



Developing business acumen in horticultural enterprises

This project will give 30 small and medium-sized agribusinesses the support they need to evolve into profitable, growing enterprises by:

- Supporting companies to identify their weaknesses and providing bespoke training in administrative, financial and technical skills.
- Helping enterprises develop professional business cases to support loan applications from risk-averse banks.
- Identifying new activities that can make the enterprises a positive return on investment.
- Facilitating mutually beneficial contracts between farmers, buyers, suppliers and traders.
- Identifying and tackling the obstacles facing female and youth-led businesses.

This project is funded by the Norwegian Agency for Development Cooperation and is implemented in collaboration with Tanzania Horticultural Association (TAHA).

This booklet was written in December 2021.

BUSINESS FORMALISATION IN TANZANIA

LEARNING FROM THE DECIDE PROJECT

Since 2019, Farm Africa has implemented the **Delivering, Expertise and Investment to Developing Enterprise (DECIDE)** project funded by the **Norwegian Agency for Development Cooperation (NORAD)**. The DECIDE project supports micro, small and medium enterprises (MSMEs) in the Tanzanian horticultural sector to grow their businesses, improve productivity and market linkages, and unlock commercial investment through business development services (BDS) support, mentoring and trainings.

The DECIDE project supports 30 MSMEs across 10 regions of Tanzania. These businesses employ a total of 130 full-time and 162 casual employees. Over 50% are classified as small enterprises (employ 5-49 people) with operating capital of Tanzanian Shillings (TZS) 2M -5M, (USD \$21,450-85,985) with 56% being women-owned enterprises.

This learning piece shares findings from the DECIDE project's work in facilitating MSMEs to comply with the country's legal framework, business registration requirements and documentation required to access social security for the business and its employees. It highlights some of the obstacles they face in transitioning into the formal economy.

CONTEXT FOR MSMEs IN TANZANIA

The World Bank's 2019 Ease of Doing Business Report ranked Tanzania the 36th out of 48 sub-Saharan African countries for ease of starting a business. This is below regional counterparts such as Kenya (25th), Rwanda (4th), Burundi (5th) and Democratic Republic of Congo (7th).

Tanzania's Small and Medium Enterprise Development policy defines MSMEs according to sector, employment size and capital investment in machinery. MSMEs are defined as micro, small and medium-size enterprises engaged in non-farm activities including manufacturing, mining, commerce and services. They are more specifically classified according to the number of employees and the value of their assets – with a condition that the value of investment is the deciding factor as indicated in the table below. These criteria of enterprise size have no effect on MSME formalisation.

CLASSIFICATION OF BUSINESSES IN TANZANIA

All businesses are required to be registered by the Business Registration and Licensing Agency (BRELA), whether they are individual businesses, partnerships, or corporations before they acquire the business license from the local government. Cooperatives or societies that are also doing business need to be registered. Formal businesses therefore comprise all enterprises formally registered by BRELA and other compliance regulatory agencies. All business activities that are not registered are therefore regarded as informal business. The ultimate goal of enterprise formalisation is to reduce poverty and create more and better jobs, including but not limited to women and young people who are usually marginalised. Business formalisation initiatives contribute to the Sustainable Development Goals target 8.3 on decent job creation and the formalisation and growth of MSMEs.

	Micro-enterprise	Small enterprise	Medium enterprise
Staff headcount	1-4	5-49	50-99
Capital assets /investment in machinery	< 5 million TZS	5-200 million TZS	200-800 million TZS

A nationwide survey of MSMEs carried out by the Ministry of Trade and Industry in 2012 indicated that there are 2,754,697 people who owned and ran micro, small or medium-sized businesses. Findings further show that while 86.2% of the small business persons owned and ran only one business, the rest owned and ran two (12.8%) or more (1%) businesses. About 96.4% of small business owners were sole proprietors, and about 3.5% were in partnerships in which 77% of all partners were family related.

Like many small businesses throughout the world, Tanzania's MSMEs often struggle to earn a consistent profit or fail before they can fully test or scale their business models to their full potential. Across the country, most MSMEs engaged in the horticultural sector operate informally which denies them benefits and rights that formal registration confers on businesses. Informality also limits the tax base of the country as they are unable to facilitate the shift in production to the formal sector.

LESSON ONE – MSME HESITANCE TO FORMALISATION

The DECIDE project has shown that there is significant reluctance, mostly at the micro-enterprise level, for businesses to formalise due to a lack of credible information on the registration process. Further, MSMEs face difficulties navigating the 18-30 step registration process and working with all of the government bodies required to register a business formally.

Many business owners fear costs associated with registration, including licensing and tax obligations. Even during the initial recruitment of MSMEs, Farm Africa experienced three MSMEs dropping out of the project after the initial baseline and capacity assessments due to a fear of complying with government requirements and the anticipated tax burden.

Like in other African countries, business owners in Tanzania fear to formalise their businesses due to the increased attention they will receive from local government agents – and in many cases fear of maintaining accurate records that may be used by the government to identify tax obligations.

At the start of the project, 29 out of 30 businesses selected by the project had registered with BRELA and a business name. While 82% had some form of record-keeping, only 18% were using a clear and efficient system for record-keeping. In addition, to formally registering with BRELA, there are 18 additional requirements including obtaining a business license, a tax payer identification number, a business bank account, occupational health and safety compliance, respective industry standards such as Tanzania Bureau of Standards (TBS) certificates for food processing, weights and measures among others to be fully considered registered by the Registrar of Titles, Tanzania Revenue Authority (TRA), the Local Government Authority (LGA) and National Social Security Fund (NSSF).

Some business owners knew the benefits of business registration and compliance, but took a deliberate choice not to fully formalise in order to avoid regulatory scrutiny and taxes. They also sought out sales opportunities in informal or alternative markets where their customers did not require formal registration or standards certifications.



DEMYSTIFYING FORMAL REGISTRATION BY PROMOTING BUSINESS TO BUSINESS LINKAGES

The project facilitated exchange visits between business owners and management teams which enabled cross learning and attitude changes to business formalisation. Business owners were able to share experiences on the processes, requirements and observable benefits of operating a formal business with their counterparts. The sessions also allowed an exchange of networks and onsite learning about the performance of formal and informal businesses which facilitated attitude change for businesses towards business formalisation.

In March 2021, the CEO of a micro-enterprise dealing with organic spice production in Dar es Salaam which had not yet formally registered visited one of the largest spice blending companies in Arusha to learn more on how to formalise and grow the business. During the visit, the CEO learnt about production cost reduction strategies, use of different small scale processing machines, product marketing including export and tax management aspects and other regulatory compliances such as food safety and standards.

The company now sources its raw materials from smallholders through contract farming arrangements, following the example of the formal business. SMEs are now willing to establish contract relationships with small farmers and develop out grower schemes to ascertain reliable sources of raw materials from farmers in order to reduce operational costs and maximise profits. Contract farming also offers businesses opportunities to get a consistent and high-quality supply of raw materials to be able to meet their market requirements.

With support from the project, the CEO of this micro-enterprise has developed a business plan. As a way of implementing the business plan, the company is determined to increase production and has bought a small-scale spices processing machine. Apart from online marketing the company is planning to open a shop front and register for a business license and the Tanzania Bureau of Standards mark.



LESSON TWO – BENEFITS OF FORMAL REGISTRATION NOT WIDELY SHARED OR CHAMPIONED

▼ BUSINESS RECOGNITION

The DECIDE project found that while the perceived downsides of formal registration are commonly articulated by MSMEs and local entrepreneurs, the potential benefits of formal enterprises are not as well known or understood. For example, unlike informal enterprises, formal enterprises reduce their exposure to government fines through compliance with the legal framework of the country.

▼ ACCESS TO FORMAL FINANCIAL SERVICES

Formalised businesses are eligible to access financial information and credit from commercial banks and micro finance institutions unlike informal business that may not be considered by financial institutions.

▼ MARKET OPPORTUNITIES

Formal businesses also have access to formal retail market channels such as supermarkets. To sell products to supermarkets, a formally registered company should have a business license, delivery notes, invoices and a receipt book/Electronic Fiscal Device (EFD). Formal businesses can also participate in public biddings or act as suppliers or retailers of larger companies. In addition, formal businesses have access to public procurement opportunities and can access export markets.



LESSON THREE – TIME AND COST OF REGISTRATION FOR FOOD SECTOR MSMEs

The high costs of registration fees paid to different regulatory agencies also limit MSMEs from meeting the different registration requirements. The BRELA registration fee costs range from TZS 777,000 (USD \$335) for medium-size businesses to TZS 136,120 (USD \$60) for micro-sized business and TZS 10,000 (USD \$4.30) for cooperative societies. According to the Tanzania Investment Centre there are between 18 and 30 different steps involved with registration and set up of a new business, and the minimum time required is 18-32 days.

In addition, there are often fees paid to lawyers that help to prepare documentation and correctly follow all of the processes to meet the registration requirements. MSMEs need assurance that the business registration is done correctly; processing many forms and the requirements of legal documents (for example, reviewing lease documents and preparing incorporation forms) necessitates the support of lawyers. More so, many registration documents require notarisation, which incurs additional cost. Therefore, MSMEs highlighted that while they see the actual cost of registration as relatively affordable, the additional costs associated with registration such as lawyer fees in the context of a lack of clear and straightforward information increases the price.

Relatedly, MSMEs engaged in the food industry have an increased regulatory and licensing burden as a requirement for compliance. For businesses to comply to food safety standards, the Small Industries Development Organization (SIDO), a parastatal and incubation body for small businesses in the food industry, requires an SME to be operational for one to two years with recommendable business premises before issuing a product testing certificate. This is also required by TBS and other agencies to continue with the registration processes.

SMEs have to invest over TZS 20-30 Million (USD 8,500-13,000) in the infrastructure required to meet the product testing standards to obtain an approval letter and certificates from SIDO.

Given the cost of formal registration for a MSMEs and the associated requirements (permits, registration, bank account charges, loss of revenue to tax, payroll costs) an MSME requires have annual turnover not below TZS 7.5M (USD \$3225) to be registered and operate formally.



PROMOTING THE BENEFITS OF REGISTRATION FOR ACCESS TO PUBLIC BIDS – COMPANY A

Company A was registered in 2016. As a result of formal registration, the company was able to tender for government procurement contracts for food stuffs including nutritious flour. The tender was advertised by the government agency namely Ngorongoro Conservation Area Authority (NCAA). As of July 2021, Company A has supplied 45 metric tonnes (MT) of nutritious flour, which is equivalent to \$51,700 to NCAA in Arusha region.

TRACK RECORD WITH FINANCIAL INSTITUTIONS - COMPANY B AND NMB

Company B formalised its business with support of the DECIDE project and now receives all business transactions through their NMB bank account. Due to the volumes of transactions into the account, Company B has been able to access loans from two different banks and has used the funds for various capital investments, including to invest in a spice sachet producing machine which produces smaller spice sachets and targets lower income earners as a niche market.

These investments helped the organisation to increase revenues from TZS 70m (USD \$30,094) in 2019 to TZS 275m (USD \$118,229) in 2021. In the past, the owner of Company B had failed three times in the informal spices business as he was not able to acquire capital from the bank. This is because he had not completed the registration cycle which attracted more fines to the business. The company started again for the fourth time with working capital of TZS 500,000 (USD \$215) in 2018. With support of the project, Company B registered with BRELA as a sole proprietorship in 2019 to comply with all business principles and ethics. The owners acquired more business knowledge through online platforms such as YouTube, reading business magazines and attending business workshops and seminars.

Currently, Company B has 13 full-time employees with formal employment contracts, including an accountant who received training from the DECIDE project on financial management and the use of an accounting package. The business now has markets in all major cities, including Dar es Salaam, Mbeya, Iringa, Morogoro and Mtwara, and is planning to expand to Mwanza and Arusha as well as regional markets in Uganda and Kenya starting in 2022.



DECIDE INTERVENTIONS- SUPPORT

Setting up systems on business requirements: By supporting business development services, the project provides information to business owners on registration and compliance, requirements and links further facilitating linkages of businesses to SIDO, and enables business owners to easily navigate through TBS processes.

Technical trainings, coaching and mentoring: Technical training on financial management aspects, record-keeping, food safety and standards is facilitated by the project. It also supports platforms, stakeholder meetings and frequent visits to enable trust building and guided support for MSMEs to be able to change their attitudes and start to perceive their enterprise as real profit-making ventures.

"I was producing chilli sauce, but I was not keeping track of the business. Since you started visiting and enquiring about business records, I decided to keep records. Through these records I can now see whether I make profit or loss." Jofenai Investment of Dodoma.

RECOMMENDATIONS

Based on the experience of working with MSMEs throughout the DECIDE project, Farm Africa has the following recommendations for policy consideration:

ONE-STOP SHOP FOR BUSINESS REGISTRATION

For MSMEs to conform to business regulatory and compliance requirements, the Government of Tanzania through its agencies such as BRELA, TRA and TBS among others needs to champion the development of a one-stop centre that will provide all the required services for business formalisation at one location. A one-stop shop will enable MSMEs to more easily understand and comply with regulations, laws, and guidelines that govern the operations of a business.

Having all of the different regulatory agencies in one place will also minimise duplication of effort and reduce potential for corruption. The risk of fines, penalties, work stoppages, lawsuits, shutdown of the businesses or other detrimental impacts of non-compliance will be minimised.

CONTINUOUS AWARENESS ON BUSINESS FORMALISATION

There is a need for TRA, TBS and other regulatory agencies to continuously promote public awareness through stakeholder meetings for MSMEs. Local government authorities and other stakeholders need to promote awareness on standards and tax payer education. This will further promote compliance and guide businesses to operate legally, grow investment and increase their profitability while providing opportunities for improved social economic transformation in Tanzania.

Farm Africa promotes sustainable agricultural practices, strengthens markets and protects the environment in rural Africa.

www.farmafrica.org
Info@farmafrica.org



Registered charity no
326901 (England &
Wales)

This project is funded by the Norwegian Agency for Development Cooperation and is implemented in collaboration with Tanzania Horticultural Association (TAHA).

