

General environment of a small business in tanzania economics essay



Tanzania is formed by the combination of Tanganyika and Zanzibar in year 1964. She is currently located between Kenya and Mozambique and known as the largest country in East African. Since independence, nationalities in Tanzania was divided into two, namely Tanzanians and Zanzibaris. The population of Zanzibar is around 1 million while mainland has around 36 million of population (Nations Online 2010). Tanzania's government is a republic form and her legal system is based on English common law (Central Intelligence Agency 2010).

This whole report analyses the general environment of a small business in Tanzania. Firstly, it will discuss on the economic environment, whether or not the economic condition in Tanzania is suitable for the operation of a small business. Secondly, the issue of legal-politic will be examined. It discusses the worthiness and safety of direct investment in Tanzania. Other than that, sociocultural of Tanzania will be studied as well by using Geert Hofstede's four dimension values. Finally, this report will discuss about the impact on the environment of Tanzania's growth after the implementation of science and technology.

General Environment of Small Business in Tanzania

Economic Environment

There are several issues pointed out in Tanzania's economic environment. They are economic crisis, inflation, poor agriculture productivity, low level of education and scarcity (USAID 2010). From the resource (worldbank 2010, 4), Tanzania is considered as one of the lower middle income countries with \$ 1, 350 of gross national income per capita. However, she has big possibility for continued growth due to the funds that is provided by mutual donors in <https://assignbuster.com/general-environment-of-a-small-business-in-tanzania-economics-essay/>

assist Tanzania's economic infrastructure like transportation and telecommunications.

From the view of investor, areas that need investment to enhance transport infrastructure development in Tanzania are road rehabilitation, railway system, waterways, merchant marine, airports and terminals (Central Intelligence Agency 2010). Next would be the telecommunication infrastructure development. In 1999, a 5 years program costing USD 250 million sponsored by international donor community had improve Tanzania's telephone system, broadcast media and internet host (Telecommunications Structure and Policy n. d.). Investment in these infrastructures can aid in the growth of Tanzania's economy.

In the past, Tanzania's economic development depends on agriculture as she is rich with natural resources (Natural Resources n. d.). Agriculture has become the second main income of Tanzania which involved 80% of labour force (Central Intelligence Agency 2010). In year 2009, Tanzania exports commodities like gold, coffee, cotton and others which generates \$2. 976 billion and imports commodities like machinery, industrial raw materials, crude oil and others which cost \$5. 776 billion (Central Intelligence Agency 2010). From the statistic, third parties can well understand the market demand of other countries and also the resources market needed in Tanzania industry.

Tanzania has an average of 7% economic growth per year since 2000 (USAID 2010). Due to this grow, the rural livelihoods can be improved as well as poverty can be decreased and increasing the Gross Domestic Product (GDP).

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The inflation rate of Tanzania has increased to 12.1% in 2009 and a world ranking of 204, which means the annual rate of growth of prices in economy has increased but inflation rate still consider low (Central Intelligence Agency 2010). Moreover, Tanzania's commercial bank prime lending rate was decreased to 14.98% in 2008 and a world ranking of 40 (Central Intelligence Agency 2010). While the current exchange rate of Tanzanian Shillings (TZS) that convert to 1 US Dollar (USD) is 1,440.81 (Tanzanian Shillings (TZS) to 1 US Dollar (USD)). From the data, Tanzania's economic is getting stable since the economic crisis in the early 1990 (Icon Group Internation, Inc 2000, 66). Tanzania is a suitable place to start small business with low inflation rate and high lending rate which compared to other countries, but the main key factors are the growing economic and political stability.

Legal-political environment

Although Tanzania's political stability is claimed to be moderately constant since independence (Tanzania Country Overview 2010), there are still political risks that can't be avoided. Such risks are political violence and corruption crime which surfaces when general election comes near. There was such a case happened in Tanzania election, where the secretary of Chama Cha Mapinduzi (CMM) party was caught for selling their party's membership card for personal interest without legal procedures. This card that was sold can be misused in future national elections which could cause the election corruption (Election Corruption crimes in political parties get nasty as General Elections n. d.). Due to the political issues, businesses often face some circumstances that increased the risk of investment in Tanzania.

The other critical issue that affect business environment in Tanzania is the political instability. Factors that caused political instability can be wars, revolutions, terrorism, frequent changes in government and others (Samson and Daft 2009, 145). For instance, war begins because of the scramble for natural resources by colonial countries between 18th and 19th centuries. This brought a great impact on the environment as the well-known Serengeti National parks located between Kenya and Tanzania is in a threat during the war (Daniel 2009). Only businesses that relied on natural resources as their main resources may be influenced by this political instability.

“ Tanzania had the highest inflows of foreign direct investment (FDI) in the East Africa region in 2006.” reported by United Nations Conference on Trade and Development (Bureau of Public Affairs 2008). In the year stated, FDI approached USD 501. 5 million from USD 325 million in the previous year. This part of success is because of Tanzania’s government enforced some law and regulations on business, for instance, the Tanzanian Investment Act of 1997. This establishment effectively increased FDI by protecting investors’ safety and providing investment opportunities to them. Furthermore, they provide investment facilitation services which distribute investment information that are needed by investors (Bureau of Public Affairs 2008). If this enhancement achieved continuously, this would bring Tanzania’s economic development to a higher level.

Sociocultural Environment

Tanzania is enriched with different cultures like language, foods, traditional dance and others. They have many local languages due to the different ethnic groups. For the convenience of administration in government,
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Kiswahili and English are introduced to be their official languages. Although there are many different major religion in Tanzania, but most of the population from Tanzania are Islamic as there are 35% of them are from mainland population and more than 99% of Zanzibar population are Islamic (Nations Online 2010). One of the famous culture in Tanzania is their traditional dance which is known as “ Ngoma” (Culture heritage and traditions n. d.).

Table below shows the comparison between East Africa (included Ethiopia, Kenya, Tanzania and Zambia) and World Average in Hofstede’s cultural dimensions.

Country

East Africa

World Average

Power Distance

64

55

Uncertainty Avoidance

52

65

Individualism/Collectivism

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27

40

Masculinity/Femininity

41

49

Long-term Orientation

25

47

(Source: Hofstede n. d.)

Power Distance

From the survey of Hofstede, the power distance index of East Africa is slightly higher than world average. This explains that the population from East Africa can accept the unequally distribution in power among institutions, organizations and society (Samson and Daft 2009, 150).

Uncertainty Avoidance

East Africa has a lower uncertainty avoidance index compare to world average. Low uncertainty avoidance meanings that the society is feeling comfortable with hesitation and tolerance with ambiguity in any unstructured situations (Samson and Daft 2009, 150). From the data collected, the point

of view of culture and belief of people from East Africa is phlegmatic and thoughtful as they allow different opinions but try to avoid strict laws and rules (Hofstede n. d.).

Individualism and Collectivism

People from East Africa are more towards collectivism as the ranking of individualism is extremely low. Samson and Daft (2009, 150) defined collectivism as “ a preference for a tightly knit social framework in which individuals look after one another and organisations protect their members’ interests.” This can be seen that individuals from East Africa are basically integrated into strong and organized groups.

Masculinity and Femininity

Refers to the distribution position between the genders, the femininity value in East Africa is a little more than masculinity value. In this position, this society is understood to be a reserved, caring just like a woman’s value which also aimed to be cooperation, group decision making culture (Samson and Daft 2009, 150).

Long-Term Orientation and Short-Term Orientation

At the fifth dimension, East Africa is associated with short-term orientation which defined as a social that is following tradition and meeting social requirement. They are having less value on long-term orientation which is thrift and perseverance (Samson and Daft 2009, 150).

Technological Environment

Today, people value the importance of technology as essential in their life. Besides, it is believed that technology not only can assist in education achievement, but it is also aid in economic development of a country. In Tanzania, there are several national initiatives established in the purpose of guiding the government on science and technology policy since independence of Africa (Mukama and Yongolo 2005). Most of the technical and industrial research focused on agriculture of Tanzania as the priority of food productivity and food security (Matata et al. 2010).

African Technology Policy Studies Network (ATPS-Tanzania) which was found in year 2001 by Ms. Bitrina Diyamett (African Technology Policy Studies Network, Tanzania Chapter n. d.). This organization contributed by emphasizing the growth of Tanzania and the reduction of poverty by developing the use of science, technology and innovation (African Technology Policy Studies Network, Tanzania Chapter n. d.). In the case of declining soil fertility, a replenishment technology is introduced into agriculture of Tanzania to overcome this problem (Matata et al. 2010). Once there is improvement in technology, the significant proportion like food insecurity and malnourishment will also be reduced as the soil fertility and macronutrient levels are increased.