VIABILITY OF VIBRANT ENTREPRENEURSHIP TO SUSTAIN ECONOMIC GROWTH IN TANZANIA TOWARDS MIDDLE-INCOME STATUS

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ABSTRACT

The East-African economies annual growth rates indicate active economic growth, an indication that these countries’ desire to transform their economies to middle-income status is attainable. This potential growth is key to link the entrepreneurial activities so as to open more employment opportunities and foster innovation. However in developing countries, SMEs face unfriendly environment to sustain such growth something denying these SMEs a room to flourish. When both entrepreneurial and investment activities increase, inequalities are minimized through increased real income, eventually the well-being of the people are improved, consequently underwriting the economic prosperity of a country. Hence, setting an ideal environment for entrepreneurial activities to foster economic growth cannot be overemphasized. This study aims to amplify the relationship between entrepreneurship and an economic growth in a country targeting middle income status. A documentary review approach was used as the main methodology and the findings from various literatures and other sources relating to the field of study indicate that in Tanzania entrepreneurship and investment in general face particular challenges such as: weak institutions, poor infrastructure, unsuitable laws and regulations that make it difficult to sustain economic growth. Therefore, improving macroeconomic policies, eliminating various red tape with regards to formalization of private enterprises should be prioritized. The study recommends that Tanzania should give special attention to conducive business environments and quality forms of investments in line with desired transformation path to enhance economic growth and ultimately graduate to middle-income economy.

Keywords: Middle-income status, entrepreneurship and economic growth

1.0 INTRODUCTION

1.1 Background

Tanzania with an average growth of 6.6% per annum of Gross Domestic Product (WB, 2017) remains among the fastest growing economies in the region after Ivory Coast (Myers, 2016). The International Monetary Fund (IMF) projection shows that, the economies of Kenya, Uganda, Rwanda and Tanzania were all set to expand by 5% in 2017. Uganda, with an annual average of 5.0% ; Rwanda 6.1% ; Kenya 6.2% and Tanzania 6.8% being one of the highest performer in East Africa (Gusev, 2017). Yet, she remains one of the poorest countries in the world (Colijn, 2009) ranking number 151 out of 188 on the Human Development Index (Jahan et al., 2015). According to (NBS, 2018) the nation has an estimated population of 55.5 million as of 2017, a slightly improved population growth rate from 2.9% to 2.7% per annum observed during the 2002 – 2012 intercensal period (Ibid). With GDP per capita of US$867 Tanzania has ever recorded in 2016 (Gusev, 2017), still lies a huge interval to meet the international middle income threshold of per capita income of US$1,046. However, Tanzania enjoys the potentials of having her (GDP) growing steadily due to a number of factors such as; increased public consumption (aggregate demand), slowing inflation, lower interest rates with expanding construction, communication, financial services and mining sectors (Nabeta, 2015). URT (2016) outlines another contributing factor for doing business and investing as the presence of a conducive environment relative to competitor countries in the region.

In view of the economic crisis that had persisted in the country since the early years of 1980s when Tanzania was in severe economic distress (Nord, 2009), the country had envisaged the need of having a new economic and social development vision that is expected to be achieved by the year 2025. Since then, Tanzania has carried out significant economic reforms aimed at improving macroeconomic policies, liberalizing markets and trade, and the business environment. Such measures include macroeconomics management in the construction of the 1,403-kilometre pipeline to transport crude oil from Hoima in Uganda to Tanga Port in Tanzania (Mwakyusa, 2016); the grand plan to build a 130km bus rapid transit system covering over 90% of the Dar es Salaam city’s population (this is due to its economic contribution in the total gross domestic product GDP) and construction of standard gauge railway along the Central Corridor marks the convincing efforts to building a strong and resilient economy that can effectively withstand global competition.
1.2 Statement of the Problem

While some literatures suggest that most African countries will be middle income by 2040 (Africa Renewal, 2013; Wolfgang, 2012) confirms that the East African region’s economies have demonstrated substantial sustained growth to rank themselves as one of the fastest growing regions in the world and therefore the subsequently milestone efforts in their macroeconomics management could drive to middle income status earlier than suggested, “If Rwanda, Tanzania and Uganda maintain their ongoing growth momentum and if Kenya accelerates, all four countries will reach Middle Income status within the next ten years.”(Ibid)

Many previous studies both in Tanzania, Africa and elsewhere in the world have acknowledged the role of economic growth in poverty reduction (Bolnick, 2004; Friis et al., 2002; Hull, 2009; Roemer & Gugerty, 1997); and entrepreneurship as a major contributing factor to economic growth and development (Kazimoto, 2014; Kaburi et al., 2013; Okeke & Eme, 2014 and Shuriye & Ajala, 2016). However, in these literatures either entrepreneurship as a major contributing factor to economic growth or the role of economic growth in poverty reduction, the analyses were not linked directly towards eliminating abject poverty in order achieve broad human development. The analysis and solutions were rather meant to identify the challenges faced by those entrepreneurial ventures and provide the appropriate measures to overcome them.

Meanwhile Tanzania’s vision to middle income status had been unveiled and is being implemented (LTPP), 2011/12-2025/26, the country is in great demand for quality form of investments, enabling environment that would make Tanzania more attractive investment destination to diverse foreign investors and profitable to domestic private sector players to work successfully to support sustainably the economic growth.

1.3 Objective of the Study

This study focus on the economic effects or contributions of entrepreneurship on economic growth of Tanzania. This is due to the fact that there is a close relationship between economic growth and entrepreneurship. Therefore, the study aims to persuade countries on the race towards middle income status to improve business environment in order to enable entrepreneurship activities to flourish, to identify the amount and quality of investments which have economy-wide effects and eventually assist those countries to propel economic growth sustainably.

2.0 LITERATURE REVIEW

2.1 Definitions of Key Concepts Terms:

2.1.1 The concept of middle income countries

Middle Income Countries (MICs) are those countries with a per-capita gross national income in 2017 between US$1,006 and US$12,235. The World Bank uses Gross National Income (GNI) per capita to classify economies in the world because it is the best indicator of economic capacity and progress, hence for operational and analytical purposes economies in the world are classified as; Low income, Middle income (which is further subdivided into):

- Lower middle income economies GNI btn US$ 1,046 and US$ 4,125
- Upper middle income economies GNI btn US$ 4,126 and US$ 12,735) and
- High income economies GNI btn US$12,236 or more in 2017

2.1.2 The concept of entrepreneurship

The concept of entrepreneurship has been differently defined (Glancey, McQuaid & Campling 2000) whereby five definitions of entrepreneurship have been outlined. (Wennekers & Thurik (1999) refer to thirteen times. Therefore, for the purpose of this study, all definitions of entrepreneurship and entrepreneur that imply: an economic function, as a bearer of uncertainty, a resource allocator or an innovator, the creation of new organizations or the role of an owner-manager of a company would be adequate to the intended meaning.

According to (Schumpeter, 1934) entrepreneurship can be viewed as the formation of a new firm that uses innovation to enter existing markets (or to create new ones) and grow by making new demand, while taking market share away from existing suppliers. On the other hand, an entrepreneur is someone who independently owns and actively manages a small business (Collins et al., 2004).

Kaburi et al. (2013) delineate that entrepreneurship is more than simply “starting a business.” Entrepreneurship is a process through which individuals identify opportunities, allocate resources, and create value. This creation of value is often through the identification of unmet needs or through the identification of opportunities for change. They further urge that entrepreneurs see “problems” as “opportunities,” then take action to identify the solutions to those problems and the customers who will pay to have those problems solved. Cantillon (1755) claims that “Undertakers” are a class of economic

agents, making decisions on market transactions in the face of uncertainty. Knight (1921) defines entrepreneurship as dealing with uncertainty, making a distinction between risk, which can be calculated, and uncertainty, which cannot.

Onuoha (2007) also opinions that entrepreneurship is the practice of starting new organizations or revitalizing mature organizations, particularly new businesses generally in response to identified opportunities.

2.2 Entrepreneurship development status in Tanzania
At global level, a country’s official position with regard to entrepreneurial development is determined when the fusion of parameters that a particular country should be upheld in relation to other countries either in a region or at global dimension. These parameters include: opportunity perception, start-up skills, risk-acceptance, networkings, cultural support, opportunity start-up and tech-sector. Others are human capital, competition, product innovation, process innovation, high growth, internationalization and risk-capital. Baumol (2018) identifies them as ‘14 pillars’ that indicate specific areas in which a country has to expend her effort to upgrade the overall entrepreneurial potential in the land.

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Source: GEI 2017 data

Baumol, (2018) ranks Tanzania the 116th position out 137 countries according to its global entrepreneurship score (GEI) as of 2017, and the 14th position at the regional level. These statistics on Tanzania’s position and her performance at regional and international level summarizes the need to increase and strengthening entrepreneurial activities in a bid to sustain economic growth as the country targets high gross domestic product (GDP) towards 2025.

2.3 Supportive Entrepreneurship Development Policy in Tanzania
The SME Development Policy is among several policies that entirely support the country’s Vision 2025. The latter envisions that “Tanzanians will have graduated from a least developed country to a middle income country by the year 2025 with a high level of human development. The economy will have been transformed from a low productivity agricultural economy to a semi-industrialized one led by modernized and highly productive agricultural activities which are effectively integrated and buttressed by supportive industrial and service activities in the rural and urban areas” (Vision 2025, 1999, p. 2)

Tanzania SME Development Policy 2003 UNIDO, (2013) recognizes the decisive challenge the country encounters for this obligation in sustaining economic growth which in turn would ease poverty and unemployment problem. While the country encouraged by economic growth indicators in fields such as school enrolments and infant mortality, the duo are responsible to bring about ‘young population’ in the country. The consequences is the additional number of educational establishments, already in 2002 reference was made to more than 850,000 new entrants into the labour force annually (SME Development Policy, 2003:5 p).

The existing SME Development policy is in line with other policies, strategies and initiatives towards attainment of 2025 objectives. While SME policy highlighting employment creation, the first FiveYears Development Plans (FYDP)
emphasizes on the prioritization on the country’s growth opportunities. “this Plan focuses on how the growth process should be made more pro-poor, by addressing supply constraints in key sectors with higher multiplier effects in creating employment, mainly by engineering productivity growth, especially in agriculture, manufacturing and in SMEs” (FYDP, p. 51). Therefore, fostering SME not only will it be the main source of employment creation but also add value to the gross domestic product.

2.4 Theories of success
It is important to examine the ability of entrepreneurship to work successfully to sustain economic growth in other countries by looking at the theories. This has great significance for Tanzania long term strategies and resources management. There are many theories that have been developed on success, some of these are Gladwell theories of success and Iceberg theory of success.

For the purpose of this study the Iceberg theory of success is preferred because of its inspiration that any country vying for success, graduating to middle income status for that matter would need to emulate.

2.5 The Iceberg theory of success
One of the best known theories of success, at the heart of Mueller’s theory is the assumption that we all know that only a small fraction of an iceberg is visible above the water line, where as the larger part of an iceberg is hidden beneath the water. That an iceberg can be an excellent metaphor for a successful person. Everyone can see the outcome of this person’s actions and most of his accomplishments (i.e the visible part of the iceberg), whereas the efforts that were necessary to achieve such an outcome remain hidden, unnoticed (like the invisible part of an iceberg that is beneath the water line).

The majority of people tend to only see the extraordinary outcome that a successful person has achieved throughout his life, such as a luxurious villa, expensive sports cars or other intangible achievements. These achievements blind us so that we often are not even aware of the huge efforts that were necessary to make these accomplishments possible. And at this point it can be very demoralizing for a person that wants to achieve similar accomplishments, without knowing the “real” effort that will be necessary to succeed. This will finally lead to failure, as the person has had too high expectations without being ready or willing to put in as much effort as necessary to succeed.

The first contribution that can be deduced in this theory is creating awareness that economic growth many developed countries have attained are the outcomes of a long period labourious effort. The Tanzania vision 2025 is attainable; the macroeconomic reforms and enabling effort to allow entrepreneurship thrive in order to support economic growth sustainably can be equated like invisible part of an iceberg that is beneath the water line. The second major contribution by Mueller has been to clarify the long way taken to achieve the desired development. Though the Vision 2025 is attainable real effort is necessary and takes a harder way.

2.6 Economic Growth Status in Tanzania by 2017
African economies have been resilient and gaining momentum ADB, (2018). Despite of the optimism, challenges remain in many African countries particularly with reference to structural changes in line with desired transformation. These countries need quality forms of investments that would immediately respond to their real demand of solving unemployment and improve value chains in order to modernize manufacturing and services sector.

Statistics over the economic growth status in Tanzania, both by the World Bank and African Development Bank Group have indicated a decline since the last quarter of 2016, following real GDP growth of at least 7% between 2013 and 2016. Growth in the first two quarters of 2017 averaged 6.8% ADB, (2018); WB, (2018). Among the key factors behind the slump in the economic growth rate are the decline in current account deficit to about US$1.5 billion (equivalent to 3.1% of GDP) in June 2017, from about US$1.9 billion (equivalent to 4.2% of GDP) in June 2016 also the fall in value of exports by 6.2% in the year ending June 2017, compared to the year ending June 2016, while the value of imports dropped by 16.7% over the same period. Ibid.

In an attempt to boost growth, the BoT took some fiscal measures to cut off lending rate from 16% to 12% in March 2017, and followed it with another reduction to 9% in August 2017. However, growth of credit to the private sector at 2.8% by June 2017 was at the lowest level, and the interest rates have remained significantly very high.
2.7 Conceptual Framework (fig. 1)

Government Policy: (SMEs Policy)

Conducive Business Environment
- Supportive Government Policy
- Policy Implementation
- Government Funding

Vibrant Entrepreneurial Activities: (Quality forms of investment)
- Investment in agriculture
- Developing agricultural value chains
- Develop human capital (entrepreneurial skills)
- Encourage modern manufacturing and services

Sustainable Economic Growth: Middle Income Status
- GNI per capita of more than $1,046 but less than $12,735

Source: Researcher 2018

2.8 Theoretical Framework

The conceptual framework above in figure 1, offers a graphical presentation of how can conducive business environment become a key factor to a middle income aspirant country to navigate its economy through, using quality forms of investment to support the economic growth to GNI per capita of more than US$1,046. With supportive government policies at hand particularly the SMEs policy to tailor-made entrepreneurship towards labour absorbing growth paths and facilitate the transition to higher productivity modern sectors. Middle income status is not a destiny for countries vying social and economic development but rather a transitional to which the quality and the standard of living of the majority are highly improved.

3.0 METHODOLOGY

This study adopted a documentary review as the main research method; the method is preferred as it gives all wide-ranging overview for understanding the phenomenon under study. Therefore, the data gathered for discussion were obtained mainly from secondary sources, which involved the use of information taken from periodicals, journals, and internet. Furthermore, various reports and documents related to middle income status, entrepreneurship, relationship between entrepreneurship and economic growth in Africa and Tanzania in particular were important for the study.

4.0 FINDINGS AND DISCUSSION

Holcombe (1998) argues that entrepreneurship is the engine of economic growth. Based on this assertion, the prospect for Tanzania in her endeavor to achieve middle income status in the near future through the implementation of Tanzania Long Term Perspective Plan (LTPP), 2011/12-2025/26 (URT, 2012) is still viable and compatible with promotion of entrepreneurship, identifying private sector and foreign direct investments (FDIs) that employ the majority of the poor and creating conducive environment for scaling up.
Tanzania as a country suffers more from too little private investment and entrepreneurship (DFID, 2011). It was reported that there are more than 1.7 million SMEs projects in Tanzania that employed more than 3 million people, which represent 20% of the labour force in Tanzania (Kazimoto, 2014; NSGRP, 2008). Furthermore, URT (2016) reports that Tanzania still lags behind the rates of investment that are demonstrated to be necessary for economic transformation to take place, making references to Malaysian case the report indicates that almost 40% of its GDP is invested in private investment. Therefore, rapid, growth of innovative and more productive firms should become the country’s development goals.

To implement this, Tanzania Investment Centre (TIC) has been accorded with the responsibilities to coordinate, encourage, promote and facilitate investment in Tanzania and to advise the Government on investment policy and related matters (URT, 2017). Through TIC Tanzania has (FDIs) value having reached US$ 2.14 billion as of 2014 from the fast growing sectors of information and communication, finance and insurance, wholesale and retail trade, and manufacturing (URT, 2016). While there is an increase of more productive firms in other sectors, the agriculture sector which is a mainstay that employs majority of the people (at around 66.9%), lagged behind, growing at only 3.4 percent (2014) from 2.7 (2010) (Kazimoto, 2014; NSGRP, 2008).

She and Michelitsch (2013) further delineate that private sector creates 9 out of 10 jobs in the global economy and jobs in SMEs account for more than half of all formal employment worldwide. It is evident then both private sector and SMEs are significant contributors to job creation which leads to reduction of unemployment and ultimately economic growth. For instance, Rizvi and Nishat (2009) explain that FDIs help direct and indirect generation of jobs, generally creating high paid jobs than domestically generated jobs and leads to enhanced productivity of the host country labour-force. Moreover, a favourable business environment is required in order to realize a sharp reduction of unemployment amid growing SMEs and DFIs in the economy. A conducive business environment in terms of effective economy, political and social policies that is promising to investors to exploit the available opportunities and guarantee capital returns.

According to Doing Business in Tanzania Report (2016: 239), Tanzania’s business environment still un-favourable in some dimensions, she was ranked 139th out of 189 countries which means she has not been able to top the best 100 countries in the world. That position calls for relentless and collective effort from the Ministry responsible for business and investment to reverse the course. Tanzania Investment Centre (TIC) on the other hand, has been entrusted by the government to facilitate private sector, foreign direct investments and entrepreneurship formalization and make Tanzania a ‘One-Stop-Shop’ investment centre (URT, 2017). Despite of impressive marketing strategies approach being taken by TIC as far as investment is concerned the following stand out as major impediments to entrepreneurship and investment growth in the country: first and foremost is an inadequate and unreliable power supply is the most important issue affecting companies; access to finance is particularly a constraint for SMEs; a shortage of skilled workers is a key challenge for larger businesses and informality is a major hindrance for small and medium-size enterprises.

Others impediments include; red tape, the multiplicity of charges/fees, energy shortfalls, policy and institutional constraints, multiplicity of regulations and varying clearance requirements (e.g. VAT collection system and high VAT rates); lack of dialogue between public and private; also disparities in quality of infrastructure across regions such as poor roads and problematic access to land for industrial purposes have been spotted among the areas that hamper growth of the entrepreneurship and private sector in the country.

Interestingly, relieving of entrepreneurs from unfavourable business environment is not the end by itself. Once the business environment are upgraded to satisfactory level through eliminating both physical and structural impediments, there is possibility for such measures to lead to positive employment effects through creation of more firms and increase efficiency of existing ones, the market issue would emerge as aftermath problem. While manufactured goods need larger internal as well as international markets, development of more networks become indispensable in order to move goods across the region.

Many different literatures have indicated that the role being played by small and medium enterprises (SMEs) in economic development is immensurable both in terms of unemployment reduction and constituting business units. According to (Ackah & Vuvor, 2011), the SMEs constitute about 90% of total business units in Ghana and account of 60% of Ghana’s employed labour force. In another study, Mullineux (1997) postulates that it is the SME sector rather than the multinationals that is the largest employer of workers.

Despite the growing important role of SMEs in a country, access to finance has been a particularly constraint for SMEs in many developing countries. Rodriguez et al. (1993) indicates that access to bank credit by SMEs has been a major constraint to industrial growth with a common explanation of their inability to pledge acceptable collateral. Other
contributing factors to SMEs failure to access to finance as suggested by Kuzilwa (2005) and Mashenene (2015) in Tanzania are: lack of collateral, low value of collateral, high interest rate, unavailability of loan information, low risk taking propensity, poor saving habits, bureaucratic loan procedures, business informality, poor repayment habits and corruption.

As Tanzania enters the second phase in the implementation of the Tanzania long term perspective plan (LTTP), 2011/12-2025/26, the repeatedly echo of SMEs as effective job creators and fuel of national economic engines as described by Ackah and Vuvor (2011) should be taken with serious concern.

5.0 CONCLUSION
The study has highlighted the determinations and ambitious the East African countries have envisaged to achieved and emerge as emerging economies in Africa through macroeconomic policies and realize broad human development. Tanzania in particular, entrepreneurship continue to be an important engine to economic growth due to its double impact in providing employment and reduce poverty.

The findings show that many entrepreneurship ventures in Tanzania face various impediments which makes it difficult to support the national ambition to sustain economic growth sustainably. Furthermore, SMEs lack support and accessibility to finance institutions leading to poor performance in the economy. Nevertheless, there are still areas inevitably require an immediate solution in order to make Tanzania business environment are both attractive and one stop destination to foreign investments, that have far reaching benefits to the majority poor people in the country.

With the government support, vibrant entrepreneurship can play its role in helping to improve the economy of Tanzania, and ultimately improve the country's Gross Domestic Product (GDP) to realize the 2025 vision.

5.1 Recommendations:
Based on the findings and the conclusions drawn from the study, the following recommendations are made by the researcher:

- The government has to re-examine itself and re-consider the part to be played by the private sector particularly the SMEs in order to achieve 2025 vision objectives. Entrepreneurship has a key role to play in bringing about the needed reinforcement of agriculture-industry linkages, modernization of agricultural production to the increase in agricultural productivity.
- The government has the responsibility to create conducive environment for SMEs and other private sector practitioners.
- With approximately 800,000 youth entering the labor force every year, nurturing a vibrant private sector to provide productive jobs is critically important.
- The private sector can also be leveraged, not only as a source of financing for FYDP II through public private partnerships (PPPs), but also as the actual driver of industrialization.
- The government has to review the tax collection systems in the country by issuing immediate payment for VAT refunds and duty remission as required by the law to avoid frustrating investors.
- To re-examine the quality of FDI inflows; that most FDI inflows tend to target service and extractive activities, which offer limited employment opportunities and linkages with the rest of the economy.
- The importance of financing SMEs growth shouldn’t be ignored since among other things capital is a major factor of production, the government has to revisit its SMEs reform policy.

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