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**PROMOTING MICRO, SMALL AND MEDIUM BUSINESS ENTERPRISES BY  
INTEGRATING THE CO-OPERATIVE AND CLUSTER DEVELOPMENT MODELS**

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**ABSTRACT**

*Cluster development approach has been proved beyond doubt to be among the reliable means to promote economic development in various countries. In Tanzania, the model has been implemented for some years by various actors in public and private sectors to promote micro, small and medium enterprises (MSMEs). Adapting a co-operative model can be useful to create strong and sustainable clusters. This paper intends to bridge the gap by adding knowledge on the integration of the co-operative model in cluster development initiatives in Tanzania and contribute the same on policy reforms aiming at the cluster and co-operative development. Specifically, the paper makes the review of current initiatives in cluster development and shares the options in positioning the co-operative model into the clusters approach, key dimensions to consider, the process to follow and market orientation in promoting co-operative-based clusters. The paper has been written based on the critical review of various published works of literature and internet materials relating to cluster development in Tanzania and other countries. The exploratory review approach was applied. The paper found that the cluster development approach has been implemented for years in Tanzania but put less emphasis on integrating the co-operative model. Further, the paper shares on the need for policy and strategic framework in promoting the clusters. The paper concludes that the cluster development approach is essential in promoting economic development in Tanzania but faces various challenges which in some ways hinder the creation of strong and sustainable MSMEs. Integrating the co-operative model can be among the options but such initiative must involve careful planning and stakeholder involvement.*

**Keywords:** *Co-operative, Co-operative model, Cluster, Cluster development approach, Micro and Small Enterprise, Promotion*

**1.0 INTRODUCTION**

Globally, the cluster development approach has been widely acknowledged for its role to promote economic development (Rwekaza, *et al.*, 2020; Mwamila, 2014). The approach has been potential in transforming regions and national economies in developed and developing countries such as Europe, Asia, Latin America and partly in Africa (Rwekaza and Anania 2020; Rawat *et al.*, 2017;). Through the



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rise of clusters, regions and countries have managed to create strong firms which respond to local need while maintaining their competitive advantages locally and internationally (Niu *et al.*, 2012; John and Pouder, 2006). Such firms include those in micro, small and medium-size (Rocha, 2015; Morosini, 2004). The efforts to promote cluster-based development have been adapted in economic strategies among African countries. Clusters do enhance the development of an infrastructure of professional, legal, financial and other specialist services and hence become among the key drivers of economic growth in localities, cities and regions (Rwekaza *et al.*, 2018; Cabrita *et al.*, 2013).

In the process of promoting socio-economic development, countries tend to opt for different development approach to achieve such goal. Among the initiatives being taken includes the adoption of the cluster development approach (Stadenberg, 2016; Mwamila, 2014; Menzel and Fornahl, 2009). The cluster comprises geographically concentrated firms, companies and services providers which are interconnected in a particular field (Mwamila, 2014, URT, 2011 and Porter, 1998, 2003). Over years, the clusters approach has grown rapidly and become potential in guiding economic development policy in many European regions, Asia, Latin America and some African countries (Rwekaza *et al.*, 2019; Rawat *et al.*, 2017). The focal part of the cluster approach is the conception that policy action can change the collective behaviour of groups of firms hence encourages the rise of self-sustaining structures of innovation and commercial regeneration. As clusters emerge, they help to increase the competitive advantage of the firms interacting together compared to the individual firms or the regional economy as a whole (Niu *et al.*, 2012; John and Pouder, 2006). In this case, clusters become crucial even in promoting small and medium enterprises in a particular region.

Through the cluster development approach, micro, small and medium enterprises (MSMEs) have played a leading role in promoting equitable regional development and economic growth (UNIDO, 2013). Such enterprises have managed to employ at least 45 percent of the workforce in half of the high-income economies worldwide (Rawat *et al.*, 2017; Kobersy, *et al.*, 2015; Lai *et al.*, 2014). In India, the cluster development approach has enabled the MSMEs to contribute beyond doubt to the Indian economy by generating employment opportunities, promoting exports and innovations and by developing entrepreneurial skills (Elvir *et al.*, 2017; Das *et al.*, 2007). As a result, the MSMEs sector has emerged as a highly energetic and dynamic sector of the Indian economy and enabled the country to achieve industrial growth and development (Vasu and Jayachandra, 2014). The cluster model has enabled India to produce products for national and international markets (Singh, 2010). The cluster enables the production of different products and a service based on the clustered enterprises and enables them to manage the competition.

In Asia, the cluster development approach is highly used by China, India, Singapore, Malaysia Myanmar and Sir-Lanka. These countries have established Special Economic Zones (SEZs) and supported them with the necessary infrastructures to build capacities of micro, small, medium enterprises (MSMEs) to produce high-quality products and manage the competition. Such initiatives have enabled the MSMEs to contribute a great deal to socio-economic development (Ali, 2014). In these Asian tigers and India, the MSMEs continue to boom and have become the engine of industrial growth and employment creation (GoI, 2016 and URT, 2011). With a contribution of 35 percent to direct exports, the MSMEs sector has achieved a significant impact for industrial development in India and Asian tigers as indicated in the



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survey report by FICCI and Grant Thornton in 2013. The cluster model has also gained prominence in developed nations such as Belgium, Italy, Germany, Scandinavians, Canada, among others where clustering of economic zones have been established and supported to empower the micro and small producers (Rocha, 2015; Morosini, 2004). Undoubtedly, the impacts of the cluster development approach have attracted attention in Africa.

In Africa, the opportunities to invest in enterprises based on economic zones had not fully been integrated into the country's economic development approaches (African Union Commission, 2015). The Africa Development Agenda 2063 among other things focuses to build confidence that Africa can attain the capacity to utilise its full potentials to promote development, culture and peace accompanied by the creation of flourishing, inclusive and prosperous societies. Basing on cluster promotion, these ideas can be feasible. The promotion of micro, small and medium enterprise (MSMEs) in Africa is expected to increase intra-African trade growth which is expected to be about 50% by 2045. The efforts are also expected to increase Africa's share of global trade (Doronina *et al.*, 2016; African Union Commission, 2015; Lei and Huang, 2014; Aquere *et al.*, 2013 and FICCI and Grant Thornton report of 2013). Further, other efforts such as establishing the Pan-African Competitive Forum (PACF), Cluster Initiatives (CIs) and the Innovation Systems and Clusters Programme in East Africa (ISCP-EA) among others (Mwamila, 2014) indicate the intention of African countries to promote the cluster development approach for its economic development. The cluster development model has also attracted the attention of the government and other development stakeholders in Tanzania.

Despite the existing global experience on the importance of clusters, the pace of cluster development in Africa has been lagging if compared to other continents and regions globally. The cluster development model in Africa is challenged by various issues ranging from limited financing, market and operational disorganisations, limited economies of scale, lack of supportive policies, technology and limited inter-firm co-operation (Landa, 2015; Nwankwo and Asoya, 2012; Zeng, 2008; McCormick and Mitullah, 2007; Mushonda, 2007; McCormik, 1999). Similar studies also suggest the need for collective action among participating firms in the cluster to address their challenges and improve performance in business. In Tanzania, various initiatives have been taken including the implementation of the Innovation Systems and Cluster Development Programme by the Tanzania Commission for Science and Technology (COSTECH) and the Swedish International Development Co-operation Agency (SIDA) (Landa, 2015). Despite the achievements observed, it was found that most of the promoted clusters have not been well functioning due to strategic issues including the formation of enterprises managed by individuals and small groups within the clusters (*ibid*). The enterprises were not sustainable since they lacked formalization. In this case, well-organised business models such as co-operatives could be useful in operating such enterprises.

In Tanzania, the co-operative model can help in the creation of more employment opportunities, reducing regional imbalances and enhance the impartial distribution of national income and wealth (Rwekaza and Mhihi, 2016; Fundeanu and Badele, 2014; Porter, 1998). We propose that for sustainability and wide-impact on cluster participants and communities, the co-operative model can be a reliable one. Based on their values and principles in conducting business and managing their affairs, co-operatives create means to prosper their members and communities through profitable economic activities done individually and



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through collective action (Kaleshu, 2012; Chambo and Diyamett 2011; Chambo, 2008; Chambo *et al.*, 2007). The co-operative model can therefore be useful to promote cluster-based MSMEs in Africa and elsewhere. According to Mwamila, 2014, Menzel and Fornahl, 2009, Rawat *et al.*, 2017 and Rwekaza and Anania (2020) contend that, globally, the micro and small enterprises had been ignored on the opportunities of being financed with technical and economic infrastructure to enhance their business operations that in turn would have raised their economic and social wellbeing. The Tanzania MSMEs can use this opportunity to venture co-operative model in developing entrepreneurial initiatives that can develop its citizens.

The current paper aims to provide a theoretical foundation on the way the co-operative model can be integrated into the process of promoting cluster-based development in Tanzania. It is expected that this paper will contribute to knowledge on how the co-operative model can be integrated into the cluster particularly in terms of the integration process, key dimensions to consider, the role of a supportive policy framework. Also, in shaping the existing policies, strategies and programmes governing co-operatives and industrial development, including the aspects focusing on fostering cluster development. In our view, the co-operative model could be among the best option for such initiatives. However, empirical works on cluster-based development have largely ignored the role that can be played by the co-operative model in creating strong and sustainable business/industrial clusters in developing countries. It is from this point where this paper focuses to contribute knowledge and bridge the gap by laying the foundation on how the co-operative model can be integrated with the cluster development initiatives in various countries including Tanzania.

## **2.0 MATERIALS AND METHODS**

This paper has been written based on information collected from various literatures. A cross-section search of materials from the different electronic sources was done. The searching of materials was based on criteria such as coverage on cluster development, MSMEs and co-operatives issues; rigour of sources; regional diversity of authors and language used. The search aimed to collect relevant literature that can be critically analysed and guide the discussion in building cases on how the co-operative model can be integrated with the cluster development approach specifically for initiatives to promote MSMEs. The exploratory literature review approach was applied where critical reviews of collected materials were done to understand what exists in terms of practices and experience both locally and internationally on issues related to the focus of this paper. Both primary and secondary literature were reviewed where over 60 works have been used in cementing the discussions in this paper. In making the review the authors developed and used a review protocol as a tool to guide the reviewing of literature used in this study. The tool comprised of various themes reflecting the issues as indicated in the subheadings within the result and discussion part. The primary literature were research reports, technical reports, government policy documents, conference proceedings and web-based literature related to this paper. The secondary literature included book chapters, working papers and journal articles. After the review, critical analysis and description of the collected data were done. The discussions in all parts have focused on three main aspects i.e. Co-operatives, cluster development and MSMEs and part of the data have been presented in Tables and Figures.



### 3.0 FINDINGS AND DISCUSSIONS

#### 3.1 MSMEs and Cluster Promotion Initiatives in Tanzania

In 2002, Tanzania developed the Small and Medium Enterprises (SMEs) Policy as part of promoting the MSMEs in the country. The Policy groups the micro-enterprise as those with as 1 to 4 employees and capital of up to Tanzanian Shillings (TZS) of 5 million. Small enterprises consist of 5 to 49 employees with a capital range from TZS 5 to 200 million while medium enterprises have between 50 to 99 employees with a capital of between TZS 200 to 800 million as shown in Table 1 (URT, 2002). The Policy recognises the need to establish industrial clusters and rural industries co-operatives but has not indicated clearly how the co-operative model can be integrated with cluster development process and in promoting the MSMEs in those clusters.

**Table 1: Categories of MSMEs in Tanzania**

S/N	Category	Employees	Capital Investment in Machinery (TZS)
1	Microenterprise	1 – 4	Up to 5 mil
2	Small enterprise	5 – 49	Above 5 mil to 200 mil
3	Medium enterprise	50 – 99	Above 200mil to 800 mil
4	Large enterprise	100 +	Above 800 mil

(Source: URT, 2002)

In Tanzania, a number of initiatives have been taken including the implementation of the Innovation Systems and Cluster Development Programme (ISCP) by the Tanzania Commission for Science and Technology (COSTECH) and Swedish International Development Co-operation Agency (SIDA) (Stadenberg, 2016). The programme involved clusters from different regions in Tanzania mainland and Zanzibar. A total of 67 clusters with 6871 beneficiaries were involved from 2008 to 2015 (Landa, 2015). Despite the achievements observed, it was found that most of the promoted clusters have not been well functioning due to strategic issues including the formation of enterprises managed by individuals and small groups within the clusters.

Small Industries Development Organisation (SIDO) in Tanzania was formed purposely to promote the development of small business including industries in the country. For years, SIDO has spearheaded the development of small and medium enterprises (SMEs) including small scale industries in various regions. SIDO offers SMEs with training, registration, advisory as well as financial and market linkage services. In collaboration with Swedish International Development Co-operation (SIDA) and Japan International Co-operation Agency (JICA), SIDO started promoting cluster development in 2006. In November, 2019 SIDO with support from JICA and collaboration with various stakeholders it managed to develop the Industrial Cluster Development Operational Manual. The manual was expected to provide an overall guide of operationalisation and management of industrial clusters in Tanzania (SIDO, 2019).

In 2010, the Tanzania Private Sector Foundation (TPSF) with funding from the World Bank initiated a three-year programme called “Cluster Competitiveness Programme (CPP). The programme aimed to boost the competitiveness of six strategic clusters in the country including food processing, horticulture and tourism. Apart from TPSF initiatives, over 36 other cluster initiatives were formed in different regions in Tanzania since 2008 (Nordkvelde, 2014). Further, the Tanzania Commission for Science and



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Technology (COSTECH) in collaboration with SIDO and Sustainability Innovations in Co-operation for Development (SICD) under SIDA has been implementing a three years programme named “Fostering Innovation for Sustainable Socio-economic Development” from 2017 to 2020. The programme has two main aspects; Innovative clusters and Innovation fund components (<http://www.costech.or.tz>). Also in 2007, the Tanzanian government and United Nations (through UNCTAD, ILO, UNIDO, UNOPS and ITC) with funding from the Swiss government implemented the SECO-UN Trade Cluster Project focusing on horticultural value chain for market access in the tourism sector.

Other cluster promotion initiatives in Tanzania have been done by the Southern Agricultural Growth Corridor of Tanzania (SAGCOT). Currently, the SAGCOT area has six agribusiness clusters namely; Rufiji; Kilombero, Ihemi, Mbarali, Ludewa and Sumbawanga. The clusters have been supported through the public-private partnership (PPP) model and the actors have managed to access various services and economies of scales (<http://sagcot.co.tz/index.php/>). Also, the cluster development approach has gained attention in operations of various NGOs from West Europe working in Tanzania e.g. Rikolto in Tanzania is currently promoting the Pangani Cluster in Londoto and Msituwa Tembo villages in Simanjiro district. Moreover, the Integrated Industrial Development Strategy (IIDS) of 2011 in Tanzania has also included the development of industrial clusters in various sectors as one among its priorities (URT, 2011). Even though the adoption of the cluster development approach has been taking place in Tanzania, yet such current initiatives prove the relevance and interests of the government and other stakeholders in championing the approach to promote economic development locally and nationally. Unfortunately, the co-operative enterprises which have been effective in promoting local economic development of local people have not featured well in such initiatives. Where the co-operative model has been applied in the cluster model, it has been useful in strengthening the status of members in terms of production, quality, marketing power and access to resources (Khamisi and Fumu, 2014).

### **3.2 Options in Positioning the Co-operative Model in Cluster Development Initiatives**

Co-operatives in Tanzania have existed since the colonial era and adopted by the government in the post-independence era as a mean to promote local development (Rwekaza *et al* 2018; Anania and Rwekaza, 2016). The co-operative movement started with agricultural marketing co-operatives then followed by co-operatives of different types and sector up to date (Anania and Towo, 2016). Table 2 shows the number of co-operatives in each sector existing in Tanzania. This coverage by sectors indicates the strength and reliability of co-operatives in the development process hence the need to integrate them in various development initiatives include clusters development. Regardless of their types and location, co-operatives in Tanzania have been potential in contributing to the socio-economic development of members, surrounding communities and national development at large (Anania *et al.*, 2020, Anania and Bee, 2018; Anania and Rwekaza, 2016; Rwekaza and Mhihi, 2016). Based on their types and economic activities performed, co-operatives can perform different roles the clusters ranging from organising production, aggregation, inputs access, storage services, processing, financing, advocacy, marketing, information sharing and other key services for the clusters. However, for them to be able to perform these functions, they need to be an integral part of the given cluster. In our view, we see two (2) main options in positioning the cluster development model. The first one is to organise all key cluster participants (those primarily producing goods or offer services) to operate as co-operative. The second option is to organise some of the cluster actors to operate under the co-operative model.



In the first option the idea is, within the clusters, all (or most) of the actors can be (mobilised for) operating as co-operative organisations. For instance, cluster participants can operate as co-operatives in line with functions such as production, storage, processing, input supply, financing and others. For agribusiness clusters; a supply co-operative can be formed for supplying inputs to producers and manufacturers, a warehouse co-operative can be formed to operate storage facilities for products for various producers and companies in the cluster while marketing co-operative can handle searching markets and related logistics for selling products locally and internationally. A processing co-operative can be formed to handle processing, packaging and other functions for other cluster actors before products go to the markets. Further, to allow cluster participants to access affordable financing, savings and credit co-operatives (SACCOS) and co-operative banks can be established within the cluster. However, other clusters actors such as non-government organisations, companies, research and academic institutions, government institutions and other actors need to be actively involved to provide specialised services need by core cluster participants e.g. networking, linkages, supervision, regulations and others.

**Table 2: Number of co-operative societies by types in Tanzania**

S/N	Types of co-operatives	Active	Dormant	Non-traceable	Total
1	AMCOS	1,707	248	150	2,105
2	Bee keeping	10	3	7	20
3	Consumer	7	2	27	36
4	Fishing	615	32	40	687
5	Housing	4	4	11	19
6	Industry	11	1	18	30
7	Irrigation	15	7	3	25
8	Livestock	76	39	66	181
9	Mining	81	10	4	95
10	Multipurpose	17	4	3	24
11	Others	15	255	22	292
12	SACCOS	1,505	2,097	1,168	4,770
13	Services	41	15	88	144
14	Transportation	11	1	4	16
	<b>Grand total</b>	<b>4,115 (48.7%)</b>	<b>2,718 (32.2%)</b>	<b>1,611 (19.1%)</b>	<b>8,444</b>

(Source: TCDC, 2018)

In the second option, some of the cluster actors can be organised to operate under the co-operative model. Specialised co-operatives can be formed within the cluster to handle various activities needed by the core actors e.g. co-operative firms for clearing and forwarding, consultancy services, insurance, technology transfer, agency banking, international market linkages and others. It is also possible for co-operatives within and/or outside the cluster to invest in stakes in different firms within the cluster hence become shareholders and key players in the cluster operations. The main essence of bringing in the co-operative model within clusters is to enable main cluster actors (e.g. producers, processors, aggregators and others), especially those with capital limitations to have organised institutions that are sustainable and they can coordinate their activities, attain economies of scale and scope and protect their interests.





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Different studies such as Hsieh and Lee (2012) and Varman and Chakrabarti (2011) have indicated the importance of the co-operative model in the cluster development approach. The studies also indicate that successful application of the co-operative model in the cluster depends on different factors including the level of expertise by actors. In the cluster, the co-operative model can help in facilitating access to key inputs for different enterprises, strengthen the supply chain and allows the possibility of inter-firm learning and co-operation. Also, Rwekaza *et al.* (2019), Das and Das (2011) and Zhao *et al.* (2010) argued that co-operation within the cluster increases the ability of firms to draw together complementary skills and capacity to access opportunities that could be difficult to access by an individual firm. Hoffmann *et al.* (2014) and Kaleshu, (2012) added that co-operative can help in attaining economies of scale by specialising their production, joint purchasing of inputs needed to attract bulk discounts or by joint marketing. Therefore, it can be argued that the co-operative models can be potential in supporting the strength and sustainability of the clusters. The social and informal links, business operations, collective information flows, resource access and other services within the cluster can work properly if the co-operative action and business model exist. However, issues such as well functioning networks and partnerships, sustainable innovation, Research and Development (R&D), human capital and resource access need to exist in the cluster (Elviret *al.*, 2017; Vasu and Jayachandra, 2014; Wennberg and Lindqvist, 2010) for firms, including co-operatives to operate well.

### **3.3 Cluster Dimensions to Consider in Promoting Enterprises Through the Co-operative Models**

In the process of promoting MSMEs within the cluster, there is a need to consider several dimensions. The dimensions need to be considered as a means to understand the nature of the cluster to be established or re-mobilised and its sustainability concerns. The dimensions are as discussed below (also see Figure 1).

**Innovation;** Innovation is among the key ingredient for the survival of any firm. Therefore, is a need to put emphasis on the kinds of innovative activities in which firms may engage (Lai *et al.*, 2014). In the cluster, there is a need to strengthen the capacity of co-operative enterprises participating or existing groups transformed into co-operatives. The innovation needs to be in the whole value chain of the activities they deal with. Generally, the co-operatives and other MSMEs in the cluster should maintain innovations in their management, operational process and products to maintain competitive advantages and overcome market pressure associated. In some circumstances, there is a need to promote specialisation among actors in the cluster to allow friendly inter-firm competition and dependence. Other cluster stakeholders such as government, academia, research institutions, non-government organisations (NGOs) and private companies need to support the innovation process and resources required for such initiatives. Technology hubs and other R&D initiatives need to be prioritised and scaled up among cluster players.

**Regional business functions;** In promoting clusters it is important to ensure that all key actors have their operations within the locality the cluster exists. For the side of co-operatives, they are established and operate mostly based on activities of members in a specified location. This makes them reliable actors in the cluster (Asra and Prasad, 2011; Narayana, 2007; Karaev *et al.*, 2007). The MSMEs operating as co-operatives can perform different business functions in the region they exist. These can include production,



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storage, processing and packaging, marketing and input supply. They can also offer specialised services such as research, consultancies and linkages with financiers and buyers for cluster actors. In this dimension, it is also very important to ensure that most of the required services, infrastructures, resources and institutions are located within or closer to the cluster. This will help to reduce operational costs and help to attain economies of scales, technology transfer, networks and other forms of inter-firm co-operation. Promotion of multipurpose and specialised-functions co-operatives within or close to the cluster in a given region can help to realise such goals.

**Entrepreneurship objectives;** Co-operatives are governed by special principles, values and ethics on how they should operate (Anania and Rwekaza, 2016). Enterprises have certain objectives in making decisions about what and how much to produce and what markets to serve (Singh, 2010). For the side of co-operatives, the main goal is to promote the social and economic wellbeing of the members. For them, benefiting members is a priority before thinking of profit maximisation. However, it can't be denied that co-operatives need to advance their business strategies just like other investor-owned firms (IoFs). In this case, developing an entrepreneurial culture is essential. Thus, the promotion of co-operative-based MSMEs clusters needs to take into consideration the need to and strategies for the promotion of sustainable entrepreneurial culture among actors. The efforts will help in stimulating innovation and product development that can increase the competitive capacity and market dominance of the cluster actors. It is the obligation of cluster promoters and service providers including investors, training institutions, NGOs and government to ensure the provision of continuous entrepreneurial education and sustain the practices throughout.

**Financing;** It is always undeniable that the presence of reliable mechanisms to finance MSMEs is significant towards promoting economic development (Rawat *et al.*, 2017; African Union Commission, 2015; URT, 2005). Traditionally there are two main options for financing decision of the MSMEs globally. The first one is to decide to finance with internal sources, mostly using the retained earnings from business operations. Also, the enterprises can finance their activities using outside sources. Each of the two options has its advantages and disadvantages. Therefore, in the process of promoting co-operative businesses within the cluster, it is important to assess the financial and other resource requirements by the actors to be involved. This will help to identify resource availability and gaps and design alternative strategies to address such gaps. In practice, co-operatives are mostly relying on their internal financing from members especially in their early growth stages; however, this has been limiting their growth potential despite the truth that the option is safer (Rwekaza *et al.*, 2019). Therefore, the promotion of clusters needs to go simultaneous with setting in place various financing mechanisms and other resource access to allow core actors to have easy and affordable access hence operate their MSMEs. The efforts need to go alongside the empowerment programmes to enable the MSMEs to manage the capital properly and strategies for their growth. Further, friendly financial and investment policies, linkages and continuous learning in various financing option can help in understanding the best mechanisms to finance cluster enterprises.

**Relationships;** For the cluster to prosper, a strong relationship among core actors and other stakeholders is important. The interdependence among enterprises within the cluster is the central component for the development of the MSMEs cluster in a region (UNIDO; 2013; Asra and Prasad, 2011; Zhao *et al.*, 2010;



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Narayana, 2007). Porter in 1998 also added that there should be both strong vertical (supplier and customer) and horizontal (co-operative and competitive) relationships. With good relations among actors, the cluster can help to attract the human capital needed to operate the MSMEs in the cluster hence become independent and competitive. Therefore, in promoting clusters, it is important to ensure that the co-operative and non-co-operative based MSMEs maintain strong business relations and friendly competition without harming each other. On the other side, clusters can (need) also to create relations with external stakeholders such as academic and research institutions, financiers and others within or closer to their region. Schiele, (2008) and Sainsbury (2001) indicated that contacts with other stakeholders can help in accessing various services and stimulate innovation.

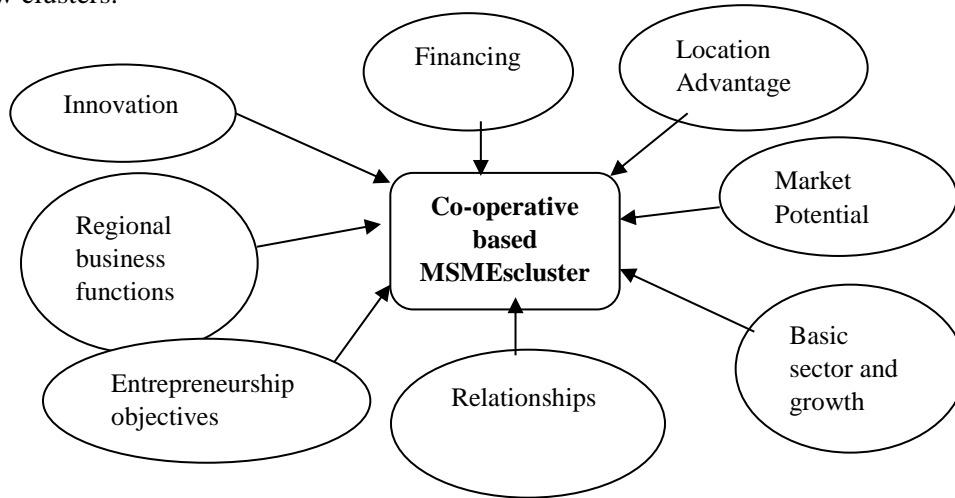
**Location advantage;** The promotion of clusters for various enterprises need to take into considerations the advantages from the geographical location they (will) exist (Porter, 2009). The location factors provide advantages to cluster actors in terms of the availability of required resources and cumulative knowledge about business operations in the region (Varman and Rwekaza and Anania 2018, Diyamett, and Komba, 2008; Narayana, 2007). In this case, promoting co-operatives and other forms of MSMEs, the location factor and related advantages need to be considered. The consideration of the type of MSMEs to be formed need to go parallel with looking for the possibility of interaction and interdependence among firms through forward and backward linkages (Fundeanu and Badele 2014; Oprime *et al.*, 2011). Co-operative enterprises can also be promoted by collective mobilisation of actors participating in various economic activities within the region. Consideration for core competencies needs to utilise the location advantages.

**Market Potential;** Presence of reliable and sustainable markets help to create strong clusters. Therefore, co-operatives and other forms of MSMEs need to consider market changes and growth to sustain their business and keep identifying new market potentials (Doronina *et al.*, 2016; Lai *et al.*, 2014; Beaudry and Swann, 2009). The promotion of clusters should therefore go together with studying the markets size and potentials (including growth possibilities) for the cluster products. Once the cluster is established, there is also a need to develop the capacity of the actors (co-operatives and other MSMEs) to develop competencies in adaptive mechanisms for market changes locally and internationally. This will help to maintain efforts for product development, R&D diversification and market segmentation. In the medium and long run, market diversification and expansion in the cluster is essential (Lei and Huang, 2014). The cluster enterprises need to continue investing in innovations to cope with changes in demand for different markets locally and internationally. The products should also look at the changes in local markets demand and characteristics since such markets are potential for cluster sustainability (Das and Das 2011). Additionally, other market aspects such as packaging, product quality standards, certification and licensing need to be considered.

**Lead industry (Basic sectors) and growth potential;** Finally, the promotion of cluster should go together with assessing the basic sector driving the local economy in the region (GoI, 2016; Cabrita *et al.*, 2013). It is advised that in each cluster, the core economic activities leading the regional economy to be known. This will help to understand the potential products to be developed, the level of investments needed and growth prospects. The co-operatives and other forms of MSMEs need to be assessed to understand their core economic activities and their potentiality in driving the cluster. The substitute basic



sectors need also to be assessed for the possibility to support existing clusters or champion the formation of new clusters.



**Figure 1: Key dimensions to consider in promoting co-operative-based MSMEs clusters**

### 3.4 The Need for Cluster Development Framework and Strategy in Tanzania

In Tanzania, there are development policies in different sectors such as policies on agriculture, industry, co-operative, SMEs, tourism and other sectors. The efforts to promote the clusters development approach in the country have not been guided by clear policy or specific strategy for cluster development. Provided that clusters can be formed in any sector, there is a need to have a clear national level framework to govern cluster development in Tanzania.

In this work, we propose the establishment of a national level framework to govern cluster development initiatives, preferably in form of a policy and national strategy. The national cluster development policy will help to provide overall direction on the operationalisation of cluster development. This includes directing cluster initiatives and strategic alternatives (Polozhentseva and Klevtsova, 2015). The policy formation process needs to be participatory and borrow from existing local and international experience. Once the policy is in place, the national strategy for cluster development should be established. There are also other options in setting the national framework for cluster development such as expanding the cluster development components during the amendment of the current SMEs Policy of 2002 and other national-level policies and strategies for agricultural, industrial, tourism, rural development, co-operatives and other sectors as well as in medium and long terms national development plans.

Studies in different countries have revealed the need for a clear policy framework for cluster development. Landa, (2015), Polozhentseva and Klevtsova, (2015), Lamprinopoulou and Tregear, (2011) and Karaev *et al.*, (2007) indicated that cluster policy helps to govern capturing cluster operations, effects and actors' competitive advantages. Cluster policy also helps to create self-sustaining networks and reduce unfair market behaviour.



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#### **4.0 CONCLUSION AND RECOMMENDATIONS**

Cluster promotions and development in Tanzania is important in developing the micro, small and medium enterprises (MSMEs). The integration of the co-operative model in promoting and managing the MSMEs in existing and prospective clusters can become a cornerstone for promoting economic development in Tanzania. The paper identified the presence of different initiatives taken by various government institutions, the private sector and NGOs in promoting business clusters in Tanzania. In such efforts, yet the effective performance of such clusters has been constrained by various challenges, also there has been less emphasis on integrating the co-operative model in such initiatives. As an attempt to integrate the co-operative model in the clusters, options such as converting all core beneficiaries or some of them in the cluster to operate as co-operatives worth a try. However just like other clusters, considering several dimensions in cluster development can provide a clear roadmap in creating strong and sustainable clusters, which also take on board the co-operative.

A series of steps have to be involved in the cluster formation process and the expected outcomes can be guaranteed provided that stakeholders' participation, responsibility, interests and expectation are considered. It is further worth consideration on how to orient the type of market we expect to target for the type of co-operative-based MSMEs we are promoting. The decision on such market orientation is governed by the size, reliability, requirements and other factors in local, national and export markets. On the other side, all these efforts on promoting clusters that take on board the co-operative model have to go parallel with setting reliable policy and strategic framework through which clusters can be properly guided to operate. But so far the cluster development approach has already proved its value in driving economic development locally and globally.

The scholars from different places may find that our work lays a foundation on understating how the integration of the co-operative model can be done in promoting clusters for MSMEs in developing countries and elsewhere. Discussions have mainly been general to overall aspects of clusters and co-operatives. We have not put much concentrated on specific cluster sectors and types of co-operatives. In this case, we invited future scholarship on the following issues. First, there is a need to study the specific processes applicable in establishing the specific type of clusters based on the specific type(s) of co-operatives to be included. Second, the interventions to clusters formation and development have to go parallel with exploring successful cases where integration of co-operative and cluster models has worked and assess how such experiences can be adopted in Tanzania and elsewhere. Third, lack of specific national policy and strategic frameworks governing cluster development in Tanzania may be attractive for the scholars in studying the impacts on the absence of such frameworks and how they can be established.

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