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**Navigating Challenges and Seizing Opportunities: A Comprehensive Study of Tanzania's Micro, Small, and Medium Enterprises (MSMEs) Landscape**

## Executive Summary:

The Micro, Small, and Medium Enterprises (MSMEs) sector in Tanzania, particularly in Dar es Salaam, plays a crucial role in driving economic growth, fostering innovation, and creating employment opportunities. However, despite its significance, the sector faces formidable challenges that hinder its sustainable development and growth.

This executive summary provides an overview of the key findings and recommendations derived from a comprehensive study conducted to understand the dynamics of the Tanzania MSME landscape, explore the challenges and opportunities facing small businesses, and assess the effectiveness of government support mechanisms and regulatory frameworks.

**Key Findings:**

- **High Business Attrition Rate:** A significant portion of businesses, especially in Dar es Salaam, fail within their first year of operation, highlighting systemic barriers to business sustainability.
- **MSME Challenges:** Micro, Small, and Medium Enterprises encounter various obstacles, including financial constraints, marketing difficulties, regulatory hurdles, and limited access to start-up capital.
- **Government Support and Regulatory Concerns:** There are concerns regarding the adequacy of government support for MSMEs, coupled with perceptions of regulatory barriers that impede business growth and innovation.

**Recommendations:**

- **Policy Reforms:** The government should consider reforms to streamline regulatory processes, reduce bureaucratic hurdles, and create a conducive business environment for MSMEs.

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- **Access to Finance:** Efforts should be made to enhance access to finance for MSMEs, particularly addressing the challenge of start-up capital through specialized lending programs and alternative financing mechanisms.
- **Capacity Building:** Invest in capacity building initiatives aimed at enhancing the managerial and technical skills of MSME owners and employees.
- **Public-Private Partnerships:** Foster collaboration between the government, private sector, and civil society organizations to implement targeted interventions and support initiatives.
- **Research and Monitoring:** Continued research and monitoring of the MSME sector are essential to track progress, identify emerging challenges, and inform evidence-based policymaking.

**Conclusion:**

Tanzania can unlock the full potential of small businesses, drive sustainable economic growth, and catalyze socio-economic transformation in the country. Collaboration between stakeholders is critical to address the multifaceted challenges facing MSMEs and create an inclusive and vibrant entrepreneurial ecosystem that empowers small businesses to thrive.

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## Introduction:

The Micro, Small, and Medium Enterprises (MSMEs) sector plays a pivotal role in driving economic growth, fostering innovation, and creating employment opportunities in Tanzania. As the country's commercial hub, Dar es Salaam stands at the forefront of entrepreneurial activities, contributing significantly to national revenue. However, despite its economic vibrancy, Tanzania grapples with a high business attrition rate, with a substantial portion of businesses failing within their first year of operation. This phenomenon underscores the formidable challenges confronting MSMEs and the need for targeted interventions to support sustainable business development.

Against this backdrop, the Tanzania MSME landscape presents a complex interplay of opportunities and challenges. While there is optimism regarding investment prospects and the social benefits of entrepreneurship, MSMEs face a myriad of obstacles, including financial constraints, marketing difficulties, regulatory hurdles, and limited access to start-up capital. These challenges not only impede business growth but also hinder the realization of the sector's full potential in driving economic transformation and poverty alleviation.

Moreover, the effectiveness of government support mechanisms and regulatory frameworks in fostering MSME development comes under scrutiny. Concerns regarding the adequacy of financial assistance and technological support, coupled with perceptions of regulatory barriers, underscore the need for policy reforms and institutional interventions to create an enabling environment for entrepreneurship.

In light of these dynamics, there is a pressing need for comprehensive research to unpack the intricacies of the Tanzania MSME sector, understand the underlying factors influencing business sustainability and growth, and identify pathways for fostering a conducive business ecosystem. By examining the challenges and opportunities facing MSMEs, exploring stakeholders' perceptions, and assessing the impact of government policies, this study aims to provide



valuable insights that can inform evidence-based interventions and support mechanisms to promote MSME development and drive sustainable economic growth in Tanzania. Through collaboration between policymakers, private sector actors, civil society organizations, and academia, it is envisaged that this research will contribute to fostering an inclusive and vibrant entrepreneurial ecosystem that empowers small businesses to thrive and catalyze socio-economic transformation in Tanzania.

## Research methodology:

### Research Objectives:

- To identify and analyze the factors contributing to the high business attrition rate in Dar es Salaam and other regions of Tanzania.
- To explore the challenges and opportunities faced by Micro, Small, and Medium Enterprises (MSMEs) in Tanzania.
- To assess the effectiveness of government support mechanisms and regulatory frameworks in fostering MSME development.
- To investigate the perceptions and experiences of business owners, stakeholders, and policymakers regarding the business environment in Tanzania.

### Research Design:

- Utilized a mixed-methods approach, incorporating both qualitative and quantitative research techniques.
- Conducted surveys to gather quantitative data on business attrition rates, challenges, opportunities, and perceptions of government support among MSMEs.
- Conducted in-depth interviews with key stakeholders, including business owners, government officials, and industry experts, to gain deeper insights into the underlying factors affecting business sustainability and growth.

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- Reviewed existing literature, reports, and statistical data to contextualize findings and identify trends and patterns.

**Sampling Strategy:**

- Employed stratified random sampling to ensure representation across different sectors, business sizes, and geographic locations.
- Targeted MSMEs operating in Dar es Salaam and other regions of Tanzania, with a focus on businesses that have experienced challenges or have successfully navigated the business environment.
- Ensured a diverse sample to capture a range of perspectives and experiences, including gender, age, industry, and business lifecycle stage.

**Data Collection:**

- Administered surveys to MSMEs using a combination of online and face-to-face methods, leveraging the internet for efficiency while ensuring inclusivity through in-person interviews.
- Conducted semi-structured interviews with key informants to explore nuanced issues and gather qualitative insights.
- Uses of standardized questionnaires and interview protocols to maintain consistency and comparability across data collection methods.

**Data Analysis:**

- Quantitative data collected from surveys were analyzed using statistical software to identify patterns, correlations, and trends.
- Qualitative data from interviews were transcribed, coded, and thematically analyzed to extract key themes, insights, and narratives.
- Triangulate findings from both quantitative and qualitative were analyses to provide a comprehensive understanding of the research questions and objectives.

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**Ethical Considerations:**

- Obtained informed consent from participants prior to data collection, ensuring confidentiality and privacy.
- Adhered to ethical guidelines and protocols for research involving human subjects, including respect for autonomy, beneficence, and justice.
- Safeguard the anonymity of participants and handle sensitive information with care and discretion.

**Dissemination of Findings:**

- Prepared a comprehensive research report detailing the methodology, findings, implications, and recommendations.
- Presented findings at academic conferences, policy forums, and stakeholder workshops to facilitate knowledge exchange and dialogue.
- Publish research findings in peer-reviewed journals and disseminate through online platforms, research repositories, and media channels.

The study aims to provide valuable insights into the challenges and opportunities facing MSMEs in Tanzania, with the ultimate goal of informing evidence-based policies and interventions to support sustainable economic development and entrepreneurship in the region.

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## DATA ANALYSIS

The research conducted by the TICGL-Economic Research Center over a three-month period from November 2023 to January 2024 offers valuable insights into the business landscape of Tanzania, particularly focusing on Dar es Salaam, the commercial hub of the country. Through a combination of face-to-face interviews and internet-based surveys, data was gathered from a wide array of stakeholders, covering over 90% of businesses operating in the region.

Dar es Salaam's significance in the economic fabric of Tanzania is underscored by its dominant contribution to national revenue. With an estimated population of 8 million, the city accounted for more than 86% of the revenue collected by the Tanzania Revenue Authority (TRA) in the 2022/2023 fiscal year, amounting to 23.658 trillion. This underscores the city's pivotal role as a center of economic activity within the country.

### Tanzania MSME's Lifecycle

However, despite its economic vibrancy, Dar es Salaam grapples with a significant challenge regarding business sustainability. A striking statistic revealed by the research indicates that over 51% of businesses fail to survive beyond their first year of operation. This trend highlights a concerning issue wherein a substantial portion of entrepreneurial endeavors fails to materialize beyond the conceptual stage, remaining mere ideas without implementation.

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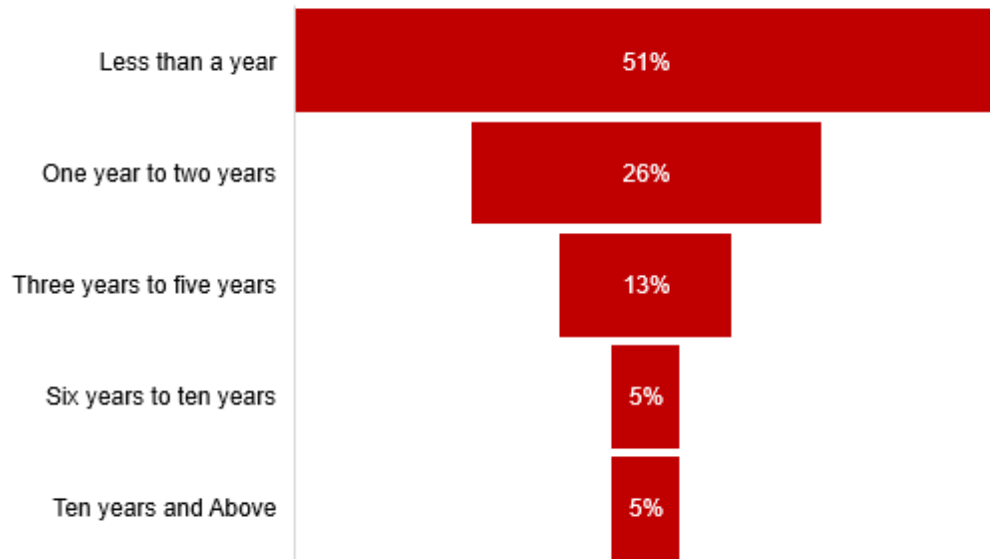
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## Tanzania MSME's Lifecycle



The Tanzania Business Lifecycle data provided sheds further light on the trajectory of businesses within the region. It indicates a steep decline in the number of businesses as the duration of operation increases. Only a small fraction of businesses manages to endure beyond the five-year mark, with just 5% persisting for a decade or more. This pattern underscores the precarious nature of entrepreneurship in the region, suggesting that significant barriers exist to sustained business growth and longevity.

The study promises to offer valuable insights into the factors contributing to this high rate of business attrition. By categorizing and analyzing the reasons behind business failures, policymakers, stakeholders, and entrepreneurs can gain a deeper understanding of the challenges inherent in the Tanzania business landscape. Such insights can inform targeted

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interventions aimed at fostering a more conducive environment for sustainable business development, thereby bolstering economic growth and prosperity within the region.

### Tanzania MSME's Categories



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The data on Tanzania's Micro, Small, and Medium Enterprises (MSMEs) presents a comprehensive snapshot of the challenges and opportunities facing these businesses. One of the most prevalent challenges highlighted in the data is the discrepancy between financial expectations and actual returns from businesses, with a significant 74% of respondents agreeing that businesses often fail to meet expected financial returns. This suggests a mismatch between aspirations and the reality of business performance, which could be attributed to various factors such as market conditions, operational inefficiencies, or inadequate planning.

Furthermore, the data underscores the pervasive issue of marketing and selling products for small businesses, with a staggering 81% of respondents agreeing that this poses a significant problem. Effective marketing and sales strategies are crucial for business success, and the high percentage of agreement suggests a widespread recognition of the difficulties in this area, potentially stemming from limited resources, lack of expertise, or fierce competition.

On the other hand, there is a notable optimism regarding investment opportunities in the area, with an overwhelming 93% of respondents expressing agreement. This indicates a perception among MSMEs that the region offers favorable conditions for investment, which could stimulate business growth and innovation. However, this optimism is somewhat tempered by the acknowledgment of challenges such as lack of managerial expertise, as indicated by 41% of respondents agreeing that ignorance among business owners in managing and supervising their enterprises directly poses a significant hurdle.

Additionally, while there is a positive sentiment regarding the potential benefits of owning and operating a small business, with 93% of respondents expressing satisfaction and a sense of social status, there are substantial concerns regarding access to start-up capital. A staggering 91% of respondents identified start-up capital as the most challenging aspect for small businesses, highlighting the critical need for financial support and investment mechanisms to foster entrepreneurship and business development.

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Moreover, issues related to government support and regulatory frameworks emerge from the data, with a significant portion of respondents expressing dissatisfaction with the government's financial and technological support for small businesses. Similarly, concerns regarding government rules and regulations creating obstacles for small businesses are evident, with nearly half of the respondents agreeing that these regulations pose problems.

In conclusion, while there are promising opportunities for MSMEs in Tanzania, including perceived investment prospects and social benefits, significant challenges such as financial constraints, marketing difficulties, managerial shortcomings, and regulatory hurdles need to be addressed to unlock the full potential of small businesses and drive sustainable economic growth. Efforts to provide targeted support, improve access to capital and resources, enhance business skills and knowledge, and streamline regulatory processes are crucial for fostering a conducive environment for MSME development and success in Tanzania.

#### **Tanzania MSME's Challenges and Opportunities**

	<b>AGR EE</b>	<b>NOT SURE</b>	<b>DISAG REE</b>
<i>Business doesn't give the financial return expected</i>	74%	18%	7%
<i>Selling and marketing the products is one of the problems facing Small Business</i>	81%	13%	7%
<i>There are enough investment opportunities in the area for Business</i>	93%	1%	6%
<i>Ignorance of their owners in managing and supervising them direct</i>	41%	1%	57%
<i>Feel happy and enjoy a good social status by owning a small business and working on it</i>	93%	0%	6%
<i>The manager has the capability to purposefully create, extend and modify the business resource base</i>	79%	0%	20%
<i>NGOs and CBOs in the area offer support to Small Business</i>	79%	1%	20%
<i>Gender has an impact on access to debt finance</i>	50%	4%	47%
<i>The government supports small businesses financially and technologically</i>	1%	3%	95%
<i>Start-up capital is the most challenging and difficult part for small business</i>	91%	1%	8%
<i>New technological development are one of the challenges for Small Business</i>	92%	1%	7%

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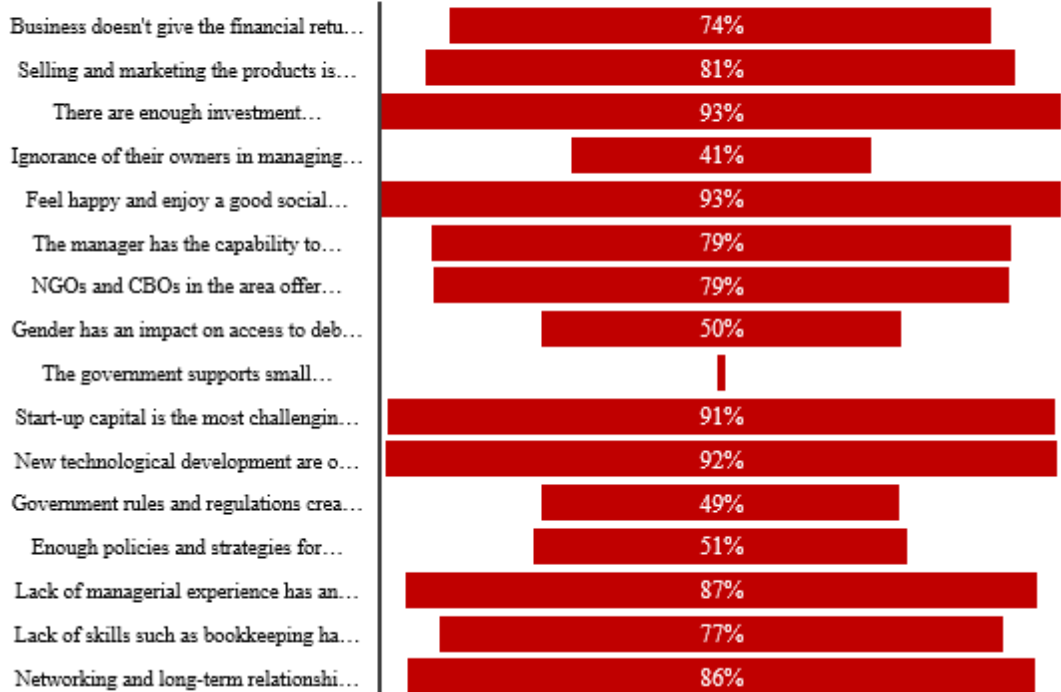
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<i>Government rules and regulations create problems for Small Business</i>	49%	1%	50%
<i>Enough policies and strategies for providing support and financial access to Small Business</i>	51%	1%	48%
<i>Lack of managerial experience has an effect on Small Business growth</i>	87%	1%	12%
<i>Lack of skills such as bookkeeping has an effect on the growth of business</i>	77%	2%	21%
<i>Networking and long-term relationships with banks positively affect access to start-up capital</i>	86%	10%	4%

## Tanzania MSME's Challenges and Opportunities



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### **Navigating Challenges and Seizing Opportunities**

The amalgamation of study paints a comprehensive picture of the business landscape in Tanzania, particularly focusing on Dar es Salaam and the challenges and opportunities encountered by Micro, Small, and Medium Enterprises (MSMEs):

1. **Economic Significance of Dar es Salaam:** The city of Dar es Salaam emerges as a crucial economic center within Tanzania, contributing significantly to national revenue. Its status as a commercial hub underscores its pivotal role in driving economic activities within the country.
2. **High Business Attrition Rate:** Despite its economic vibrancy, Dar es Salaam faces a significant challenge regarding business sustainability, with over half of all businesses failing within their first year of operation. This highlights the precarious nature of entrepreneurship in the region and suggests systemic barriers to business longevity and growth.
3. **Challenges Facing MSMEs:** The data reveals a multitude of challenges confronting MSMEs in Tanzania, including financial constraints, marketing difficulties, managerial shortcomings, regulatory hurdles, and limited access to start-up capital. These challenges collectively impede the growth and success of small businesses and underscore the need for targeted interventions and support mechanisms.
4. **Optimism and Opportunities:** Despite the challenges, there is an overarching optimism regarding investment opportunities in the region, with a majority of respondents expressing satisfaction and a sense of social status from owning and operating small businesses. This optimism underscores the potential for MSMEs to contribute to economic development and highlights the resilience and entrepreneurial spirit within the community.



5. **Government Support and Regulatory Concerns:** There are notable concerns regarding the adequacy of government support for MSMEs, both in terms of financial assistance and technological support. Additionally, regulatory frameworks are perceived as creating obstacles for small businesses, indicating a need for reforms to streamline processes and foster a more conducive environment for entrepreneurship.

The study paints a nuanced picture of the challenges and opportunities facing businesses in Tanzania, emphasizing the importance of targeted interventions, policy reforms, and support mechanisms to unlock the full potential of MSMEs and drive sustainable economic growth in the region.

## Conclusions:

1. **High Business Attrition Rate:** The data indicates a significant challenge of high business attrition rates, particularly in Dar es Salaam and other regions of Tanzania. More than half of all businesses fail within their first year of operation, pointing to systemic barriers to business sustainability and growth.
2. **MSME Challenges:** Micro, Small, and Medium Enterprises (MSMEs) face numerous challenges, including financial constraints, marketing difficulties, managerial shortcomings, regulatory hurdles, and limited access to start-up capital. These challenges collectively impede the growth and success of small businesses in Tanzania.
3. **Government Support and Regulatory Concerns:** There are notable concerns regarding the adequacy of government support for MSMEs, both in terms of financial assistance and technological support. Additionally, regulatory frameworks are perceived as creating obstacles for small businesses, indicating a need for reforms to streamline processes and foster a more conducive environment for entrepreneurship.



4. **Optimism and Opportunities:** Despite the challenges, there is an overarching optimism regarding investment opportunities in the region, with a majority of respondents expressing satisfaction and a sense of social status from owning and operating small businesses. This suggests a potential for MSMEs to contribute to economic development and highlights the resilience and entrepreneurial spirit within the community.

## Way Forward:

1. **Policy Reforms:** The government should consider reforms to improve the regulatory environment for MSMEs, including simplifying procedures, reducing bureaucratic hurdles, and enhancing transparency. This can create a more conducive business environment and encourage entrepreneurship and investment.
2. **Access to Finance:** Efforts should be made to enhance access to finance for MSMEs, particularly addressing the challenge of start-up capital. This can be achieved through initiatives such as establishing specialized lending programs, promoting alternative financing mechanisms, and providing incentives for financial institutions to support small businesses.
3. **Capacity Building:** There is a need to invest in capacity building initiatives aimed at enhancing the managerial and technical skills of MSME owners and employees. This can include training programs, mentorship schemes, and knowledge-sharing platforms to equip entrepreneurs with the necessary tools to effectively manage and grow their businesses.



4. **Public-Private Partnerships:** Collaboration between the government, private sector, and civil society organizations is essential to address the multifaceted challenges facing MSMEs. Public-private partnerships can leverage resources, expertise, and networks to implement targeted interventions and support initiatives that promote MSME development and growth.
5. **Research and Monitoring:** Continued research and monitoring of the MSME sector are crucial to track progress, identify emerging challenges, and evaluate the effectiveness of interventions. This can inform evidence-based policymaking and ensure that initiatives are responsive to the evolving needs of small businesses and entrepreneurs in Tanzania.

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