training than the district council.

In women and youth credits, financial institutions highly specialized in micro credit in the district such as the *National Microfinance Bank* (NMB), the *Foundation for International Community Assistance Finance* (FINCA) and the *Promotion of Rural Initiative and Development Enterprises Limited* (PRIDE) could perform better than the district council. A contractual partnership could be entered between the district council and any of these financial institutions and the latter's function become that of monitoring instead of direct involvement. In this way efficiency would be increased.

Other potential areas of partnership include running open air markets, marketing research and development, advocacy as well as evaluation of development programs. Important actors that could be

approached for partnership include the Chamber of Commerce, religious institutions, governmental agencies operating in the district, and not for profit organisations.

However, partnership for local economic development approach is not without challenges. Real impacts of the implementation of LED depend on numerous other factors such as leadership and commitment of actors. Generally speaking, LED is not a panacea. It is just one of many approaches in mobilization for development. Jorg Meyer-Stamer, the renowned consultant and writer, says although LED approach is popular among localities in many parts of the world; its impacts in localities where it has been implemented are just moderate. He asks 'is the popularity of LED perhaps more due to desperation than to a convincing track record?', Meyer –Stamer (2003:2)⁸

5.5 Synthesis: research questions, hypotheses and field lessons

A number of specific lessons could be drawn from actions of Iringa district council on non-farm enterprises. To get a coherent view, the research questions and hypotheses are analysed in the view of evidence provided in the previous section;

Research question number one aims at identifying specific promotion role of Iringa district authority regarding non-farm enterprises. Evidence gathered suggests that the role of local government in promotion of non-farm enterprises is in two forms; direct and indirect role. Specific promotional programs such as provision of credit, formation of savings and credit societies and business training directly stimulate non-farm enterprises in the district. While indirect role is evident in the day to day activities of local government focusing on provision of public goods such as water, road maintenance and housing which in one way or another facilitates formation of non-farm enterprises in the district.

⁸ see www.mesopartner.com

Question number two assesses impact of the above actions on proliferation, sustainability and growth of non-farm enterprises. Here, the direct role of Iringa district (credits, training and formation of credit societies) has been observed to stimulate capital formation and making labour more efficiency through training. However due to small size of such programs and bureaucratic environment in which they are implemented, its impact on non-farm enterprises is minimal.

Concerning the indirect role of local government authority, Liedholm & Mead (1999) and Bagachwa (1997) say although small enterprises rarely mention local government intervention as hindrance or success factor, but in actual fact it is the most important factor affecting entry, growth and sustainability of enterprises. Observation in Iringa district confirms that villages where non-farm enterprises are flourishing are those well served with year-round passable roads, reliable water and electricity. They are the ones also with stiff competition among of enterprises, giving clue that innovation and growth is likely to happen there than anywhere else

Having seen, in a nutshell, the role and impact of local government actions on non-farm enterprises, let's now revisit research hypotheses with the aim of further highlighting findings;

Hypothesis I: Local government authorities' regulations discourages growth of non-farm enterprises by impeding the harmony of the 'diamond'

The assumption behind hypothesis number one is that decentralization has given local authorities power to raise its own revenue through tax but local government authorities overtax emerging small enterprises in such a way that affect enterprises' strategy of becoming formal thus discourages growth. However field data show that this hypothesis doesn't hold due to the fact that there has been nationwide tax reform which reduced regulation and taxation powers of local authorities to prevent them from stifling non-farm enterprises. The reform, through the *Finance Act, 2004* came into

being as a result of cries from the general public on the predatory tendencies of local authorities toward small enterprises, Parker et al (1995) and Tadeo Satta (2003).

However the new law has reduced Iringa district council to near total dependence on central government finance allocations. Out of the total 10.4 billion Tshs council's budget, only 1.9% comes from own sources. (See table 5.0). However, central government bureaucracy defends the decision to scrap nuisance taxes on the ground that even when local government was allowed to collect such taxes, they contributed less than 5% of total budget.

The implication of total dependence on central government is inability of district council to initiate or properly fund existing promotional programs which goes against one of the important principle of functional local government, the autonomy, De Visser (2004)

Table 5.0: Iringa district council 2004/5 budget estimates by source (in Tshs)

No	Source	Amount	% of the total
1	Council own sources	193,422,400	1.9
2	Grant in lieu of abolished sources of council revenues	351,983,967	3.4
3	Recurrent expenditure grants	5,908,286,639	56.8
4	Development expenditure grants	446, 675, 000	4.3
5	Donor funded Projects	3, 504,365,020	33.7
	Total	10,404,733,026	100

Source: District executive director office

Although it was thought that local government interventions hinder smooth working of determinants of competitive advantage, field data in Iringa district shows the opposite; it enhances competitive performance of non-farm enterprises. District authority provides micro enterprises with advantages which they otherwise not access because of their small size. Policies such as making capital available through special credits and trainings play a positive role in growth of non-farm enterprises. In more indirect ways, provision of public goods such as paved roads, water and housing provide favourable environment for small enterprises to flourish. Therefore local government act as

reinforcement factor that pushes determinants to complement each other.

Hypothesis II: Decentralization has made it possible for local government to initiate programs that promote non-farm enterprises

The second hypothesis, which assesses whether decentralization has enabled local government to formulate useful promotion programs is built on the motive for decentralization, which in Tanzania, is to take 'power to the people' *Tanzanian Constitution* (1977, Article 146 (i)). If such underlying goal is attained, then local government is an effective tool to promote social economic development in Iringa district which is necessary to build local harmonic diamond.

To assess the above hypothesis, a model proposed by Olowu and Wunsch (2004:81) is applied. This model put forward four factors that an effective local authority is presumed to have; "*Availability of local resources, Local autonomy and authority, Local accountability and effective local institution of collective choice*"

Local resources and autonomy is highly lacking in Iringa district. Apart from the fact that tax base is too small; district council is only allowed by law to collect a handful sources leaving the most lucrative and easy sources to central government.

On local authority's autonomy, complex bureaucratic relationship with central government leaves little freedom to local authorities. It squeezes local government in such a way that it fails to initiate own programs or weaken the existing ones. Central government exerts great influence on what is happening at local level; all by-laws of district authority have to get approval of the minister responsible for local government before implemented; likewise budget, staff recruitment and promotion have to go through the ministry before implemented. This makes the whole decision making mechanism slow and prone to interferences.

On accountability, tight central and regional authority reporting mechanism leaves little room for mismanagement of resources in

Iringa district. The district reports to three levels; regional government, parent ministries (those with staff at District level) and the central government. De Visser (2004) argues that tight supervision is in fact a fifth principle of effective local government. Although tight control on local government may result in accountability, it has negative impact on planning and execution of local home grown economic development programs. If for example the District wants to amend or change a certain component of a program or project to suite local condition is not easy. It has to go through rigorous procedures in the name of promoting accountability which in fact lead to inefficiency.

Iringa district has strengths in effective local institution of collective choice. There is regular local election, and popularly elected councillors meet four times a year to deliberate on various development issues. However, effectiveness of institutions of collective choice is compromised by weak autonomy and lack of resources.

Hypothesis III: Local government authorities' actions have little influence on the growth of non-farm enterprises

The third hypothesis recognize the impact other factors on non-farm enterprises which are outside the control of the District council. It assumes that local government is just one of many actors in the local economy, thus its influence is limited. Here two major factors influencing non-farm enterprises in the District are brought up; rampant poverty and trade liberalization

Iringa District per capital income is Tshs 201,864/= falling well below national average which stands at 600,000/=. That means Iringa District residents are one of the poorest in a poor country. The implication of poverty on growth and sustainability of non-farm enterprises is great. Purchasing power, which is sustenance of rural enterprises, is low. Chambers (1983) says rampant poverty kills incentives for entrepreneurship because the poor are not willing to take risks. To them venturing into new enterprise which they are not

sure whether will succeed or fail is not a better option. If it fails they may slip into destituteness.

Due to rampant poverty investments in terms of non-farm enterprises tends to be fragmented as a way of spreading risks. Often an individual undertake a number of micro and scatted enterprises in different localities. In this way they cannot concentrate in any of those. They thus fall into what Liedholm & Mead (1999:90) call 'non-growing enterprises' For example, asked why they don't concentrates in tiles production and instead diversify into poultry keeping, Ihemi tiles group in Ihemi Village cited low demand in the village due to poor income but mentioned expanded demand in nearby towns. They can not expand into those towns because they lack transportation facilities. As a survival strategy they resorted to take some of the credit into poultry to act as safety net in case tile production fails.

Regarding trade liberalization, which started in Tanzania about 15years ago still impact on the way non-farm enterprises are done in Iringa District. After three decades of closed centralized economy, opening of the economy to free trade brought influx of imported goods and services which meant its distributional necessitated proliferation of retailing shops in the District triggering stiff competition among entrepreneurs. In that way a zeal for efficiency was developed culminating into competitiveness. Although Maliyamkono & Bagachwa (1990) argues that there is no evidence of enhanced competitiveness following liberalization, they forget that influx of imported goods also meant availability of capital goods such as machinery, which triggered the whole milling machine industry in rural Iringa.

5.6 Concluding remarks

Existing promotional programs, taxation, and regulation policies of Iringa district council has some impact on non-farm enterprises such as proliferation of new enterprises, new products and move to more specialized businesses. However, these impacts are on a very small scale. Forging new initiative such as partnership between local

authority on one hand, private sector, civic organisations, and not for profit organisations on the other is envisaged to produce more concrete results.

Chapter VI

Conclusion and policy recommendations

6.0 Introduction

This paper sought to investigate the role of local government policies in promotion of non-farm enterprises in Tanzania. It held up selected local government policies against three of Michael Porter's determinants of competitive advantage; nature of demand, factor conditions, firm strategy and structure to see the extent they are influenced by local authorities policies. Iringa district council in Southern highlands of Tanzania is used as an illustrative case study.

This chapter therefore revisits major findings, assesses Porter framework as a tool of analysis, draws conclusion and proposes future lines of research in the area.

6.1 Summary of findings

The evidences gathered using interviews, documentary review and direct observation, point out that on the overall five major findings could be drawn from this study;

First, local government has some important initiatives aimed at promoting non-farm enterprises. They include special credit to women and youths, promotion of savings and credit cooperative societies, promotion of open air markets, regular training for entrepreneurs, and initiatives to survey and issue land title deeds. However, the impact of these programs are minimal due to a number of factors, chief among them being heavy dependence on central government grants, lack of partnership with other actors in formulation and implementation of programs.

Second, strict business regulations are only felt in food and liquor businesses, meaning that majority of non-farm enterprises in the district are not affected at all by local government regulations. However, other regulation such as business registration is still a major problem since central government is yet to decentralize that function. Although enterprises get license from the district council

they also required to register with the *Business and Licensing Registration Agency* (BRELA) to obtain official business name that would enable them to participate in public procurement as well as opening bank account for their business. However, BRELA is not represented at local level. This prevent many enterprises from becoming formal

Third, there's potential other actors of development in the district who are not tapped. There's a need to involve other actors in the so called *local economic development (LED)* initiatives which calls for partnership, dialogue and mutual understanding between local players; civil societies, non-governmental organizations, and the private sector.

Fourth, taxation, which for many years has been great impediment to growth of non-farm enterprises, has been reformed. Now an enterprise with sales up to 20 million Tshs per year is required to pay only 3.3% of the turnover as tax. Previously the same business could pay up to 3 million Tshs per year.

Last, although decentralization was envisioned to have strong local government, capable of delivering social services and promote local economic development in reality performance of Iringa district is prone to interference and much control from the centre. It lacks institutional capacity to plan, execute and evaluate its own programs. Many staff feel that decentralization has only increased workload with little budget. That has compromised the quality of local government services. The quality of intervention is a function of political autonomy, and fiscal freedom, which are lacking in this case.

6.2 Research conclusion

On the overall, evidences suggest that Iringa district council policies minimally affect *firm structure and strategy, nature of home demand* and *factor conditions*. That is to say, they modestly impact on the growth of non-farm enterprises in the district. This is due to the fact

that the district council is squeezed in a complex relationship with central and regional government which at best reduces ability of local authority to formulate and undertake its own development initiatives. The few existing programs, though have some impacts, but are entirely confined within bureaucracy of local authorities. They leave other important actors. The impact of local government policies could be felt more if other stakeholders such as private sector, civil organizations and not-for-profit organizations included in the development process, contemporarily known as '*local economic development*' (LED)

6.3 Limitation of Porter's diamond framework

Although Michael Porter's framework has been a useful tool to classify and analyse local government's promotional policies and the way they affect competitiveness of non-farm enterprises, it has manifested a number of limitation that need to be brought up for scrutiny;

First, Porter's framework doesn't let us see the dynamics of public private partnership which is important contemporary policy area. Successes of local economic development depend very much on public-private partnership approach. The local government alone cannot solve all the problems uncouneted by enterprises in the district. The LED approach recognizes that few actors are not enough to promote growth of a locality.

Second, Porter's framework doesn't consider historical factors that underlie the situation of non-farm enterprises in Iringa district. That private sector was deliberately suffocated in an attempt to build socialism state. It is not a useful tool to understand the role of governmental actors in an environment where private sector is just emerging

Third, the performance of local government depends, among other things; on the extent of autonomy it has from the central and regional authorities. Porter assumes that government is strong, but in this

case it is weak because of complex and bureaucratic relationship with the central government.

Last, Porter model assumes presence of strong private sector with clusters. But situation in Iringa is quite different. The non-farm enterprises are scattered and has no idea of what cluster is

6.4 Policy recommendations

For local government to have much felt impact on the growth of non-farm enterprises a number of issues should be addressed through policy intervention;

- **Enhance skill level of rural entrepreneurs through training**

Although entrepreneurship and innovation is function of many factors, training is with no doubt, a leading factor that enhances entrepreneurship. Reviving the old rural *Folk Development Centres (FDC)* where regular training on business skills would be conducted is an option that will greatly improve the quality of businesses in the district. Instead of district authority conducting ad hoc training to fragmented entrepreneurs, FDC would offer continuous short courses in different relevant fields

- **Expand the role of public/private partnership in local economic development**

There's urgent need for the Iringa district council to include other stakeholders in the whole quest of local development. The district council is not suited to carryout everything. Some of the roles could be effectively undertaken by other stakeholders. Provision of credit for instance, could be out contracted to specialized actors such bank, financial NGOs than concentrating it into bureaucracy of the local government. On business training, a local university or chamber of commerce could be a competent player than the district council.

- **Address autonomy of local government**

There's obvious complex relationship between central and local government which results into inefficiency of district council. Most of the key district officers are appointees. That makes them somewhat

responsible to the appointing authority and not to the people. There is a need to address this ambiguity through policy papers.

6.5 Future lines of researches

This study has revealed that there are some grey areas that need to be illuminated through further studies. Below is an outline of those areas:

- Women and youth credits play an important role in capital formation in the district. There's a need for specific study that would evaluate its effectiveness, impact, and possible ways of improvement.
- Local economic development initiatives are not well developed in Tanzanian local government. A comparative study that would compare other areas with success LED would highlights best practises so as to draw lessons to improve the situation in the country.
- Savings and credit cooperative societies (SACCOS) have proved to be effective in enhancing rural savings. There's a need to conduct thorough study on the impact of SACCOS not only in capital formation but also in its role in non-farm enterprises in rural settings.

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Appendix I

Interview guide for non-farm enterprises and District officials

(a) Semi structured interview guide for non-farm enterprises

1. Tell me brief history of your enterprise
2. What is the highest qualification you achieved?
3. In the last five years have you received any business training? Who provided? What types of lessons taught?
4. How many types of taxes levied on your enterprise by district council?
5. Time taken to get licenses/permit/ from the district authority
6. Explain cost and time taken to comply with by-laws (in labor, hygiene, environmental protection etc)
7. What about the impact of distance from the market, local demand, technology on your enterprise?

General questions

1. Mention three most important aspect, in your opinion, District council helps your business to grow.
2. Can you mention at least three most important aspects, which in your opinion, obstacle growth of your business?

(b) Semi structured interview guide for district officials

1. What is the situation of NFEs in the District?
2. Any difference before and after decentralization with regard to NFEs?
3. What is the number of qualified staff in tax, license, and inspection departments, any shortage?
4. What is the impact of special program such as micro credit for women and youths on non-farm enterprises in the district?
5. Any existing procurement policies focusing on local product or services
6. Rate of participation of NFEs in 'open air market' operated by local government
7. What is the level of awareness of District council officials in the new role of 'local economic development'?
8. Any gap in policies aimed at promoting NFEs?

