Analysing the Market and Constraints of Small & Medium Enterprises (SMEs) and Large Enterprises:

*A Case of Sunflower Oil Enterprises in Dodoma Urban District, Tanzania*

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(Tanzania)

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Contents

List of Tables vi
List of Figures vi
List of Maps vi
List of Appendices vi
List of Acronyms vii
Acknowledgements vii
Abstract viii

Chapter 1 : Introduction of SMEs Sector 1
1.1 Background of the Sunflower Sector 2
1.2 Statement of the Problem 4
1.3 Relevance and Justification of the Study 6
1.4 Research Objective 8
1.5 Research Question 8
    1.5.1 Research Sub Questions 8
1.6 Limitations of the Study and Challenges Encountered 8
1.7 Structure of the Paper 9

Chapter 2 : Literature Review on Theoretical and Conceptual Framework 10
2.1 Introduction 10
2.2 Theoretical Framework 10
    2.2.1 Theory of Growth 10
2.3 Conceptual Framework 12
    2.3.1 Entrepreneurship 12
2.4 Conclusion 14

Chapter 3 : Research Methods and Methodology 15
3.1 Introduction 15
3.2 Sample Selection 15
    3.2.1 Selection of Key Informants 15
    3.2.2 Sample Frame 16
3.3 Tool for Data Collection 16
    3.3.1 Primary Data 16
    3.3.2 Secondary Data 17
3.4 Scope and Focus 18
3.5 Data Analysis 19
3.6 Conclusion 20

Chapter 4 : Introduction of the Sunflower Sector 21
4.1 Introduction 21
4.2 Overview of the Sunflower Sector
  4.2.1 Globally
  4.2.2 India
  4.2.3 Kenya
4.3 Production of Sunflower Sector
  4.3.1 Key players on sunflower
  4.3.2 Market of sunflower oil
  4.3.3 Production process of sunflower seed
  4.3.4 Production process of sunflower oil
4.4 Factors that hinder the Growth of Small and Medium Enterprises (SMEs)
  4.4.1 Internal factors to SMEs
  4.4.2 External factors to SMEs
4.5 Conclusion

Chapter 5 : SMEs and Large Firms-Duality or Synergies for Development: A review of Findings
5.1 Introduction
  5.1.1 Narrative on the Constraints of the Growth of SMEs related to Situation Facing Large Enterprises
5.2 Narrative on the Interactions between the SMEs and Large Enterprises in the Sunflower Sector.
5.3 Conclusion

Chapter 6 : Role of the State
6.1 Introduction
6.2 The initiatives to overcome the challenges in the sunflower sector in Tanzania.
6.3 Conclusion

Chapter 7 : Conclusion and Implications
7.1 Conclusion
7.2 Implication
Appendices
References
List of Tables

Table 1: Price of refined vs unrefined; local vs imported import tariffs and quality levels according to international standards 6
Table 2: Kind of oil prefers to use (N=11) 39
Table 3: Price between crude and refined sunflower oil (N=11) 40

List of Figures

Figure 1: Growth in small firm (Source: Storey 1994) 10
Figure 2: Sunflower Oil Manufacturing Process Model 25
Figure 3: Crude and Refined Sunflower oil Produced by Small and Large Enterprises Respectively 32
Figure 4: The most common factor affecting the growth of SMEs 36
Figure 5: Factors affecting performance of large enterprises 38
Figure 6: Quality between crude and refined sunflower oil 40
Figure 7: Ability to differentiate crude and refined sunflower oil 41
Figure 8: Effects of using crude sunflower oil 42
Figure 9: Working environment of an interviewed Small Enterprise 47
Figure 10: Responses on the initiatives taken by government to support the growth of SMEs 49
Figure 11: Trend on the production of sunflower seeds 51
Figure 12: Measures taken by Government 53

List of Maps

Map 1: Map of Dodoma Urban District located in Dodoma -Tanzania 18

List of Appendices

Appendix 1: Guiding Questions to the Respondents 58
**List of Acronyms**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>MITI</td>
<td>Ministry of Industry, Trade and Investment</td>
</tr>
<tr>
<td>SIDO</td>
<td>Small Industrial Development Organization</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>DRC</td>
<td>Democratic Republic of Congo</td>
</tr>
<tr>
<td>BOT</td>
<td>Bank of Tanzania</td>
</tr>
<tr>
<td>NSGRP</td>
<td>National Strategy for Growth and Poverty Reduction</td>
</tr>
<tr>
<td>FAOSTAT</td>
<td>Food and Agriculture Organization of the United States</td>
</tr>
<tr>
<td>NEDF</td>
<td>National Entrepreneurship Development Fund</td>
</tr>
<tr>
<td>TFDA</td>
<td>Tanzania Food and Drug Authority</td>
</tr>
<tr>
<td>BRELA</td>
<td>Business Registration and Licensing Agency</td>
</tr>
<tr>
<td>NMB</td>
<td>National Microfinance Bank</td>
</tr>
<tr>
<td>CRDB</td>
<td>Cooperative for Rural and Development Bank</td>
</tr>
<tr>
<td>TEMDO</td>
<td>Tanzania Engineering Manufacturing Development Organization</td>
</tr>
<tr>
<td>JICA</td>
<td>Japan International Cooperation Agency</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nations Development Organisation</td>
</tr>
<tr>
<td>CEZOSOPA</td>
<td>Central Zone Sunflower oil Processing Association</td>
</tr>
<tr>
<td>NBS</td>
<td>National Bureau of Statistics</td>
</tr>
<tr>
<td>MT</td>
<td>Metric Tonne</td>
</tr>
<tr>
<td>Tsh</td>
<td>Tanzania Shillings</td>
</tr>
<tr>
<td>CIMO</td>
<td>Comprehensive Quality and Modernization Skill</td>
</tr>
<tr>
<td>ASA</td>
<td>Agriculture Seed Agency</td>
</tr>
</tbody>
</table>
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Be blessed all.
Abstract
Sunflower is a potential crop in Tanzania but production capacity is still very little. Production is targeted to meet the internal demand, yet the demand is higher than what is produced. Due to this, the government allowed the importation of edible oil, mainly palm oil. The growth of small and large enterprises is facing some challenges, despite the high potential of sunflower. Generally, SMEs are well known for being important in employment creation and stimulation of economic growth. Hence, this study tries to investigate the objectives of understanding the competitiveness and the promotion of SMEs.

The study employed a mixed methodology, which combines both qualitative and quantitative data. The study found that SMEs are neither being promoted nor being competitive. Moreover, the study revealed three findings – firstly, small and large enterprises are affected by financial problems and problem of sunflower seeds respectively. Secondly, there is a weak linkage between small and large enterprises. Lastly, the state has not effectively addressed the concerns of all the firms. The study found that the main initiative of increasing sunflower seeds by the government does not necessarily lead to significant positive effect for the growth of SMEs. In conclusion, the government should strengthen the linkage between the small and large enterprises by improving the quality of crude oil, which may increase SMEs upgrading opportunity. Hence, make SMEs competitive and promoted.

Relevance to Development Studies
Agriculture is considered to be the backbone of the economy in many countries. A lot of countries in Africa depend on agriculture to promote their economy. Tanzania is one of the countries that depend on agriculture. It has been involved in various crop productions including sunflower cultivation, which takes place in different parts of Tanzania including Dodoma Urban District.

Sunflower has been used in the production of sunflower oil. The processing activities are done by large and small enterprises, but mostly dominated by SMEs who are considered to be the source of employment and the stimulation of economic growth. However, the sector is facing a number of challenges, which affect the growth of small enterprises. With the government efforts
to overcome challenges, it could provide a path for the stimulation of the sunflower industries that can boost the economy, hence development can occur.

**Keywords**

Tanzania, Constraints, Growth, SMEs, Larger Enterprises and Sunflower Oil
Many believe that small and medium enterprises (SMEs) are formal sectors that stimulate growth. SMEs act as “incubators of innovation” and provide employment (Ian Burke and Jarratt 2004:126) and they raise the country’s Gross Domestic Product-GDP (Ayyagari et al. 2007). In Tanzania, small businesses fall under the umbrella of SMEs, which include micro, small and medium enterprises (MITI 2003). SMEs have donated about 30% to 35% of GDP while employment rate created is more than 50% (Admassie and Matambalya 2002). This is attributed to a high number of unemployed who decided to engage in entrepreneurship. Tanzania is considered to have little development of capital; therefore SMEs are the greatest alternative to be adopted in order to mitigate this problem (Nkonoki 2010). SMEs become a source of employment to unskilled workers, which raises income and enables poverty alleviation (Admassie and Matambalya 2002:1).

SMEs are not homogenous; they consist of various definitions and measures depending from one country to another (Ayyagari et al. 2007). Common criteria for defining SMEs are employment, the total number of asset, scale and investment level. However, the most common criterion for the definition is employment (Ayyagari et al. 2007). The definition approved by the Tanzanian government is that firstly, SMEs which involve family members are regarded as micro enterprises; secondly, those with 5 to 49 employees are known as small enterprises; lastly, SMEs employing 50 to 99 employees are referred to as medium enterprises and finally large enterprises are those employing 100 plus employees (MITI 2003).

According to a study conducted by the United Nations in 1993, about 90% of the overall enterprises in developing countries are SMEs (Hashim and Abdullah 2000, RLDC 2008). For example, in Tanzania, SMEs account for 163 Tanzanian firms (Kira and He 2012). In majority of the industrial countries, more than 98% of the existing manufacturing started in the SMEs sector (Sanusi 2003, as cited in Kira and He 2012). It is from the SMEs whereby the firm can grow to become large manufacturers depending on the initiatives and support from the government.
In 20 years ago, Tanzania has been fighting on political, economic and social reform to make better business environment so as to stimulate economic growth and decrease the level of poverty (Nkonoki 2010). Despite its contribution in stimulating economic growth and employment, small firms have inadequately developed to produce formal activity firm; and it has been rare for them to grow to a large firm (Biggs and Oppenherm 1986, as cited in Sleuwaegen and Goedhuys 2002). Some studies show that small firms do not grow faster compared to a large firm due number of reasons (Sleuwaegen and Goedhuys 2002).

The Tanzanian government realized how useful SMEs are in economic development and they established Small Industrial Development Organization (SIDO) in October 1973. One of its aims is to assist the development of SMEs in rural and urban places of Tanzania (SIDO n.d.a). It also provides credits to all new and existing SMEs. The Small and Medium Enterprises Development Policy of 2003, which was developed by the Ministry of Industry, Trade and Investment (MITI) was established to support the SMEs. The policy was made to ensure better business environments and to develop the financial and non-financial institutions. Moreover, the policy “serves as a guideline to all stakeholders and thus stimulates new enterprises to be developed and the existing one to grow” (MITI 2003).

SMEs are affected by a number of factors. Some authors believe that their growth is affected by these factors: financial constraints, poor management practice, informal firm, market and competition (Admassie and Matambalya 2002, Bloom et al. 2010). However, other authors like Sutton and Olomi and Zhihua Zeng believe that lack of technology also plays a role in hindering their growth (2012, 2017).

Therefore, from these two debates, the study focuses on understanding the competitiveness and promotion of SMEs. Moreover, the research will adopt the definition of SME from Tanzania under the category of small, medium and large enterprises.

1.1 Background of the Sunflower Sector
SMEs consist of different sectors and sunflower oil processing enterprises are one of them. Sunflower oil is an industrial product produced in Tanzania. In
fact, Tanzania is one of the top ten biggest producers of sunflower oilseed in the world (URT 2016). Production of sunflower oil is extracted from sunflowers which are cultivated every part of Tanzania (RLDC 2008). More than 50% of sunflower is grown in four regions which are Dodoma (22.5%), Kilimanjaro (13.2%), Arusha / Manyara (13.1%) and Singida (8.9%) (RLDC 2008). Additional main cultivating regions are Mbeya, Rukwa, Kagera, Mara, Morogoro, Tanga, Tabora, Ruvuma, Mwanza, Iringa and Shinyanga (Ugulumua and Inangab 2013). About 70% of farmers in Dodoma are engaged in sunflower cultivation because of the reliable market compared to crops like maize (ANSAF 2018:15). However, small-scale farmers account for 95% of the producers work in the sunflower seed cultivation (URT 2016). They grow between one and three acres of sunflower (RLDC 2008).

Tanzania has about 653 small sunflower oil enterprises that are scattered in different parts of Tanzania1 and about 7 large sunflower oil enterprises (Sutton and Olomi 2012). Dodoma, one of the regions, has approximately 269 enterprises (ANSAF 2018). Particularly, Dodoma Urban District has 51 small enterprises (ANSAF 2018). This includes Nyemo Investment, Three Sisters Oil Mill, and Dodoma Sunflower Oil Mills2.

Internal production of sunflower oil in Tanzania accounts for 40% of national cooking oil (Ugulumua and Inangab 2013) with the consumption of about 600,000 MT of edible oil for a year (ASPIRES Tanzania and Dalberg, 2018). This makes the amount produced insufficient to meet the demand of all the community due to the high population. This gap is bridged by the importation of 60% of edible oil including refined sunflower oil which is taxed 25% (ANSAF 2018, URT 2016). This makes Tanzania to incur cost of 120 million USD per year (ANSAF 2018:16). Currently, imported edible oil is ranked to be the second imported product in Tanzania after petrol3. Most supermarkets in Dar es Salaam and Arusha supply refined sunflower oil; they also sell imported sunflower oil (RLDC 2008). Tanzania also imports crude oil for further pro-

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1 List of Industry from year 2000 up to October, 2016 prepared by the Ministry of Industry, Trade and Investment in Tanzania (A Swahili Data Sheet).
2 List of Industry from year 2000 up to October, 2016 prepared by the Ministry of Industry, Trade and Investment in Tanzania (A Swahili Data Sheet).
cessing [for home consumption and as input for making soaps] which has the imposition of 10% tax (ANSAF 2018). In comparison to India, the literature shows that India imports crude sunflower oil rather than refined sunflower oil because of high import duty in refined sunflower (The Dollar Business 2016).

Generally, the market of sunflower oil in Tanzania is within the country and a portion of it is exported to the countries around Tanzania such as Kenya, Uganda, Burundi, Uganda, and Zambia (Ugulumu 2008). Other destinations include Democratic Republic of the Congo (DRC) and Rwanda (URT 2016:18). However, refined sunflower oil is quite limited, thus amounting to less than USD 2 Million was exported in 2014 (URT 2016:18). Although Tanzania is exporting sunflower oil outside the country, many producers’ intention is to meet the internal market (URT 2016:41) with a low level of export.

1.2 Statement of the Problem

Tanzania produces about 40% of edible oil and the remaining 60% is imported from other countries (URT 2016). Some of the imported edible oil includes palm oil from Malaysia and Indonesia and various type of sunflower oils from Ukraine, Argentina, Antigua and Barbuda (ANSAF 2018). Sunflower oil is important for human consumption because it is free from cholesterol and is claimed to be appropriate compared to other oils (URT 2016). The leftover (cakes), after processing the oil is also important as animal feed. Processing firms in Tanzania include small, medium and large enterprises. This sector has been beneficial to rural areas as it provides employment and improves the livelihood of the community. According to the study by Bank of Tanzania, the majority of the processing firms are able to employ less than 10 permanent workers; however, a good number of employees (20-50) in these factories are on temporary basis (BOT 2017).

Tanzania is considered to be the second producer of sunflower seed in Africa amounting to 35.0% (FAO 2015, as cited in BOT 2017:6), yet the potentiality of SME sector has not yet been tapped (BOT 2017) due to a number of constraints they face. Many firms in Tanzania under SMEs sectors are characterized by the hardship of starting business and ability to grow which is caused by lack of finance (Kira and He 2012:111). The main challenge is that they do not have collateral compared to large enterprises and high-interest rates. The
financial gap worsens production and the ability to do well in their involvement in the stimulation of the country’s economy (Kira and He 2012:108). In terms of competition, it is mainly attributed to imported edible oil to suffice the internal demand. Many of the imported products are likely to be good in terms of quality, hence competition in the market.

Furthermore, being an informal enterprise also affects some firms. One of the goals of Tanzania’s government is to overcome the problem of unemployment through developing SMEs. According to a study, it shows that about 700,000 of job seekers, only 40,000 job seekers end up in securing formal jobs and the rest end up in informal jobs, which are dominated by SMEs (Olomi 2005, as cited in Kira and He 2012:108). Informal SMEs exist because of the presence of “tax burden, higher labour costs and difficult licensing policy” (Gauthier and Gersovits 1997 and Rauch 1991, as cited in Sleuwaegen and Goedhuys 2002:120). Although taxes may cost a lot to SMEs, a registered business is on the safe side to enjoy the number of benefits like the acquisition of loans. According to Beck and Demirguc-Kunt (2006), being informal has an impact on securing a loan from financial institutions because they do not have collateral, which is one of the requirements.

Lack of technology also has an impact on the quality of oil produced by small-scale enterprises. Evidence shows that the products of many producers do not meet the standard of the internal and external market. According to the URT (2016), the majority of smaller sunflower producers sell unrefined oil which do not have trademark, this has an impact on price compared to oil processed by large enterprises which are well-packaged and labelled (RLDC 2008). Average retail price for refined sunflower oil is between Tsh 14,000 for local oil (produced by small enterprises); Tsh 19,000 or more per litre for imported oil; and for local unrefined oil is Tsh 10,000. Please see Table 1 below for better illustration.
Table 1: Price of refined vs unrefined; local vs imported import tariffs and quality levels according to international standards

<table>
<thead>
<tr>
<th>SUNFLOWER OIL</th>
<th>PRICE TSH (LT 3)</th>
<th>IMPORT TARIFF (%)</th>
<th>QUALITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local refined sunflower oil</td>
<td>14,000</td>
<td>-</td>
<td>Meets international standard</td>
</tr>
<tr>
<td>Local unrefined sunflower oil</td>
<td>10,000</td>
<td>-</td>
<td>Does not meet international standard</td>
</tr>
<tr>
<td>Imported refined sunflower oil</td>
<td>19,000</td>
<td>25</td>
<td>Meets international standard</td>
</tr>
<tr>
<td>Imported crude oil</td>
<td>NL</td>
<td>10</td>
<td>Does not meet international standard</td>
</tr>
</tbody>
</table>

*Source: Author’s data collected on August, 2018

*NL – No price because crude oil is imported in bulk for further refining process. The price is set after the refining process.

Other authors believe that the absence of linkage among small and large enterprises (Zhihua Zeng 2017:10), plus, the habit of utilizing the “recycled oilseed”, which gives low production (Sutton and Olomi 2012:42), affects the sunflower sector. It further witnessed that there is absence of “good linkage” among the large refining processors and small processors (Zhihua Zeng 2017:10). Hence, leads to a weak relationship.

Moreover, large enterprises also face constraints such as the ability to meet quality standard for the exported products; and the delay on the importation of raw material at the harbour, which leads to high storage costs (Sutton and Olomi 2012).

1.3 Relevance and Justification of the Study

Most developing countries are facing the problem of unemployment. Many consider SMEs to be the solution to this problem because SMEs demand more labour and there is a greater supply of skilled and unskilled labours in developing countries (Admassie and Matambalya 2002). Thus, SMEs are labour intensive because they act as a source of employment with little investment needed. Due to the present employment level, which is 10.7% (TNBS 2018), majority of unemployed people decide to engage in entrepreneurship under SME sectors (Nkonoki 2010).
SMEs are also important for ensuring sustainable global and regional economic recovery. Its importance has been recognized by the World Bank Group whereby the World Bank review on Small Business Activities assigned the World Bank Group to establish SME sector so as to stimulate economic growth, employment, and poverty alleviation (Ayyagari et al. 2007). Due to this, during the year 2004 the World Bank Group authorized roughly 2.8 billion dollars for the SME sector (Ayyagari et al. 2007).

Particularly, in Tanzania, many believe that SMEs is an important sector because it has led to the contribution of about 30% to 35% of GDP with the creation of employment rate more than 50% (Assafa and Hallberg, as cited in Admassie and Matambalya 2002). Small-scale oil enterprises have been a source of employment; led to rural industrialization; stimulates economic growth, and poverty alleviation (M pangile et al. 2008 and Ziliona et al. 2013 as cited in RLDC 2008). The sector is confronted by a number of challenges, which have an impact on their growth and market accessibility. The significance of domestic edible oilseed is not yet identified because of lack of policies, strategies, and programme to protect the sector (TEOSA 2012). According to TEOSA (2012), there is a problem of a clear policy and regulatory framework, which can protect the infant industries from unfair competition originating from the importation of products. Furthermore, there is also little promotion of sunflower products to the Tanzanian population, which has resulted in the shortage of public knowledge over the worth of sunflower oil (URT 2016). Also, consumers do not know the advantage of sunflower oil, for example, how it is cholesterol-free (URT 2016).

Some efforts have been done by government together with other stakeholders to manage the competitiveness of domestic sources such as edible oil to import substitution (TEOSA 2012). The aim of this is to protect the infant domestic industries by producing the same products that a country used to import from other countries. This was seen to be the best way to help the growth of small industries, yet its implementation seems to be difficult.

Therefore, the focus of this research is to investigate the factors affecting SMEs and large enterprises; the role of the state; and the objective of improving the competitiveness and the promotion of SMEs. To date, many researchers have focused on the factors that hamper the growth of SMEs. Thus, this
research will contribute to the debate by further identifying the relationship between small and large enterprises; plus, a suggestion of different options to be adopted by the government.

1.4 Research Objective
The research objective is to understand the competitiveness and promotion of SMEs.

1.5 Research Question
What are the constraints of the growth of SMEs sunflower sector in relation to the situation facing larger enterprises and how might the state best alleviate them?

1.5.1 Research Sub Questions
a) What are the internal and external factors that hinder the growth of SMEs and large enterprises?
b) What is the nature of the relationship between SMEs and large firms?
c) Is the state effectively addressing the concerns of all firms in the sector?

1.6 Limitations of the Study and Challenges Encountered
During the data collection, the questions that I administered to the interviewees were translated into Tanzanian language, which is Swahili because some communities were not fluent in speaking English.

In addition, on 8th August each year, Tanzania celebrates agricultural fair which is known as *Nane Nane* in Swahili – which normally starts from 1st August to 10th August. This fair is an opportunity for farmers and entrepreneurs to have access to market because they get a chance to display various products they produce. Most of the sunflower oil producers participated in the fair, where I was able to meet them and interview some.

One challenge I encountered is the tendency of a few enterprises to switch off their phone when the time for appointment arrives. I was not familiar with the location of some enterprises, so I had to make an appointment of the place
where they can pick me up to for the interview. Due to this challenge, I was forced to find substitutes for the enterprises that I failed to interview.

1.7 Structure of the Paper

This paper is structured in seven chapters: Chapter one is Introduction of Small and Medium Enterprises (SMEs), Background of the sunflower sector, Statement of the problem, Relevant and Justification of the study, Research objectives, Research question, Research sub-question, and limitations. Chapter two is Theoretical and Conceptual Framework; Chapter three is method and methodology. Within it there are sample selection, tool for data collection, scope and focus of the study, and data analysis; Chapter four comprises a literature review of the sunflower sector; Chapter five consists of finding of the study both primary and secondary data; Chapter six includes the initiatives taken by government; Chapter seven is the conclusion and implication; and finally, list of questions asked to the respondents and list of references.
Chapter 2: Literature Review on Theoretical and Conceptual Framework

2.1 Introduction

This chapter is all about the literature review, which includes the theory of growth and the concept of entrepreneurship.

2.2 Theoretical Framework

2.2.1 Theory of Growth

Theory of growth of a firm explains that in order for firms to experience rapid growth, they need three components which are starting resources of entrepreneurs; the firm; and strategy. The three components depend on each other and they need to join properly to allow the rapid growth of the firm to be achieved (Storey 1994). This can be depicted by the diagram below whereby the shaded part is where the three components meet together and it consists of a small part of every component identified which are strategy, firm, and resource.

![Diagram of Growth in small firm](source)

**Figure 1: Growth in small firm (Source: Storey 1994)**

The three components consist of various numbers of elements, which can be tested to measure the impact of the operation of the firm (Storey 1994).
Firstly, the elements under the component of **starting resources of entrepreneurs** include motivation, education, training and functional skill. With the given elements, it conveys that individuals who have a “negative motivation” – those who started business due to unemployment – are less to experience rapid growth compared to those with “positive motivation” – those who started business due to fascination and sincere interest with the market opportunity (Storey 1994:128). Furthermore, it is assumed that businesses can grow faster if the owner is employed because it is presumed that they have ambition to make their business grow compared to unemployed ones (Storey 1994:128).

Secondly, in the elements under **firm**, the following are included: age sector, legal form, location, size, and ownership. These are the characteristics that explain the firm as a result of the choices made by the entrepreneur (Storey 1994). It is suggested that a young firm grows fast but this is measured by the location where the firm is established (Storey 1994) basing on the entrepreneurs’ decision while focusing on market accessibility. For example – in the United Kingdom, a firm that is based in a rural area possessed high employment rates compared to those in urban areas or in remote rural areas (Storey 1994). Moreover, the growth can also be experienced by a group rather than on an individual basis (Storey 1994). It is argued that there is upper growth rate of the smaller firms that are component of large multi-plant firm compared to single establishment firm (Variyam and Kraybill 1992 and Dunne, Roberts and Samuelson 1989 as cited in Storey 1994:143).

Lastly, the elements under **strategy** include workforce training, state support, competition, technological sophistication, exporting, market positioning, and new products (Storey 1994). The strategy here focuses more on asking the question. For example, with the identified characteristics of entrepreneurs and firm what are the managerial function to be considered when firm start to operate so as to stimulate the rapid rate of growth (Storey 1994). The rapid growing firm occurs if the firm made choice on marketing position by using sophisticated technology and readiness of producing new products (Storey 1994).

An argument raised by Storey is derived from Scott and Bruce (1987) who claimed that the growth of a firm is related to the stages model whereby a firm moves from one stage to another that is from the inception stage up to maturity stage. The five stages include inception, survival, growth, expansion and fi-
nally maturity. In contrast to these, Storey (1994:22), argued on the stage model of SME development, that there are some firms who cannot pass all the five stages. This is due to failure at the early stage of business establishment and some do not want to grow like survival entrepreneurs, whose intention of existence is to simply meet the basic needs of the household. Moreover, the growth of the firm can affect different typology of entrepreneurs, which are Survival, Growth and Constrained Gazelles entrepreneurs. These will be explained further below.

2.3 Conceptual Framework

2.3.1 Entrepreneurship

Entrepreneurship is considered to be an alternative to employment in Tanzania. A majority opts for entrepreneurship due to lack of jobs. An entrepreneur is “someone who causes continual disequilibrium in the economy through creative destruction that is a radical innovation which leads to more efficient allocation of factors and hence improves productivity’’ (Naudé 2011). Different authors have different perspectives on entrepreneurship on stimulating growth. Poor countries believe that entrepreneurship is the only means which can help them to develop. Therefore, there is a need for a poor country to embrace it so as to stimulate growth, hence it is a “binding constraint’’ (Naudé 2011). There are two perspectives in this debate – one is that entrepreneurs stimulate economic growth and development hence they are considered “hero’’ (Naudé 2011). Therefore, they need to be valued since they can bring about changes. The other perspective is that entrepreneurship is not a major driver of an economy – which will be expounded more below.

In contrast, development economist has little concern about entrepreneurship. Following the study done by Leff about entrepreneurship and economic development, it is argued that “entrepreneurship is no longer a problem’’ or a “relevant constraints on the pace of development in developing countries’’ (Leff 1979, as cited in Naudé 2011). Besides this, their view is on the identification of the entrepreneurs in developing countries are in the informal or survival sector; and may not have an effect on preventing the development because they are not considered as the driver of economic growth but they are a sign of limitations in the economy (De Paula and Schinkma, as cited in Naudé 2011). This is
due to their nature, which is necessity-driven. They are regarded as a sign of other limitations because they do not benefit from some opportunities like the accessibility of credit since they are informal and they do not have collateral, which is a requirement for credit acquisition (Ayyagari et al. 2007). Hence, lack of entrepreneurship is not a requirement for development, but there are different factors that limit the economic growth such as lack of property rights and risk-taking (Naudé 2011).

Different studies recognize different types of entrepreneurs whereby Berner et al. (2012) identified two types of entrepreneurs as survival and growth-oriented entrepreneurs. Survival entrepreneurs are regarded as a type of entrepreneurs, which are necessity driven because they engage in a business for the sake of meeting the basic needs of the household. On the other hand, growth-oriented entrepreneurs are opportunity driven entrepreneurs since their intention is to expand business and at the same time to improve the living standard of the household.

Furthermore, Berner et al. (2012) explains the two types of entrepreneurs can be identified by different characteristics. Survival entrepreneurs start with one or two workers and when they start the business, it is informal and continues to remain informal. They do not like to expand business but instead, they prefer to establish new business. Little capital is needed to become a survival entrepreneur and there is an easy entry. Usually, survival entrepreneurs are within the family network and women engage in this type of entrepreneurship. For growth-oriented entrepreneurs, it is characterized by restriction for entry. When they start as informal, they eventually succeed and they become formal. Growth-oriented entrepreneurs are ready to take a risk and they have the intention to expand. They are also attached in the business network. Lots of growth-oriented entrepreneurs are male.

From this debate, Grimm et al. (2012) focused beyond the two typologies and introduced a third type of entrepreneurs called constrained gazelles. It is coined as constrained gazelles because the entrepreneurs’ intention may be to grow but due to some circumstance associated with different factors like lack of capital; insurance and productive infrastructure”, lack of education, then they fail to move from one step to another.
2.4 Conclusion

The chapter has explained more on the criteria for the growth of firm basing on the elements under the three components of the theory of growth, which are firm, entrepreneurs and strategy. In addition, the theory of entrepreneurship tells more on the different perspectives of the scholars on entrepreneurship whereby some believe entrepreneurs are considered a “hero” and some believe they are not a source of economic growth. Finally, the typologies of entrepreneurs basing on their characteristic are also identified. This leads to the next chapter of methodology for collecting data to prove the theories.
Chapter 3: Research Methods and Methodology

3.1 Introduction

This chapter presents the methods and methodology used in collecting data. It consists of sample selection, tools for data collection, scope and focus of the study and lastly, data analysis.

3.2 Sample Selection

The research applied both qualitative and quantitative methods of research. A sample population of small enterprises is 51 small industries located in Dodoma Urban District. The sample size is ten enterprises, including three enterprises that refine oil and seven enterprises that do not refine oil. I selected them based on the number of the employees they have, especially those employ 5 to 49 people, which are under the category of small enterprises. The list of the SMEs to be interviewed was provided by SIDO and MITI. Since some of the SMEs did not seem to exist, the snowball method of identifying respondents was used to identify new SMEs. Snowball is one of the non-random sampling strategies used to assemble a sample. It is used to develop a sample via recommendation i.e. when the first respondent is obtained, then he or she gives other respondents who fit the requirement of the study (O'Leary 2014).

Other respondents were selected using a purposive sample. Purposive sampling is conducted for a reason – it focuses on choosing the sample for a certain reason (O'Leary 2014). I selected three large enterprises that are refining sunflower oil. The selection was based on the district where they are located and the quality of oil they produce. In addition, I included eleven end-users of sunflower oil; one marketing manager from Tanzania Engineering Manufacturing Development Organization (TEMDO); and finally, three farmers as the producers of sunflowers were also involved.

3.2.1 Selection of Key Informants

O’Leary argued that key informants are individuals with either detailed information or knowledge related to the researchers’ topic and they are free to share the information with a researcher (2014:191). Also, they are considered to be one of the primary means of getting data (O’Leary 2014:192). Informant selec-
tion was based on two categories. The first category was on those who have experience but not an expert on the sunflower and SMEs sector; the second category was based on those who are experts on my research topic. The key informants I interviewed were three policymakers from the central government that is the MITI and three officers from SIDO.

3.2.2 Sample Frame
The sample frame is a record that consists of each member of the population where the sample population will be obtained – it is important to the entire sampling process (O’Leary 2014:184). The common sample frame I used was the established survey with the list of the number of the small sunflower oil enterprises obtained from the MITI and SIDO.

3.3 Tool for Data Collection
This research used data collected from both primary and secondary source of data.

3.3.1 Primary Data
Primary data are data gathered by a researcher for their own reasons. They are first-hand information and collected for a particular matter that the researcher is investigating (O’Leary 2014:201). Tools for collecting primary data were survey and interview. A survey is a method of gathering data using questions which are given to a series of individuals depending on their characteristics, attitude, with the aim of getting their views (O’Leary 2014:202).

A survey method was implemented through the formulation of questionnaires, which were administered to the respondents via face to face survey. The study administered questionnaires to the eleven consumers of sunflower oil. I choose questionnaires because I needed to reach many responded so that I can be able to compare their views. Questionnaire is considered to give a chance of covering large number of respondents and it gives a flexibility of the respondent to answer the question at the anytime they feel (O’Leary 2014:204). Basing on my topic, I needed various perspectives from different groups of people about the sunflower sector. Hence, it is the best way that can provide for comparison. In addition, it can stand for a large population and be able to general-
ize the result; it also provides for confidentiality and anonymity. Finally, it can generate qualitative data through the formulation of open-ended questions (O'Leary 2014:204).

The second method was an interview. According to O'Leary, the interview is a method of data collection whereby a researcher is looking for open-ended information aligning to the number of questions, topic areas or themes (2014:217). For this study, I used an in-depth interview per individual. An in-depth interview is a one to one method of gathering data whereby an interviewer and interviewee meet together and discuss on the particular matter in deep (Hennink et al. 2010). I choose in-depth interview to policymakers and officers from SIDO as key informants because I wanted to get detailed information on the sunflower oil and SMEs sector. Hennink et al. (2010) claimed that the reason for using in-depth interviews to acquire deep understanding of the matter through semi-structured interview guide. Interview guide consists of a number of questions which interviewers use like “a memory aide” when doing an interview (Hennink et al. 2010).

In addition, the semi-structured interview was conducted to three large enterprises; ten small enterprises; farmers and TEMDO. The semi-structured interview focuses on the flexible structure. The interview can begin with an identified questioning plan but can jump to have a natural flow of discussion (O'Leary 2014:218). The advantage of this method allows gathering of planned and unplanned data that appear to be attractive (O'Leary 2014:218). All the data obtained via interview were recorded by a researcher in form of note-taking.

3.3.2 Secondary Data

These are second-hand information or data collected by other people. According to O'Leary (2014), secondary data are data that are available in documents, databases as well as on the internet. Therefore, the researcher does not generate them but they are available for the researcher to collect and analyze (2014:243). I also used secondary data for my research. I obtained various documents from the government office and organizations.
3.4 Scope and Focus

The focus area of the research is Dodoma Urban District or Dodoma Municipal Council. It is one of the seven districts located in Dodoma Region among with Kondoa, Kongwa, Mpwapwa, Chamwino, Chemba and Bahi. It is bordered to the West by Bahi District and to the East by Chamwino District (Wikipedia 2017). Following the 2012 national census, the district has a population of 410,956 people. In terms of size, the area is 2,576 km². Moreover, the district is divided into 37 Wards (Wikipedia 2017). The residents of Dodoma Region are referred to as Gogo. Dodoma Region is known as the National Capital City of Tanzania as well as the Capital of Dodoma Region (UNjob n.d).

The criterion that was used to select the Dodoma Urban District among the seven districts is due to the availability of small sunflower processing industries. Dodoma has about 50% of farmers who are involved in the production of oilseed (Zhihua Zeng 2017). This is a sign that there is a high production of sunflower oil in Dodoma and its districts. Another reason is due to my limited finances, because visiting industries in other regions require more transportation costs. This is the reason why I defined the boundaries of my research in the district level where the costs are a bit lower compared to other regions.

Map 1: Map of Dodoma Urban District located in Dodoma - Tanzania

Moreover, the study focused on SMEs who employ 5 to 49 employees; medium enterprises employing 50 to 99 employees; and large enterprises which employ 100+ employees because the majorities are formal and they were easy to be identified for sample selection.

The study also covers a few elements required for the growth of SMEs from each component to test the theory of growth as explained by Storey. The reason for selecting a few elements is to make the research manageable. The selected elements that were measured are the following: ownership, motivation for starting a business and sophisticated technology under the components of the firm, entrepreneur, and strategy respectively.

3.5 Data Analysis

The data gathered were in Swahili; therefore a translation to English was carried out. Names were removed to ensure anonymity of the small enterprises and large enterprises that were interviewed. Thereafter, the qualitative data was analysed using content analysis. Context analysis is among the research method applied in analysing text data (Hsieh and Shannon 2005:1278). Text data may be attained via survey question, interview…or print media like books (Kondrack and Wellman 2002, as cited in Hsieh and Shannon 2005).

The data collected were grouped into themes basing on the research sub-questions. Content analysis focuses on “interpretation of the content of the text data through systematic classification process of coding and identifying themes or pattern” (Hsieh and Shannon 2005:1278). The reason for using content analysis is to acquire enough knowledge and clear understanding of the studied sector of sunflower. The aim of content analysis was to give awareness and an insight into the incident investigated (Downe-Wamboldt 1992, as cited in Hsieh and Shannon 2005). For the quantitative method, the data obtained were summarised and entered into Microsoft Excel 2007 and explored through tables and graph using excel.
3.6 Conclusion

The chapter has explained how the data were collected using questionnaires and interview and how they were analyzed. The next chapter gives more detailed information on the sunflower sector.
Chapter 4: Introduction of the Sunflower Sector

4.1 Introduction

Prior to analyzing the findings of the study, it is necessary to outline the nature of the sector. This chapter entails information of the sunflower sector globally, the key players and the market. Moreover, the production process of sunflower seeds and sunflower oil together with the factors that hinder the growth of SMEs are also explored.

4.2 Overview of the Sunflower Sector

4.2.1 Globally

The significance of edible oil is known around the world, it acts as an important ingredient in cooking. Additionally, it is used for producing other products like soaps and fuels. Demand and supply factors have an impact on the edible vegetable oil industry. Food and Agriculture Organization of the United State (FAOSTAT) reported that vegetable oil for human consumption has raised by 48% from 1995 to 2011 (Biomedical 2018:1). The growth in income has encouraged the increase in demand, while the use of advanced technology in production has led to an increase in the supply of sunflower oil (Biomedical 2018). Worldwide production of vegetable oil has been increasing each financial year, in 2017/2018 production was 197.23 million MT compared to 2016/2017 which was 189.16 million MT (Statista 2018). However, for the past several years, global production of vegetable oil faced challenges of growth. Furthermore, from 2007 the production of vegetable oil production rose by more or less 5% and decreased in 2012/2013 (Statista 2018).

According to the analyst of oil world (Germany), statistics show that in 2017/2018 World production of sunflower oil was 9% of the overall volume between the ten oil seeds and it takes the third position in the world after soybeans and rapeseed (KGMP n.d). There are a few major exporter and importer countries of sunflower oil in the world. Some studies show that during the financial year 2016/17, the biggest global exporters of sunflower oil were Ukraine and Russia while the main importing countries were India followed by China, Turkey, and Spain (India Government 2018). Global production of sun-
flower seed oil worldwide was 15.37 million MT in 2015/16 (KMEC n.d). It is forecasted that the increase of sunflower production in 2017/2018 should be +0.5 million MT in Argentina, +0.2 million MT in Turkey; +0.1 in China and Russia whereby there will be fall in Ukraine by 1.2 million MT and Canada by 0.4 million MT (KGMP n.d).

4.2.2 India

Edible oil shortage is a challenge to both African and Asian countries – for example, India is obliged to import a huge amount of sunflower oil to satisfy the demand of the increased population and to improve the nutrition standard (IDRC n.d). The importation is because, the demand for sunflower oil is high compared to the supply. Following this situation, India depends on the supply of edible oil from Indonesia (36%), Malaysia (23%), Argentina (17%) and Ukraine (13%). Only 67% of edible oil is imported whereby the remained amount is produced inside the country (The Dollar Business 2016). Although it imports crude sunflower oil from the mentioned countries, Ukraine has become a monopoly of India’s market in crude sunflower oil because they have the best quality of oil produced, which is not too black compared to the crude sunflower oil from other countries (The Dollar Business 2016).

Importers of crude and refined sunflower oil pay import duty of 25% and 35% respectively (IIFL 2017). The reason for introducing duty structure on edible oil is simply to protect domestic refining industries (Food Agriculture Organization 2011). Taxed imposed allows in creating an internal market for the locally produced oil because the domestic refined oil does not have competition from refined sunflower oil produced outside the country. Importers in India find it better to import crude sunflower oil compared to refined sunflower oil due to high import duty imposed on refined sunflower (The Dollar Business 2016). Hence, the business of imported crude sunflower oil continues to flourish in India compared to refined sunflower oil. Apart from importing sunflower oil, it also exports refined oil to countries like Singapore and Colombia (Seair 2016).
4.2.3 Kenya

Kenya’s economy depends on the agriculture sector, which contributed to about 27% of GDP in 2011 (Maina 2016:1). Vegetable oil is among the important subsectors of agriculture and essential both for consumption and as an input in making industrial products like cosmetics; and pharmaceuticals (Maina 2016). Kenya has about 30 vegetable oil refineries and most of them are located in Nairobi and Mombasa. The big share of the quantity of oil produced by manufacturers is sold internally (Maina 2016).

The quantity of vegetable oil that Kenya produces cannot suffice the entire population because of the increased consumption to 8 billion Kenya Shillings (Maina 2016:10). Therefore, the only solution which processors opt is “to import cheaper oil rather than processing locally produced grains”[4]. Hence, each year Kenya spends 50 billion shillings to import 600,000 MT of vegetable oil (Maina 2016). The reasons for the insufficient production are attributed to the poor quality of oilseed, which has an impact on the quality of oil produced. Together with the problem of the processing machines that are not decentralized enough to accommodate those who are in isolated cities[5]. Kenya makes 90% of import of vegetable oil from Malaysia with the rest portion from India, Indonesia, Italy, Singapore and Brazil (Ministry of Agriculture, as cited in Maina 2016). It also exports processed vegetable oil to East Africa, South Africa and Horn of African countries and in European markets like Netherlands, Germany, United Kingdom, and United State (Maina 2016, Ugulumu 2008). Kenya is ranked the 15th world exporter of vegetable oil to countries such as Netherlands, United Kingdom, and Germany (Maina 2016).

4.3 Production of Sunflower Sector

4.3.1 Key players on sunflower

The three key players in the sunflower sector are the following: suppliers, producers, and consumers. Suppliers are farmers who produce sunflower and sell them to oil processing industries [producers] or to the exporters. After they

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process the sunflower, they produce oil and sell [to consumer] locally via a wholesaler (Sutton and Olomi 2012). Farmers include both small and large farmers. Processing industries are considered the large and small enterprises. These players depend on each other; if one player encounters a problem then the problem then it impacts the other players.

4.3.2 Market of sunflower oil

The market of sunflower oil has two players: the buyer, and the supplier. The suppliers are the small and large enterprises while the buyers are the consumers. In Tanzania, the market demand for sunflower oil is largely dominated by crude sunflower oil as well as imported palm oil. One policymaker said that:

There is a greater market opportunity for crude sunflower oil because of its low cost of production and price6.

Many of the consumers are forced to buy crude oil and palm oil because of the low price they possess. For that case, they depend much on sunflower oil produced by small enterprises and imported palm oil. Few of them can afford refined sunflower oil from large enterprises and those found in the supermarkets that are mainly imported from other countries.

4.3.3 Production process of sunflower seed

Production of sunflower seeds involves four phases namely “growing and harvesting, separating the seeds, roasting and finally packaging” (KMEC n.d). The planting and growing phase deals with the production of sunflower seeds which start in early spring. The germination of the seeds requires soil just with enough moisture. The seeds are protected from fungi using pesticide prior to sowing them in soil (KGMP n.d).

Growing of sunflower is weather dependent. For example, in places with heavy rainfall, the planting begins at the end of January up to February while in places with short rainfall like Singida, Dodoma, and Tabora in Tanzania plantation takes place between December and January each year7. Sunflower seeds to be harvested are recognized by the change of black area of the heads to brown

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6 Personal interview with a Policymaker on the constraints of the growth of SMEs, at the Ministry of Industry, Trade and Investment, Dodoma, August, 2018
7 Best Agronomic practice on sunflower, prepared by Agricpays on September, 2017 presented in Swahili
(KGMP n.d). In Dodoma, the harvesting of sunflower is done in April each year and after the harvesting, the seeds are dried. Next in the process is the separating of seeds. The seeds are cleaned to eliminate dust and other impurities. Lastly, the seeds are roasted to lower the moisture level. Then the seeds are packed to make sure that no air can penetrate to prevent them from being rotten (KGMP n.d). At this stage, the seeds are then ready to be sold to small and large enterprises.

4.3.4 Production process of sunflower oil

Sunflower is a potential crop that produces sunflower oil from the extraction of sunflower seeds. Production of sunflower seed oil undergoes six manufacturing process which are cleaning the seeds, grinding the seeds, pressing, extracting crude oil, remove solvents and refining (KMEC n.d). The diagram below illustrates the six stages.

**Figure 2: Sunflower Oil Manufacturing Process Model**

![Sunflower Oil Manufacturing Process Model](image)

*Source: Author’s constructed drawing*

Figure 2 above demonstrates the sunflower manufacturing process, which starts with the cleaning of the seeds. This is done by taking away dirtiness using cleaning sieve and destones. Thereafter, a de-hulling process takes place to get pure seeds. Second, the seeds are ground. The de-hulled seeds are crushed to a similar elements. The third process is pressing – whereby the oil is compressed out through slots that are in the barrel and recovered. Fourth, additional oil is extracted from oil cakes in order to obtain enough oil. After this, solvent traces that remained from oil are removed. Lastly, the refining process occurs, which deals with the treatment of sunflower oil to eliminate “bitterness, colour, and
odour” (KMEC n.d). The refined sunflower oil is now ready to be sold to consumers who are the end-users. The mode above recognizes the steps of manufacturing up to the refining process while the majority of the small enterprises are incapable of reaching that stage. This implies how important the refining process is, but due to the lack of advanced machines, most of SMEs fail to reach that stage. The role of the government is recognized in each sector including on sunflower sector. Through the government slogan known as “industrial economy”, the government is putting extra effort to meet its mission of making Tanzania become a country of an industrial economy by 2025.

4.4 Factors that hinder the Growth of Small and Medium Enterprises (SMEs)

4.4.1 Internal factors to SMEs

4.4.1.1 Lack of technology in terms of machinery

Sunflower oil sector is essential in improving the livelihood and welfare of poorer households (UNIDO 2016). A small-scale producer extracts sunflower oil and sells them after they are purified. It enables them to earn some income. However, only a few of them have benefited from the production of sunflower oil by either improving the quality of oil they produce or by increasing the quantity of oil (UNIDO 2016). This is aligned with the quality of technology used because some of the factors that lead to low productivity and poor quality are due to lack of machinery (UNIDO 2016).

Lack of technology or advanced machineries is a major concern for SMEs in Tanzania. Technology or machine is essential for small enterprises as it allows them to fight against their competitors, enable SMEs to increase the quality of products and to lower the costs of production (Bhalla 1992:83). However, many SMEs fail to have better technology that can produce qualified products (Maina 2016). The presence of TEMDO has helped to initiate the design of the machine for refining cooking oil named as oil expelling and refining plant. Generally, oil processing is a capital-intensive venture and it needs the

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* Budget Speech of the Ministry of Industry, and Trade for the Financial Year 2015/2016 presented in Swahili
use of advanced technology with the specialized skill on how to use them (Maina 2016).

Particularly, large enterprises such as Mount Meru Millers Limited and Murzah Oil Mills Limited refine sunflower oil (RLDC 2008:12), with the refining capacity of 20,000 and 60,000 MT respectively (Sutton and Olomi 2012:41). This is because they possess advance machineries compared to small enterprises. The small enterprises have faced challenges of acquiring these machines due to the high costs. Thus, the quality of the oil extraction that they produce is of lesser quality (Sutton and Olomi 2012, Zhihua Zeng 2017). The price of the machines depends on the capacity of the machine – there are some that cost Tsh. 75 million and other cost about Tsh. 35 million. The best types of the machine include “Kumar X1T” made from India, 6YL-118 and 6YL-120 made from China are used by medium enterprises because they have a high capacity of operating 100 bags of sunflower and above compared to 6YL95 which can operate 30-90 bags of sunflower.

4.4.1.2 Running informal
Informal firms run their business without being registered by the given authority. Majority of the firms prefer to be informal with the intention of avoiding taxes because they see it as a burden (Gauthier and Gersovitz, 1997 and Rauch 1991, as cited in Sleuwaegen and Goedhuys 2002). Formal firms pay a number of taxes issued by responsible authority. Hence, this discourages some informal firms to become formal. For example, some businesses have low capital investment, so transforming into a formal sector will incur them more taxes. For instance, a survival entrepreneur is considered as an informal firm. Although some firm prefers to be informal, it hinders their growth because it acts as a barrier for them to access formal banking sectors including the benefit for the public administered employee – which are essential tools for growth stimulation (Sleuwaegen and Goedhuys 2002). Hence, formalization of a firm eventually becomes useful after being informal for a certain period of time.

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9 Budget Speech of the Ministry of Industry, Trade and Investment for the Financial Year 2018/2019 presented in Swahili
10 List of Processors with types of the Machines and their Capacity per bags prepared by SIDO
In order to achieve the goals, strategies need to be established (Ian Burke and Jarratt 2004:127). Some strategies include making informal businesses to formal firms. The Tanzanian government has established various programs to support SMEs sectors such as National Strategy for Growth and Poverty Reduction (NSGPR I and II). The program aims to alleviate poverty in the country by 2025 (Kira and He 2012:108). Among the sector engaged in this strategy is an informal sector because, formal sector is considered to be as means of capital acquisition (Kira and He 2012). Focusing on the sector, it helps to accelerate the improvement of the sector occupied by low-income earners, which are mostly not valued in the economic activity (Kira and He 2012:108).

Moreover, a program on property and business formalization was introduced to formalize informal businesses. This led to the improvement of services so as to stimulate economic growth and to enable them to be in the business (Kira and He 2012). Furthermore, it enabled the establishment of property rights and business rule, which gives an opportunity of being in the market and to acquire loans via the asset they possess (Kira and He 2012). In financial year 2017/2018, Business Registration and Licensing Agency (BRELA) sensitized small industries to register their business. About 429 small enterprises in the different regions registered their businesses11. Apart from formality being essential to SMEs, it is also essential to the government since it acts as a source of revenue through tax collection.

4.4.2 External factors to SMEs

4.4.2.1 Competition

Competition is common in the market whereby the producer competes with a similar firm, in order to control the market price by improving the quality of the products they produce. According to Alvarez, if a firm needs to acquire external market, they are supposed to upgrade their products to technology that can improve the quality of the product (2004:387). As mentioned by Gereffi (2014), upgrading can be in the form of products or process and functional. Process upgrading is referred to as the changing of input to output more efficiently due to the use of superior technology; and functional upgrading is

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11 Budget Speech of the Ministry of Industry, Trade and Investment for the Financial Year 2018/2019 presented in Swahili
related with achieving new function that can lead additional overall skill of the activity, which can lead to a new sector.

Competition and competitiveness are commonly used interchangeably. The growth of enterprises from a lower level to a higher level depends on competitiveness. However, competitiveness is associated with the business environment offered by the particular authority such as the local government (Farbman and Lessik 1989). Each enterprise needs to be treated differently depending on their priorities. Farbman and Lessik (1989) argued that “there must be specific policy targeting each category of enterprises” that is survival category require development strategies which will raise demand whereby the SMEs will need the policy which will lower down the high taxation and overcoming the registration difficulties. Competitiveness can also be achieved through networking where the knowledge and learning concerning the global chances can be obtained hence stimulating the SMEs to join the global market (Andersen and Buvik 2002, Ellis 2000, Sharma and Johanson 1987, as cited in Senik et al. 2011).

The business environment is still not that attractive – local products like sunflower oil compete with similar imported commodities. This affects infant industries in many developing countries. Imported refined oil has better quality thus, suppresses the domestic demand because some consumers prefer to buy imported oil due to the good taste they possess and quality, despite its high cost.

4.4.2.2 Financial problem

New or existing firms with enough capital have greater opportunity to succeed unlike the ones without enough funding (Kuzilwa 2005:137). With enough capital, a firm can expand its business within the sunflower sector. They can buy grains during the harvest period from the farmers and even increase the number of the labor force needed to increase productivity. The firms access capital from financial institutions, yet they encounter difficulties in accessing the loans. For instance, SMEs in Bangladesh are essential in stimulating economic growth – helping provide employment and eliminate poverty (Hasan and Jamil 2014:48) but they encounter challenges in credit. This makes the stimulation growth on this [SMEs] zone unfriendly and difficult (Hasan and Jamil 2014:45),
hence, SMEs continue to be a weak sector due to the presence of fewer firms that carry on (Kira and He 2012:109).

In addition, commercial banks give loans to bigger formal enterprises. This is mainly because they possess collateral and banks believe that there will be fewer risks (Kuzilwa 2005:134). This is in comparison to informal small enterprises that do not have collateral. With collateral, banks can hold the asset once a firm fails to repay the loans. This is the reason why banks prefer loaning to those with collateral. Aside from this, high-interest rates and cumbersome procedures hinder SMEs from acquiring a loan. Particularly in Tanzania, there are a number of financial institutions, which includes National Microfinance Bank (NMB) and Cooperative for Rural Development Bank (CRDB). Despite the availability of these financial institutions, they have high-interest rates and difficult loan procedures, which becomes a challenge for SMEs.

4.5 Conclusion

The chapter shows that SMEs are still facing a numbers of challenges. Although there are many factors, the next chapter of the findings will suggest more about the common factors which affect them.
Chapter 5: SMEs and Large Firms-Duality or Synergies for Development: A review of Findings

5.1 Introduction

The chapter goes through to analyse the market for SMEs and large enterprises. It will explain two narratives, first one is about the constraints of the growth of SMEs related to situation facing large enterprises and the second one is about the interaction between them.

5.1.1 Narrative on the Constraints of the Growth of SMEs related to Situation Facing Large Enterprises

5.1.1.1 Challenges facing SMEs in sunflower sector

After having a clear understanding of the production process and the market of sunflower oil, key factors affecting the growth of SMEs as related to large enterprises will be explained below. I compared large and small enterprises and I found out that these categories each encounter different factors.

Beginning with the internal factors, by observation, the study found that small-scale enterprises undergo only four stages of the production process of sunflower oil that is up to the solvent extraction. Only few enterprises are capable of implementing up to the final stage of refining sunflower oil, which is mostly implemented by large enterprises. Sutton and Olomi (2012) argued that the technology used by small processors provides poor quality of oil extraction. This was definitely aligned with the views of one of the policymakers who identified that small enterprises face a technological problem because of the high cost of the refining plants\(^\text{12}\) hence, hard to be able to yield to high quality oil. According to the study done by Zhihua Zeng (2017), he claimed that small enterprises face the challenge of obtaining machinery due to high cost. From an interview with one of the Marketing Manager from TEMDO, he stated that

\[\text{“The estimated cost of refining plant designed in Tanzania by TEMDO is ranging from Tsh 13 to 20 Million while the imported ones cost about Tsh.80 Million”}(\text{Marketing Manager 2018, personal interview}).\]

\(^\text{12}\) Personal interview with a policymaker on the constraints of the growth of SMEs, at the Ministry of Industry, Trade and Investment, Dodoma, August, 2018
I find that this is not affordable for the small enterprises, considering that majority have insufficient working capital. Technological sophistication is one of the elements under the strategy component of the theory of growth, which can play part for the firm to grow. However, the findings suggest that the majority of SMEs cannot afford new machines and consequently, a failure to fulfil the requirement for growth as suggested by Storey.

**Figure 3: Crude and Refined Sunflower oil Produced by Small and Large Enterprises Respectively**

![Sunflower oil bottles](image)

**Source:** Field survey, August, 2018

Furthermore, there is a competition factor that exists among small processors of sunflower oil. According to the study done by ANSAF, there is an existence of competition emanating from the processors of domestics sunflower oil (2018:21). From the study, I realized that there is a competition between producers of crude and refined sunflower oil. The small enterprises, which are doing the refining process, face internal competition due to differences in price between crude and refined sunflower oil. Internal competition is on market opportunity resulting from crude sunflower oil produced by their fellow small enterprises in Dodoma (Medium Enterprise 2018, personal interview). The refined sunflower oil is produced and sold locally, but they face competition due to the cheap price of crude oil produced by small enterprises. Hence, the majority of the consumers especially lower income earners buy crude sunflower oil in favor of refined sunflower oil. Various consumers favor sunflower oil because it is considered to be good for the health but in turn, they discover the high cost for the refined sunflower oil (ASPIRES Tanzania and Dalberg. 2018). From the investigation conducted, it indicates that different refinery levels of
sunflower oil depict different prices as follows: for refined sunflower oil with 3 liters produced by small enterprises costs Tsh.14,000, refined sunflower oil from large enterprises costs Tsh.16,000, and crude oil of small enterprises costs Tsh.10,000 for the same quantity.

In addition, there is also internal competition among small enterprises with crude sunflower oil especially on the price of the oil they produce. It seems there is still a struggle in the market amongst themselves. One of the small enterprise said, if one increases the price due to an increase in the cost of production, then their opponents would lower the prices to dominate the market (Small Enterprise 2018, personal interview). This is probably because of the presence of many producers of sunflower oil in Dodoma as it is indicated the presence of about 51 small enterprises in Dodoma Urban District (ANSAF 2018).

Another kind of internal competition I uncovered is the competition between the small and large enterprises on sunflower seeds as a result contributed to the rising price of sunflower seeds. For example, an emergence of a new Chinese enterprise led to the high price on seeds and confiscates more than 100 small enterprises from the market. One small enterprise claimed that many of the large enterprises are well-off, so they can buy sunflower seeds at any given price. For example, the prevailing price for sunflower seed may cost Tsh. 750 per kilogram but they may decide to buy at Tsh. 800 per kilogram. Also, they have a tendency of purchasing seeds direct to the farmers from the farms instead of waiting for the farmers to harvest first and deliver them in the market (Small Enterprise 2018, personal interview).

Consequently, the shortage of sunflower seeds and quality ones has impacted the production processes. Views from small enterprises were due to a shortage of seeds, the production decreases and they could produce 17 to 20 liters of sunflower oil, which does not give them profit (Small Enterprise 2018, personal interview). Hence, numerous processors end up running production for three to four month within a year (ANSAF 2018:38). According to SIDO Business Development Manager from Dodoma Regional Office, during 2017

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13 Draft of the Institutional and Policy analysis of the Food Value Chain in Tanzania: The case of sunflower and edible –oil prepared by Trans-Sec
more than 50 small enterprises stopped production because of seeds shortage (ANSAF 2018). On the other hand, some studies argued that seed production has actually increased and they are sold inside the country instead of importing (ANSAF 2018). This sounds contradictory to the earlier claims, but basing on observation when I visited small enterprises, few of them were operating while the rest did not have seeds. Instead, they were selling the oil they produced from the stock of seeds. Therefore, if it is true that there is an increase in seeds, then there is a possibility that sunflower seeds is acquired by larger enterprise because of the high processing capacity which leads to the high demand of the seeds. In addition, the use of unqualified seeds, especially the local seeds lead to low yield. An interview with small enterprise noted that:

Due to a lack of quality sunflower seeds, 70 kilograms of sunflower seeds give 15 to 16 liters of sunflower oil instead of 20 liters.

The financial problem as an external factor seems to be a problem for small enterprises. SMEs claimed that many are affected by it because there is a lack of proper financial institutions. Many of commercial banks are giving short-term loans to SMEs. This agrees with the argument in the literature review that the presence of a lending institution is still a problem which hinders the growth of the SME sector like in Bangladesh (Ahmed 2001, as cited in Hasan and Jamil 2014:45) hence making SMEs a weak sector and hard to grow (Kira and He 2012:109). On top of that, one of the SMEs said that the interest rate from the banks is too high especially for small enterprises compared to large enterprises. SIDO itself has an interest rate of 18%, which they SMEs cannot afford. They even declared that “it is better to run the business with a little profit I get, rather than borrowing loan with high interest which at the end I get a loss” (Small Enterprise 2018, personal interview). In addition, terms for loans acquisition are very difficult hence they fail to meet the requirements like the possession of the collateral. Commercial banks prefer lending to large formal enterprises since they possess collateral; they believe that they will obtain little risk compared to informal ones (Kuzilwa 2005:134). One of the small

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14 Personal interview with a Small Enterprise on the constraints of the growth of SMEs, at the industry, Dodoma, August, 2018
enterprises declared that she failed to acquire a loan because she did not have collateral to fulfill the loan acquisition. She noted that:

“The business is under my name but the title deed for the house I am staying is under my husband’s name. So I cannot use it for getting the loan” (Small Enterprise 2018, personal interview).

Following the argument of Kuzilwa above, it shows that informality was a barrier for SMEs to secure loans. However, the study found that the majority of SMEs have formalized their businesses. Hence, informality, which is an identity for survival firm is no longer a problem to some SMEs. On the other hand, it implies the adoption of growth-oriented entrepreneur after moving from informal to formal. Berner et al. (2012) identified the characteristics of growth-oriented including start as informal as they succeed they become formal; large part are male and have an intention to expand.

However, with the connection of the views of an officer from SIDO about lack of finance as claimed by SMEs, he noted saying that:

Majority of the SMEs mention lack of finance affect their growth, but in reality, this is not true because most of them who received loans, they fail to repay as a result they lose their properties which were used as collateral. The only problem which affects them is the shortage of seed15.

The study exposed various perceptions on the constraints of growth in SMEs, but I believe credit is essential to SMEs. Even if there will be plenty of sunflower seeds, they need to secure finance to purchase sunflower seeds. The failure to repay is because they do not accumulate enough profit. This can probably be attributed to the inefficient production or a lack of access to sunflower seeds. These leads to low production of oil, hence low profit margin.

Following the interview with small enterprises, the study identified small enterprises are affected by financial problem followed by sunflower seeds; and then competition as the figure below shows. Hence the most common factor affecting them is the financial problem (external factor).

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15 Personal interviews with SIDO officer on the constraints of the growth of SMEs, at SIDO Office, Dodoma, August, 2018
The study also found that most of the enterprises that were interviewed are operating their business under sole proprietorship (Small Enterprise 2018, personal interview). In the theory of growth - it suggests that a firm operating in a group can easily achieve growth than the ones on an individual basis (Storey 1994). Different views from different people can bring about changes to the business. When working on an individual basis, it is hard to acquire different views on how to make the business competitive and strong due to the owner’s own strategies and biases, which may not be relevant to the kind of the business he/she is running. Hence, it is hard to make progress. As identified that majority of the firm run their business under a sole proprietorship, the study also revealed that majority of the sole proprietorship are male. This suggests that they are considered as growth-oriented entrepreneurs as explained by Berner et al. (2012), that among the characteristics of growth oriented entrepreneurs is large part are male.

Moreover, the research found that the majority were motivated by both unemployment and market opportunity to start their own business (Small Enterprise 2018, personal interview). On the other hand, the theory supports the firm who are attracted by one element of market opportunity can stimulate growth (Storey 1994). This shows that market opportunity is not given high priority hence there is equal weight between the unemployment and market opportunity.
opportunity. Unemployment element is still valued because most of SMEs have never been employed, so it is a possibility that they are forced by the living situation to establish an enterprise. Since they are unemployed, this corresponds with the argument by Storey (1994:128) on unemployment push which claim that the business introduced by the employed person is more likely to grow faster than the one started by an unemployed person. The logic behind that is employed people have the ambition to make the business grow (Storey 1994:128). Hence, failure to align with the theory mentioned earlier.

In general, all the ten small enterprises that were interviewed are likely to be categorized as growth-oriented entrepreneurs. Based on the characteristics of growth-oriented entrepreneurs, another characteristic they possess is an intention to expand (Berner et al. 2012). They simply declared how ambitious they are to move to a higher level of a large firm but there are some circumstances that act as barriers. Although they seem to adopt the characteristics of growth-oriented entrepreneurs, due to external barriers they face, they are likely to be “constrained gazelles”. This is because their desire to grow is affected by other factors like lack of capital. An entrepreneur is considered to be a “constrained gazelle” when they have an intention to grow but due to some circumstances associated with different factors, they fail to move from one step to another (Grimm et al. 2012).

It is implied that Tanzania recognizes entrepreneurship as a “hero” rather than a “binding constraint” as stated by (Naudé 2011) in chapter two. This is based on SMEs contribution to employment to less than 10 permanent workers and to 20-50 temporary workers from the processing firm, as it is argued by BOT (2017).

5.1.1.2 Challenges facing Large Enterprises in Tanzania

On the side of larger enterprises, the results revealed that they are also affected by internal and external factors. External factors include the availability of sunflower seeds. Availability of sunflower seeds is a problem because farmers are not producing sufficient seeds that can lead to a greater production of sunflower oil. At the same time, the seeds they are using are not of good quality - only producing 30% of oil instead of 50% (Large Enterprise 2018, personal interview). Thus, it has an effect on the quantity of oil produced.
Moreover, there is an external competition to large enterprises on the imported final products of edible oil by traders. These are mostly palm oil and refined sunflower oil. One of the large enterprises noted that:

“Palm oil is considered to be cheap because the production process is simple compared to sunflower. It is a permanent crop since it is planted only once and left with the responsibility of harvesting. Therefore, it has a low cost of production hence impact on price. While for sunflower, it needs to be planted each season once the harvest takes place” (Large Enterprise 2018, personal interview).

During the study, I found out that the price for palm oil is Tsh. 10,000 for 3 liters. It is cheaper than refined domestic sunflower oil produced by large enterprises, which cost Tsh. 16,000.

From this analysis, large enterprises are largely affected by sunflower seeds (67%); followed by competition (33%) as the figure below shows. Hence, the most common factor affecting them is sunflower seeds.

**Figure 5: Factors affecting performance of large enterprises**

![Pie chart showing factors affecting large enterprises](source)

**Source:** Research Findings, August, 2018

Despite each processor being affected by different factors, there are still some similarities of factors among them. Remarkably, both small and large enterprises are affected by seed availability since they both depend on the seeds produced by farmers. The second factor is the presence of competition, although each processor is affected differently.

After studying the constraints of both firms, one of the complaints from the refining processors was pointed to consumers who have become selective on the kind of sunflower oil. They normally prefer crude sunflower oil over the
refined one. Hence, the following details explain more about consumers’ preference.

### 5.1.1.3 Oil Consumers’ preferences

The desire of the consumers to prefer crude over refined sunflower oil was confirmed through the survey administered to eleven consumers with who were asked on the kind of oil they prefer to use. The results portrayed that the use of crude and refined sunflower oil is almost the same as illustrated in table 2.

<table>
<thead>
<tr>
<th>Kind of oil</th>
<th>Number of response</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude sunflower oil</td>
<td>5</td>
<td>45.5</td>
</tr>
<tr>
<td>Refined sunflower oil</td>
<td>5</td>
<td>45.5</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1</td>
<td>9.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Source: Author’s data collected on August, 2018*

The reasons behind why some consumers prefer crude sunflower oil is because it is cheap, it contains nutrients, it does not have chemicals, and it has good quality. However, one small enterprise claimed:

> A real customer for crude sunflower oil is a low-income earner and what the customers are focusing is on the price and not quality of the oil.

Since there are some consumers who prefer to buy crude sunflower oil, from the interviews, the study realized that the market of sunflower oil is largely dominated by crude sunflower oil, therefore the government should advocate for the proper way of handling them. Proper ways of handling the oil is to avoid exposure to high temperatures and to consume it for a short time as advised by TFDA (URT 2016). Following the claim on a cheap price, it was found that 45.5% of the end-users affirmed that crude sunflower oil has a lower price compared to refined sunflower oil as table number 3 below shows.

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16 Personal interview with a Small Enterprise on the constraints of the growth of SMEs, at the Industry, Dodoma, August, 2018
Table 3: Price between crude and refined sunflower oil (N=11)

<table>
<thead>
<tr>
<th>Price</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refined oil is expensive</td>
<td>2</td>
<td>18.25</td>
</tr>
<tr>
<td>Crude oil has lower price</td>
<td>5</td>
<td>45.5</td>
</tr>
<tr>
<td>No difference in price</td>
<td>1</td>
<td>9.0</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1</td>
<td>9.0</td>
</tr>
<tr>
<td>N/A</td>
<td>2</td>
<td>18.25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Author’s data collected on August 2018

With the earlier identified reasons of using crude sunflower oil, it shows clearly that, still there are some few consumers who do not know how to differentiate crude and refined sunflower oil in terms of quality. This is one of the reasons why they argued that crude oil has good quality. Therefore, more information on the types of oil should be shared with consumers. Although crude oil is free from chemicals, it does not prove that it is good in quality since chemicals can also help in preservation. Thus, crude oil has a tendency to go bad if stored for a long time. Figure below shows views from different consumers – 64% of the consumers said refined sunflower oil has good quality compared to 18% who claimed crude oil has good quality.

Figure 6: Quality between crude and refined sunflower oil

Source: Author’s data collected on August, 2018

Even if 64% said that refined oil has good quality, they are forced to buy crude oil because of financial problems. This indicates that the majority of Dodoma residents are low-income earners. In addition, about 73% can differentiate between crude and refined sunflower oil by just observing since they have
different appearance. On the other hand, 27% cannot differentiate between the two oils. This implies that awareness on sunflower oil in term of the identification has increased. This can be illustrated by the figure below.

**Figure 7: Ability to differentiate crude and refined sunflower oil**

![Pie chart showing ability to differentiate between crude and refined sunflower oil.]

Source: Research Findings, August, 2018

Large proportions of the consumers are unaware of the effect of using crude oil. TFDA initiated that in order to prevent the effects from using unrefined sunflower oil, then sunflower oil for home consumption need to be refined. If raw sunflower oil is used for a short time after extraction, there is possibility of not having any effect but if it is stored for a long time and put to a high temperature, then it is not suitable for consumption (URT 2016). As the study found that accounting for 55% of end-users said there is no effect of using crude sunflower oil compared to 36% who said there is effect. Therefore, government needs to offer capacity building to sensitize consumers to use refined sunflower oil. The figure below shows the response on the effect of using crude sunflower oil.
5.1.1.4 Reasons behind shortage and poor quality of sunflower seeds

One of the aims of the study is to interview farmers and some policymakers from government, to corroborate the complaints from large and small enterprise about the problem of sunflower seeds. It was identified that the biggest challenge facing the farmers is the availability of quality sunflower seeds. Generally, there is very little utilization of improved seed in Tanzania and all over Sub Saharan Africa. With the current data, merely 35.5% of farmers are utilizing improved seeds while most of them do not utilize “improved certified seed” (ANSAF 2018:38). Some studies found that the use of improved seeds lead to 90% of the production of sunflower compared to local seeds (Gabagambi and George 2010).

The study found that farmers are still using old sunflower seed named “record” because the Ministry responsible for Agriculture has not yet released new varieties of sunflower seeds for a long time (Policymaker 2018, personal interview). Shortage of improved seed is associated with lack of research on seeds. The ability to conduct research on sunflower seeds is limited due to lack of funds17. As a result, this leads to only one improved seed, which is “rec-

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17 Draft of the Institutional and Policy analysis of the Food Value Chain in Tanzania: The case of sunflower and edible –oil prepared by Trans-Sec
ord”. Currently, there are merely 3 researchers engaged in sunflower research.

Despite some farmers using old sunflower seeds, yet they cannot produce enough sunflower oil. They said that their yield is low because they lack knowledge on the best agronomic practices. One of the farmers mentioned that instead of obtaining 15 sacks of sunflowers, they only obtain 5 sacks. That is why it is obvious to find that there are many farmers but little output (Farmer 2018, personal interview). According to Gabagambi and George and RLDC (2010:15, 2008:14), the majority of farmers do not have best knowledge on agronomic practice such as “weeding, planting and using fertilizer”. Responsible authorities have not yet reached a large number of farmers in term of capacity building. However, some studies argued that although currently there is an increase in the production of sunflower seeds, there is still inefficiency in the production of sunflower in Tanzania (ANSAF 2018). This suggests that there is a possibility that a shortage of seed is no longer a problem, but rather there is a lack of training in agronomic practices that needs to be addressed.

The Ministry of Agriculture claims that “record” is a kind of a seed that was discovered 40 years ago and that it still yields to high production. Moreover, Acting Chief Executive Officer of Agriculture Seeds Agency (ASA) Dr. Sofia Kashenje specified that if farmers will adopt good agronomic practices, then “record” could provide 12 sacks of sunflower per acres and about 32% of sunflower oil. She also called upon farmers to continue using “record” because it can sustain climate change, drought, and diseases.

The study found that for the new cultivation seasons, some farmers are using the retained sunflower seeds obtained from the previous harvest. Some farmers buy the cheapest seeds from their fellow farmers, which cost Tsh.700 to 800. As explained from the literature review, the habit of utilizing recycled oilseeds gives poor results – it is one of the problems of the sunflower sector.

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18 Draft of the Institutional and Policy analysis of the Food Value Chain in Tanzania: The case of sunflower and edible –oil prepared by Trans-Sec
19 Ibid. 26
20 Article on self sufficient strategy on edible oil prepared by the Ministry of Agriculture on 1 September, 2018
21 Article on self sufficient strategy on edible oil prepared by the Ministry of Agriculture on 1 September, 2018
(Sutton and Olomi 2012). According to the study done by BOT, it shows that 70% of farmers are using recycled seeds (2017:17). One small enterprise claimed that “Although there are some sunflower seeds imported from other countries like India still, they are very expensive. For example, two kilograms of sunflower seed cost Tsh.70,000 for imported ones while for those which are locally produced within the country cost Tsh. 6,000” (Small Enterprise 2018, personal interview).

Another reason is the change in climatic conditions. The erratic rainfall led to a lower production of sunflowers. “For example, in the financial year 2017/2018 the weather was not good to support the growth of sunflower” (Policymaker 2018, personal interview). Other policymakers argued that the problem of shortage of sunflower seed is attributed to traders who are buying seeds and exporting them to neighbor countries like Kenya and Uganda (Policymaker 2018, personal interview).

In order to overcome the seeds problem – both large and small enterprises (especially the ones which are doing refining process) undergo contract farming. Through contract farming, the processors provide farmers with the necessary inputs for farming with the agreement of selling the sunflower to them at a reasonable price. However, the study found that it has been difficult to fulfill the agreement because of lack of trust. This is also proved by another study that absence of trust appears to be a main issue related to contract violation. According to a policymaker’s explanation – some farmers go against the contract and sell the harvested sunflowers to another customer who is willingly to buy at high price besides the one who had a contract with (Policymaker 2018, personal interview). Due to this, it becomes difficult to sue them since the contract is not legalized.

The study also found that small enterprises have an association named Central Zone Sunflower Oil Processing Association (CEZOSOPA) and most enterprises are already members. Among the benefits they acquire from the association include linking them with financial institutions through capacity building. They are provided trainings on the procedures for borrowing money.

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22 Draft of the Institutional and Policy analysis of the Food Value Chain in Tanzania: The case of sunflower and edible –oil prepared by Trans-Sec
Through the association, enterprises are linked with other sunflower stakeholders i.e. processors and farmers. The association helps them in their participation to various exhibitions [like Agriculture shows; Syrian Exhibition; Expo Milan and International Trade Fair (Saba Saba)] where they get a chance to advertise their products; and solving some of the problem, which they encounter through the responsible institution\textsuperscript{23}. Few of them are no longer members due to various reasons such as lack of support and inactivity. Despite their arguments, I believe the association is still active. I was able to witness an agricultural show last August 8, 2018 when I visited small enterprises for an interview. I personally found some processors brought together by CEZOSOPA in the fair to display their products especial sunflower oil. The aim of the fair was to find a market for their products.

5.2 Narrative on the Interactions between the SMEs and Large Enterprises in the Sunflower Sector.

After identifying the constraints for SMEs and factors affecting large enterprises, the study went on further to figure out the interactions between the two processors. The study found out that small, medium and large processors dominate the market of sunflower oil. The small enterprises produce crude oil while medium and large producers produce refined sunflower oil. In most cases, the market for crude sunflower oil is usually dominated by low-income earners because of its low price. Large enterprises producing refined sunflower oil depend mainly on the market from the high-income earners, supermarkets and from other regions like Dar es Salaam and Arusha, where there is a limited production of sunflower oil. Through the interviews, one small enterprise who is refining oil affirmed that.

“The refining process for Tanzania’s sunflower oil is still not very effective because of the market driving forces. That consumer prefers the cheap price of the product rather than the quality of the product, something which forces the producers to process at the cheapest cost. Therefore, the market for refined sunflower oil is only available once there is a shortage of crude sunflower oil” (Medium Enterprise 2018, personal interview).

\textsuperscript{23} Personal Interview with Small Enterprises on the constraints of the growth of SMEs, at Industry, Dodoma, August, 2018
The mentioned processors depend on each other but as it turns out, there is a weak linkage between them. This is because to some extent they interact, but only up to a certain level. This was evidenced after an in-depth interview with one of the policymakers who claimed that both processors compete on the same market to obtain raw materials (sunflower seeds), but it would be better if the SMEs would buy the raw material and process to get the crude oil to sell to the large-scale enterprises (Small Enterprise 2018, personal interview). The results are in line with the study by Zhihua Zeng (2017) who claimed that there is a problem of business linkage between small and large producers. According to the report by CCRED (2018), lack of linkage is attributed to the absence of the proper system that can make them work together.

In addition, a cause of the weak interaction is probably due to the quality of crude oil they produce, which is low to compete in the market. However, the poor quality of crude oil produced is a result of poor technology in terms of machines since almost all SMEs lack advanced machines compared to large enterprises (Zhihua Zeng 2017). When asked if the large enterprise would buy crude oil directly from SMEs, the response was, “we simply prefer to directly buy sunflower seeds, and in situations of shortage or lack of sunflower seeds we import crude oil rather than buying from the small enterprises just because we are not sure of the quality of the crude oil produced. Their production environments are in most cases hygienically unsafe” (Large Enterprise 2018, personal interview).

When I visited some small enterprise for an interview, I observed that the majority have poor working environments. This might be a major reason why consumers do not prefer their products. This is also confirmed by a study that notes that the working conditions in most of the small-scale processors are not hygienic24 (see also Figure 9).

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24 Draft of the Institutional and Policy analysis of the Food Value Chain in Tanzania: The case of sunflower and edible oil prepared by Trans-Sec
Another policymaker from MITI emphasized that:

If there could be proper guidelines that enforce the large enterprises to buy crude oil from small enterprises for refining, it is obvious that there couldn’t be a competition on sunflower seeds. Hence each of them could have benefited, but this does not happen because there is no linkage between them.

I believe that if there could be a strong linkage between small and large enterprises, it could have reduced the cost of production to large enterprises. For example, currently, instead of incurring cost on the refining process only, they are incurring the cost from both crushing and importing crude oil. Zhihua Zeng (2017) argued that the linkage is considered to be helpful in stimulating the accessibility of markets for small enterprises. The study found that the weak linkage has an impact on competition of sunflower seeds due to the scramble of sunflower seeds among themselves. But this does not mean that the presence of large enterprises affects the small enterprises – they are both needed in the stimulation of the economy and the market is free for everyone to operate. In addition, large enterprises are the final stage of growth where the small and medium enterprises are headed. Growth is achieved after passing the five stages of growth, which are inception, survival, growth, expansion and finally maturity as identified by (Scott and Bruce 1987). However, many of the small enterprises fail to pass all the five stages because of some factors recog-

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25 Personal interview with a Policymaker on the constraints of the growth of SMEs, at the Ministry of Industry, Trade and Investment, Dodoma, August, 2018
nized in the field. Therefore, a suitable solution is to engage the small-scale processor to the value chain of larger refiners in Tanzania who do not buy crude oil from local producer but are importing instead (CCRED 2018).

On the other side of interaction, one interviewed large enterprise and medium enterprise claimed that they normally depend on small enterprises’ crude oil once there is a shortage of sunflower seeds in the market. Despite having stock of seeds, sometimes the situation becomes worse and they are forced to buy crude oil from small enterprises and refine for home consumption (Medium and Large Enterprise 2018, personal interview). The study found out that only a few small enterprises are able to sell crude sunflower oil to large enterprises (Policymaker 2018, personal interview). However, the market for crude oil from small enterprises is not guaranteed because they also face the shortage of seeds. When they fail to meet the capacity of the oil they intend to produce, then the final decision is to import crude oil from other countries and refine (Large enterprise 2018, personal interview). The study realized that small enterprises that produce crude oil do not rely much on the market from larger enterprises because of the tendency of being selective. Instead, they depend on the internal market / consumers because the market for sunflower oil is largely dominated by crude oil due to its cheap price. This was confirmed by one policymaker noting that:

“There is a market opportunity for crude oil internally because of the low cost of production and accessibility in term of a low price” (Policymaker, 2018, personal interview).

5.3 Conclusion

The chapter identified different constraints of SMEs against each other and some similarities that exist between small and large enterprises. The chapter tells more about the complex dynamic relationship which calls for attention from the government. This leads to a chapter about the role of the government.
Chapter 6: Role of the State

6.1 Introduction

This chapter identifies the role of the state in overcoming the challenges facing the growth of SMEs. It mainly focuses on identifying if the state is effectively addressing the concerns of all firms in the sector.

6.2 The initiatives to overcome the challenges in the sunflower sector in Tanzania.

Interviews with small enterprises show that most of the small enterprises declared that government support is present, while few of them said there is no government support. This is illustrated by figure below.

**Figure 10: Reponses on the initiatives taken by government to support the growth of SMEs**

![Pie chart showing responses]

*Source: Research Findings, August, 2018*

The responses imply that the government sees the potential of the sunflower sector, which is why there are some efforts to help the sector. The government supports SMEs to make sure that the sector continues to operate in the country. According to Beck and Demirguc-Kunt (2006), more power should be devoted to SMEs due to its importance in ensuring the development. They should be assisted with problems they encounter in the market arena and the problems of the institutional failure. Accordingly, the govern-
ment supports identified include the establishment of Sunflower Strategy of 2016-2020 (Small Enterprise 2018, personal interview). URT, through the MITI, strives to revive the sunflower subsector (The Citizen 2017). The strategy has identified a roadmap for improving the sunflower sector through its objective of improving competitiveness and organization (URT 2016).

These strategies include: increasing sunflower production and productivity by using up to date technique that can comply with the internal and external market and standard; modernizing the sunflower industry through strengthening coordination, institutional capacity and skill across the value chain; motivating the growth for sunflower industry through the employment of reliable and helpful policies in accordance with national development objective; and to offer markets for their products at a given period (URT 2016). The increase in oil production will have an effect on the reduction of oil importation. Other initiative is to sensitize the financial institutions to offer loans to SMEs. MITI through SIDO provides financial supports to SMEs. Through the National Entrepreneurship Development Fund (NEDF) programs, it offers loan between 222,770 USD to 2,228,131 USD (SIDO n.db). Since NEDF was established in 1994 and until 2018, it has offered loans amounting to Tsh. 67 billion\textsuperscript{26}. From July, 2016 up to March, 2017 SIDO has offered a loan to 2,593 entrepreneur’s worth of Tsh. 3.92 billion\textsuperscript{27}.

Furthermore, the government provides training on the sunflower sector. In the recent period, SIDO offered training on the sunflower sector to processors that operated in two districts of Kongwa and Kondoa located in Dodoma Region. The aim was to train them on making by-products obtained from sunflower oil like soaps, producing quality products and improving productivity (SIDO Officer 2018, personal interview). The trainings were used as a venue to advise them which machines are best to use for crushing sunflower. During the financial year 2017/2018, about 230 training of various courses were offered by SIDO and about 5,750 of entrepreneurs participated (SIDO n.db). Such training includes training on food processing skill, credit managerial skill, business

\textsuperscript{26} Report of the National Entrepreneurship Development Fund (NEDF) for the period of July, 1994-March, 2018
\textsuperscript{27} Budget Speech of the Ministry of Industry, Trade and Investment for the Financial Year 2017/2018 presented in Swahili
management, environment practice course, quality control and packaging (SIDO n.db). In various countries, training capacity is essential in stimulating the growth of SMEs. For example, Mexico has established a program named Comprehensive Quality and Modernization Skill (CIMO) which helps SMEs through training and technical support (Tan and Acevedo 2005). The program does not offer direct training but instead they provide subsidies for training and support to the services provided by public and private sector (Tan and Acevedo 2005:3).

Clusters on agricultural products, which are sunflower inclusive, have been established in two Regions of Dodoma and Manyara. Through clusters, entrepreneurs can enjoy the economies of scale collectively like reduction of the cost of production28. In 2013, SIDO and private sectors such as Japan International Cooperation Agency (JICA) and United Nations Development Organisation (UNIDO) established a cluster on a sunflower at Mtinko in Singida Region. A cluster has about 66 members of which 30 members are industrial owners and the remaining part includes traders and importers29.

Another initiative taken by the government is attempting to solve the problem of sunflower seeds shortage. During the financial year of 2017/2018, the government imported sunflower seeds amounting to 149.03 tones. Type of seeds include NSHF 36, NSHF 145, AGUARA 4 and Hysun 33 – they are considered to be quality seeds which can yield 2.5 to 3.6 tons of sunflower per hectares compared to “record” kind of sunflower seed which gives 1 to 2 ton per hectare30. Despite importing sunflower seeds, the government is still taking some initiatives to increase the production of sunflower seeds. From 2016/2017 the production of sunflower seeds has increased from 3,113,500 to 3,229,220 tons in 2017/2018. For the financial year 2018/2019, the government is expecting to produce 3,334,394 tons. The figure below illustrates this more.

**Figure 11: Trend on the production of sunflower seeds**

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28 Personal Interview with SIDO officer on the constraints of growth of SMEs, at SIDO Office, Dodoma, August, 2018
29 Budget Speech of the Ministry of Industry, Trade and Investment for the Financial Year 2017/2018 presented in Swahili
30 Budget Speech of the Ministry of Agriculture for the Financial Year 2018/2019 presented in Swahili
In order to ensure the protection of SMEs, the government has established the import substitution policy to protect the importation of commodities by imposing tariff or quota. Tariff on imported refined sunflower cooking oil aimed at protecting small industries, which are currently flourishing in Tanzania. It was also confirmed by some large enterprises – which responded to the ban through the imposition of the tariff on the importation of palm oil and finished products – have increased the internal market for the refined oil compared to the time before tariff imposition (Large Enterprise 2018, personal interview). Hence, the rate of the importation has decreased. Another small enterprise noted that:

Prior to the imposition of a tariff, the government did value edible oil sector because it did not recognize if the sector can boost the Tanzania economy that why there was zero tariff for three years consecutively. But now Government has seen the value of the sector and it has imposed the tariff on imported crude and refined sunflower oil\(^3\).

Some of the policymakers argued that the government has banned the importation of edible oil while focusing on the improvement of sunflower cultivation which can yield to an increase in sunflower seeds and production of

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\(^3\) Personal Interview with Small Enterprises on the constraints of the growth of SMEs, at the Industry, Dodoma, August, 2018
quality seeds which can meet the internal and external demand (Policymakers 2018, personal interview). In addition, the government has re-introduced 10% tariff on imported crude oil which was formally waved out in 2009 to motivate the refiners to use the internally produced crude oil (ANSAF 2018:1). The government is putting efforts to ensure that small-scale producers produce enough oil, which can meet the domestic market rather than continue importing edible oil. However, the initiatives seem to be hard to achieve since the government has based more on sunflower seeds rather than going beyond the increase on sunflower seeds.

Figure 12: Measures taken by Government

Accordingly, the response on measures taken by the government from large enterprises can be illustrated by the graph. It shows that 67% of large enterprises said the government has taken measures on the ban of importation of palm oil and finished products while the remaining 33% said the government engages them in different trade fairs.

6.3 Conclusion

This chapter illustrated that the government has concentrated their efforts on increasing the sunflower seeds production, rather than making the linkage between small and large enterprises strong. Despite the fact that tariff on import-
ed crude oil was introduced, imported crude oil is still cheaper than the domestic crude oil (Salisali, as cited in ANSAF 2018:9) This implies that government efforts are not sufficient in making SMEs grow. Therefore, the government needs to go beyond seeds supply to meet its mission of becoming “industrial economy” as it is identified in chapter four.
Chapter 7: Conclusion and Implications

7.1 Conclusion

The importance of SMEs is widely recognized compared to large firm in terms of employment creation, efficiency, and growth because they utilize local resources (Admassie and Matambalya 2002). They are suitable in developing countries because of the fact that they demand more labour and also, SMEs require unskilled workers whose supply is high in these countries (Admassie and Matambalya 2002).

Due to its importance, the government promotes the sector so that it can grow to the level of large enterprises hence continuing to stimulate economic growth and provide more employment. This study aims to analyse the market of SMEs and large enterprises and their constraints. The linkage between SMEs and large enterprises was also studied. The theory of growth pioneered by Storey and the concept of entrepreneurship were considered in understanding the requirements of a firm’s growth. The analysis of the study focused on answering the research objective of understanding the competitiveness and the promotion of SMEs.

The findings revealed that SMEs are not competitive since they are facing some challenges. This was proved in chapter 5, where SMEs revealed that majority of them are affected by external factors such as a lack of finance due to high-interest rate and lack of collateral. Large enterprises also face seed shortage and accessibility to quality sunflower seeds that can yield to a high production. One of my findings showed that there is a weak linkage between small and large enterprises. Although there are some large enterprises that buy crude oil from SMEs, some do not prefer to buy crude oil from them because of quality and hygiene reasons.

From the mentioned constraints, the study found that the government has invested more in increasing sunflower seeds. This is also identified by some studies that show that there is a significant increase in sunflower seed. During financial year 2016/2017, sunflower seeds increased from 3,112,500 to
3,229,220 in 2017/2018. The government believes that increasing seeds will stimulate the growth of SMEs, not anticipating that this may lead to a separate market. Hence, this does not contribute to the government’s aims to make Tanzania an “industrial economy” by 2025. This is because both SMEs and large processors will demand raw materials – rather than large enterprises exploring to buy crude oil from SMEs. Creating linkage between SMEs and large enterprises are an essential component in promoting the sunflower sector and making it competitive. In my opinion, a good way of achieving this is to invest in the quality of crude oil produced by small enterprises with an intention of expanding the market to large enterprises. Hopefully, this will change the perception of large enterprises on the quality of oil produced by SMEs. This may be possible by encouraging the use of advanced machines. In addition, I propose to increase tariff on imported crude oil beyond the current rate of 10%. Even if the government reintroduced tariff on imported crude oil in 2016, this does not seem to have an effect because there is still importation of crude oil. The tariff was imposed to encourage the refiners to make use of domestic crude oil. This might mean that the current tariff rate is small. Increasing the rate may stimulate the linkage; hence, it will create a dynamic relationship between SMEs and large enterprises.

In relation to the theory of growth, the findings do not correspond with the theory since the majority are operating under sole proprietorship instead of a group. They lack technological sophistication and they are motivated by both employment and market opportunity instead of market opportunity only.

In line with the theory of entrepreneurship, SMEs in Tanzania are considered a “hero” due to its contribution in employment. In addition, the SMEs that were interviewed are considered as growth-oriented entrepreneurs as explained in previous chapters and to an extent they are considered as constrained gazelles following the external barriers they face.

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32 Budget Speech of the Ministry of Agriculture for the Financial Year 2018/2019 presented in Swahili
7.2 Implication

There are a number of implications that can be drawn out from the conclusion. Promotion of SMEs will only be minimal if the government adopts the option of merely increasing sunflower seeds. Increasing the supply of sunflower seeds will not necessarily make the SMEs competitive. With this view, the firms will be regarded as survival entrepreneurs. In my opinion, if the government adopts the option of improving linkage between SMEs and large enterprises, promotion of SMEs will occur. This will make them growth entrepreneurs and hopefully more competitive. Based on the theory of growth, my analysis implies that firms cannot grow because elements measured from the interview do not correspond with the requirements of the elements under the growth theory. Consequently, SMEs may be stagnant.
Appendices

Appendix 1: Guiding Questions to the Respondents

A. Interview Guide

Part I: Semi-Structured Interview

Section 1: Semi-Structured Interview to Large Enterprises

a) What challenges or constraints are you facing on your business. Why? How? Example.

b) In some literature I went through, there are numbers of factors which hinder the growth of SMEs. The internal ones are lack of technology and running informal while the external ones are competition and financial problem. As large enterprise which ones are more affecting your business? Why? How? Example.

c) Which factors are more affecting your business between the internal and external factors and why?

d) What measures have been taken by the Government to overcome the challenges?

Section 2: Semi-Structured Interview to SMEs

I. Background on the SMEs

a) Name and Location of the Enterprise

b) Motivation to start business

c) Enterprise ownership

II. Factors affecting the Growth of SMEs

a) How do you feel about the performance of your business in comparison to large enterprises?

b) What are the factors affecting the performance of your business?

c) In some literature I went through, there are number of factors which hinder the growth of SMEs. The internal ones are lack of technology and running informal while the external ones are competition and financial problem. As small enterprise which ones are more affecting your business? Why? How? Example.
d) Which factors are more affecting your business between the internal and external factors and why?

e) What supports do you get from Government in helping the growth of your enterprise?

f) Do you have any business associations which you have engaged with? and how helpful are they in stimulating the growth of your business.

Section 3: Semi-Structured Interview to Farmers

a) How do you see the sunflower agricultural activities?

b) What challenges do you get from sunflower agricultural activities and why?

c) Do you have any association you have engaged with and how helpfully are they in overcoming the challenges you’re facing.

Section 4: Semi-Structured Interview to TEMDO

a) There has been a problem for the majority of the Small Enterprises to produce crude sunflower oil. What is the reason behind?

b) Through various literatures, I read that many small enterprises are complaining about the high cost of the refining machine. As an organisation responsible for innovating machines, what is your comment about this complaint?

Part 2: In-depth Interview

Section 1: In-depth Interview to Policymakers

a) How is the market opportunity for the sunflower oil (refined and unrefined) in Tanzania?

b) What do you think are the biggest factors affecting the large enterprises and small enterprises of the sunflower sector in Tanzania and why?

c) In some literature I went through, there are numbers of factors which hinder the growth of SMEs. The internal ones are lack of technology and running informal while the external ones are competition and financial problem. Which ones are more affecting them? Why? How? Example.

d) Do you think Government needs to promote the growth of SMEs? And why

e) What are the efforts taken by Government to overcome these challenges so as to stimulate the growth of SMEs?
Section 2: In-depth Interview to SIDO

a) What are the constraints do you think they hinder the growth of SMEs in Tanzania and why?

b) In some literature I went through, there are numbers of factors which hinder the growth of SMEs. The internal ones are lack of technology and running informal while the external ones are competition and financial problem. Which ones are more affecting them? Why? How? Example.

c) Which factors are most affecting them between the internal and external factors

d) What are the initiatives taken by your institutions to promote SMEs sectors on sunflower oil?

B. Questionnaires

Questionnaires to consumers of sunflower oil

The following are some questions about my research with the title of analysing the market for Small and Medium Enterprises and Large Enterprises and their constraints - A case of Sunflower oil Enterprises in Dodoma Urban District. It would take about five minutes to answer the questions; all the answers will be kept confidential. The questions are divided into two parts, the closed questions, and open questions. Please select the correct answer, and for the open questions please give clarifications.

1. Do you know the benefit of using sunflower oil?
   a) Yes   b) No   c) I don’t know

2. Are you capable of differentiating between crude and refined sunflower oil?
   a) Yes   b) No   c) I don’t know
   If yes how

3. Between crude sunflower oil and refined sunflower, which one do you prefer to consume? Why?
4. How do you see the price and the quality of crude sunflower oil and refined sunflower oil?

5. What are your views on crude sunflower oil available in the market?

6. Do you think there is an effect of using crude sunflower oil?

   a) Yes  b) No  c) I don’t know

   Thanks
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