

**Enhancing Tanzania's Export Performance through Effective  
Export Promotion and Support Services**

**By**

**Mhondo, Neema J.**

**THESIS**

Submitted to  
KDI School of Public Policy and Management  
in partial fulfillment of the requirements  
for the degree of

**MASTER OF BUSINESS ADMINISTRATION**

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Professor: Yoon C. CHO

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## **ABSTRACT**

### **Enhancing Tanzania's Export Performance through Effective Export Promotion and Support Services**

An increasing globalization of world markets has resulted in the need for countries to participate in global trade. While many countries in the developing world have successfully been able to penetrate in the global market and able to enhance their export performance, Tanzania, like other LDCs has failed to do so. Despite several initiatives taken by the Government to redress this situation there has been trends of stagnation and decline of export performance leading to a negative balance of payment. Existence of an ineffective export promotion programs and inefficient export support services explain this daunting problem. While no studies that have been conducted to investigate the roles of export support and promotion services and their impact on export development.

In this study, qualitative and desk research methods were used in exploring the factors affecting performance of the institutional framework for export development. By using the data collected from the field, the study identified the gaps that existed among institutions involved in supporting development of export. Assessment on the effectiveness of the export promotion and support services was made basing on the opinion gathered from users of the services. The paper is based on the research made to 20 manufacturing firms, involving exporters and non-exporters.

There is a concern that the quality of services on export support is poor and can not facilitate a competitive global trade. This implies that for Tanzania to successfully participate in the international trade, a strategic institutional framework need to be developed to enhance export performance through an efficient export support services system.

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## ABBREVIATIONS

AGOA	African Growth Opportunity Act
BET	Board of External Trade
BOTB	British Overseas Trade Board
CTI	Confederation of Tanzania Industries
EBA	Everything But Arms
EPOs	Export Promotion Organizations
EPZA	Export Processing Zone Authority
GDP	Growth Domestic Product
IF	Integrated Framework
IICs	Inter-Institutional Committees
IMF	International Monetary Fund
ITC	International Trade Center
JITAP	Joint Integrated Technical Assistance Program
LDCs	Least Developed Countries
MITM	Ministry of Industries Trade and Marketing
MTS	Multilateral Trading System
MTN	Multilateral Trade Negotiations
SMEs	Small and Medium Enterprises
TANEXA	Tanzania Exporters Association
TCCIA	Tanzania Chamber of Commerce Industry and Agriculture
TEU	Twenty-Foot Equivalent Unit
TPSF	Tanzania Private Sector Foundation
TBC	Trade Capacity Building
TBS	Tanzania Bureau of Standard
TIC	Tanzania Investment Center
TPA	Tanzania Port Authority
TRA	Tanzania Revenue Authority
TZS	Tanzanian Shilling
USD	United States Dollars
WTO	World Trade Organization

# CHAPTER I

## 1.0 INTRODUCTION

### 1.1 Background of the Study

Tanzania, like many other least developed countries (LDCs), has been experiencing considerable deficits in both her balance of trade and balance of payments. The country's export sector has portrayed intermittent trends of stagnation and decline over the past two decades (1990-2000), reflecting the structure of an economy characterized by the continued predominance of traditional agriculture. The consequence of declining exports and increasing imports has led to a widening trade deficit. (Tanzania Trade Review, 2000).

Tanzania, being one of the African countries South of Sahara has tried several measures that aimed at enhancing exports. In 1990, Tanzania undertook to liberalize its trade policy that resulted into export expansion. Several export development programs under the support of the international organizations have received substantial assistance so as to improve export performance and reduce the trade deficit. Several export support schemes have been developed as incentives to stimulate exports with the aim of achieving higher export performance. Nevertheless, the country's export performance has been low. (Tanzania Trade Review, 2000).

Currently, there are numerous institutions, from public and private sectors which play role either directly or indirectly in supporting international trade. However, the Government has failed to develop a coherent vision on export development, as a result, export support organizations have failed to coordinate the services effectively hence limiting chances for export development. The government has not succeeded in strategically aligning the functions of the various departments in the Government to meet the needs of exporters. Furthermore, in the absence of formal mechanisms to consult with the private sector, it is not apparent that the needs of Tanzanian exporters are well understood by the government. Lack of detailed statistics makes it difficult to assess the effect of export promotion and support services specifically on firms' export performance and their impact on the country's economy as a whole.

## **1.2 Statement of the Problem**

Following a successful trade liberalisation in recent years, the trade balance in Tanzania has been highly negative over the past decade. The liberalisation has resulted into export expansion from TZS 588.4 million fob export value in 2000 to TZS 1,267.3 million in 2003. Nevertheless, despite several measures to enhance export, the recent record on trade balance demonstrates a highly negative. As indicated in the Table 1.0, balance of merchandize trade recorded in 2008 was TZS – 5,644.3 million compared to TZS –1,785 million in 2005. (Economic Survey, 2008)

Export promotion and support institutions have received several supports from international organisations including the International Trade Centre (ITC) to assist facilitation of export development. Other initiatives, including export incentives such as Credit Guarantee Scheme, Duty Drawback Scheme, Export Processing Zones have been taken as measures to stimulate exports. However, due to various reasons such services have failed to effectively bring substantial impact on firms' export performances.

### **1.3 Aim and Objectives of the Study**

The aim of the study is to explore how export promotion and support services have impacted the export development in Tanzania. It will explore on the challenges that affect performance of organizations that provide export support services. The study will also assess the perceived quality of export services and programs on firms' export performance and recommend improvement on the study for development of export in Tanzania. Specifically, the objectives of the study include the following:

- To examine roles played by export promotion and support organizations in enhancing exports
- To evaluate the efficiency of export support services on the firms' export performance
- To evaluate the relevance and effectiveness of the export promotion programs on firms' export development
- To assess relevance of existing export information on firms' export performance

#### **1.4 Significance of the Study**

The study will identify challenges of the export development and evaluate the impact of export support services and export promotion programs on international trade. It will also suggest ways to effectively improve such services and will show the importance of measuring performance of export services to the development of export. The study will help to identify and propose other relevant issues that need further research in order to stimulate exports.

#### **1.5 Structure of the Thesis**

This paper consists of six chapters. In the first chapter, the paper will give a brief introduction of the study whereby the statement of the problem and objective of the study will be addressed. The structure of the thesis will also be discussed in this chapter.

In chapter two, the paper will give an overview of the Tanzanian trade environment, whereby the multilateral trading system as well as the Tanzania's trend of export performance from 1990s to 2000s will be highlighted. A brief status of the private sector and the export support and promotion organizations will be discussed. In this chapter, the roles and challenges of export support and promotion organizations in enhancing international trade will be discussed.

In chapter three, the paper will discuss about the literature review. In this chapter, various theories regarding export development will be expressed.

In chapter four, the paper will show and discuss the hypotheses and the theoretical framework on the development of export and support services. In this chapter, four research questions will be tested. The methodology of the study and selection of samples will be pointed out. Information on how data was collected will be explained in this chapter.

In chapter five, findings on the evaluation of the effectiveness of export support services on firms' export performance will be made. An analysis on the relevance and effectiveness of export promotion programs to firms will be underscored. The paper will also assess the relevance of the existing export information on firm's export performance. Critical barriers to export will be highlighted and analyzed. The hypotheses that were developed for the study will be tested and results revealed.

Chapter six will give a summary of the paper and this will be a conclusion of the discussions that will be made basing on theories applied in the study. This chapter will recommend on how to improve study and the limitations of the study will be addressed in this chapter.

## **CHAPTER II**

### **2.0 Trade Environment in Tanzania**

#### **2.1 Trade Policy**

According to the report on Trade Policy Review (2000), Tanzania has been implementing a number of policy measures to create a stable liberalized external sector. The policy measures are geared towards creating favorable conditions for quick economic recovery and eventual achievement of sustained higher rates of growth under conditions of internal and external financial stability. In the mid 1980s Tanzania initiated trade reforms measures in order to conform to trade liberalization. The measures initiated led to the trade liberalization which implied the removal of barriers and restrictions, rationalization and reduction of import duties through unilateral, bilateral, regional and multilateral measures. The systematic and gradual reduction and elimination of different barriers and obstacles to trade, such as bureaucratic formalities, advance authorization, administrative controls, supervision, made a significant contribution to the development of foreign trade.

In addition to that, Tanzania's National Trade Policy was formed to facilitate smooth integration into the Multilateral Trading System (MTS). It intends to ensure that liberalization offers meaningful, identifiable and measurable benefits to the country. The policy is a result of the joint effort from a wide spectrum of stakeholders including the private sector, which is the lead implementer of the policy. This is an economic agent



responsible for the production of goods and services that enable Tanzania take its rightful place in the global market. The public sector's primary role is that of facilitating this process. However, since the manufacturing sector is still nascent, the public sector is responsible in supporting this sector so that it can be able to export and penetrate in the global market. (National Trade Policy, 2003)

### **2.1.1 Trade Policy and Support Network**

The trade policy making process in Tanzania has called for the Government to take trade related issues as paramount in its overall economic development strategy. The policy is responsible in co-coordinating a consultative process for the various stages of the trade policy-making process so as to involve all stakeholders and parties including government ministries and agencies, the business community and private sector, civil society and development co-operation partners. (National Trade Policy, 2003)

However, performance of public institutions and business sector associations that serve the private sector including exporters has demonstrated major weaknesses. Lack of proactive initiative in identifying and addressing problems, low analytical capacity, low commitment to work and poor co-ordination have posed huge challenge. The Government has failed to undertake capacity building needs assessment to identify institutional complementarities and gaps. (Export Strategy, 1996) The trade policy therefore needs to support the network to ensure that institutional complementarities exist to avoid the gaps.

## **2.2 Trend of Export Performance**

For more than two decades, Tanzania's foreign trade has been characterized by a persistently large trade deficit stemming from intermittent stagnation and decline of exports against a trend of growing imports. Concerted efforts in economic revival have led to increased imports largely attributable to capital investments in a rapidly growing mining sector; and favorable import regime due to trade policy reforms, while exports exhibit a fluctuating trend, including a steady decline over the past years.

This trend has prevailed in spite of extensive policy reforms including the restructuring of the productive and service sectors and reflects the unchanged structure of an economy that has remained dependent largely on a traditional agricultural sector. For almost two decades the manufacturing sector has remained small, contributing about 8% to GDP.

According to the Economic Survey 2008, deficit in the balance of merchandise trade in 2007 increased by 32.5 percent to USD 2,820.3 million from deficit of USD 2,128.1 million in 2006. The increase in the deficit was mainly due to increase in value of goods imported that exceeded the increase in the value of exports as indicated in the chart below.

**VALUE OF TANZANIA'S FOREIGN TRADE**

<b>Table 1.0</b>	<b>Shs. million</b>			
Type of Goods	2005	2006	2007	2008
Exports	1,871,265	2,129,250	2,628,866	3,194,929
Domestic Exports	1,726,241	1,967,358	2,413,809	2,992,530
Re-exports	148,024	189,374	215,057	202,399
Imports	3,659,962	5,534,418	7,296,763	8,839,274
Total Value of foreign trade	5,534,227	7,651,768	9,925,929	12,034,203
Balance of Merchand. Trade	-1,785,697	-3,338,486	-4,667,897	-5,644,345
Exchange Rate (Shs/US\$)	1,122.7	1,251.9	1,232.8	1,196.3

**Source: The Economic Survey 2008**

In the past, the export performance of the Tanzanian manufacturing sector as reported in the CTI/DI Manufacturing Survey, has reflected the generally sluggish state of the country's export development. For Tanzania, the positive manufacturing export development in 2003 can mainly be explained by a change in economic policy. The introduction of the Sustainable Industrial Policy (SIDP) in 1996 and other policies such as the privatization of formerly state owned enterprises were the first steps to foster the Tanzanian economy. More business environments were created that led to the growing merchandize and especially the manufacturing exports from USD 331m in 1990 to USD 1,222m in 2003, as shown in the table below.

**Table 2.0 Structure of Merchandize Exports**

Country	Merchandize Exports		Manufactures	
	USD million			
	1990	2003	1990	2003
Tanzania	331	1,222	6	18
Kenya	1,031	2,411	29	24
Uganda	152	562	-	9
Malawi	417	463	5	12
S. Africa	23,549	36,482	36	58
China	62,549	437,899	72	91

Source: CTI/ DI Manufacturing Survey, 2004

### **2.3 Export Support Institutions**

Effective institutional support of the export system is imperative to facilitate export development. Global experience shows that effective institutional support for export development is a key success factor. In Tanzania, while there are many institutions which play a role in either directly or indirectly supporting trade, these institutions are not aligned to effectively support exporters. Key needs which have been identified include lack of coordination of export and investment promotion has created a situation wherein export promotion does not receive due emphasis and wherein limited resources are wasted through having different institutions perform the promotional functions. (Export Strategy, 1996)

### **2.4 Systemic Problems Constraining Export Development**

At present in Tanzania, lack of coordination between and within Government Ministries, between the public sector and the private sector and also within the private sector still persists. This lack of coordination not only makes it difficult to form strategic alliances

between the players, it also contributes to misunderstanding and misinformation about various aspects of the export system and to sub-optimal utilization of resources. (Export Strategy, 1996)

The lack of readily available and updated laws, regulations and government manuals creates opportunities for rent seeking that create confusion among exporters about how to effectively utilize government and how to comply with its mandates. The sheer lack of resources and technical/infrastructural and information capacity within the government and within the private sector is a key constraining factor hindering export growth. (Export Strategy, 1996)

Opportunities for Government officials to spot things going wrong in the export support system to correct them before they get too far out of hand are missed because there is lack of ownership of the export function and a lack of leadership to help ensure that problems are brought to the attention of those who could intervene appropriately. Opportunities to formally engage the private sector in an effective dialogue to influence export policy are being systematically missed. As a result, the entire export support system of policies, procedures and incentives, is not necessarily designed to meet the most competitive of Tanzanian exporters. (Export Strategy, 1996)

Financial sector is crucial for business development. A sound and efficient financial sector is a key to mobilizing saving, fostering productive investment and improving risk

management. Tanzania's financial sector performance has improved, but much remains to be done.

Tanzania's financial sector efficiency is also very weak. Part of the problem is due to a weak institutional environment to support bank lending. The lack of finance particularly for Small and Medium sized Enterprises (SMEs) has remained a serious challenge despite considerable efforts undertaken in recent years in developing the banking sector. High risks associated with SMEs, whether real or perceived, exist in the absence of financial instruments that manage and diversify risks. Programs to strengthen the banking sector, improve the efficiency of financial intermediation, and overcome constraints that limit private sector access to credit are necessary for the development of the private sector in Tanzania.

As Tanzanian exporters try to enter a market that is highly competitive and very demanding with regard to quality, reliability and efficiency of supply, the Government needs to ensure that the private sector is supported through facilitation reliable and efficient export services to enable exporters penetrate the global markets. Nevertheless, these markets are also changing, and therefore the private sector and exporters in particular need to adapt to the new market conditions and the international competition in these markets as well.

## **2.5 Private Sector Development in Tanzania**

As stated in the trade policy, the private sector in Tanzania is still small. One of the biggest challenges facing this sector is supply side constraint. The implementation of the trade policy has not been successful as issues relating to supply constraints have not been clearly addressed. According to the CTI annual report (2007), supply side constraints are the most inhibiting factors to trade development compared to market access. It is reported that Tanzania is a beneficiary of several preferential markets in place including AGOA of the USA, European Union (EU) Everything But Arms (EBA), but the country has not been able to effectively utilize these opportunities due to various reasons including supply side constraints. In the report, it was observed that while a hectare of cotton in Vietnam and Australia produces 3000kg and 2000kg of cotton respectively, Tanzania produced only 300kg.

However, several special programs, according to the report, have been developed to help the private sector take advantage of the opportunities offered in these trade arrangements including the AGOA. Tanzania is one of the countries eligible for this trade arrangement. For example, the US Government has developed Trade Capacity Building programs that assist the AGOA eligible countries to be able to export to the US. Trade Capacity Building (TCB) assistance intended to build physical, human and institutional capacities in developing countries in order to take advantage of trade opportunities. Nevertheless, the impact of this program to the private sector has been insignificant since Tanzania's export performance to the US has still remained low compared to other countries in Africa South of the Sahara. In 2006, the total funding of US\$ 394m was used in the TCB

program in Sub-Saharan African countries. Tanzania's export to the US recorded a slight improvement from \$ 34 million in 2005 to \$ 35 million in 2006. The figures indicate a slower export growth rate in the past years. (CTI Annual Report, 2007)

The ITC/UNCTAD has also actively supported Tanzania's export development initiatives through various programs including the Joint Integrated Trade Assistance Program (JITAP). The program that aimed at building capacity in terms of technical assistance was coordinated by the Board of External Trade (BET). Some export potential sectors including textiles and garment, flowers, spices and fish were among the sectors supported by the program. However, the impact of the support to the business firms in these sectors has been insignificant. Supply side constraint has remained to be the factor inhibiting firms to take advantage of these assistance programs. The supply side constraint is a result of other several interrelated factors including poor infrastructure, limited skilled people, poor technology, poor management and lack of capital. In this respect, for the private sector in Tanzania to take part in the global trade there is a need to have their export barriers removed. Each export support organization need to be proactive in addressing the challenges that hinder their respective duties and performance.

## **2.6 Challenges facing Export Promotion and Support Service Organizations**

There a number of organizations which offer support services to exporters. However, these organizations are operating in difficult conditions which limit their ability to perform well. The Board of External Trade, Export Processing Zones Authority, Tanzania Port Authority and the private sector associations are among the key



organizations that support export development in Tanzania. This paper will focus its investigation on these organizations.

The Board of External Trade (BET) is the only Government agent trade export promotion organization in Tanzania. This organization is responsible in advising the Government on export policy, promoting the documentation and dissemination of information pertaining to external trade, coordinating and supervising the participation of Tanzania in international trade fairs and exhibitions. BET operates its activities under limited financial resources. The government's support to the organization is minimal hence adversely affect its performance in terms of service delivery.

Export Processing Zones Authority is a Government agent that was formed by the EPZ Act of 2006 with the objective of attracting and promoting investment for export led industrialization with a view to diversifying and facilitating Tanzania's exports and promoting international competitiveness. So far, EPZA has issued 29 licences of which 18 are for manufacturing operations. These companies have exported a total of USD 40 million and have employed a total of about 6,522 people. However, the authority has been facing with some challenges which affected its performance. Some of its major challenges being lack of awareness of the EPZ scheme by many Tanzanians, especially SMEs, inadequacy of EPZ physical infrastructure, inconsistency power and utility supply. (The East African Business Observer, 2008)

Private sector associations are also responsible in supporting exporters. Their major task is to provide business related information including export information to their respective members to ensure business development and export growth. However, these associations do not offer their members with diversity of export services. This is due to the limited resources which hinder them to do so. Income of the business associations such as CTI and TANEXA depends entirely on membership subscriptions. Moreover, subscriptions collected are not adequate to support activities of the associations including facilitation of trade missions and exhibitions abroad. Despite several initiatives to resolve the financial constraints, support from the Government has been very minimal. As a consequence, it is the business community which is negatively affected by not receiving the export support services it requires.

CTI as an association is responsible in representing interest of the manufacturing and supporting industries in Tanzania. Despite policy advocacy, this organization is also responsible in providing trade related information to its members. CTI recognizes the importance of exporters in the economic development of the country. Resources have hindered CTI to expand the export support services to exporters. The total average expenditure of CTI is higher than what it receives from its members as annual subscriptions. For example, in 2007 expenditure increased by 11.8% compared to a lower increase in total income of 8.0%. (CTI Annual Report, 2007) This therefore has made it difficult for the organization to introduce new services to its members who are engaged in export and those who wish to start exporting business.

Private sector organizations such as CTI are nevertheless providing advocacy to their members. Despite their limited resources, they are able to minimally provide valuable export information services to their members. This shows that there is a need to strengthen their capacity, which is crucial in the facilitation of exports.

The port services are the mostly used in transporting goods service for export. Tanzania's challenges are in logistics competence and quality of transport and information technology (IT) infrastructures including the ports, roads and railway system. Poor infrastructure also limits movement of goods and capital, thereby impedes the potential for export trade. According to the East African Observer (2008), Tanzania ranked 138<sup>th</sup> out of 151 on the 2007 Logistics Performance Index.

Tanzania Port Authority is an organization that is responsible in handling cargo that come in and go out of the country through the port. The port of Dar es Salaam handles more than three quarters of Tanzania's import and external trade. The port has rail and road links to more than six landlocked countries and serves as a major logistics gateway to eastern, central and southern Africa. One of the challenges which this organization is facing is congestion of ships during unloading of cargos from ships causing delays in clearing goods at the Customs. These delays at the port are caused by poor infrastructure leading to high container traffic at a time. Limited space within the port terminal to cope with growing volume of traffic, poor management of containers at the port are among the major challenges facing the Port authority. (Africanpress, 2008)

**Table 3.0 Dar es Salaam Port Container Traffic (TEUs) 2003-2007**

		<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>IMPORTS</b>	Full	86,110	99,648	109,376	118,214	156,178
	Empty	4,025	5,946	5,839	3,257	3,922
	<b>Total</b>	<b>90,135</b>	<b>105,594</b>	<b>115,215</b>	<b>121,471</b>	<b>160,100</b>
<b>EXPORTS</b>	Full	39,215	43,936	53,447	50,192	60,752
	Empty	38,448	49,794	60,066	70,584	84,313
	<b>Total</b>	<b>77,663</b>	<b>93,730</b>	<b>113,513</b>	<b>120,776</b>	<b>145,065</b>
		36,638	55,580	59,322	59,322	28,961

Source: Tanzania Port Authority Website

The average container import dwell time recorded from 1995 - 2005 was 29 days per container. Congestion has remained to be the limiting factor for smooth operations of clearance of goods at the customs. Currently, there are 11 hectares of usable space at the port that can store only 8,000 TEUs . Under current conditions of 343,000 TEUs volume and 27 day dwell time, storage space is required for 27,000 TEUs at a given time. (Asterius Banzi, 2009) The chart below indicates the average container import dwell time at the port for the past ten years from 2005.

**Table 4.0 Container Import Dwell time (Days/container)**

	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Days/ Container	42	34.1	33.9	37.8	37.7	25.9	16.7	16.7	12.9	17.1	20.2

Source: Tanzania Port Authority Website

## CHAPTER III

### 3.0 Literature Review

Exporting is an activity, which has become very important for companies and countries in the world. In an increasingly competitive and global economic environment, more and more companies realize that foreign markets provide avenues for growth and survival. (Seringhaus F.H. R and Rosson P. J., 1990) Export promotions have been significant to the development of international trade. However, the developed nations and the newly industrialized countries have been leading the way in the international trade compared with the LDCs.

Many developed, newly industrialized and developing country Governments realize that exporting is a leading priority for their firms and several of them have formulated sophisticated export oriented trade strategies and extensive assistance programs to encourage exports. According to Seringhaus F.H.R and Rosson P. J., (1990) there are various types of institutions that are responsible for supporting foreign trade and export promotion activities. These organizations need to complement on each other, in order to create an environment for trade to flourish and enable importers or exporters to obtain the necessary services for their firms. However, firms in developing countries are confronted with many export barriers as they attempt to enter markets in developed countries. (Goitom Tesfom and Clemens Lutz, 2008). Several approaches explaining export barriers have been developed.

### **3.1 Barriers to Exporting**

Constraints that constitute the barrier to export trade are several, but the most critical ones are export support services and supply and delivery capacity constraints. Barriers that are related to export support services from the private sector and public institutions have negatively impacted on the development of export in Tanzania. In addition to that there are no statistics or records to show the economic impact of these services on export development despite several export promotion initiatives taken by various agencies.

Different scholars view export barriers in different perspectives. Rolf and Philip (1990) in their study have identified problems that hindered the increased involvement of export markets, as managerial motivation, knowledge and resources. These barriers in their view have originated within the firm and had nothing to do with foreign external barriers. Where as Brooks and Frances in their paper have identified export supply problems essentially firm specific difficulties such as managerial capacity; export demand problems such as lack of knowledge of market opportunities, tariffs, distributions difficulties; and problem of transport and communication infrastructure as problems. To them both external and internal barriers have contributed to the hindrance to export. Other barriers reported in the study by Juan Luis Colaiacovo in 1982 conducted in Latin America, include red tape, unsuitable infrastructure and support services and unsatisfactory financial facilities. Alexandrides, (1971) was one of the first to investigate export barriers empirically. His research showed that the major problems preventing firms from export initiation were the existence of keen competition abroad, followed by a

lack of knowledge of exporting, insufficient understanding of export payment procedures and difficulties in locating foreign markets.

Cheong and Chong, (1988) re-confirm the conclusions of previous studies that perceptions of export barriers tend to differ between non-exporters and exporters. Specifically, it was found that non-exporters' perceptions were associated more with future export involvement issues (relating mainly to information needs, foreign contacts and management policy), while exporters encountered problems which were more closely connected with export procedures (such as lack of working capital to finance exports, confusing product specifications and keen competition in foreign markets). In a similar vein, Hook and Czinkota, (1988) found that, while non-exporters placed greater emphasis on problems associated with initiation of export activity (such as difficulties in raising the initial investment, tariff and non-tariff barriers and lack of information about exporting), in the case of exporters problems mainly concerned operational issues (such as too much red tape, transport difficulties, ill-trained personnel). The research also revealed that smaller firms tended to perceive certain impediments as being more severe compared with larger ones.

In another study, Barker and Kaynak, (1992) found that lack of foreign contacts, high initial investment, lack of information about exporting and insufficient personnel were the most critical impediments for non-exporters. On the other hand, too much red tape, transport difficulties, the absence of export incentives and lack of trained personnel for export operations were the most critical barriers encountered by exporters.

### **3.2 The Role of Export Promotion Agencies on Export Development**

According to D. Lederman, M. Olarreaga and L Payton (2006), export promotion agencies are increased in numbers over the last decades. Objectives of these agencies are to facilitate export. The services, according to them are divided into different categories including promotional activities, export support services such as training, technical assistance, capacity building, information on trade finance, logistics, customs. In addition to that, marketing activities include trade fairs, importer and exporters missions, among others are also considered as promotion activities. Various studies have been conducted to evaluate the effectiveness of export support programs on export success. Genturk and Kotabe (2001) tested the link between program usage and export performance in a sample of 162 US firms and found that usage of export programs increases profitability. Kedia and Chhokar (1986) found that export promotion programs in the US had little impact, largely due to lack of awareness on the programs. Seringhaus and Botschen (1991) surveyed the opinion of about 600 firms in Canada and Austria and found that export promotion service was low because the programs were not tailored to the needs of exporters. However, the studies according to D. Lederman, et al, export promotion programs are a response to a genuine need for firms and that they can be crucial for export success. The analysis made by the authors in their survey involved institutional structure, responsibilities of the agency, activities and expenditure involved. Their study explored the association between exports promotion budgets and exports where it was revealed that those two variables were strongly associated



Export promotion programs as defined by Root (1971) are public policy measures which help to enhance exporting activity at the company, industry or national level. This involves the creation of awareness of exporting as a growth and market expansion option; the reduction or removal of barriers to exporting; and creation of promotion incentives and various forms of assistance to potential and actual exporters. (Seringhaus and Rosson, 1990)

Due to the growing importance of international trade, high competition companies seek export promotion support. These programs support vary depending on a company's stage of export involvement. (Seringhaus and Rosson, 1990) A review of export promotion programs around the world have created broadly similar services so that companies might overcome export barriers which include among others, informational and resources.

Today's export promotion programs often provide comprehensive and sophisticated services to the business community. Different countries have developed different approaches to export promotions. In some cases the programs are only loosely coordinated, whereas elsewhere an integrated or strategic approach prevails. Most developing countries have export promotion programs. International organizations such as the International Trade Centre UNCTAD/GATT, the World Bank, the Economic Social Commission for Asia and others have been providing guidance. EPOs play an important role in export development since they are responsible in fostering an export

orientation in both the private and public sectors. They also provide managerial and resource support to exporters. (Serinhaus and Rosson, 1990,)

According to Serinhaus and Rosson (1990), for EPOs to be successful they need to have a voice in the creation of export policy, a specific promotional role in export development and overall autonomy and influence. If EPOs are to be effective, they must also be given a clear mandate and sufficient resources. Countries such South Korea (KOTRA) and Thailand have been able to do that.

### **3.3 Effectiveness of the Export Promotion Programs on Export Performance**

Many organizations in addition to the government ministries are involved either directly or indirectly in trade promotion. These organizations, usually autonomous, offer means by which trade policies are realized. Ideally, they should complement each other, create an environment for trade to thrive, and enable the importer or exporter to obtain the services required. Export promotion programs should be a comprehensive mix of consistent policies and organizations. Weakness in any one of these might jeopardize the effectiveness of the others and may render the entire program ineffective. Where export promotion has been regarded as successful, despite the informality of linkages, the programs have been found to be responsive to market conditions, to the needs of importers and exporters, and to the possibilities offered by new products and technologies. (Serinhaus and Rosson, 1991)

Services that are offered by Export Promotion Organizations (EPOs) include generating awareness of export opportunities, providing access to export expertise and know-how, offering export planning assistance and supporting foreign market activity through organizational help and cost sharing (Seringhaus and Botschen, 1991). The majority of empirical studies of EPOs predominantly examine the ability of these organizations to generate exporter awareness and use of EPO services, which in turn is assumed to benefit client firms by increasing export effectiveness. However, in other studies conducted, Kate Gillespie and Liesl Riddle (2004), have attempted to measure the perceived usefulness of services as well as to identify gaps between specific client needs and EPOs activities. These empirical studies have produced mixed reviews regarding the awareness and use of EPOs.

Reviews of export promotion services in developing countries as explained by Naidu et al, (1997); Seringhaus and Rosson (1991), show that export promotion is widely used to support the exporting activities of enterprises. While the concept and role of such export support is similar across these countries, organizational set up and strategic approaches tend to differ. Gencturk and Kotabe (2001) argue that export promotion services will not automatically result into firms' sales but also knowledge and competence in export market development. They further observed that firm characteristics can also affect firm's knowledge and use of EPOs activities. Where as Seringhaus and Botschen (1991) argue

that EPOs must be aware of the varying needs among different potential users and should develop or modify their activities accordingly.

Export support services are often designed to satisfy the needs of current and would be exporters (Naidu et al.,1997). In this respect, it is also possible to evaluate the efficiency of export support services on business firms. Various measures have been proposed in the export performance literature. A generic subjective measures including perceived export success, achievement of export objectives, and satisfaction with specific export performance indicators and in general is one of the measurements of export performance. (Katsikeas et al, 2000). A similar approach is also provided by Goitom Tesfom and Clemens Lutz (2008). To them, the method to evaluate effectiveness of the support services could be based on traditional marketing concept that an enterprise's performance could be based on the satisfaction of its customers' needs. In line with this, Goitom and Clemens (2008) in their study were able to measure the effectiveness of export support services from the customers' (users) needs. In that context, the better the export support services contribute to the export objectives of the manufacturers, the higher they are rated in the firm's perception.

Firms at different stages of export involvement have different competencies, resources and strategies and face different obstacles to achieving their export objectives. Hence, firms differ greatly in their export assistance needs depending on their international experience. The firm's level of internationalization has been identified as a critical factor in developing appropriate programs. (Cavusgil, 1990; Diamantopoulos et al, 1993; Kotabe and Czinkota, 1992; Lesch et al., 1990)

### **3.4 Effectiveness of Market Information Needs on Export Performance**

Information acquisition can be defined as the generation of information relevant for decision making. The conceptual domain of export information acquisition is somewhat narrower in that it refers to the generation of information specific to export decision making. (Cavusgil, 1984) According to the marketing management literature repeatedly emphasized the importance of analytic, information-based over intuitive decision making. For LDC exporters, foreign market penetration represents quantum leap in complexity. A firm grasp of competitive, customer and channel environment is required for differentiated marketing. For LDC exporters, the challenges are considerable, not the least of which is the lack of financial and human resources with which to undertake market investigations. There exist different types of marketing information sources and methods. Both the use of marketing information and evaluation of the effectiveness of technical assistance programs must be viewed in the context of the range of exporter information needs and use of information sources. (Seringhaus, 1986)

Despite the differences in behavior according to experience, export success, or even operating scales of firms, it appears that export assistance programs ought to focus on making more pertinent, market related information available to exporters, there is a generalized need for more varied and extensive information on potential target markets, competitors and marketing options that may enhance bargaining position with the channel and facilitate customer/market diversification. This need is not currently being successfully fulfilled by existing institutions especially in the LDCs. (Luis V. Dominguez and Carlos G Sequeira, 1987)

Exporters have often cited lack of information as a major barrier to entering new foreign markets and an obstacle for expanding current export operations. Delivery of information to business firms on export related business opportunities is significant in facilitation of market researches. Effective use of export information has been shown to impact on export performance (Souchon and Diamantopoulos, 1997), acquisition of such information is a substantially another issue that need to be discussed. There are various ways of acquiring information. In one way, information is acquired through export marketing research which refers to the research activities of firms carried out either in the home market or in foreign markets. (Cavusgil, 1984). The other mode of information acquisition as export assistance is through official bodies such as banks or governments institutions, private sector organizations. These are important sources of information to exporters.

The conceptual domain of export information acquisition refers to the generation of information specific to export decision making (Cavusgil, 1984). Depending on the firm's resources, organizational structure, and the stage of internationalization, generation of export information may be undertaken within a firm. It is undisputable fact that information is powerful determinant of successful business decisions (Barabba, 1983; Barabba and Zaltman, 1991). Trade data is critical for effective economic and business planning since it is key in generating information that can be important in decision-making. Reliable data is an effective tool for situation analysis, determining and forecasting trends. It is also necessary for monitoring and measuring the performance of

an economy. Information therefore, can be useful for planning purposes by business firms and even public institutions, and can help avoidance of unnecessary duplications of activities and wastage of resources. (Ministry of Industry Trade and Marketing, 2007)

## CHAPTER IV

### 4.0 Hypotheses and Theoretical Framework

Tanzania, like many other LDCs is confronted with many export barriers when attempting to enter markets in the developed countries. The problems are interrelated and that they can be classified in different categories as company barriers, products barriers, industry barriers, export market barriers and macro environment barriers. (Goitom Tesfom and Clemens Lutz, 2006). Basing on this classification, it can be observed that in most of the LDCs, where the majority of business firms are SMEs, their major barrier has been on the company and products barriers rather than export market barriers. As Root (1974), puts supply side constraints are major obstacles to many of the firms wishing to start the export trade. The role of the export promotion services are not to maximize neither export sales nor are they accountable to for creating export supply capacity in the business community. Supply side constraint is seriously affecting businesses in the LDCs than export market barriers.

***Hypothesis 1:*** Supply side constraint is more constraining than export market barrier

Firms enjoy a competitive position and profitable when programs such as export credit guarantee scheme, duty drawback and income tax rebate are used. Such programs act as incentives to the business community and are significant tools for stimulating exports. Export promotion programs may have an impact on the firm's performance. The programs may act to stimulate export expansion and assist firms to select appropriate strategies and develop implementation of export plan. It is expected that the use of export promotion programs can contribute to the export performance and achievement of export objectives and improve export competencies. (Francis J., and Collins-Dodd, C., 2003)

***Hypothesis 2:*** Effective export promotion programs can stimulate firms' export competencies

Most manufacturing firms in LDCs possess limited resources and need support when they initiate export activities. (Goiton Tesfom and Clemes Lutz, 2008). Reviews of export support services in developing countries indicate that export promotion is widely used to support the exporting activities of enterprises. (Naidu et al,1997; Seringhaus and Rosson,1991) While the concept and role of such export support is similar across the countries, the set up and approaches may vary greatly. Often public organizations, private institutions or both, undertake the export support activities including financial incentives, tax incentives, credits, shipping, banking and market information.

The majority of empirical studies on EPOs mainly looked at the ability of these organizations to generate exporter awareness and use of EPO services, which in turn, is



assumed to benefit client firms by increasing export effectiveness. (Kate Gillespie and Liesl Riddle, 2003). According to Naidu et al., (1997), an EPO can play a major role in enhancing a firm's competencies and resource through creating networks and other facilitating services. Effective EPOs can help firms develop positive attitudes towards exporting. Uncertainty and perceived risks can be reduced when exporting by using the EPOs because some programs such as export market information through trade missions, trade fairs and experiential knowledge help firms to overcome their barriers.

Export support services are often designed to satisfy the needs of exporters. (Naidu et al., 1997) However, if these services are not satisfactory in terms of efficiency and effectiveness, firms become unwilling to engage in export business and resort to doing local trade to stay away from costs and risks that would be involved.

***Hypothesis 3:*** Efficient export support services positively affect firms' participation in the global trade.

Awareness of export assistance sources of information has long been recognized as prerequisite for collection of export assistance information (Seringhaus, 1986; Diamantopoulos et al., 1993). The studies have shown the importance of export assistance awareness on the collection of export support information. Wang and Olsen (2002) suggest that foreign business practice awareness, sources of market intelligence awareness and sources of procedural assistance awareness, shape and provide a general foundation for the firm's export-specific expertise. Developing the relevant information

for decision making becomes more critical when expanding into international markets. (Knight and Liesch, 2002; Czinkota, 2000) since operations abroad carry higher risk due to unfamiliar business environment. The collection of high quality, timely and relevant information, the dissemination of this information in the organization and using it properly contribute significantly in the long run to the success of exporting companies. (Doole et al., 2006; Wang and Olsen, 2002; Yeoh, 2000; Hart and Tzokas, 1999).

*Hypothesis 4:* Relevant export information is positively related to export performance

## **4.1 Methodology**

### **4.1.1 Qualitative Research**

In this study an in-depth interview was conducted to explore the factors that influence the export support and promotion services and how they shaped the international marketing environment in Tanzania. The purpose of the interview was to get stakeholders' views on the role of export promotion and services and how supportive they have been to the private sector's export development initiatives. Qualitative Research and Desk Research methodologies were used to explore the information required. Organizations that are directly engaged in supporting export were interviewed to explore challenges facing their activities. Business firms were also approached for interview to seek their opinions on the quality of the services they use for exporting activities.

#### **4.1.1.1 Selection of sample**

In order to get the required information on the effectiveness of export promotion and support services, about 10 exporting and 10 non-exporting firms were identified as relevant samples for the interview. Other 4 respondents identified were from public organizations since they were appropriate to provide information on the challenges facing the Government and its agencies in the delivery of export support and services. Their experience and knowledge on issues relating to international trade provided important information to this paper. 2 private sector associations were interviewed to explain performance of the export support services and promotion programs in Tanzania.

#### **4.1.1.2 Data Collection**

Firms that are engaged in manufacturing formed the population of the study. A total sample of 20 firms (exporters and non-exporters) was selected from the Trade Associations.

There were three different groups of respondents that were interviewed. These include the business firms, business associations and public export support organizations. Questions to be asked during interview were developed and were divided into three different parts to capture the group sample. Each group was asked questions that were specific to the nature of their duties.

The first group of respondents comprised of business firms. Questions that firms were asked were mainly seeking their opinion on the quality of services they obtained from the export support organizations including BET, TPA, Business associations. And also they were requested to explain reasons for their dissatisfaction on the services and how such services had affected their business performance or their decision to engage in export. They were asked to indicate the relevant sources of export information to their exporting businesses. They were also asked to indicate the major exporting barriers. And lastly they were asked to give their views on the effectiveness of the export promotion programs to the performance of their exporting businesses. Personal visits were made to all respondents who were directly involved in exporting activities. Their participation to the interview ensured that the information they provided was reliable and accurate. Respondents accepted the interview by confirming that the information they provided was correct.

The second group of respondents comprised of the business associations. In this group, respondents were requested to express their opinion on the effectiveness of the export promotion programs to the development of the export in Tanzania. They were also requested to explain the challenges which their associations were facing in supporting exporters. The last group of respondents was the export support services by the public institutions. In this group, respondents were requested to explain the challenges that faced their organizations in discharging their duties specifically on export service supports.

Since an in-depth interview was used in gathering information, questions applied were geared to seek opinion of the business firms on the quality of services rendered by export

support services organizations and also to obtain views from these organizations on the challenges they face during their services delivery to firms.

#### **4.1.2 Conducting Interview**

Interview was carried out to different business firms small and medium sized whereby detailed information about the problems of exporting activities was provided. Respondents from the public institutions explained their experiences and challenges of export support services. In addition to that business associations also gave their views on how the initiatives of export development were implemented in Tanzania. Interview conducted ensured that thorough information on the subject matter was obtained. The average time taken to interview a single institution or a firm was one hour.

## **CHAPTER V**

### **5.0 Findings**

In this chapter, the paper discusses the findings of the study. The four hypotheses that were developed in the previous chapter are tested to check their reliability.

#### **5.1 Effects of Supply Side Constraints on Export Performance**

There are various constraints that constitute to export barriers. The most critical ones are export service and supply capacity constraints. Such barriers have negative impact on export performance.

During the interview, firms were asked to give their views on the major barrier to export they faced. They were asked to explain whether supply side constraints, information on export markets, financial constraint, lack of knowledge on export supports and unfamiliarity with customer needs were most constraining barriers than export market. From the interviews it was learnt that about 50% of the firms viewed supply side constraint as their most exporting barrier than market access. According to them, capacity to supply was an obstacle and it prohibited firms from exporting. This was due to various factors including among others, poor infrastructure, poor utility supply and limited credit facilities. The CTI annual report (2007) revealed that supply side constraints are the most

inhibiting factors to trade development compared to market access. The report gave an example that while a hectare of cotton in Vietnam and Australia produces 3000kg and 2000kg of cotton respectively, Tanzania produced only 300kg.

Factors such as poor infrastructure, irregular power supply affected negatively on the firms' production hence export performance. Whenever there was power cut, an alternative power supply, fuel generators were used so as to meet production targets. Cost of running fuel generators were very high and in the end the price of the products had to be raised in order to break even. It was informed that if generators were used an average cost of production was 32% higher than using the normal hydroelectric power. About 80% of the firms interviewed highlighted the issue of irregular power supply as obstacle to their production performance that also affected their export performance.

Various studies have discovered that supply side constraints have contributed negatively on export performance. A study by Brooks and Frances in F. H. R Seinghaus and P. J. Rosson, (1990), revealed that distribution difficulties and problem related to transport and communication infrastructure as barriers to export. Another study by Juan Luis Colaiacovo in 1982 conducted in Latin America, revealed that red tape, unsuitable infrastructure and support services and unsatisfactory financial facilities were barriers to export.

Where as 30% of the firms interviewed said that unfamiliarity with customer needs was their most constraining barrier than supply side constraints. This group believed in the specialization of the niche market so the issue of supply side constraint was not a problem to them. Only 20% were of the view that lack of knowledge on support services was their most constraining barrier to their export trade than supply side constraint.

From the study conducted by F.H.R Seringhaus (1991) on export promotion organizations in developing countries, it was revealed that export development needed to be viewed in an integrated manner that is export supply and export demand. From his study, a very high proportion of EPOs in developing countries reported undertaking supply-related activities. The extent to which export supply and export demand activities are coordinated and interactive would influence the effectiveness of the EPO and with it the success of a country's export market engagement.

In this case, in Tanzania the issue of supply side constraint and export demand had been addressed but not much effort has been put to resolve issue of supply side constraint as such most of the opportunities in the regional trade arrangements such as AGOA, EBA from the US and Europe respectively have not been seized. In this respect, from the above explanation, the hypothesis that supply side is a more constraining barrier to export than export market barrier is accepted.



## **5.2 Export Promotion Programs and their impact on Export Performance**

Firms develop interest in exporting when export promotion programs provide direct benefits to exporters or those wishing to engage in export. Effective programs can help firms develop positive attitudes towards exporting. According to Naidu et al (1997), firms enjoy a competitive position and profitable when programs such as export credit guarantee scheme, duty drawback and income tax rebate are used as such firms commit more resources for exporting. As Root (1971) explains, export promotion programs are measures which help to enhance exporting. Companies seek export support to overcome barriers. Programs as Seringhaus and Botschen (1991) put, need to consider varying needs of exporters.

During interview, firms were requested to comment on the satisfaction of the existing export promotion programs. Duty Drawback Scheme is one of the programs explored. This program is coordinated by the Tanzania Revenue Authority. The scheme was developed as an incentive purposely to support exporters by refunding duties paid for the raw materials consumed on goods that were to be exported. The major concern raised during discussions was delays in processing the refunds of the Duty Draw Back. It took more than a year to get back the refunds.

The study found out that about 80% of the exporting firms interviewed were extremely dissatisfied by the Duty Drawback scheme and considered it ineffective. These firms viewed the scheme as inefficient due to delays involved in the process of obtaining refunds. The reason for delays was caused by the long procedures taken by Customs

office in conducting investigations on goods declared by exporters. The remaining 20% were satisfied by the scheme because they did not experience any delays in getting refunds. In this respect, firms under the Export Processing Zones which are required by the Act to export 80% of their products, found the scheme as problematic which discouraged other firms to export. From the discussions it was observed that about 50% of all non-exporting firms interviewed revealed that they were not interested in exporting due to lack of attractive export incentives.

Credit Guarantee Scheme is a program that is coordinated by the Bank of Tanzania that was formed to support SMEs in securing loans for their businesses. In this scheme, about 75% of the firms interviewed were not satisfied by the scheme because of the stiff conditions that are involved in the scheme. Firms were required to produce collateral that satisfies the banker to issue credits. So for startup businesses it was very difficult to meet these conditions. According to them, the scheme appeared helpless because the conditions given were similar to those offered by other commercial banks which were unsuitable to firms especially SMEs. About 15% of the firms expressed their satisfaction on the credit scheme and the remaining 10% were not aware of the services. In this respect, export promotion programs were ineffective and their support was insignificant on firms export competencies.

It also appeared that 80% of those firms which were satisfied on the credit scheme were large where as 90% of firms which were not satisfied were SMEs. However, 70% of the satisfied firms admitted that the procedures for getting the loans were long and

bureaucratic and were offered at very high interest rates of between 18%-25%. Comparing this scheme with those offered in the developed countries such as UK, US where several schemes are developed to assist exporters. UK has an Export Credit Guarantee Department (ECGD) which promotes exports by providing insurance against range of overseas trade risks plus guarantees to UK banks that enable exporters to have access to finance at preferential fixed rates of interests.

Export Processing Zones Act is a measure that was taken by the Government to attract and promote export led investments. This act provides for the establishment, development and management of the Export Processing Zones; for the creation of international competitiveness for export growth. The act led to the development of Export Processing Zones (EPZ) which aimed at enhancing export, creating employment so as to bring social and economic impact to the country. During interview, firms were requested to explain how they felt about the quality services offered by the EPZ authority. About 60% of firms felt that the conditions for obtaining renting spaces in the new Export Processing Zones facility as stiff. A firm had to be able to produce goods worth a minimum turnover of USD 1m and must employ a minimum of about 100 people. To them, these conditions were too stringent to meet since they were still small firms.

It was also revealed that some physical infrastructures necessary for the manufacturing operations were not adequate. As a result firms were affected because the working environment did not offer quality services for them to be competitive for export. This has severely affected the exporting firms under the EPZ program.

Another issue on the EPZ project was that, the EPZ Act allows firms not to have pre-shipment inspection requirement as one of its incentives. In the interview it was revealed that the Customs authority still required that all exporting firms to conduct the pre-shipment inspection to monitor the consumption of the raw materials imported against the finished goods that are exported. The purpose of this was to ensure the incentive was not abused. Customs officials require firms to do inspection even for small quantity of goods that are exported. Firms viewed this as costly and time consuming hence limit their competitiveness. However, firms in the EPZ admitted that Tanzania offered attractive incentives package than those offered in the neighboring country Kenya. From the above discussions, it can be said that the hypothesis that effective export promotion programs can stimulate firms' export competencies is accepted.

### **5.3 Export Support Services on Firms' Export Competencies**

Export support services are assistances that are offered by various organizations including the public and private sectors. In the interview, the private sector associations were requested to give their opinion on the challenges they were facing in rendering export services to firms. During discussions it was observed that services offered by business associations were very limited due to lack of resources. This situation had adversely affected initiatives of enhancing exports. Relevant export information on issues such as import duties on certain products potential for export, restrictions on export, information on the market needs were not available hence denied exporters from having the necessary information for exporting activities. A representative from the Tanzania

Exporters Association was of the view that efficiency of export support services was hindered by poor coordination among the organizations that support exports. To him, that was due to lack of national export strategy to act as a tool to guide these institutions.

On the other hand, firms were requested to give their opinion on the quality and relevance of services offered by business associations. The study found out that about 70% of the firms were happy about the information services they received. However, 90% of these were not satisfied by the diversity of the services offered. To them, the only services they received were on business information, facilitation of one to one meetings with business firms from abroad.

In UK, the business associations as explained by Diamantapolous et al., in the “Export Development and Promotion: The Role of Public Organisations” and edited by F. H. Rolf Seringhaus and P. J. Rosson (1991) provide information on large variety of export issues including regulations, standards, tariffs, transport, packaging, documentation, and exhibitions. They also organize trade missions. Also a study conducted in Turkey to explore how export marketing research affect firms export performance, it was realized that since the general business associations could not provide specific services to specific sectors, there was a need for clothing exporters to form their own sector association to cater for their special and specific needs. The export promotion centre of Turkey (IGEME) did not have services that were useful to clothing exporters. Firms in the clothing sector required specific information regarding their product. Information such as market size, market growth, transportation and product adaptation was crucial for

successful export. In the interview, the business associations in Tanzania offered very limited services compared with those in the UK and Turkey.

As Naidu et al (1997) pointed out, EPOs have major role to play to enhance a firm's competencies and resource through creating networks and other facilitating services. BET is an organization that is responsible for export promotion services. It is responsible for promoting the documentation and dissemination of information pertaining to external trade, coordinating and supervising the participation of Tanzania in international trade through fairs and exhibitions.

During the interview, firms were requested to express their views on the quality of services offered by BET. About 20% expressed satisfaction with the services rendered by the BET whereas 40% regarded the services as not satisfactory simply because they were not relevant to their needs. About 30% of the firms did not use the services offered by the BET. And 10% were not aware of the services provided by the organization.

In UK the British Overseas Trade Board (BOTB) has developed extensive export support services. Large of the services offered are export intelligence services, a computerized data base of export opportunities. It also supports specific projects financially. From the survey, it can be said that the services of BET have not been resourceful to firms therefore to some extent it has failed to effectively promote export.

BET being the only export promotion institution in Tanzania, it operates under limited resources as such it becomes very difficult for services of organization to bring impact to firms. The annual Dar es Salaam International Trade Fair is the only known event organised by BET. Other services such as organization of participation of international trade fairs, product development, specialized trade fairs, organization of trade missions, training on export business are not much known to the business community.

Furthermore, BET has not been able to tailor its services according to the varying needs of exporting firms. This has been difficult due to limited resources. In most cases, supports by EPOs in the developing countries are not tailored to meet the varying needs. This is also evident in the study made in Texas and Nova Scotia where Kaynak and Kothari (1984) revealed that in both regions there have been low awareness and usage of export assistance programs and incentives on offer. In their study, they concluded that government agencies needed to put additional responsibilities to ensure extensive promotional activities. Also, Kedia and Chhokar (1986) in their study found that export promotion programs in the US had little impact, largely due to lack of awareness on the programs. Seringhaus and Botschen (1991) surveyed the opinion of about 600 firms in Canada and Austria and found that export promotion service was low because the programs were not tailored to the needs of exporters. However, the studies according to D. Lederman, et al, export promotion programs are a response to a genuine need for firms and that they are crucial for export success.

In this study, about 50% of the exporting and non-exporting firms lacked knowledge on the general export incentives on offer to exporters. This was due to little promotions by the institutions responsible in the delivery of the services.

The study learnt that some export support institutions offered similar services on certain activities resulting to duplication of activities that led to wastage resources. The BET, TANEXA and the Ministry of Agriculture and Food Security offered similar services on Product Development. Each institution has been running its own programs to facilitate export development. This has made the programs to be less effective as only small-scale projects were carried out and most studies were conducted with small budgets which constrains their design and execution. Consequently, studies were usually restricted to low-cost data collection methods, limited coverage (regional or sectoral samples) and less that adequate survey and administration. It was also noted that public institution and academic researchers operated in isolation, each conducting its studies independently of the other. This is unfortunate in that much could potentially be achieved through greater collaborations. Public organizations bring resources; data availability and practical insight to any collaboration where as academic offer know-how in export theory, research methods and bring a broad export perspective to bear on particular study topics.

Another export support service organization which this study explored was the port logistical services. Currently, the Port of Dar es Salaam has become a viable location for increasing regional transshipment volumes, which grew from 2,194 TEU in 1999 to 56,000 TEU in 2004, an increase of more than 2,500%. This has led to increase of



number of containers received compared to the designed capacity. The intention is have the capacity of density level of 65% to allow efficient planning and optimal speed of handling. The pickup rate of containers by road and railway has further contributed to delays in the removal of containers from the port. (TPA, 2009). This situation has negatively affected performance of the business community especially those doing international trade.

From the interview it was learnt that the Tanzania Port Authority was the most complained export support service by firms. 95% of the firms expressed their extreme dissatisfaction by quality of services offered by this organization. Clearance of goods from abroad was a concern to firms as delays affected negatively their production and export performances. The average time taken to clear goods at the port was 2-4 weeks. This severely affected the firms that exported garments in the European markets as most of these products are seasonal. One of the firm interviewed expressed that an order of 20,000 pieces of apparel to Denmark worth \$110m was cancelled due to the delayed raw materials at the port of Dar es Salaam. In this case, firms can never be competitive in such service delivery systems. Apart from the port inefficiency there are many unnecessary charges that cause firms to be very uncompetitive in the local market and the global market.

### **5.3.1 Support to Export Marketing: Lessons from the Republic of Korea**

Korea is among the most successful countries that have been able to enhance its export performance within a short period of time. The Government of Korea has been able to provide high quality support and assistance to exporting firms. According to Balassa, information flows and marketing have been provided well only through actions by private enterprises, so that government could best concentrate on getting the rest of the policy framework right. The policies have included realistic exchange rates and sound macroeconomic management. Consistent efforts have been made to keep incentives for export strong. There has been early creation of first – rate ports, airports, communication links, and internal transport systems, along with power grids and other necessary infrastructure and industrial estates, financial institutions and policies suitable for exports and industrial advancement. (Balassa B., 1982)

In Korea, local manufacturing firms deal directly with retailers and other buyers. Growth of private trading companies with their own marketing and information networks and offices abroad contributed significantly to the development of exports. In 1983, there were about 62 offices that were opened abroad and their combined overseas staff exceeded 2,000, including locally hired people. (Balassa B., 1982)

A wide range of business and financial services for exporters and buyers including banks and private firms offered consultancy assistance, trade facilitation, inspection, advertising, insurance and many other services relating to exports. There has been active provision of information by associations of manufacturers, traders, industry, and exporters, by

chamber of commerce and by government through its other agencies as well as by the official trade promotion organizations. (Balassa B., 1982)

In this respect it can be said that Tanzania, unlike Korea, has not been able to provide high quality support and assistance to exporting firms. The extensive export promotion activities organized by BET are minimal. Currently, BET has opened offices in 2 foreign countries that is UK and Dubai where as the Korean trading companies have extended their services to several other foreign countries. This has facilitated long-term business relationships and this has also created a significant opportunity for Korean business firms to have deep understanding of the needs of foreign markets. (Balassa B., 1982) All these initiatives have led Korea to be among the most successful countries that have been able to enhance its export performance through effective and efficient export support system. From the analysis, it can be observed that despite the initiatives to promote export by the Government of Tanzania through her Trade liberalization policy, the export support services have not been efficient and effective in enhancing export. In this respect, the hypothesis that efficient export support services can enhance firms' participation and export competencies in the global trade is accepted.

#### **5.4 Export Information and its Relevance on Export Performance**

Ability to make successful export plans depends on the ability to collect appropriate and valid information about international markets. Without a thorough understanding of the foreign market, firms will not be able to develop efficient and effective export marketing programs.

Lack of information has been cited as a major barrier to firms entering new foreign markets and an obstacle for expanding current export operations. Delivery of information to business firms on export related business opportunities is significant in facilitation of market researches. Effective use of export information has been shown to impact on export performance (Souchon and Diamantopoulos, 1997). There are various sources of export information used by firms in acquiring relevant information for their export businesses. In this study, firms were requested to identify the mostly used sources of export information. BET, Business Associations, Banks, personal contacts, internet were among the sources mentioned. The study learnt that the mostly used source were personal contacts and internet. About 90% of the firms used these sources to acquire information for their export trade. However, out of those, 30% used combination of sources but admitted that personal contacts and internet were the most effective sources to their business performance.

In the study conducted by Koksall M., (2008) in Turkey, it was revealed that the Turkish Aegen exporting firms mostly collected export information from personal sources such as internet, through their own market research and that helped firms to improve their performance on export. Turkish Aegen revealed that the Turkish exporting firms did not perceive the professional and trade associations as the main source of information. This is also true to the survey made in this paper.

Also firms were requested to indicate the importance of export information to their businesses and all of the exporting firms admitted that the export information was very crucial to their businesses. About 70% of firms viewed that information on export opportunities and benefits were most important to them than export planning support, credit support services. Sometimes export information could be obtained by participating in the trade missions and trade fairs. About 60% of the firms admitted that participation in the trade missions and trade fairs was extremely important for their export performance because it facilitated business contacts which resulted into business relations.

During interview it was informed that business associations play a very significant role in ensuring information relating to trade reach their respective members. From the associations it was found that information relating to export and import was communicated to members through emails and newsletters. Business associations received trade related information from different organizations which was then passed on to members for them to act up on. Firms were requested to give their opinion on the relevance of information they received from the business associations and BET. About 80% of the firms admitted that the information was relevant to them where as 20% felt that the information was irrelevant. Information received by firms from BET and business associations were relevant to some firms and irrelevant to others and this depended on level of internationalization by firms. In this respect, the Hypothesis that Export information is positively related to export performance is accepted.

## CHAPTER VI

### 6.0 Conclusion

From the study, it has been revealed that Tanzania like many other countries in LDCs faces numerous challenges which vary from the legal, institutional and regulatory burden, underdeveloped infrastructures to limited market linkages which constrain wealth creation along value chains for export development. According to Seringhaus F.H.R and Rosson P. J., (1990) there are various types of institutions that are responsible for supporting foreign trade and export promotion activities. These organizations need to complement on each other, in order to create an environment for trade to flourish and enable importers or exporters to obtain the necessary services for their firms. One of the objectives of this study was to examine roles played by export promotion and support organizations in enhancing international trade. The study has examined the roles of these organizations and realized that their service delivery systems were inefficient as a result affected negatively the private sector's effort in expanding its export performance in Tanzania. As F. H. Rolf Seringhouse, Phillip J. Rosson, (1990) put, the basic conditions that export promotion and support institutions must exist to enable them to operate effectively, is to have the responsibilities of each organizations clearly defined and ensure good co-ordination mechanism among organizations involved in supporting firms to export. I concur with the authors that the roles and responsibilities of export support institutions must be clearly defined so as ensure that their involvement in the process of export development is efficiently managed.

Private sector being the engine of growth, it is the implementer of the national trade policy which was liberalized in 1990s to enhance trade. From the discussions it can be concluded that an effective the institutional framework is key in supporting export development. As Ndullu and Semboja (1995) argue, despite the little success, Tanzania has made some achievement in the formation of export promotion schemes. The schemes were developed for the purpose of supporting and stimulating exports. However, to them the ongoing trade and macroeconomics reforms call for a different approach to export promotions. The approach needs programs which are geared at developing export capacity and competence. From the study, most of the exporters viewed export programs were neither supportive nor attractive to firms and hence a change is necessary to make them attractive to exporters and potential exporters.

As Seringhaus and Rosson, (1990) explain, export promotion programs are involved in the creation of awareness of exporting as a growth and market expansion, the reduction or removal of barriers to exporting, the creation of promotion incentives and various forms of assistance to potential and actual exporters. The goal of export promotion programs as explained by Czinkota, 1996; Diamantopoulos et al., 1993 is to enhance export performance by improving firms' capabilities, resources and strategies and overall competitiveness. I fully support the views of these authors that export promotion programs stimulate firms' export performance. The paper assessed the relevance of the export promotion programs on firms' export performance and the opinion made by firms including users of the services was that export programs need to be supportive for them to be meaningful and useful. Programs must be reliable and user friendly to firms

especially those which are small. In the study it was revealed that Duty Draw Back Scheme which was introduced as an incentive to exporters had not been able to effectively assist exporters. As such firms wishing to export were discouraged by the scheme and those who exported complained bitterly on the delays in getting their refunds since they were financially trapped.

Evaluation on the efficiency of export support services to the firms' export performances was made in the study. The study realized that the export support services in Tanzania are inefficient due to several reasons including lack of human and financial resources. This has affected severely the service delivery systems of the export support organizations as a result many firms have not been able to get relevant information and other supports they needed to engage themselves in exporting businesses or enhance their exports.

As Wheeler, 1990 argue, many companies are unable or unwilling to pursue export aggressively because of lack of experience, limited resources or other perceived or real obstacles. Export promotion services that are provided by Governments, trade associations and other organizations are required to assist firms in overcoming these limitations. However, from the study, the quality of export services offered perceived by firms as not satisfactory. Many firms were extremely dissatisfied by the BET and business associations as they failed to meet the needs of firms and hence affected negatively their business and export performance in general. Logistical support service at the Port of Dar es Salaam was also a problem as it has caused frustrations to firms due to delays in the clearing of goods.



Another objective of the paper was to make an assessment of the relevance of existing export information on firms' export performance. From the interview it was learnt that a number of challenges facing firms among others was inadequate information on markets. Business associations, BET, personal contacts were the major sources of information to exporters and therefore had a significant role in their export performance. As Cavusgil (1984) argue export information acquisition generates information that is specific to export decision making. The study saw that most of the firms relied on personal contacts for their export information. This means that business associations and BET did not have appropriate and relevant information that were specific to the needs of firms. In this case, information delivery system must be designed to ensure that firms are equipped with reliable and relevant information on export. According to Diamantopoulos et al. (1993) who had proposed a response hierarchy model to explain the process by which firms might benefit from export promotion assistance programs at different stages of involvement. The study revealed that exporting firms viewed information provided by the business associations and BET as relevant to their needs where as potential exporting firms perceived it to be irrelevant. Their information needs differed according to the level of engagement in exporting activities.

The study has contributed significantly to the knowledge on the need to develop a mechanism for evaluating efficiency of institutional framework for export development. The study also discovered that inadequate resources have been a source of restraining

performance of export promotion and support activities. The quality of services delivered to exporters did not meet needs of firms.

From the study it can be said that there is a need for the government to give export development a high priority by allocating more funds in the national budget. Donor dependence should be taken to complement Government initiatives in export development and firms should be empowered in terms of resources so that they can be able to effectively participate in the global trade. Private sector associations should be assisted in building their capacity to enable them provide relevant and adequate export related services.

## **6.1 Recommendations**

In order to have an effective institutional framework for export development, various strategies need to be combined to address issues of infrastructure, finance, adequate information on trade related issues, supply side constraints, and appropriate management skills as among the major barriers to export. There is a need to develop detailed investigations in these areas so as to ensure that firms participate effectively in the international trade. There is also a need to determine the economic impact resulting from the weak institutional framework of programs and services supporting export.

This work underscored the need to develop effective export promotion programs and efficient support services in order to improve export performance. However, the paper did not propose how efficient and effective these services and programs should be. In this respect, it is recommended to develop proposals that could ensure their improvement.

The implication of the study to other related fields has been noted. Tanzania needs to develop an education system that is export focused to ensure expansion of export trade. Practical training on entrepreneurial skills that is focused on export development is imperative. This can create competent people that will be able to manage their firms on activities relating to export. Vocational Education Training Authority (VETA) should spearhead training programs that prepares students for international trade. Research and Development centres should be supported to ensure that products designs meet the needs of the markets.

Infrastructures that support business development including exporting activities such as Port services should be improved to stimulate trade. The export promotion programs should offer reliable programs to firms and design credit facilities that are accessible and affordable to small firms. Business associations need to be proactive in proposing relevant export support services for small firms, medium sized and large firms as each group has its own specific requirements.

## **6.2 Limitations of the Study**

The study was faced by a number of challenges during the undertaking. Outdated literature, lack of latest data, limited time and resources to conduct research were among the major problems. Getting people for interview was difficult due to their tight business schedules. However, other means of communications were used including telephones and internet services. These were used to discuss and clarify pertinent issues whenever it was necessary.

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## SUMMARY STATISTICS OF THE INTERVIEW

**Table 5.0**

**Appendix A**

<b>Item</b>	<b>Exporters</b>		<b>Non</b>	<b>Exporters</b>
Business firms	10	(50%)	10	(50%)
<hr/>				
<b>Export promotion programs</b>	<b>Satisfied</b>	<b>Dissatisfied</b>	<b>Unaware of services</b>	
• Duty Draw back Scheme	20%	70%		
Unaware of the service			10%	
• EPZ services	40%	60%		
EPZ Incentives	80%			
• Credit Guarantee Scheme	15%	75%		
• Bank Interest rates		90%		
 <b>Export Support Services</b>	 <b>Satisfied</b>	 <b>Dissatisfied</b>		
• Business associations	70%	30%		
• Diversity of services	10%	90%		
Relevant information	80%	20%		
• BET services	40%	60%		
Relevant information	60%	40%		
Not using the services	30%			
Unaware of the services			10%	
• Power supply	20%	80%		

- Port Logistic procedures 80%

Item	Percentage		
<b>Exporting Barriers</b> Constraints	Supply Side Constraints	Export	Market
	60%	40%	
<b>Relevant sources of export information</b> Associations/BET	Personal contacts	Business	
	90%	40%	

**Challenges facing the export support organizations:**

Government Institutions	Respondents	
	Yes	No
Limited Resources	90%	10%
Poor Coordination	70%	30%
Poor Infrastructure	90%	10%
<b>Private Sector associations</b>		
Limited resources	95%	5%
Poor Coordination	80%	20%
Limited Government Support	90%	10%