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**TANZANIA  
SMALL AND MEDIUM SCALE  
ENTERPRISE POLICY PROPOSALS**

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## Foreword

This report is based on the findings of a consultancy requested by the Tanzanian Government to the United Nations Industrial Development Organisation (UNIDO) and conducted in Dar es Salaam between May and August 1999. The expert team was composed of Dr. Carlos M. Calcopietro and Mr. Massawe D. The views presented in this report are exclusive responsibility of the consultants.

Senior Tanzanian Government officials, SME promotional institutions, donors, and private sector representatives with whom the consultants met in Dar es Salaam furnished most of the information contained in the report. The exercise has been circumscribed by the availability of data and the limited time to meet all relevant parties involved in SME promotion. No interviews were conducted outside the Dar es Salaam metropolitan area. A list of the interviewees, together with the literature reviewed to complement the primary data collection, is presented at the end of this report.

The consultants are grateful to all Tanzanian and foreign personalities they have met and interviewed. The process of SME Policy formulation in Tanzania does not end with this report. On the contrary, it indeed intends to open a dialogue with all stakeholders in the country. The proposals here advanced are an invitation to produce more contributions from a variety of sources that should result in a widely participatory public-private partnership.

The next stage of the policy dialogue will take place on August 3, 1999. An SME Policy Preparation Workshop organised by UNIDO will be convened at the UNDP Conference Room in Dar es Salaam to discuss the proposals made in this document and any other contribution to be presented by the stakeholders.

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# List of Acronyms

AMKA	Charitable Trust supporting SME exports
BET	Board of External Trade
BoT	Bank of Tanzania
CAMARTEC	Centre for Agricultural Mechanisation and Rural Technology
CDC	Commonwealth Development Corporation
CIDA	Canadian International Development Agency
COMESA	Commonwealth of Eastern and Southern Africa
COMSEC	Commonwealth Secretariat
COSTECH	Tanzania Commission for Science and Technology
CRDB	Co-operative and Rural Development Bank
CTI	Confederation of Tanzania Industries
DANIDA	Co-operation Agency, Royal Embassy of Denmark
DBDCs	Tanzania District Business Development Centres (proposed)
DFID	Co-operation Agency, British High Commission
DSITF	Dar-es-Salaam International Trade Fair
DSM	Dar es Salaam
EAC	East Africa Co-operation
EPZs	Export Processing Zones
ERB	Economic Research Bureau
ESRF	Economic and Social Research Foundation
ESAMI	Eastern and Southern African Management
EU	European Union
FAIDA	Finance Advice in Development Assistance to Small Enterprise Promotion
FAO	Food and Agriculture Organisation
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution Macroeconomics Strategy, RSA
GTZ	Co-operation Agency, Embassy of Germany
IFC	International Finance Corporation
ILO	International Labour Organisation
IPI	Institute of Production Innovation
MEDA	Mennonite Development Associates
MAC	Ministry of Agriculture and Co-operatives
MEC	Ministry of Education and Culture
MIC	Ministry of Industry and Commerce
MIC-SME	Small Enterprise Section, Ministry of Industry and Commerce
MFI	Micro-finance Institutions
MoF	Ministry of Finance
MoL	Ministry of Labour and Youth Development
MST	Ministry of Science, Technology and Higher Education
MWC	Ministry of Community Development, Women Affairs and Children
NIGP	National Income Generation Programme
NGO	Non Governmental Organisation
NMB	National Micro Finance Bank
NORAD	Co-operation Agency, Embassy of Norway
PC	Planning Commission
PREX	Export Enterprise Re-conversion Programme for SMEs, Argentina
PRIDE	Promotion of Rural Initiatives and Development of Enterprises
PSI	Private Sector Initiatives
RBDCs	Tanzania Regional Business Development Centres (proposed)
REPOA	Research on Poverty Alleviation
SACCOs	Rural Savings and Credit Co-operative Societies
SADC	Southern Africa Development Co-operation
SAEDF	Southern Africa Enterprise Development Fund
SATF	Social Action Trust Fund
SBA	US Small Business Administration
SBDCs	Small Business Development Centres, United States
SGRs	Sociedades de Garantia Reciproca, Argentina's guarantee scheme

SEBRAE	Serviço Brasileiro Apoio Empresario, SME support agency, Brazil
	Servicio de Cooperacion Tecnica, SME support agency, Chile
SIDA	Swedish International Development Agency
SIDO	Small Industries Development Organisation
SIDP	Sustainable Industrial Development Policy
SMIDO	Small and Medium Industries Development Organisation, Mauritius
SME	Small and Medium-Scale Enterprise
SMEDATanzania	SME Development Agency (proposed)
SNV	Dutch Co-operation Agency
SSMECA	Strengthening Small and Micro-Enterprises, Co-operatives and Associations
TAFSIOTanzanian	Federation of Small Industrial Organisations
TBS	Tanzania Bureau of Standards
TCCIA	Tanzania Chamber of Commerce, Industries and Agriculture
TIC	Tanzania Investment Centre
TIRDO	Tanzania Industrial Research and Development Organisation
TPSF	Tanzania Private Sector Foundation
TRA	Tanzanian Revenue Authority
TVCF	Tanzanian Venture Capital Fund
UN-CEDAW	United Nations Conference on Education, Development and Women
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
VAT	Value-added Tax
VETA	Vocational and Educational Training Authority
VIBINDO	DSM Umbrella Association of Informal Sector Organisations
VPO	Vice President's Office
VPO-DoE	Department of Environment, Vice President's Office
VPO-NGO	NGO Department, Vice President's Office
ZEGA	Zambia Export Growers Association

# Executive Summary

## **I. Framework and Vision Guiding SME Policy in Tanzania**

The Government of Tanzania, through its various policy measures aimed at developing a strong indigenous private sector, is currently addressing a wide range of social and economic development issues. This document introduces UNIDO's contribution towards a formulation of a policy for the Small and Medium-scale Enterprise (SME) sector. The assumption is that the entrepreneurs themselves will play the leading role in developing the sector but that the Government has the responsibility to facilitate the enabling environment required by SMEs to successfully compete in a market-oriented economy.

The Sustainable Industrial Development Policy (SIDP) – 1996/2020 makes explicit reference to the potential of SMEs and to the Government's policy of support. The SIDP provides the overall framework for Tanzania's future industrial development and lists specific national objectives. In terms of industrial branches to be promoted, SIDP assigns top priority to resource-based industries in which Tanzania has the potential to develop competitive advantage if properly matched with efficient technologies. SIDP also recognises the role being played by the informal sector in terms of promoting the emergence of indigenous entrepreneurs. In addition to SIDP, the proposals towards an SME Policy presented in this document are oriented within the broader framework of the Tanzanian Development Vision 2025.

These SME Policy proposals for Tanzania also build on experience from similar policies in Eastern and Southern African countries. Kenya already counts since 1986 with a policy framework that includes government agencies, service institutions, micro-finance entities, public research bodies, private sector consulting firms, and SME associations. In Mauritius, SME Policy resulted from the enactment in 1993 of the Industrial Expansion Act and the subsequent Small and Medium Industries Development Organisation Act. The Export Processing zones play also a fundamental role in fostering SME development through the encouragement of sub-contracting arrangements between foreign firms and small-scale local suppliers. In Namibia, SME Policy is in place since 1997 and includes support measures such as a vendor development programme, development of sites and premises, export market investigation, etc. In South Africa, the 1995 White Paper entitled "National Strategy for the Promotion and Development of Small Business" set up the basis for SME Policy.

## **II. Related Policies – Role of the Various Ministries in SME Development**

In Tanzania, under the aegis of the Ministry of Industry and Commerce (MIC), the Small Enterprise Section of the Department of Industries (MIC-SME) is responsible for co-ordinating initiatives in support of craft and SMEs, including the preparation of sector guidelines for formulation of new policies and development strategies.

The Ministry of Labour and Youth Development (MoL) is in charge of implementing the National Employment Policy, sanctioned by cabinet in April 1997. This policy revisits the state of wage employment in Government, parastatals, and the private sector and self-employment in agriculture and the informal sector. The National Employment Promotion Service Act was passed by Parliament in 03/1999. Special attention was given to the employment implications of micro and small enterprise development.

The Bank of Tanzania (BoT) is in charge of financial sector supervision. In 1991, the Government initiated financial sector reforms in order to create an effective and efficient financial system. Rural and Micro-finance Policy is currently being completed, intending to set up rules to make these services become essential financial tools to address the financial needs of emerging entrepreneurs. Micro-finance appears in various policy and strategy documents by Government ministries as an element in their programs.

The Vice President's Office (VPO) has an NGO Department that administers the National NGO Policy. NGOs play a key role in supporting poverty alleviation measures. NGO programmes are funded either through Government sponsored trust funds or through donor contributions and some of them target entrepreneurial development and SMEs. VPO is also responsible for taking care of environmental issues. The National Environmental Policy was adopted in December 1997.

The National Income Generation Programme (NIGP) was organised as a trust fund, under the aegis of the Planning Commission. It supports income generating and capacity building projects in agriculture and rural development, infrastructure, micro-enterprises and informal sector activities. NIGP is also working with private banks on a Mutual Credit Guarantee scheme. This initiative has important linkages to SME Policy.

In 1997, the Ministry of Agriculture and Co-operatives (MAC) issued two policies – the Agricultural and Livestock Policy, and the Co-operative Development Policy. The contents of these policies include recommendations aimed at fostering the development of SMEs in Tanzania, primarily in the sub-sectors of food processing in rural areas.

The policies and programmes of the Ministry of Community Development, Women Affairs and Children (MWC) have also great repercussions and impact on SME Policy, especially with regard to design and implementation of technical and business extension services to women entrepreneurs and management of targeted education and training programmes.

### **III. Process of SME Policy Formulation**

The SMEMIC launched the SME Policy formulation exercise in 1998. Five workshops were convened utilising the support network of the Small Industries Development Organisation (SIDO). This part of the exercise was funded and assisted by the Commonwealth Secretariat (COMSEC). It resulted in the COMSEC Report, an important milestone in SME Policy preparation, which contributed to the understanding of the constraints faced by small entrepreneurs in Tanzania and provided a number of indications on how to address the subsequent steps of the policy exercise.

The second phase was launched in May 1999 with support provided by UNIDO. An expert team surveyed and maintained consultations with relevant SME organisations in the Dar es Salaam metropolitan area, and the various programmes in place. MIC approached the main stakeholders (Government, donors, private sector organisations, NGOs) explaining the need of an SME Policy in Tanzania and requesting information on ongoing initiatives. At the conclusion of the consultations, the UNIDO experts prepared this document, which will be discussed in early August 1999 during the SME Policy Preparation Workshop. In parallel with advancing the policy preparation, MIC-SME representatives will conduct study tours to countries with successful SME support programmes and perform other related capacity building activities.

Subsequently, a National Conference on SMEs will be convened to provide a platform for the various SME stakeholders in Tanzania to engage the President, other relevant authorities, donors, and private sector institutions, in serious dialogue on SME development and support. The conference will produce a National Action Plan on SME Development and will aim at the mobilisation and involvement of all parties and sectors (private and public sector, NGOs). Key objectives will be to agree on harmonisation of scattered development efforts in support of SMEs and definition of a broad role for public/private sector partnership in meeting the specific needs of the emerging entrepreneurs.

Then, the Government will prepare a draft SME Enabling Act. This will aim at providing a standard definition as to what constitutes an SME in sector categories. The Act will also establish a co-ordinating mechanism to rationalise and make more efficient the provision of business development services and financial services to SMEs.

### **IV. Overview of the SMEs in the Tanzanian Economy**



The term “SMEs” is usually adopted to contrast this sector with large business. As a consequence of the co-existence in Tanzania of formal and informal activities, the SME sector is highly diverse, with structures, problems, growth potential and access to support differing widely between segments. This situation is not exclusive of Tanzania. The various SME policies that are already in place in some Eastern and Southern African countries show similar patterns.

The most important distinction found among SMEs is between survivalist activities, craft and micro-enterprises, small enterprises and medium-sized enterprises:

- Survivalists are unskilled workers who perform, almost exclusively, informal trading activities. Income generated from these businesses usually falls far short of even a minimum standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. Women and the youth initiate a large percentage of these businesses.
- Craft and other micro enterprises. They are firms with a limit of 5 employees, usually lacking “formality” in terms of business licenses, tax registration, formal business premises, operating permits and accounting procedures. Earning levels of craft and other micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support. A significant majority of Tanzanian business can be found within this category.
- Small enterprises are those usually owner-managed or directly controlled by the owner-community. Likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Employment is up to 20. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.
- Medium enterprises. Classification by capital assets varies according to the business sector and employment is about 50 people on average. Policy concern is with those firms facing obstacles and constraints that cannot be solved through normal market forces and private-sector action. Indigenous medium-sized enterprises, often seen as the “missing-middle”, are of special interest for SME Policy due to the role they play in enlarging the local private sector and fostering innovation and competitiveness.

SMEs are estimated to contribute 30-35% of the gross domestic product. The sector consists of more than 1 million business activities engaging 34 million persons, that is, about 20-30% of the labour force. There has been an expansion of SMEs for income and employment generation between 1990 to 1996 following the adoption of economic reforms creating some space for the self-employment and private sector activities. This growth would have been higher if the business environment and Government policies had provided deliberate incentives to the development of this sector.

The 1991 National Informal Sector Survey revealed that micro-enterprises employed about 20 percent of the total labour force. The 1996 NIGP-ESRF study on micro and small enterprises confirmed that there is high concentration in petty trade and commerce and that the informal sector and women are important actors among SMEs. Women are increasingly starting business enterprises, mostly in the urban areas, with the objective of raising income. Concerning the formal SME sector, the national industrial statistics only keep record of those firms employing more than 10 people, leaving unrecorded a large group of small companies.

The constraints that hamper the development of a vibrant SME sector in Tanzania can be summarised in five main categories: the macro-economic and policy environment; physical and technological infrastructure; the banking and finance structure; the legal and regulatory framework; and the marketing capabilities and associated linkages.

Most of the existing literature on SMEs has emerged from supply-driven research focused on poverty alleviation, the informal sector and micro-enterprise development, employment generation, micro-finance, etc. This research has contributed to a good understanding of the needs of informal sector activities and other emerging business in Tanzania. The missing component of the research agenda on SMEs is on the upper-scale of the sector. Very little knowledge exists in terms of opportunities for

technology development, innovation, business incubation, innovative facilities to promote SME access to long-term finance, joint ventures with foreign firms, etc.

## **V. Current Support Institutional Framework**

The supportive business environment for SMEs is still weak in Tanzania. The SME support programmes are poorly co-ordinated and lack the necessary coverage to reach all sectors of the small business community.

Almost all micro-finance institutions (MFIs) cater for those firms with credit requirements below Tshs 2 million. Project lending and risk capital for SMEs is virtually unavailable. The private equity and venture capital funds established in Tanzania are few and cater primarily to the needs of expansion of established business and privatised companies. The main entities/programmes that constitute the current support framework of financial services are the Small Industries Development Organisation (SIDO); the National Income Generation Program (NIGP); Pride Tanzania; Mennonite Economic Development Associates (MEDA); the Kilimanjaro Co-operative Bank (KCB); the Savings and Credit Co-operatives (SACCOs); and the National Micro-finance Bank (NMB).

The major provider of industrial support and advisory services are SIDO, TIRDO, CAMARTEC, IPI and TBS. The Government is currently not supplying budgetary support for developmental activities in these organisations. Business and vocational training are covered by a number of institutions. VETA is the most important vocational training institution in the country.

In the area of advocacy towards policy changes, SIDO has been the main institution that, traditionally, advocated before the other branches of the Government on behalf of SMEs. Private sector institutions (TCCIA, CTI, etc.) are also advocacy entities on behalf of SMEs but their outreach is still limited. They are actively encouraging and promoting membership and ensuring that the organisations are adequately financed through member fees and donor-sponsored programmes aimed at building capacity. A new umbrella organisation in support of small industries, the Tanzanian Federation of Small Industries Organisations (TAFSIO), has been recently established. Self-help organisations of micro-entrepreneurs have been also taking over advocacy roles during the last years. VIBINDO Society in Dar es Salaam is the most important of them.

## **VI. Objectives, Priorities and Principles**

In view of the problems they face and the role that SMEs play in the Tanzanian economy, SME Policy must aim at reaffirming the Government commitment to forge a more favourable environment for the sector. This must enable existing businesses to improve their competitiveness, to gain access to new markets and/or to develop new products/services, thereby generating growth and innovation.

In order to achieve its goals, the SME Policy must promote measures that address as priorities the establishment of a conducive environment; the development of a private business culture; special treatment for certain categories of small businesses; business co-operation; and competitiveness and innovation.

The principles guiding SME Policy must be targeted support; co-ordination of resources; awareness of services; monitoring and evaluation of results.

## **VII. Components of the Proposed Policy**

There are a number of areas where, directly or indirectly, the Government has to adopt concrete measures to achieve its objectives in SME development, although many steps are to be taken by the private sector, NGOs and local authorities. Effective support will often require different programmes, tailor-made for specific SME target groups. Research and more detailed planning about such support packages will be the responsibility of MIC-SME, in close co-operation with donors and other relevant stakeholders.

## **1. Creating an Enabling Legal Framework**

The Government should commit to pass a new enabling legislation in order to formalise the importance of SMEs in the overall economy. This legislation should include special provisions to facilitate empowerment of indigenous entrepreneurs, women businesses and the youth, and the preservation of the environment. Empowerment policies reinforce the chances for market forces to succeed by extending opportunities to compete to previously disadvantaged categories of entrepreneurs.

## **2. Streamlining Regulatory Conditions**

It is recommended to simplify and standardise procedures, including business registration and licensing; loan applications; purchasing, sub-contracting and tender documents; export documentation and other commercial papers; registration of contracts; simplified tax return forms for SMEs; etc. There is need for regulations to strengthen SME access to raw materials and other inputs controlled by monopolistic suppliers. Facilitation of feasible avenues of legal assistance that could help levelling the playing fields for SMEs, with particular attention to women and young entrepreneurs must be also supported.

## **3. Establishing Differential Taxation and other Incentives**

The number of taxes must be reduced and adjusted to avoid tax evasion. The central and local governments must work together to devise a tax collection system that reduces the level and overall burden of taxation on the business community. Higher write-offs could be granted for expenses incurred, including training, research, technology transfer and export marketing expenses. Tax incentives should be granted to large firms and the banking sector to stimulate subcontracting and greater volumes of loans to small enterprises. Tax incentives have been included in some countries to help overcome the gender bias of larger firms and service establishments towards SMEs owned by women. In Tanzania, more in-depth research needs to be done to determine what would be the best course of action to support SMEs through tax incentives.

## **4. Easing Access to Credit, Equity and Guarantees**

The Rural and Micro Finance Policy is addressing the need of creating a sound and sustainable financial sub-sector specialised on savings and credit facilities for very small entrepreneurs. However, two important areas deserve the attention of SME Policy, namely credit guarantees and long term equity finance. Guarantees help building linkages between small non-bankable borrowers and formal financial institutions. In some countries (e.g. Argentina) innovative credit guarantee schemes have emerged as a potential financial product when it is combined with tax breaks and risk capital. Risk or venture capital specialised on the needs of SMEs is a fundamental missing element in the present financial support system in Tanzania. Equity and venture capital funds that currently operate in Tanzania target exclusively big business categories. New venture capital funds that specifically target SMEs should be promoted in Tanzania.

## **5. Facilitating Access to Business Advisory Services**

The Government has recognised the need of facilitating SME access to some form of business advisory services. This was addressed in the early 1970s with the establishment of SIDO. There is still a need for extension services to meet more remote urban communities and rural farm communities. SME Policy must aim at consolidating the provision of business advisory and extension services under the umbrella of a new autonomous Small Enterprise Development Agency governed by a mixed Board of public, private and perhaps donor representatives.

## **6. Improving the Physical Infrastructure and Business Facilities**

The limited resources and the consequent weakness of SMEs could, to a significant extent, be overcome by grouping of SMEs within the same sectors. The spontaneous development of clustering of SMEs from specific sub-sectors creates opportunities to support efforts focused on promoting flexible specialisation. The Government, the private sector and donors should work together to create

the conditions for favouring a gradual concentration of growing SMEs manufacturing similar products in localised areas.

## **7. Supporting Access to Technology**

Upgrading technology in SMEs is vital for the development of the sector and the economy at large. Technical service centres set up in Tanzania as part of SIDO's industrial estates ended under utilised or operating as commercial production or service units for industries of all sizes. As a fundamental part of its SME Policy, the Government should promote new initiatives which, building on the lessons learned by SIDO, CAMARTEC and similar entities in other countries, aim at developing high-quality technical services centres through partnerships between the public and private sectors. Business incubation is an approach adopted in some countries to transform technologies developed at research centres into viable business ideas and eventually into successful SMEs. In the SADC region, a new programme to promote business incubators is being developed through a partnership between the International Finance Corporation (IFC) Business Partners from South Africa (the former Small Business Development Corporation). The UNIDO-supported project for women entrepreneurs in the food-processing sector, which is carried out by SIDO, could serve as a basis for establishing a first business incubator in Tanzania. In terms of technology transfer, SME Policy must be very careful with its recommendations. SME Policy should stress that all technology adopted by SMEs, at whatever stage of their growth, should conform to their needs, resources and capabilities.

## **8. Encouraging Joint Ventures**

Entering into a joint venture with an experienced local or foreign partner is an effective way for SMEs to acquire experience and skills, enter new markets, structure additional financing and meet competition. SME Policy must aim at ensuring that the Tanzania Investment Centre (TIC) is transformed into a channel of information about joint ventures and other types of partnerships that facilitates networking to Tanzanian SMEs. Antennas of the TIC could be established at local level, perhaps utilising the current SIDO network. A simple intranet system could be the only investment necessary to put "online" information about investment opportunities in SMEs in the various regions of Tanzania. In addition, the Government could explore the need and scope for an appropriate co-ordinating mechanism to ensure that foreign joint-venture initiatives give due attention to SMEs, contribute effectively to capacity building among emergent enterprises and fit in generally with the SME Policy framework. SME Policy should vigorously recommend the removal of discrimination against small investors that result from the provisions made in the current Investment Act. The current incentive levels encourage capital-intensive activities that run against the Government's objective of maximising employment opportunities

## **9. Supporting SME Exports**

Exporting is a market opportunity that has been explored by local SMEs in very rare cases. Tanzania requires the expansion and modernisation of the exporting sector, in order for it to take on a significant role in the national economic development. Unless effective export-promotion policies are implemented, Tanzanian SMEs will not be able to compete internationally. A first step towards the development of an export-oriented mentality among Tanzanian SMEs has been taken by AMKA. Additionally, SME Policy should encourage the establishment of export promotion mechanisms with national coverage. SME exports could be supported through Government co-financing of the use of consulting services required to carry out projects aimed at increasing their participation in international markets. These services may cover any operational aspects of the firm's business as well as advice relating to product and market development activities.

## **10. Promoting Rural Industrialisation**

Improving the physical infrastructure is fundamental to attract SME investment in earmarked rural areas. Supporting training, credit delivery, marketing and the provision of extension services to rural primary producers willing to engage in value-adding activities is also necessary. The creation of private trading companies in regional centres to help rural SMEs to commercialise their produce and basic manufactures in national urban centres and foreign markets should also be supported.

## **11. Conforming with WTO Requirements**

WTO agreements impact on agriculture, trade, services and manufacturing. As a consequence, all companies (large enterprises or SMEs, those that serve domestic or international markets) will have to undertake internal exercises to identify factors affecting their international competitiveness in terms of cost as well as quality. SME Policy must encourage measures aimed at ensuring that Tanzanian SMEs increase their competitiveness under the new WTO regulations.

## **12. Complying with Environmental Regulations**

SME Policy must encourage the expansion of business initiatives that contribute to improving environmental conditions at a local level. A good example is the NIGP support to a solid waste management project, which will assist micro and small enterprises in the field of recycling and other environmental urban activities. In mining, SME Policy must foster support measures to avoid the use of mercury and other environmental hazardous pollutants by small-scale miners. In the rural areas, SME Policy may be a tool to encourage micro and small-scale entrepreneurship in environmentally friendly activities such as reforestation. Additionally, SME Policy must make provisions to launch awareness campaigns about the goodness of local produce in selected international markets that pay special consideration to the organic content of agricultural products. Tanzanian rural SMEs could greatly benefit from the opening of niches for local organic products in highly demanding international markets.

## **13. Adopting Quality Standards**

SME Policy must also encourage an increase in quality standards of the products and services provided by SMEs. Standards assure better quality, health, safety, and help to increase productivity. SME Policy should raise the awareness on quality issues and consider the establishment of a financial facility to ease SME access to testing, standardisation including ISO 9000 standards, and quality assurance.

## **14. Training in Entrepreneurship, Skills and Management**

The acquisition of relevant vocational, technical and business skills is one of the critical factors for success in small enterprises. The Government has a central responsibility for education, training and experience transfers, which is shared with a wide range of institutions, including churches, NGOs, and the private sector. In specific fields of SME operations, SIDO has been very active in providing training, first through the training cum production programme and currently through training to groups of micro-borrowers. SME Policy should make specific provisions to complement existing training initiatives with new strategies aimed at facilitating access to training by SMEs. Training must become more sector-specific, focusing on the particular needs and practical problems of SMEs.

## **15. Capacity-building and Institutional Strengthening**

The Government must support the development of private sector associations as a means of improving their capacity to fully participate in new programmes that require public-private partnership for their implementation. SME Policy must make specific provisions to encourage all relevant stakeholders to support, among others, SME membership in at least one business-related association of their own choice. SME Policy should encourage the consolidation and extension of programmes aimed at strengthening the capacity of self-help organisations that support particular areas of businesses.

## **16. Advancing Opportunities for Women and the Youth**

Tanzanian SME Policy should vigorously promote the legitimate interests of SME concerns owned and controlled by women and require that the Government engage in systematic and sustained efforts to identify, define and analyse those discriminatory barriers facing women in business. Such efforts should directly involve the participation of women business owners. SME Policy should also contribute to improve the opportunities for young men and women to engage in business activities and generate sustainable income. Umbrella grouping of self-help organisations should be supported and encouraged to increase their capacity as lobbying bodies on behalf of the youth.

## **17. Promoting Support from Universities**

Tanzanian universities should initiate pilot projects aimed at promoting support services for SMEs after the model of the Small Business Development Centres in the USA, perhaps in the framework of regional co-operation with Kenyan and Ugandan partners. The Sokoine University in Morogoro could be selected for a pilot initiative to support networking activities for SMEs focused on food technology.

## **18. Fostering Linkages with Large Enterprises**

Linkages between large and small enterprises should be encouraged in Tanzania as part of future arrangements with foreign investors that either benefit from existing incentive packages such as the investment certificates granted by the Tanzania Investment Centre, or establish themselves in the future in Export Processing Zones (EPZs). SME Policy should recommend that the EPZ legislation include provisions requesting that foreign investors that benefit from tax exemptions reserve a percentage of their procurement to Tanzanian SME suppliers.

# **VIII. A New Institutional Framework for SME Promotion**

Currently, there is not an integrated master plan to build the policies, procedures and support programs for the SME sector, one exception being the Micro Finance Policy. For the most part, stakeholders conduct independent research studies and plan missions to develop separate programmes of support.

The 1998 COMSEC Report on SMEs argued that, although proper support of micro finance is needed, the timing of Rural and Micro Finance Policy formulation was inadequate. Before, it should have been addressed the reform and judicial enforcement of the laws and regulations affecting all aspects of business in Tanzania - and how they are linked to small business lending. COMSEC recommended that those types of linkages be made during the SME Policy exercise. This document presents the UNIDO experts' proposals of institutional reform for the consideration of all stakeholders involved in the process of SME Policy formulation.

## **1. A Public/Private Partnership Approach**

Government must ensure that the legal and fiscal framework in which SMEs operate is conducive to their growth and development. Government must be also responsible for providing basic education and skills training to guarantee an adequately skilled labour force to meet the need of the various sectors of the economy. Government must disseminate information on programmes and schemes for regional development, on efforts that promote exports and on the incentives and assistance available for enterprise development. Government may help to forge links between enterprises and the research and technological development being undertaken in institutions of higher learning and public financed research centres.

SME Policy should support private sector organisations to gradually take over more and more of the direct provision of support services. Private sector organisations in Tanzania are still weak, have low capability to offer quality services and lack the financial resources to recruit and maintain qualified staff to help their SME members. An example of the limited tasks that these private sector organisations may take over from Government at this stage of their development is the certification of origin of products for export. Possibly also some role in the transmission of tax returns by enterprises could be assumed by private sector organisations.

In order to overcome the difficulties posed by the weaknesses of private sector organisations and the limited resources available in the Government, SME Policy must encourage building co-operation between the public and private sector, making it extensive to NGOs and donors. Co-operation should be also forged between academics and the business world and between large and small enterprises. Networking must facilitate SME access to help and advice from a variety of sources. These may be technology research institutes, management or business development advisory centres, universities' postgraduate students and faculty members, professional staff and management of large firms, retired executives and private consultants.

SME Policy should ensure that, the role of promoting networking be assigned to the Department of SMEs within the MIC, and to the Small Enterprise Development Agency, which will be supported by a network of Regional and District Business Development Centres.

## **2. An SME Department at the Ministry of Industry and Commerce**

MIC-SME should be upgraded to the level of a ministerial department. A capacity building programme for this department will be essential. Resources in terms of budget, technology and equipment have to be allocated for the team to complete their assigned tasks. The SME Department should be, among others, responsible for the following tasks:

- SME Policy review and follow-up of implementation.
- Promotion of a Business Advisory Resource Centre, in co-operation with private sector organisations.
- Establishment and maintenance of updated databases on SME promotional institutions operating in Tanzania.
- Development of linkages and co-operation arrangements with SME support agencies in other countries, primarily at EAC and SADC levels.
- Constitution of a mechanism of control and evaluation over organisations receiving or channelling public-sector and donor funds for SME support
- Preparation of the Annual Review on SMEs in Tanzania, to be presented every year at the SME Forum and then forwarded to cabinet and parliament. It should set benchmarks and try to quantify macro trends. The first review should also contain a summary of the National Conference on SMEs.

Within the framework of the ongoing public administration reform, the SME Department could eventually become the policy making and monitoring branch of an autonomous SME Development Government Executive Agency.

## **3. The SME Development Agency**

The SME Development Agency (SMEDA) should act as the focal point for the implementation of SME Policy. SMEDA funding should come from budgetary allocations (up to 30 percent), donor contributions to specific programmes (up to 30 percent), and pension fund, insurance companies and other sources of private money (between 40 to 49 percent).

SME Policy must pay recognition to the role that SIDO played in the recent history of the country. Since its inception in 1973, SIDO has been promoting the development of small industries, through a network of offices in all the regions of mainland Tanzania. For a long time, it was the only provider of a wide range of business development services such as credit, business premises, training and technology. SIDO should constitute the foundation to build SMEDA.

SMEDA should concentrate on wholesale business support services to the emerging indigenous entrepreneurs. Some services should be provided directly and others should be subcontracted to private consultants and NGOs. These services must include:

- entrepreneurial and business training
- business linkages,
- sub-contracting and marketing assistance
- dissemination of information
- setting up a pilot business incubator and other type of technology centres in key areas around the country
- capacity building at SME associations
- consolidation and expansion of the national Regional Business Development Centres (RBDCs), which will offer services to local entrepreneurs including pre and post start up counselling, basic business and management training, sign posting and referral services, after care support as well as experience exchange

SMEDA should consider either incorporating as an autonomous programme or establishing a strategic partnership with other initiatives that will act as an integrated SME Finance Facility (SMEFF). NIGP could be the basis to constitute SMEFF, which could also include other donor-funded programmes. NIGP status as a Trust Fund provides the best “container” to receive funds from a variety of sources. SMEFF should provide financial support to income generating projects and growing SMEs including:

- loans (micro-credit, leasing, factoring, etc.)
- a mutual credit guarantee fund
- equity in the form of risk capital for selected projects that meet certain developmental criteria or favour special groups (women, the youth, rural SMEs)
- selected non-refundable contributions to special categories of projects
- institutional capacity-building for retail intermediaries

#### **4. Regional and District Business Development Centres**

SME Policy should encourage the establishment of Regional Business Development Centres (RBDCs). Experience from other countries demonstrates that an effective level for the promotion of SMEs is also at the village, town or city level. NGOs could take the leadership to establish new business development centres in local communities previously excluded from these services. District Business Service Centres (DBSCs) should have as lowest common denominator the provision of information and advice services to small enterprises in their vicinity. In addition, DBSCs could provide training, mentoring, business plan preparation, marketing and sub-contracting support. As far as practically possible, DBSCs should encourage groups of SMEs to strengthen their co-operation within particular sectors, industry niches or geographic regions. Training and mentoring efforts to strengthen such group action should qualify for financial support.

#### **5. The SME Forum**

SME Policy should also aim at establishing the SME Forum as a body responsible to raise the attention of the authorities and the public on the state of SMEs in Tanzania. Convening an SME Forum during international trade fairs is common practice in other countries. The Forum should involve the active participation of donors; micro-finance institutions and other financial intermediaries; government bodies such as MIC, VPO, MLYD, MoF, BoT, etc.; the new SMEDA, RBDCs and DBDCs; VETA; representatives of the private sector such as TCCIA, TCI, etc.; umbrella organisations such as VIBINDO Society, etc. The Forum could also raise the interest of foreign potential investors such as investment funds in search of new investment opportunities in emerging markets.

#### **6. A Network of Private Consultants**

In addition to the actions to be undertaken by the Government at the central, regional and district levels, the new institutional framework in support of SMEs should include a mechanism for the development of the consulting profession in Tanzania. The independent group of local private consultants in Tanzania is still weak but it can become a significant source of help for SMEs.

SME Policy should ensure that the costs of consultancy services and their quality and reliability are properly addressed. Donor agencies and those who are familiar with all aspects of SME development recognise that the true demand for consultancy services will only be evident if the SMEs are required to pay themselves, at least in part, for the service. The remainder of the fee would be paid from a fund created from contributions by donors, central government, local or regional authorities and, if feasible, from smaller additional contributions from chambers, associations and banks. The registration and monitoring of consulting firms should be undertaken by the private sector associations (TCCIA, CTI, etc.) through a small committee composed of respected business and public figures including possibly some legal and academic representation. Control of the consulting profession in Tanzania should be through a combination of Government standards and regulation and self-control of the profession by its members together with the business community.



## Chapter I

# Framework and Vision Guiding SME Policy in Tanzania

The Government of Tanzania, through its various policy measures aimed at developing a strong indigenous private sector, is currently addressing a wide range of social and economic development issues, each of which deserves detailed attention and concerted action. Together with the privatisation of public enterprises and the enactment of measures aimed at attracting foreign investment to Tanzania, the promotion of small and medium-scale enterprises (SMEs) is one of the critical areas to be addressed.

There is widespread recognition in Tanzania that SMEs can make a vital contribution to job creation, competitiveness and export growth. Additionally, carefully designed SME policies can help avoiding environmental degradation and are a fundamental tool to advance the role of women in society, increase opportunities for the youth and ensure, in the long term, a more equitable distribution of wealth.

This report, which was prepared at request of the Government of Tanzania, presents UNIDO's contribution towards a formulation of a policy that can sustain the development of SMEs in Tanzania. It contains details of the regulatory changes and incentives that the Government needs to put in place to create a more favourable environment for the sector's development. These details also include proactive programmes to overcome constraints and exploit opportunities. Institutional structures that will provide effective business support are identified and best practice examples are summarised.

In order to complete the SME Policy exercise, a detailed action plan for the implementation of the strategy devised should follow. This action plan must include a description of the methods of implementation and the resources that are required to bring the programme to fruition. The preparation of this action plan is a task to be undertaken, with UNIDO support, after the main stakeholders have contributed with their views to the final version of this draft. As a consequence, the completed exercise would have underlined the Government's firm commitment to help accelerate the development of SMEs in Tanzania and the compromise of all relevant parties to take part in this endeavour. At this stage, this document only presents, in its final chapter, some indications on how to proceed in this respect.

## 1. The Role of Government in SME Development

The recommendations outlined in this policy proposal are designed to unlock the potential of Tanzania's indigenous entrepreneurs. It is recognised that there is no shortage of enterprising endeavour in the country but that past policies have discriminated against the development of private initiative. The policy framework assumes that the entrepreneurs themselves will play the leading role in developing the sector. It is on their ability to identify and exploit opportunities that the sector's future rests.

However, the Government should not be absent in this process. Its role will be the one of catalyst and enabler. In the initial stages of development, or in periods of structural changes, governments need to intervene strongly to overcome the constraints to development imposed by the past. Examples of this approach in other countries abound:

- The Small Business Administration (SBA) was created in the United States during the 1950s to enable SMEs, primarily those initiated by minorities, to compete successfully in

the marketplace. Special measures and instruments were established to foster their sustainable development, as a means to improve equality of opportunities in the country.

- The European Union has assigned high priority to measures aimed at ensuring that crafts and SMEs are active participants in and benefit from the process of market integration.
- Fast-growing economies of East Asia such as Japan, Korea, Singapore and Malaysia have implemented active policies in support of industrialisation with special focus on SMEs.
- More recently, African nations such as Kenya, Mauritius, Namibia and South Africa have issued SME policies aiming at introducing promotional measures and institutions that proved to work in other countries.

Following this approach, and aiming at capitalising on best practices developed abroad, the Government of Tanzania has embarked in the formulation of a simple but effective SME Policy, which will be integrated in the overall development strategy of the country.

## **2. Sustainable Industrial Development Policy (SIDP) – 1996/2020**

SIDP is the main guideline that will be followed to formulate SME Policy. SIDP was issued in October 1996, and covers the period 1996-2020. It makes explicit reference to the potential of SMEs and to the Government's policy of support. The SIDP provides the overall framework for Tanzania's future industrial development and lists specific national objectives, including the following for SMEs:

*"In addition to large-scale industries, the industrial sector will contribute more broadly and evenly to the creation of employment opportunities through the development of medium, small-scale and micro industries which can be established more easily across the regions, districts down to the village level. Towards that end, the Government will place special emphasis on the development of Small and Medium-Scale Industries as well as generation of employment opportunities within the informal sector"*.

In order to foster the development of the Sector, the SIDP specifies the following measures:

- a) Support existing promotional institutions and new ones with the view to strengthen the national capacity to tackle problems faced in promoting SMEs in the areas of technology, finance, consultancy, management and training. This will cover public, private and NGOs.
- b) The conditions and bureaucracy for promotion of SMEs will be simplified in relation to taxation and regulatory aspects. Licensing and registration of SMEs will be done at regional centres.
- c) The current financial sector reform exercise will include mechanisms to provide credit to SMEs on softer terms and establishment of a financial facility specialised in financing SMEs.

The SIDP also dedicates a section and specifies how to tackle the issues related to the informal sector:

*"The Government will assist the informal sector to gradually develop to enter the formal sector so as to benefit from facilities available in the formal umbrella of Small and Medium Enterprises (SMEs). This will be carried out within the framework of the Government policies on informal sector"*

Furthermore, the SIDP indicates how to promote a strong indigenous private sector:

*"The Government will initiate affirmative-action measures, which will be designed to promote special programmes for indigenous entrepreneurs in order to engineer change towards poverty alleviation and national cohesion through improving access*

*to business opportunities. Among the measures for the promotion of indigenous entrepreneurship, it will be included the following:*

- a) access to credit, licensing and training,*
- b) provision of technological and economic information on product profiles and small-scale investment opportunities,*
- c) establishment of a business advisory service facility.*

In terms of industrial branches to be promoted, SIDP assigns top priority to a sector with special impact on SME Policy:

*“... agro-allied industries. These are resource based industries in which Tanzania has the potential to develop competitive advantage if properly matched with efficient technologies”.*

### **3. The Tanzanian Development Vision 2025**

Two years after the enactment of SIDP, a team of Government experts presented the Tanzania Development Vision 2025. The concept of the *Vision* is the recognition by the Government that the past development policies and strategies were no longer adequately responding to changing market and technological conditions in the domestic, regional and world economy. The reforms undertaken since 1986, according to the *Vision*, have not been adequately conveyed to the Tanzanian people through a national long-term development philosophy and direction. The national vision, consequently, seeks to actively mobilise the people and other resources towards the achievement of shared goals. Among other important goals, it foresees that in 2025:

*“Tanzania should have created a strong, diversified, resilient and competitive economy, which can effectively cope with the challenges of development and, which can also easily and confidently adapt to the changing market and technological conditions in the regional and global economy”.*

Key importance is assigned to competence and competitiveness as driving forces for change. This, it is expected, will be realised through sound macro-economic policies, adequate and reliable infrastructural development, quality education, effective utilisation of domestic resources, higher productivity, and strengthening of the capacity to effectively anticipate and respond to external changes.

### **4. SME Policies in EAC and SADC countries**

Tanzania's economy has made significant progress in fostering strong links with its neighbours, as part of the process of opening its economy to competition and complying with WTO regulations. SMEs constitute an important sector in terms of imports and a reduced number of them is also engaged in exporting products to the region. It is therefore of utmost importance to put Tanzanian SMEs in the capacity to compete successfully with SMEs from other countries that have already in place support mechanisms to foster their growth and enhance their competitiveness.

The Draft Treaty for the East African Co-operation (EAC) stipulates, among other issues, that partner states shall encourage the development of indigenous entrepreneurs; facilitate the development of small and medium scale industries including sub-contracting and other relations between large and small firms; and promote special programmes for women in SMEs. Only Kenya has at the moment a working SME Policy, which was introduced in 1986 through the Sessional Paper No. 1. Subsequent directives and development plans have been even more emphatic on this recognition:

- Kenya counts today with a policy framework that includes government agencies, service institutions, micro-finance entities, public research bodies, private sector consulting firms, and SME associations.

- Kenya's Sessional Paper No. 2 set out a comprehensive policy framework of forms of assistance to the SME sector.
- There are already some positive indicators towards the development of the sector, although dynamism of Kenya's SMEs exists only among the micro category of SMEs (firms employing 1 to 10 workers). Kenya's policy-makers recognise that the contribution of companies with 10-49 workers is still small and attribute their slow growth to lack of an enabling environment for SME operators to expand their activities.

In the Southern Africa Development Community (SADC) the most advanced examples of SME policies are those of Mauritius, Namibia and South Africa:

- In Mauritius, SME Policy resulted from the enactment in 1993 of the Industrial Expansion Act and the subsequent Small and Medium Industries Development Organisation (SIMDO) Act. Sub-sectoral policy measures have been also introduced in view of the rapid development taking place in the tourism sector, the need to foster regional co-operation and to build on the existing comparative advantages as well as to enhance the competitive edge of the manufacturing sector. Mauritius is making significant progress to turn into a financial hub for the region, a major tourist destination, exporter of high value added jewellery and fashion articles to developed countries, and a printing and publishing centre for Africa. Special incentives for SMEs include duty exemption on imported production equipment and reduced corporate tax of 15% (instead of 35% applying to other type of firms). The Export Processing zones play also a fundamental role in fostering SME development.
- In Namibia, SME Policy is in place since 1997. The Government has assigned priority to six areas, namely finance, markets, training, technology transfer, purchasing, and sites and premises. Examples of subsidies and incentives are the establishment of a threshold for registration, setting up of Cash and Carry's in rural areas, preference in Government purchases, free information, market linkages and purchase assistance, etc. Other market-oriented support measures include a Vendor Development Programme, development of sites and premises, export market investigation, etc. The land issue and the question of licensing, however, remain as constraints that have to be addressed.

In South Africa, the 1995 White Paper entitled "National Strategy for the Promotion and Development of Small Business" set up the basis for SME Policy. It identified two broad objectives: (a) the creation of an enabling institutional framework to increase access to both financial and non-financial support services for SMEs, and (b) the creation of a legal and regulatory environment that promotes the development of the sector. South Africa's SME Policy has been designed to redress the inequalities inherited from the past and empower indigenous historically disadvantaged entrepreneurs to compete with success in a white-dominated economy. In 1996, the Government issued the Growth, Employment and Redistribution Macroeconomics Strategy (GEAR) that assigned to SME development a key role for employment creation and income generation. GEAR made explicit reference to the role assigned to SME support institutions such as the Centre for Small Business Promotion (CSBP), the Ntsika Enterprise Promotion Agency, Khula Enterprise Finance Limited and the National Small Business Council. Another fundamental aspect of South Africa's SME Policy is the reform of the Small Business Development Corporation (SBDC) and their transformation into a new public-private partnership denominated Business Partners (BP). BP, funded primarily through shareholding contributions made by big business, has been recognised as an important instrument to foster linkages between established large and emerging small enterprises.

## Chapter II

# Related Policies – Role of the Various Ministries in SME Development

Studies conducted by Tanzanian and donor agencies, and a wide range of Government statements reflect that there is in the country a major general concern for creating greater stability in the regulatory environment, and for making it user-friendlier for SMEs so that the transactions' costs of compliance are reduced. There is today a recognised need to improve the fair and equitable process of application of the law and to train staff of regulatory agencies accordingly. There is also a recognised need to provide improved mechanisms for encouraging investment and for reducing the liabilities linked with the formalisation of businesses. Some of these concerns have been addressed by a number of policies already in place but a great majority of these concerns are still pending adequate response from the Government.

The Ministry of Industry and Commerce (MIC) is the Government's branch responsible to formulate and monitor policies aimed at supporting the development of crafts and SMEs in Tanzania. Nevertheless, overlapping responsibilities of different ministries do exist. Good governance aims at assigning a specific role to each Government branch and ensuring an adequate distribution of responsibilities. The direct responsibilities of the various branches of the Government and the other Government policies that have linkages with the development of SMEs in Tanzania are the following:

### 1. Ministry of Industry and Commerce

The MIC is responsible to monitor the implementation of SIDP, which is the umbrella framework of the future policies on SMEs. Within the MIC, the Small Enterprise Section of the Department of Industries (MIC-SME) is responsible for co-ordinating initiatives in support of craft and SME development, including:

- the preparation of sector guidelines for formulation of new policies and development strategies;
- the mobilisation and administration of funds aimed at promoting entrepreneurship;
- the setting up of programmes and strategies to bring the informal sector into the mainstream economy and promote company growth in general;
- the recommendation of appropriate technologies to SMEs
- the co-ordination and monitoring of SME promotion and development activities;

Consequently, MIC-SME is the primary branch of the Government of Tanzania responsible for the preparation of the SME Policy. As such, MIC-SME has to take care of the needs of businesses to enhance their competitiveness and growth potential.

Under the aegis of the MIC, other two departments have responsibilities with linkages to SME Policy:

- The first one is the Registrations, Commercial Laws and Industrial Licensing Department, currently being transformed into an autonomous Government Executive Agency. Its functions include administration of company and business names laws, intellectual property legislation, and industrial licensing.

- The second department is the Fair Trade Practices Commission, responsible for implementing the provisions of the Competition Policy and the Fair Trade Practices Act, which, in line with UNCTAD requirements, makes special reference to the protection of opportunities for SMEs.

#### **Registration, Protection of Property Rights and Competition**

- Simplifying registration procedures to encourage small entrepreneurs to operate in the formal sector is a responsibility of the MIC
- Ensuring protection of property rights is a responsibility of the MIC
- Ensuring fair trade practices to allow SMEs to compete is a responsibility of the MIC
- Improving the legal and regulatory framework where SMEs operate is a responsibility of SME Policy

## **2. Ministry of Labour and Youth Development**

The Ministry of Labour and Youth Development (MoL), among other responsibilities, is directly responsible for promoting employment and addressing the needs of self-employed people operating in the informal sector.

After the publication of the Tanzania Informal Sector Survey 1991, the United Nations Development Programme (UNDP), the International Labour Organisation (ILO) and other donors have been assisting the Government with policy advice on matters related to the informal sector. The principal results of these actions are:

- Summary Paper on National Policy for Micro-enterprise and Informal Sector Promotion, presented by MoL in March 1995 before the UNDP's Micro-enterprise Working Group. Among other provisions, the paper proposes the establishment of a Directorate for Micro-enterprise and Informal Sector Promotion in the National Institute of Productivity. It also recommends the establishment of Centres for Informal Sector Promotion and a Micro-enterprise and Informal Sector Development Fund. Special programmes for promoting the informal sector devised by this policy target the youth, women, people with disabilities and retrenched workers. They also aim at assisting people to start self-employment in areas such as small-scale mining, forestry, agriculture and animal husbandry, crafts and small-scale industries, services such as tourism and consultancy, and non farm business activities in rural areas.
- Support to Micro-enterprise Development through Policy Reform, submitted by the ILO to the MoL in October 1996 as the report for the Project URT/94/MO2/NET. Phase I of this project included seminars for policy-makers and informal sector representatives; consultations with donors, private sector agencies and informal sector associations; support to Government institutions towards ensuring adequate Informal Sector Policy implementation measures; development of modalities for new a institutional framework proposed by the Informal Sector Act; etc. Phase II included preparation of the National Implementation Plan for the National Policy on Micro-enterprise and Informal Sector; identification of the key players in policy implementation; estimation of resources needed; dissemination actions; setting up of a task force to review legislation in local governments; etc. The project also supported, during both phases, the development of a regional network (in Uganda, Kenya and Tanzania) on informal sector policy assessment and advice.
- National Employment Policy, sanctioned by cabinet in April 1997. It identifies two categories of employment, namely wage employment and self-employment. This policy revisits the state of wage employment in Government, parastatals, and the private sector and self-employment in agriculture and the informal sector. The policy also identifies the special groups that require special treatment while seeking employment and proposes responsibilities of different authorities/players to deal with different aspects of policy. The question of unavailability of

correct data on the supply and demand of labour, the need of having Employment Promotion Offices and provision of consultancy services is also covered. The Policy also recommends the establishment of a National Employment Council.

- National Employment Promotion Service Act, passed by Parliament in March 1999. The main provisions of the Act are related to the establishment of the service and its advisory committees, description of the duties and powers of the service, and the description of the characteristics of the Private Employment Promotion Agencies.
- National Round Table Meeting on Employment Policy, organised in May 1999 by the MoL, together with ILO and the ESRF. In brief, the meeting was aimed at reviewing the National Employment Policy, calling to intensify the promotion of more rapid productive employment in all sectors of the Tanzanian economy. Special attention was given to the employment implications of micro and small enterprise development. The need to accelerate the process of preparing SME development policy was identified, recommending to draw from the experience of various stakeholders in the sector on preparing the policy, ensuring a strong public-private sector partnership.

#### **Micro-Enterprise and Informal Sector Support**

- Employment promotion through micro-enterprises and assistance to the needs of self-employed people that operate in the informal sector are primary responsibilities of the MoL
- The improvement of the environment where micro-entrepreneurs operate, with the view of creating the conditions for them to formalise their activities and join the mainstream economy, is a primary responsibility of MIC

### **3. Ministry of Finance and Bank of Tanzania**

The Ministry of Finance (MoF) has the overall responsibility of Government finances and of the development of the financial system, overseeing all official donor assistance coming into the country, including programs planned jointly with other Government Ministries. The Bank of Tanzania (BoT) is in charge of financial sector supervision.

In 1991 the Government initiated financial sector reforms in order to create an effective and efficient financial system. The principal elements of the financial sector reform included liberalisation of interest rates, elimination of administrative credit and foreign exchange allocation, strengthening of the BoT's role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing entry of private banks both local and foreign. These reforms were embodied in 1991 in the Banking and Financial Institutions Act. In the same year, the Co-operatives Act provided the basis for the development of Rural Savings and Credit Co-operative Societies (SACCOs) as equity-based institutions.

The mainstream banking system expanded as a consequence of the reforms at a satisfactory pace. However, rural and micro-finance services have been slow to develop. The impact of some of the reforms, such as the closure of branches during restructuring programs and the abandonment of directed credit, have actually reduced the services available to low income people. The Government then realized that, while the financial market principles enshrined in the 1991 reforms retain their guiding force as the basis for sound financial sector development, additional focus had to be placed on the expansion of financial services to rural and micro-level clients. The restructuring of National Bank of Commerce and the resulting establishment of the National Micro-finance Bank (NMB) illustrates the Government's vision

in this area. Rural and micro-finance systems are integral parts of the country's financial sector.

Since 1997, the BoT, with the assistance of the World Bank, UNDP, ILO, FAO, EU, CGAP, CIDA, COMSEC, DANIDA, DFID (UK), NORAD, SDC, SIDA and USAID has been working on the preparation of a draft Rural and Micro Finance Policy. In May 1999, discussions with relevant stakeholders were completed. Then, the document was revised and forwarded to the Government for endorsement. This policy will serve as a guide for co-ordinated intervention in the sector by the respective participants and describes their roles and the tools to be applied to facilitate development. Rural and Micro-finance are intended to become essential financial tools to address the financial needs of emerging entrepreneurs. Rural and Micro-finance Policy does not constitute social welfare and resource transfer policies although it contributes to the reduction of poverty and improvement of income distribution.

#### **Financial Services to SMEs**

- Ensuring that all programs that facilitate access of SMEs to finance are consistent with Government policies and based on best practices is a responsibility of the MoF
- Establishing a regulatory and supervisory framework supportive of rural and micro-finance operations and consistent with financial prudence is a responsibility of the BoT.
- Advising the MoF on technical aspects in micro-finance is a responsibility of the BoT
- Devising innovative mechanisms that facilitate access to credit, guarantees and long-term capital to SMEs is a responsibility of the SME Policy
- Micro-finance appears in various policy and strategy documents by Government ministries as an element in their programs. It is the responsibility of each of these entities to ensure that the design and implementation of their programs is in accord with best practices and with the Micro-finance Policy

## **4. The Vice President's Office**

The Vice President's Office (VPO) has the central role of monitoring and co-ordinating the implementation of poverty eradication efforts by ensuring that the Planning Commission, all sectoral ministries and other stakeholders formulate and implement their policies in line with the National Poverty Eradication Strategy. This aims at involving the people, especially the poor, in identifying, planning, implementing, monitoring and evaluating poverty eradication programmes.

The overall goal of the strategy is to reduce absolute poverty by 50% by the year 2010 and eradicate absolute poverty by the year 2025. Among other tools devised to achieve its goals, the strategy calls for creating an enabling environment for effective poverty eradication efforts, empowering the poor, ensuring full participation of women and equality of opportunity, etc. The goals focus on improved economic growth and people's income as a basis for poverty eradication.

The VPO-NGO Department administers the National NGO Policy. This is still under formulation and has the main goal of creating an enabling environment for the NGOs to operate more efficiently and facilitate their role in the social and economic transformation of the country. The policy will provide a working definition of NGOs, put in place a transparent registration process, improve co-ordination and flow of information, and provide the Government with a mechanism to support them. NGOs play a key role in supporting poverty alleviation measures. Most of their programmes are funded either through Government sponsored trust funds or through donor contributions and target entrepreneurial development and SMEs. Consequently, SME Policy has to take into consideration poverty alleviation and NGO policies and co-ordinate efforts with them.



The VPO's is also charged with the responsibility of environmental management and co-ordination of environmental programmes in the EAC. The Department of Environment within the VPO (VPO-DoE) is in charge of defining environmental objectives to be attained in the context of socio-economic development of Tanzania. The National Environmental Policy was adopted in December 1997. The DoE is working on a number of environmental management tools, including the preparation of an environment awareness programme and the establishment of an environmental information system. SME Policy must build on VPO-DoE's work to include environmental awareness and information components in all its recommendations. In particular, since manufacturing and other SMEs generate various sorts of not treated wastes, SME Policy must focus on strengthening capacities for waste management, water pollution control, cleaner production, environmental management systems, and pollution monitoring.

#### **Poverty Alleviation, NGOs and Environmental Awareness**

- All NGOs are subject to NGO Policy, and are co-ordinated by VPO
- NGOs that provide financial support to SMEs are subject to Micro-Finance Policy. According to the nature of their financial operations, NGOs are co-ordinated either by the VPO or by the BoT
- NGOs that provide business development services to SMEs are subject to SME Policy and will be co-ordinated by SME-MIC
- SME Policy must adopt recommendations made by the National Environmental Policy and include environment awareness and information in its proposals

## **5. The Planning Commission**

The Planning Commission (PC) is the main instrument of the Government for monitoring the successful implementation and realisation of the Tanzania Development Vision 2025. Along with this role, the PC has the responsibility to identify and develop the key macro-economic and social indicators that are measurable so as to assist in monitoring and evaluating implementation of the Vision.

The PC overviews the implementation of the provisions made in the Tanzania Investment Act of 1997, which modified previous legislation on investment promotion and established the Tanzania Investment Centre (TIC). The reforms aim at making the country's investment environment more attractive for both domestic and foreign investors.

The PC is also involved with the other end of entrepreneurial development through the National Income Generating Programme (NIGP). This is directed by an independent Board, which is chaired by the Principal Secretary of the PC. It was organised as a trust fund to support projects in agriculture and rural development, infrastructure, micro-enterprises and informal sector activities. As a further step, NIGP is currently working with private banks to establish a credit guarantee fund that aims at easing access to credit to those companies that "graduate" from its support programmes and become candidates to bank credit. This initiative has important linkages to SME policies.

#### **Investment Promotion and Income Generation**

- Provision of incentives to foreign and local large investors is the role of the TIC
- NIGP fosters income generation activities and is expanding its assistance to SMEs that "graduate" from its programmes through new mechanisms such as a mutual loan guarantee fund
- SME Policy must ensure that all SMEs benefit from investment incentives and have access to loan guarantees

## **6. Ministry of Agriculture and Co-operatives**

In 1997, the Ministry of Agriculture and Co-operatives (MAC) has also issued two policies – the Agricultural and Livestock Policy, and the Co-operative Development Policy. The contents of these policies include recommendations aimed at fostering the development of SMEs in Tanzania, primarily in the sub-sectors of food processing in rural areas.

The Agricultural and Livestock Policy states that:

- Agriculture will remain the main employer, base for economic development and poverty eradication.
- There will be renewed and greater support to promote agricultural productivity.
- Investment in agriculture will be promoted and enhanced.
- The Government will strengthen extension support, research and training services for farmers and livestock keepers.
- The transportation and communication network will be strengthened in order to facilitate crop haulage to market centres and inputs delivery to farmers.
- The land tenure system will encourage efficient use of land and prevent environmental degradation.
- Equality of access to land and other resources by men and women.

The Co-operative Development Policy has the following objectives:

- To support people's initiatives to establish and strengthen local co-operatives.
- To protect co-operatives within the existing legal framework and provide necessary assistance to strengthen them.
- To facilitate the establishment of co-operatives for special groups including women, the youth and people with disabilities

### **Support to Rural -based SMEs**

- Defining policies and support mechanisms to rural-based primary economic activities such as agricultural and livestock production is a responsibility of the MAC
- Fostering strategies to develop co-operatives in rural areas is a responsibility of the MAC
- Promoting the addition of value to agricultural and livestock activities performed by small-scale farmers is an area of concern for SME Policy

## **7. Ministry of Community Development, Women Affairs and Children**

The policies and programmes of this Ministry (MWC) have great repercussions and impact on SME Policy, especially with regard to:

- Design and implementation of technical and business extension services to women entrepreneurs;
- Management of targeted education and training programmes;
- Facilitation of access to credit for women through credit guarantees;
- Advice to the Government on incentive packages to women employers (i.e. tax rebates and exemptions).

In July 1999, the United Nations Economic Commission for Africa, in collaboration with MWC and MIC, organised a forum on Policy Options for Promoting the Economic Empowerment of Women from Eastern and Southern Africa. Special emphasis was posed on the need for women to be trained in management and entrepreneurial skills for motivation and competence. The role of information technology and communication in promoting the advancement of women in business was also addressed. It was proposed the establishment, both in Tanzania and in the entire EAC and SADC regions, of tele-centres to match with the fast-growing information technology.

#### **Gender Issues and SMEs**

- The advancement of the role of women in society is a responsibility of the MWC
- The establishment of differential incentive packages for promoting SMEs promoted and operated by women is a task to be included in SME Policy

### **8. Other Related Ministries and Policies**

The Ministry of Education and Culture (MEC) is, among others, responsible to:

- Improve the quality of basic education as a basis for employment creation;
- Introduce entrepreneurship education in the school curricula as a way of building up a private business culture in the society as a whole;
- Introduce skill-related subjects at all school levels to enhance the opportunity of the youth for self-employment and the performance of independent trades.

The Ministry of Science, Technology and Higher Education (MST) is a crucial actor to the success of the Tanzania Development Vision 2025, Poverty Eradication Strategy and intensive implementation of the National Employment Policy. In general, MST is responsible to:

- Co-ordinate development of appropriate technologies for industry and agricultural applications;
- Co-ordinate technical education and the vocational training system;
- Evaluate imported technologies to determine their impact on employment.

#### **Education and Training in Entrepreneurship and Technology Innovation**

- Ensuring that the school curricula includes education and training programmes in entrepreneurship and business matters should be a responsibility of the MEC
- Co-ordinating efforts aiming at adopting appropriate technologies and training the workforce in their use is a responsibility of the MST
- SME Policy may devise incentives (e.g. tax brakes) to enhance vocational training and adapt it to the needs of new technological developments

## **Chapter III**

# **Process of SME Policy Formulation**

SME Policy must devise all those missing instruments that are needed by emerging and growing businesses owned and operated by indigenous Tanzanians to become competitive in a globalised market-oriented economy. The missing policy measures are, primarily, those that have not been already addressed by the related policies described in chapter II. The MIC, to accomplish its purpose, has adopted a comprehensive strategy that builds from past experience of other Government bodies and previous donor advice. This strategy is intended to follow a process of three stages and is summarised in the next sections.

## **1. Entrepreneurs Workshops**

The SME-MIC launched the SME Policy formulation exercise in 1998. The first stage involved the participation of private entrepreneurs in discussions that addressed their experiences and, especially, the constraints they were facing in the process of operating their firms. In addition, the entrepreneurs were asked to propose what should be done so as to foster the growth of small enterprises.

Five workshops were convened in Arusha, Mwanza, Mbeya, Dodoma and Dar es Salaam, utilising the support network of the Small Industries Development Organisation (SIDO). From the donor side, the exercise was supported through a technical assistance provided by the Commonwealth Secretariat. The findings of the workshops and further research were compiled by the Commonwealth Secretariat's experts in a report that the MIC adopted as a departure point for future work in SME policy formulation.

## **2. Consultations with Promotional Institutions and Analytical Work**

The second stage is currently being developed and includes the drafting of this policy proposal.

International and national experts, appointed by the United Nations Industrial Development Organisation (UNIDO), were attached in May 1999 to MIC-SME with the purpose of providing guidance and advice in preparing the first draft of the SME Policy document. The team surveyed the existing relevant organisations supporting SME development in Tanzania and the various programmes in place. A letter on behalf of the Minister for Industry and Commerce was sent to the heads of institutions and programmes that were considered as the most relevant stakeholders in SME promotion and policy formulation. This letter explained the need of an SME Policy in Tanzania and requested information on ongoing initiatives. This initiative aimed at ensuring a wide participatory approach during the process of policy formulation.

The UNIDO experts synthesised the information collected through the consultations and, in close co-operation with MIC-SME developed this analytical policy proposal. Subsequently, the text was circulated among the most relevant promotional institutions. A workshop will be convened for the first week of August 1999, to discuss the findings with representatives from the promotional institutions. The proceedings of this event will be collected by the UNIDO experts and be included in a more formal draft policy document that will be delivered by UNIDO to MIC-SME by the second week of September 1999.

In parallel with the above activities, MIC-SME representatives will conduct study tours to SME support agencies established in countries with wide experience in this field. The lessons learned through these visits will help to build capacity in areas such as:

- SME policies and implementation strategies (role of government and other stakeholders (promotion institutions, private sector, NGOs etc.)
- Entrepreneurship development programs and methods;
- Incentives and services provided to the sector;
- Linkages between SMEs and large enterprises, including methods or mechanisms of fostering them;
- The concept of rural industrialisation and conditions for its implementation;
- Specific programs aiming at fostering graduation of micro-enterprises;
- Regulatory requirements to the sector (taxation; licensing procedures; etc.).

### **3. The National Conference on SMEs**

The broader institutional framework outlined in this policy paper will be discussed in a National Conference on SMEs. The right timing for this conference will be agreed between MIC-SME and the entire donor community, after having consulted with other Tanzanian promotional institutions.

This Conference will be organised by the MIC with the support of UNIDO and other donors. It will provide a platform for the various SME stakeholders in Tanzania to engage the President, other relevant authorities, donors, and private sector institutions, in serious dialogue on SME development and support.

As a platform for discussion, the Conference will provide for:

- a National Programme of Action for Government on SME development,
- identification of a broad programme approach and donor community involvement;
- mobilisation of maximum involvement and commitment of all parties and sectors (private and public sector, NGOs);
- harmonisation of scattered development efforts in support of SMEs;
- definition of a broad role for public/private sector partnership in meeting the specific needs of the emerging entrepreneurs in Tanzania.

### **4. The SME Enabling Act**

The proceedings of the National Conference will be used by the MIC to prepare the provisions of the SME Enabling Act, which will represent the earnestness of Government's commitment to the development of SMEs and provide a platform for the creation of further legislation and regulatory reform in this field.

The core of the draft bill will deal with the following issues:

- A standard definition as to what constitutes an SME in sector categories.
- The designation of the MIC-SME, which after the capacity building exercise may be upgraded as an autonomous Ministerial Department, as the focal point for policy analysis and monitoring of the implementation of the provisions made in the Act.
- The establishment of a co-ordinating mechanism to rationalise and make more efficient the provision of financial services to SMEs, including the National Micro-finance Bank, NIGP, other public and private financial institutions, donor-sponsored programmes, the various Government funds, other private equity and enterprise development funds, and NGOs.
- The establishment of support programmes to facilitate SME access to the credit guarantee fund for SMEs, which is already underway through a NIGP initiative.

- The designation of a revitalised SIDO (perhaps under a new denomination that better reflect its new role) as the focal point for the provision of non-financial business development services to SMEs.
- The establishment of the SME Forum as a body responsible to raise the attention of the authorities and the public on the state of SMEs in Tanzania. The Forum should meet on an annual basis, perhaps during the Dar es Salaam International Trade Fair (DITF). It should be chaired by the President of Tanzania and involve, for instance, the active participation of donors; micro-finance institutions and other financial intermediaries; government bodies such as MIC, VPO, MLYD, MoF, BoT, etc.; SIDO; VETA; representatives of the private sector such as VIBINDO, TCCIA, CTI, etc.
- Other overall regulatory framework such as the encouragement of analyses by Government departments and research institutions on the impact of new and existing legislation and regulations on SMEs.

## Chapter IV

# Overview of the SMEs in the Tanzanian Economy

## 1. Background

Tanzania has experienced a remarkable transformation in the way economic relationships are determined and in economic performance over the past thirty years. After the Arusha Declaration in 1967, the Government explicitly laid out its policy and long-term goals of socialism and self-reliance. Over the next decade, the state expanded its reach over the economy. Banks and other foreign interests were nationalised and parastatals dominated economic production. The public sector became an important source of investment and employment in the formal sector. While gains were made on the social front, particularly in literacy and social cohesion, the economic situation deteriorated as shortage of foreign exchange resulted in lack of spare parts and inputs. Midway through the eighties, with the economy in shambles, the Government moved away from a centrally planned public sector-led economy towards a more market-oriented one, permitting private sector development. It introduced several far-reaching economic reforms. These included the tightening of fiscal and monetary policies that resulted in reasonable inflation rates and fiscal deficits; financial policies that gave the private sector a key role in the future development of the banking system; and trade policies that encouraged competition in the economy. While the reforms have resulted in a turn-around in production and some employment gains, overall employment creation has not kept up with labour force growth. Market forces left alone had also the negative side effect of increasing inequality to unacceptable levels. Today, this fact is seriously jeopardising the gains made during the years in terms of social harmony and also hinders the future development of sustainable democratic institutions in the country.

According to official statistics, the structure of the economy is as follows:

- Tanzania is still heavily dependent on agriculture as an important contributor to GDP, exports, and employment. In 1997, the sector accounted for 50 percent of GDP, 67 percent of exports and about 80 percent of employment. It is especially important for the poor since most of their income comes from the sector. Agriculture is composed of a crops sector, which produces cash and food crops, a livestock sector that produces beef and milk, and a fisheries sector that produces fish and seafood. Crops account for about 62 percent of the total value of agricultural output, with livestock and fisheries accounting for about 30 and 8 percent respectively. Coffee, the principal cash crop produces about 54 percent of total cash crop output and 21 percent of total export revenues. Other principal export crops include cotton, cashew nuts, tobacco, tea, and sisal. Small-scale subsistence farmers in rural areas carry out most agricultural production. According to the 1994/1995 Agricultural Census, over 3.9 million households are involved in small-scale farming.
- The manufacturing sector is small, accounting for 8 percent of GDP in 1997. For years the sector was dominated by parastatals and enjoyed a high level of protection. The resulting anti-export bias (compounded by an overvalued exchange rate) did not encourage production for export. Despite some progress in reducing quantitative restrictions and some slight compression of the tariff regime, the extent of trade protection remains high. The average nominal tariff in 1996 was 24.2 percent (25 for manufacturing). Because of numerous exemptions and various forms of evasion, however, implicit tariffs are considerably less averaging 9.3 percent in 1996.
- Services, consisting of financial, real estate, business services, and the public administration account for 24 percent of value-added. The other contributors to the economy are mining and tourism. Both of these historically accounted for a small share of total value-added. However, both sectors show increased potential. In mining, the discovery of gold and increased prospecting suggests that the sector's contribution is likely to increase in the future.

The above official figures reflect only a part of the economic reality. The Government recognises that the national accounts do not reflect all the economic activities being conducted in the country and that a substantial part of the economy remains unrecorded.

The co-existence of this “parallel”, “informal” or “second” economy clearly limits the efficacy of policy recommendations aimed at supporting “formal” activities. This is why an SME Policy that addresses the needs of all generators of wealth in Tanzania is justified so that their efforts can be easily translated into economic success. The incentives proposed in this Policy are geared towards encouraging informal sector operators to legalise their activities and become sustainable businesses.

## **2. A Proposal to Define the Target Group of SME Policy**

The term “SMEs” is used in this policy proposal to contrast this sector with large business.

However, as a consequence of the co-existence in Tanzania of formal and informal activities, the SME sector is highly diverse, with structures, problems, growth potential and access to support differing widely between segments. This situation is not exclusive of Tanzania. The various SME policies that are already in place in some Eastern and Southern African countries show similar patterns. These differences relate as much to the economic sectors (retailing, manufacturing, agriculture, mining, etc.) as they relate to the stages of growth of enterprises (start-up, expanding or stagnating).

From a broad strategy perspective the most important distinction found among SMEs in Tanzania, like in other countries of the Region, is between survivalist activities, craft and micro-enterprises, small enterprises and medium-sized enterprises:

- Survivalist activities are those performed by individuals unable to find a paid job or get into an economic sector of their choice. Survivalists are unskilled workers who perform, almost exclusively, informal trading activities. Income generated from these businesses usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. Poverty and the attempt to survive are their main characteristics. Women and the youth initiate a large percentage of these businesses. Given the large number of people involved in survivalist activities, their problems have to be tackled within the broader context of poverty alleviation and employment promotion measures. SME Policy must concentrate on ensuring measures for this people to get out of this sector.
- Crafts and other micro-enterprises are very small businesses, often involving only the owner, some family member(s) and, at the most, one or two paid employees. For practical purposes, the SME Policy makes the convention of establishing a limit of 5 employees for considering a firm as a “micro-enterprise”. These firms usually lack “formality” in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many craft activities and other micro-enterprises advance into viable small businesses. Earning levels of micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support. A significant majority of Tanzanian business can be found within this category, hence, they represent a special target group for SME Policy.
- Small enterprises are usually those owner-managed or directly controlled by the owner-community. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Sector studies conducted in Tanzania have classified this category of enterprises as those that employ up to a maximum of 20 people. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.
- Medium enterprises constitute a category difficult to demarcate in comparison to the “small” and “big” business categories. It is still viewed as basically owner/manager-controlled,



though the share holding or community control base could be more complex. An average of about 50 employees per company could be seen just as an indicator to define this category. Classification by capital assets varies according to the business sector. In terms of SME Policy, concern is with those medium-sized enterprises facing obstacles and constraints that cannot be solved through normal market forces and private-sector action. Indigenous medium-sized enterprises, often seen as the “missing-middle”, are of special interest for SME Policy due to the role they play in enlarging the local private sector and fostering innovation and competitiveness.

### **3. Role and Size of the SME Sector**

The status and significance of SMEs has undergone changes in the 1980s and 1990s. SMEs have exhibited considerable resilience in the reform process and have provided opportunities for employment to a considerable number of the unemployed youth and women. SMEs have also become a source of second sources of incomes for those whose real wages and salaries are falling in the formal sector.

SMEs are active both in the urban and rural areas providing an important source of non-farm incomes which have a stabilising effect (reducing seasonality) and providing potentials for diversification. They contribute a considerable share of household incomes in the rural areas. Within the SME sector there is a wide variation in the size, level of technology, productivity and pace of development of different enterprises. Many enterprises have exhibited dynamism, competitiveness and capacity to grow sometimes against all odds. They are a potential for improving the level and quality of growth towards reduction of poverty.

These trends can be shown using the limited data that is available. SMEs are estimated to contribute 30-35% of the gross domestic product. The sector consists of more than 1 million business activities engaging 3.4 million persons, that is, about 20-30% of the labour force. There has been an expansion of SMEs for income and employment generation between 1990 to 1996 following the adoption of economic reforms creating some space for the self-employment and private sector activities. This growth would have been higher if the business environment and government policies had provided deliberate incentives to the development of this sector.

The growth of SMEs in Tanzania has been observed in various sector surveys. The 1991 National Informal Sector Survey revealed that micro-enterprises employed about 20 percent of the total labour force. Of the 2.4 million people recorded to be involved in micro-enterprises, 60 percent were engaged in these activities in the rural areas while 40 percent were in the urban areas. Furthermore, the 1991 survey established that about 50 percent of the micro-enterprise workforce are engaged in trade and 22 percent in manufacturing activities, while urban agriculture and fishing absorbed about 10 percent.

The 1996 NIGP-ESRF study on micro and small enterprises confirmed that:

- There is high concentration in trade related activities petty trade and commerce. This is consistent with the incentive structure during the trade liberalization phase, which has tended to favour these activities in general.
- Manufacturing is becoming important with concentration in tailoring, garments and agro-processing. This is a positive sign that shows their potential for engaging in directly productive activities and effecting structural change.
- Such concentration takes place in highly localised markets, indicating that they have the potential to meet customised demands because of their proximity to the markets.

The informal sector and women are important actors among SMEs. The 1991 survey found that at least one-third of the total workforce engaged in the informal sector of Tanzania is composed of women. Women are increasingly starting business enterprises, mostly in the urban areas, with the objective of raising income. About three-quarters of all women in the informal sector are self-employed; with the rest being employees. Women concentrate strongly in particular industries or occupations. More than three-quarters are occupied in the trade, restaurants and hotels industries. The

largest groups are engaged at market/stall selling and as food vendors. The majority of them are either saleswomen or labourers, followed by service providers or shop attendants.

Concerning the formal SME sector, the national industrial statistics only keep record of those firms employing more than 10 people, leaving unrecorded a large group of small companies. In order to improve the knowledge of the sector, a new study conducted by the Confederation of Tanzanian Industries (CTI) is underway.

## **4. Constraints facing the SMEs**

The constraints that hamper the development of a vibrant SME sector in Tanzania can be summarised in five main categories: the macro-economic and policy environment; physical and technological infrastructure; the banking and finance structure; the legal and regulatory framework; and the marketing capabilities and associated linkages.

### **4.1. Macro-economic and Policy Environment**

The reforms introduced since 1986 have aimed at restoring macro-economic stability in Tanzania. In the process, however, the SME sector has been affected in many ways:

- In general, the political, economic and social environment is still biased against SME development.
- Macro-economic policy has improved considerably in recent years in terms of stability and reducing various imbalances. However, there are still many problems relating to the challenge of managing the transition from a public sector led to a market oriented and private sector led economy.
- The institutions that are necessary for smooth functioning of the market are not fully in place.
- An attack has been launched against corruption but many SMEs are still losing part of their profits to corrupt public officials.
- The high degree of donor influence on the reform process continues to undermine efforts to co-ordinate SME development.
- Lack of adequate antidumping legislation made that, for example, import of second hand garments and other textiles in unlimited quantities has been systematically destroying the local small-scale textile industry.
- Devaluation has made both competing imports and imported inputs more expensive. It opened up new opportunities by introducing new SME product lines but firms in several branches have lost their market share to competing imports.
- The ongoing restructuring of public firms and Civil Service reform have released a labour force which is straining the labour market in the sector. Normally, these people have no alternative other than self-employment. This development has saved the incomes of the new entrants from total collapse but it has also reduced average returns to actors in the sector as a whole.

### **4.2. Physical and Technological Infrastructure**

Poor infrastructure at any level ranks as a major problem, as it was referred in a variety of surveys and studies. This category includes lack/high cost of business premise/location, inadequate business skills, inadequate quality standards control, poor utilities and then transport:

- There is a lack of appropriate business premises. City authorities, especially in Dar es Salaam, continuously accuse survivalist and micro-enterprises of being the source of dirtiness. Experience indicates that when very small businesses are able to secure permanent working premises, the quality of the products and services also improve. This is so because such enterprises are then in a better position to plan with greater certainty and stand a better chance of accessing the needed infrastructure and support services. SIDO has been, over the years, the most important source of business infrastructure in Tanzania, with branches all over the

country, although its role has been declining due to lack of adequate funding. New providers of business infrastructure are NGOs (e.g. FAIDA, FINCA, NIGP) but their reach is limited.

- Many entrepreneurs have low level of formal education and hardly have access to adequate training in business management consistent with the increasing challenges in competition and technology development. The supply of technical and managerial skills is lagging behind the requirements for developing a competitive SME sector. The traditional way of acquiring skills through the apprentice system itself is unlikely to make a breakthrough in making the kind of innovations and quality improvements that are needed in a competitive environment.
- There is hardly any support from technology development institutions and some of the required investments are beyond the reach of single SMEs. Industrial support services and industrial research or other technological support services are not available for SME development. SIDO, TIRDO, IPI and CAMARTEC remain as the few sources of business advisory services and technology support available in Tanzania for SMEs, but lack of funding has seriously jeopardised the quality of the product delivery with the continuous drainage of quality staff to better paid jobs.
- The quality standard of Tanzanian products is very low. Quality standards control is inadequate and there is little capacity in the country to help enterprises to gain in competitiveness through ISO 9000 and ISO 14000 ratings of approval.
- The poor state of roads in general and in the rural areas in particular remains a major problem for SME development. The supply of most utilities is unreliable and costly. Power, water and telephone systems are generally in poor state in spite of recent improvements.

#### **4.3. The Banking and Finance Structure**

Although the Tanzanian financial system comprises a host of both formal and informal organisations, adequate finance is not being provided to allow for the development of the sector. In both the 1991 and 1995 Informal Sector Surveys, lack of capital was cited as most pressing need of the SME operators. The surveys further indicate that working capital (necessary for business growth) was the most needed followed by investment capital (for starting up new business). Access to finance is limited by a number of reasons:

- Bank restructuring is taking place but most banks do not operate an SME financing window. The National Micro-finance Bank has great potential but it is practically not operational as yet. Bank staff is still inexperienced in issues related to small loans and micro-finance.
- Some of the banks operate in limited geographical areas and it has become even more restricted after the banking restructuring.
- There is lack of a guarantee scheme to back up bank financing to SMEs and entrepreneurs are unable to fulfil the collateral requirements. This is a reflection of the inflexibility of the banks and other financial institutions. Where this requirement has been relaxed (e.g. Pride Tanzania Ltd) successes have been recorded.
- There is low capability of borrowers to prepare and present applications that meet bank requirements. It is too expensive to hire professional services for doing this job for SMEs.
- There is still a widespread perception of a high risk of business failure of small enterprises. This is a reflection of the lack of information or the perceived high cost of collecting such information on SMEs.

#### **4.4. Legal and Regulatory Framework**

The legal and regulatory framework in Tanzania has yet to adapt to the operations of a market economy. The legal system makes it difficult the free disposition of land, is still too slow for business decisions and the regulatory framework still reflects the previous system of administrative controls rather than indirect regulation of businesses. In particular:

- The free disposition of land to engage in business transactions remains as a serious constraint although the new Land Policy has tried to provide a fair and workable transfer of land ownership. The financial sector will very unlikely take land as a collateral since the new policy has given excessive powers to courts to settle disputes without clear indication of how the right to size property can be eventually exercised.

- The land title problem is even worse for women entrepreneurs who, through tribal and traditional customs, are still unable to secure ownership of land or property.
- The business registration, regulatory and reporting environment in Tanzania is one of the worst in the whole of Africa and, more than any other factor, has driven the bulk of SMEs to operate in the informal sector. The Tanzania Investor Roadmap showed that procedures for registration and licensing in Tanzania amount to four or five times the number of documents and forms needed to complete the process when compared with other nations of Africa where similar exercises were conducted. In addition, in most cases the registration/licensing process is centralised in Dar es Salaam, involves several authorities/institutions and is time consuming, expensive and cumbersome.
- Other complications to the SME operators include the paying of provisional taxes even before a company goes into production plus the requirement to pay several other taxes such as stamp tax, sales tax, VETA tax, payroll levy, Municipal and Regional taxes, industrial trading tax, etc. It is generally agreed that by reducing the number of taxes and simplifying the process, more SMEs will be registered and the tax collections will increase.

#### **4.5. Market Conditions and Associated Linkages**

With trade liberalisation policies, competition has become so intense that most local SMEs are facing the challenge of having to improve quality and compete. This is a positive trend, although is hampered by a number of shortcomings:

- There are almost no institutional arrangements to help firms access market information and give them assistance to penetrate new markets. SIDO and BET provide some support to SMEs. Another positive experience in this regard is AMKA, a charitable trust that supplies services aiming at bridging the gap between local producers, manufacturers and international export markets. Unfortunately, AMKA's outreach is limited both in terms of products and location.
- There is very little linkage between SMES and large enterprise development. Subcontracting to bigger firms is a market tool not very diffused in Tanzania.
- Information on business opportunities and markets, available technologies, potential joint-venture partners, etc., is also limited to very few SMEs in Tanzania due to lack of delivery mechanisms accessible by small-scale producers.

### **5. Research on SMEs**

During recent years, research on the trends, problems and needs of SMEs has increased significantly among Tanzanian universities, donor-funded programmes, private sector institutions and other research centres. Yet, the volume of research with a practical orientation and/or policy relevance is still limited, compared to the needs of the sector. This relates in particular to the systematic development of base data and trend indicators on SMEs with all its complexities. Such reliable data is critical for the assessment of policy efforts and the planning of policy reforms.

Most of the existing literature on SMEs has emerged from supply-driven research. Donors have primarily assumed responsibility of determining the research agenda and implementation on behalf of stakeholders. As a consequence, research has focused on those areas that were identified as priorities during recent years, namely poverty alleviation, the informal sector and micro-enterprise development, employment generation, micro-finance, etc. The primary institutions that have produced this knowledge in Tanzania are the Economic and Social Research Foundation (ESRF), the Economic Research Bureau (ERB) of the University of Dar es Salaam, and Research on Poverty Alleviation (REPOA).

Demand-driven research, which responds to the problems and aspirations of SMEs, has also started to emerge. This involves stakeholders in the formulation of a research agenda and its operationalisation. A good example of this approach is the one adopted by MIC-SME for the formulation of this SME Policy, which started with a number of entrepreneurs' workshops and continued with consultations with promotional institutions. Another example is the ILO support, together with the Netherlands Development Assistance, which concluded in 1998 with a number of National Workshops for

Promoting Demand-driven Research in the Area of Micro and Small Enterprise Development in Kenya, South Africa, Tanzania, Uganda and Zimbabwe. This and other studies conducted by ESRF in Tanzania have contributed to a good understanding of the needs of informal sector activities and other emerging businesses in Tanzania.

The missing component of the research agenda on SMEs is on the upper-scale of the sector. Very little knowledge exists in terms of opportunities for technology development, innovation, business incubation, innovative facilities to promote SME access to long-term investment, joint ventures with foreign firms, etc. A first step in the process of addressing these needs is a survey that the Confederation of Tanzanian Industries (CTI) has recently initiated. This study is expected to be ready by July-August 1999 and is intended to provide information on the obstacles and opportunities faced by fast-growing SMEs. Another promising initiative is a survey on SMEs in East Africa (Kenya, Tanzania and Uganda), which will be launched in July 1999 with the sponsorship of the Bonn University and the Alexander von Humboldt Foundation from Germany. Dr. Francis Mtambalya of the Faculty of Commerce and Management at the University of Dar es Salaam will be the director of the project, which will focus on the mechanisms of private sector industrial promotion in the East-African Co-operation Area. The research will examine whether technological changes can enable SMEs to compete globally. Special attention will be dedicated to information technology as a means to allow local SMEs to become competitive and survive the challenges of globalisation.

## Chapter V

# Current Support Institutional Framework

The supportive business environment for SMEs is still very weak in Tanzania. It is composed of Government programmes that include financial facilities, business development services, and private sector/NGO advocacy activities. Individual programs and services are still evolving, many of them just having been started in the last years. Others are very weak because the staff lacks the necessary training, professional skills and business experience to be effective in supporting the development of the business community.

These current SME support programmes are poorly co-ordinated and lack the necessary coverage to reach all sectors of the small business community. Organisations that provide support services typically choose niches that are of interest to them or that fit within the broad mandates of the international development agencies and home governments that support them.

## 1. Financial Facilities

Almost all micro-finance institutions (MFIs) in Tanzania cater for those enterprises with credit requirements below Tshs 2 million. There is almost nothing for enterprises with requirements of between Tshs 3 and 10 million (the “missing middle”). Beyond Tshs 10 million, companies with adequate collateral can access bank credit, although it tends to be short term and conservatively managed. Project lending and risk capital is virtually unavailable from commercial banks. The private equity and venture capital funds established in Tanzania are few and cater primarily to the needs of expansion of established business and privatisations, although some are increasingly paying attention to fast-growing SMEs. The main institutions and programs that constitute the current support framework of financial services are the following:

### 1.1. Small Industries Development Organisation (SIDO)

SIDO was set up to provide credit and business advisory services to small-scale manufacturers and was traditionally funded through donor programs. SIDO is now finding itself under funded. This had a negative impact on the credit operations, gradually reducing the capital base of SIDO’s revolving loan funds. The gradual decline of SIDO has resulted in the loss of one effective source of financing for SMEs.

### 1.2. The National Income Generation Program (NIGP)

NIGP is a trust fund set up by the Government with the support of UNDP and other donors. It was designed to strengthen existing micro-finance institutions (MFIs) through programs of technical assistance both in rural and urban areas. Its main objective is poverty alleviation through income generation and employment creation. The three areas of intervention are agriculture and rural development, infrastructure and small businesses. As a further step, NIGP is currently working with private banks to establish a credit guarantee fund that aims at easing access to credit to those companies that “graduate” from its support programmes and become candidates to bank credit.

### 1.3 Pride Tanzania

This is the largest MFI established in the country. It is based in Arusha and is supported by PRIDE Africa. It has the largest client base of any MFI, with more than twenty thousand members. It uses the village banking methodology that was developed by the Grameen Bank in Bangladesh. It hopes to eventually become a national micro-finance bank as early as possible. However, it has a very long way to go in terms of achieving even the basic level of operational stability and financial sustainability. These include covering the cost of borrowed capital from commercial sources and other factors such as depreciation, training, marketing and development costs, as well as the cost of inflation.

#### **1.4. Mennonite Economic Development Associates (MEDA)**

MEDA operates two small credit facilities in Dar es Salaam and Mbeya. In addition to own resources, MEDA gets funds from the NIGP for on lending to smaller MFIs. MEDA has been supporting SIDO's credit schemes for Kilimanjaro, Arusha and Mara regions (including capacity building). The majority of MEDA clients are in trading businesses although a few are in production (especially in agriculture). Whereas MEDA caters for micro-enterprises, its future focus will also be on small enterprises with growth potential. In pursuing a policy of indigenisation, a local NGO ("Huduma za Maendeleo") has been established to take over the services of MEDA in the future. Following experiences developed in other countries, MEDA will then engage in developing non-financial services (e.g. marketing) for SMEs.

#### **1.5. Savings and Credit Co-operatives (SACCOs)**

Officially, there are more than 1,000 SACCOS in Tanzania but World Bank researchers found that less than 30 of them could be described as being active. The SACCOs, originally established with support from the Ministry of Agriculture and Co-operatives, proved to be good savings institutions but they have not been effective in terms of lending. Although the SACCOs show some promise, the level of effort that would be required to re-establish this network is quite high. However, some limited interventions appear to have had a positive impact. The Kilimanjaro Co-operative Bank (KCB), which was established with support from DANIDA and the leading development bank in Holland, has been serving as an on-lending and training institution to the SACCOs in Kilimanjaro and Arusha. The ability of organisations like the KCB lack the national reach and resources required to extend these training and supervisory services to other MFIs without a major injection of capital and technical support from donors.

#### **1.6. National Micro-finance Bank (NMB)**

NMB is currently serving as a savings and financial services window for the rural and urban poor. It expects to begin lending to SMEs in 2000, first on a short-term commercial basis and eventually to extend its services to include term lending. The NMB, which emerged as a spin-off of the National Bank of Commerce, is still undercapitalised but aims to be eventually privatised including the participation of donor agencies and individuals or groups of customers of the bank. NMB's strength is its extensive branch network, which could serve as back up of other micro-finance operating units, such as community banks, SACCOs, trusts, development associations, producer and consumer co-operatives, etc.

#### **1.7. CRDB Ltd**

Formerly the Co-operative and Rural Development Bank, it was recently reconstituted after several years of losses and purchased by DANIDA, local investors and more than 12,000 individual stakeholders. It operates a network of more than 20 branches throughout the country and is a major provider of financial services in rural areas. CRDB has been an important factor in the development of flower cultivation in the Kilimanjaro area, but has halted for the moment term lending pending strategic adjustments and access to new development finance funding.

#### **1.8. Other Micro-finance Schemes**

There are a number of formal and informal programmes that provide special services to SMEs. For example, the one sponsored by the European Union, which backed financial support through grants to the poor in rural areas. Three years after the programme was launched in four major regions of the country, it is now being redesigned. One of the reasons that the program failed was its lack of support to new business ventures. Providing money without business advisory services to new entrepreneurs contributed to a high failure rate. A second weakness of the programme was that it hurt other micro-credit programs that were trying to operate on a cost recovery basis at market interest rates. Eventually, the EU programme will on-lend to established MFIs/NGOs and chartered banks that are willing to lend to small enterprises.

## **1.9. Private Equity and Venture Capital Funds**

Funds that target fast-growing SMEs are also taking off in Tanzania. One example is the Social Action Trust Fund (SATF), which is a USAID-sponsored programme that, in addition of equity investments in privatised parastatals, has been supporting a micro and small business lending. Another initiative is the Fedha Fund, funded by CDC, DANIDA, FINFUND, NORFUND, SWEDFUND and the European Investment Bank, focuses on expansions, acquisitions, management buy-outs and pre-listing placements. It has been recently capitalised at US\$ 13 million and limits its investments to minority stakes. Although its investments average US\$ 650,000 per project, it could represent a source of long-term capital to the upper end of indigenous medium enterprises. Finally, the Tanzanian Venture Capital Fund (TVCF), which was capitalised by CDC, DEG, PROPARCO, SWEDFUND, the National Provident Fund and TDFL (a private development company), targets investments in indigenously owned businesses averaging US\$ 350,000 per project. All these facilities do not reach, for the moment, the SME sector as it is defined in this policy paper.

## **2. Business Development Services**

The industrial support and advisory services are a relatively weak link. The major provider of such services is SIDO, with additional support provided by TIRDO, CAMARTEC, IPI and TBS. The Government is currently not supplying budgetary support for developmental activities in this field. A number of the NGO/MFI operations provide some of these services but those programs do not have the outreach of SIDO.

In terms of business training, vocational and business topics such as business management, financial management, accounting, marketing, and personnel management are covered by a number of institutions. If there is a weakness, it is in the lack of entrepreneurship training and business planning courses. To some degree, the shortcomings in the curricula of the various training centres are not overly surprising. With the shift to a market economy being less than a decade old, related support services in the training field cannot be created overnight. It takes time to recruit well-qualified staff with the necessary business experience to be successful teachers.

The major actors that currently provide non-financial support services to SMEs in Tanzania are:

### **2.1. Small Industries Development Organisation (SIDO)**

SIDO is the leading business advisory services programme in the country with offices in twenty regions. It was established in 1974 and has operated continuously since that time. In association with its business advisory services, SIDO has operated industrial clusters at 16 regional centres. The services are designed to help entrepreneurs with business planning (management, human resource management, finance, accounting, and marketing) and special services related to manufacturing such as the management of plant operations, process engineering, and inventory control to name a few. Although SIDO stands alone as one of the most knowledgeable business development organisations in, it has been losing part of its professional staff due to lack of funds. These professionals have found outstanding opportunities in better-paid programmes and institutions both in Tanzania and overseas. Also due to lack of Government support, the industrial clusters have almost disappeared and transformed into pure real estate operations which proceeds allow the institution to financially survive.

### **2.2. Centre for Agricultural Mechanisation and Rural Technology (CAMARTEC)**

CAMARTEC is another parastatal organisation under the MIC. Its aim is to improve the quality of rural life through development, adaptation and implementation of appropriate technologies in the field of agricultural mechanisation, water supply, building construction and sanitation, rural transport and energy. The specific functions of CAMARTEC include:

- To carry out applied research to facilitate the designing, adaptation and development of machinery and equipment suitable for use in agricultural and rural development



- To develop and manufacture approved prototypes and components, and evaluate their suitability for local use;
- To perform tests on all types of machinery and equipment intended for use in agricultural and rural development in the country and to publish their results;
- To offer consultancy services on designing, testing, and other technical aspects of agricultural mechanisation.

CAMARTEC has been very active in developing various farm implements (planters, cultivators, solar heaters; oil presses; energy saving stoves; etc. The main constraint of CAMARTEC is the limited financial support it receives from the Government so the organisation has resorted to commercialisation of some of these technologies.

### **2.3. Tanzania Industrial Research and Development Organisation (TIRDO)**

TIRDO is also a parastatal set up in 1979 with the purpose of conducting industrial research and offer consultancy services to industries. The core of TIRDO's operation is to promote technology utilisation in economic ventures. The emphasis is to promote the use of indigenous raw materials, which can be processed using equipment fabricated largely by local workshops. Examples of products developed by TIRDO and that were developed for commercial exploitation are oils for textile manufacturing use, resins, sulphates, soaps, solar dryers, etc.

TIRDO's main services to industry are in the fields of instrumentation, maintenance and repair; chemical analysis; energy management; material testing; trouble shooting and advisory services; cleaner production centre; welding and fabrication; industrial information; and a furniture workshop.

### **2.4. Strengthening Small and Micro-Enterprise and their Co-operatives and Associations (SSMECA)**

This was a project established by the ILO in co-operation with SIDO in 1993. Its mission is to increase income, create employment and improve the working and living conditions of micro and small entrepreneurs. Its main activities are business advisory services, training and feasibility studies to assist micro-entrepreneurs.

### **2.5. Vocational Education and Training Authority (VETA)**

The Vocational Education and Training Act of 1994 provides the legal framework for its operation. The VETA programme resulted from the Structural Adjustment Program Phase I, which is due to end in 1999. DANIDA and SIDA have been major donors supporting the vocational training sector. Assistance is being sought from the African Development Bank, Switzerland, Japan and Ireland. In most cases the assistance takes the form of construction of vocational training centres, the supply of tools and equipment, and support for maintenance activities. The current VETA establishment consists of 19 centres, which have been in operation since 1994, and the Morogoro Vocational Teacher Training College. The Regional Vocational Training and Service Centres are located in Tanga, Mwanza, Moshi, Dodoma, Mbeya, Iringa, Morogoro and Dar es Salaam. There are also 60 Rural Vocational Training Centres established for adult education in rural areas to provide basic technical education courses. The make-up of the student body is approximately 80% male and 20% female. The intention is to increase the number of female students to 40% of the total student population. VETA schools offer 31 different courses in areas such as carpentry, masonry, bricklaying, and tailoring. The VETA programme does include some entrepreneurial training and basic business courses that are related to the business enterprises of the various trades. VETA also provides training to micro-entrepreneurs at some of its vocational training centres.

### **2.6. Finance and Advice in Development Assistance to Small Enterprise Promotion (FAIDA)**

Established in 1994, limits its services to the Arusha area. It is an NGO engaged in small enterprise development programs. The funding is provided by NORAD with technical assistance from SNV, a Netherlands government supported organisation. The focus is on training to staff of micro-finance institutions. It has been building the capacity of the CRDB and the Poverty Africa Credit Shops. It can

provide market research and product development services and has the ability to conduct market research, assess business opportunities, source and price inputs, and source markets for outputs. FAIDA also provides business advisory services.

## **2.7. Regional Enterprise Development Institute (REDI)**

This subsidiary of PRIDE Africa was established in 1994 as part of the PRIDE Tanzania operations. It is located in Arusha and trains PRIDE staff from Tanzania and Uganda as well as staff from other institutions and programmes (KCB, MEDA, etc.). Its major activities include human resource development; research and development; information exchange with other MFIs; and technical advice on micro-finance and professional networking.

## **2.8. Other Entrepreneurship Training Programmes**

Currently, the most relevant institutions providing courses on business are:

- **College of Business Education:** Located in Dar es Salaam and Dodoma, teaches economics, financial management, cost accounting, managerial accounting, auditing and marketing.
- **Co-operative College:** Located in Moshi and Shinyanga, also teaches economics, financial management, financial accounting, cost accounting, managerial accounting, auditing and marketing. It offers a certificate in Co-operative Development in which the management of Savings and Credit Societies and Rural Savings Scheme is taught as a subject of specialisation. It is the only institution of higher learning that offers management training to SACCOs.
- **Eastern and Southern African Management Institute (ESAMI):** Provides tailor-made courses for middle and senior managers, policy makers and planners. It produces skilled bankers and financial policy makers and teaches economics, financial management, accounting, business financing, auditing, marketing, entrepreneurship and project analysis. ESAMI is one of the few teaching institutions that teach a micro-finance course. It also provides business advisory services.

## **2.9. Other Industrial Support Organisations**

Although they are not specific for SMEs, the Tanzania Bureau of Standards (TBS), the Institute of Production Innovation (IPI), the Tanzania Commission for Science and Technology (COSTECH), and the Board of External Trade (BET) have linkages with SME development.

- **TBS** was established by Act of Parliament in 1975, which was subsequently amended in 1977. It is a specialised organisation serving in the fields of standardization, certification, quality assurance, metrology service and training in standardization and quality control. TBS testing facilities include a chemical laboratory, material testing laboratory, food laboratory, textile and leather laboratory and a metrology laboratory. So far, TBS has published more than 500 standards and has issued more than 150 licenses to local manufactures. As it is the case with the other Industrial Support Organisations, TBS is not sufficiently funded by the Government. All clients, SMEs included, have to pay for the services provided. Experience has shown that most of the micro and small industries cannot afford to pay for these services and then do not have adequate access to quality control certification.
- **IPI** is an applied engineering R&D organisation affiliated with the University of Dar es Salaam. Operational since 1980, the institute is a link between the faculty of Engineering and the Industry in order to foster the mutual exchange of knowledge and utilisation of facilities. With very limited funds, IPI tries to conduct research on product innovation up to prototype production and subsequent transfer to a suitable industry. It is also responsible for curriculum advice to the faculty of engineering through its feed back from industry. IPI has been active in the development of oil seeds technology, sugar mini plants technology, mining and mineral processing technology, construction, etc.
- **COSTECH** was established by Parliamentary Act No.7 of 1986 to co-ordinate and promote scientific R&D in Tanzania. This is the principal advisory organ of the

Government on all matters relating to technology development. With the assistance of UNIDO, COSTECH established a National Centre for Development and Transfer of Technology. The Centre is responsible for the choice, acquisition, monitoring, control, assimilation and transfer of appropriate technology. One of the constraints of COSTECH is the meagre resource allocated by the Government so its effectiveness is very low.

- **BET** was established in 1978 to advise the Government on export policy. It provides advisory services, promotes documentation and disseminates information of research regarding external trade. The World Bank supported in 1996 the preparation of an export strategy for Tanzania. This was supposed to form part of the National Trade Policy which is yet to be prepared. One of the recommendations of the expert team was to convert some of under utilised SIDO structures and other Government buildings into Export Processing Zones.

### **3. Advocacy on Behalf of SMEs**

As it has been already referred, the current policy and regulatory environment in which the SME sector functions is the single most important factor limiting its growth and depressing its contribution to economic development. In the area of advocacy towards policy changes, SIDO has been the main institution that, traditionally, advocated before the other branches of the Government on behalf of SMEs. SIDO does this through advocacy and advice to policy makers and administrators at the national and regional level. SIDO is also engaged in capacity building, training and consultancy to micro-enterprise self-help organisations, whose main function is representation of members before authorities.

Organisations of the private sector have been increasingly expanding their activities with the purpose of assuming the leadership in the field of advocacy on behalf of their members. Those more involved with SMEs are the Tanzanian Chamber of Commerce, Industry and Agriculture (TCCIA), the Confederation of Tanzanian Industries (CTI) and the Tanzanian Chamber of Mines (TCM). The outreach of these private sector institutions is still limited but they are actively encouraging and promoting membership and ensuring that the organisations are adequately financed through member fees and donor-sponsored programmes aimed at building capacity. SIDA is in the process of providing technical assistance to strengthen the national operations of the TCCIA and its national network of Chambers throughout the country. DANIDA is also providing funding for the Danish Federation of Industries support to the CTI.

A new umbrella organisation in support of small industries has been recently established. This is the Tanzanian Federation of Small Industrial Organisations (TAFSIO). This new entity is still at a very early stage of development.

Self-help organisations of micro-entrepreneurs have been also taking over advocacy roles during the last years. VIBINDO Society, founded in 1995, is the umbrella organisation of self-help initiatives in the Dar es Salaam area. VIBINDO is a genuine response to basic needs that the state does not meet and the individual self-help organisation is not capable of fulfilling alone. It is one of the means by which micro-enterprises attempt to improve the environment where they operate and to support each other in a variety of ways. VIBINDO work covers a number of issues such as influencing the formulation of city development policies and plans; advocating for a participative urban land allocation in strategic business areas; propagating fair issuing of business licences and charging of reasonable levies; etc.

## Chapter VI

# Objectives, Priorities and Principles

## 1. Objectives

In view of the of the problems they face and role that SMEs play in the Tanzanian economy, this policy proposals are aimed at reaffirming the Government commitment to forge an environment for the sector, which:

- is conducive to the creation of businesses, particularly by young people and women, for whom access to self-employment represents one of the best chances of obtaining a foothold in the employment market;
- enables existing businesses to improve their competitiveness, to gain access to new markets and/or to develop new products/services, thereby generating growth and innovation.

The SME Policy will enable the Government to propose, in particular, that support for SMEs be geared to the following:

- the sector of activity concerned;
- the life cycle of the business (set-up, expansion, transfer);
- certain target groups (women, the youth, the disabled, the rural population at large) which represent untapped job-creating potential.

## 2. Priorities

In order to achieve its goals, the SME Policy will promote measures to address the following priorities:

### 2.1. Conducive Environment

The economic success of SMEs depends on the creation of an environment conducive to their development. This must include the following elements:

- Fiscal environment. SME representatives and support agencies will be encouraged by the Government to propose ideas on how fiscal policy can be used as an instrument for job-creation. Targeted reduction of taxation on labour-intensive services, on food processing, on certain environmental services and tourism, sectors where such a reduction is likely to encourage demand are examples of specific measures.
- Administrative and regulatory environment. The Policy will emphasise Government commitment to simplification of the administrative environment to do business in Tanzania, by adapting them, where necessary, to the special nature of SMEs. Improving the access of SMEs to markets for goods and services, particularly public contracts and markets that have been or will be liberalised are examples of objectives to reach.
- Financial environment. The SME Policy is geared towards improving business start-ups and the access of SMEs to credit by promoting a series of initiatives such as developing loan guarantee systems and venture capital funds. Encouraging joint actions and joint ventures with foreign partners can also be seen as a tool to facilitate indigenous SME access to new means of capital. Increasing financial institutions' knowledge of the SME sector through initial and continuing training of the staff of these institutions will be also part of the Government concern. Broadening entrepreneurs' awareness of the financing instruments

available, including alternative forms of financing such as the mutual guarantee scheme that is being developed between the NIGP and a group of private banks.

- Technical environment. The SME Policy will empower the Government to promote lifelong assistance of SMEs by setting up and/or improving business services and simplifying access to them (e.g. pilot business incubators and technology parks). It also aims at improving the quality of the existing services on offer to SMEs by strengthening instruments such as performance indicators.

## **2.2. Private Business Culture**

The SME Policy aims also at promoting the enterprise culture and spirit among young people and their parents in the media and in education and vocational training systems. This will be achieved by:

- pursuing vocational training initiatives in order to increase the importance attached to apprenticeship and entrepreneurship in the education and initial vocational training systems;
- improving management training in order to encourage young people to set up their own businesses;
- making the external partners of SMEs (banks, insurance companies, law firms, public authority staff, etc.) conscious of the special nature of the sector through initial and continuing awareness campaigns;
- facilitating the consolidation of existing businesses from one generation to another, not only through transfer of the productive capital but also through the transfer of knowledge via training methods which bring together the future transferees and the entrepreneurs before the latter hand over the business;
- disseminating the best management and organisation methods and stimulating the capacity to innovate.

## **2.3. Special Treatment**

The SME Policy will provide a tool for the Government to ensure that the special nature of the SME sector is taken into account from the very outset in the planning of national policies in the economic and social field. Such account must be taken, in particular, in consultations and negotiations at all levels by:

- ensuring that SMEs are involved in social dialogue at all levels;
- conducting specific studies and creating statistical instruments at national and local level to obtain a better picture of the sector;
- continually gauging the impact of other Government policies on this type of business.

## **2.4. Business Co-operation**

The SME Policy will help the Government to encourage SMEs and their representative bodies such as chambers and associations to become involved in the processes of exchange and co-operation, both in Tanzania and abroad, especially within the framework of the East African Co-operation, SADC and COMESA. Co-operation must take place between businesses but also foster the creation of university/business networks designed to promote technology transfer and training for SMEs. The Government will be able to commit to work towards the establishment of a legal framework that facilitates co-operation between businesses, in particular innovative forms of business association. The SME Policy will also contribute to improving the synergy between the existing SME support services such as SIDO, donor-funded programmes and NGOs.

## **2.5. Competitiveness and Innovation**

Coherent with other policies aimed at fostering competitiveness and innovation (e.g. the Sustainable Industrial Development Policy) SME Policy aims at:

- making SMEs aware of the potential of information technology for development;
- encouraging exchanges of best practices;

- developing a training culture geared to SMEs and supporting intermediate structures capable of gearing the training to the specific expectations of the small entrepreneurs;
- raising entrepreneurs' awareness of the importance of continuing training for them and their employees, while taking care not to increase burdens on businesses;
- identifying best practice in the management of high-growth businesses;
- promoting the use of modern management techniques, particularly self-evaluation and benchmarking;
- setting up environmental diagnostic, consultation and information systems suited to businesses' individual needs;
- promoting administrative simplification at all levels, especially by the creation of one-stop information services.

### **3. Principles**

The above priorities must be put into practice according to the following principles:

#### **3.1. Targeted Support**

In Tanzania, the need of devising support measures also for growing small and medium-sized firms is recognised in this Policy proposal. It follows from these distinctions and it should be a fundamental principle of the Government's SME support strategy that the problems of each of categories that are included into the SME concept (as defined in chapter II) need a somewhat different policy stance. Some of these differences will be outlined in this Policy proposal, but the bulk has to be reflected in the more specific implementation processes. Equally important is the recognition of the particular problems and needs of enterprises initiated, owned or controlled by women and the youth, both urban and rural. Such enterprises are found in all categories of SMEs. The SME Policy proposals aim at ensuring that the Government is committed to structure its SME support in such a way that special attention is given to the problems faced by enterprises initiated and managed by special groups and by those located in rural areas.

#### **3.2. Co-ordination of Resources**

This is another important principle attached to SME Policy, that results from the acceptance of the above. Donor support for SMEs is currently poorly co-ordinated. It is mostly focused on grass-root support for NGOs that serve the needs of the poorest of the poor. Other initiatives are geared at choosing one local institution only as the exclusive beneficiary of the assistance. To create a more effective enabling business environment for SMEs, the donors and the Government should work to establish a co-ordinated plan of action that will help fix and support all the required changes that are needed.

#### **3.3. Awareness**

Publicising the measures and/or actions carried out by the Government, donors, and NGOS, and giving them a high profile is another principle that derives from the above one. It is fundamental that entrepreneurs all over Tanzania be aware of the support they can receive from the existing programmes, avoiding the creation of a privileged class of "coached" enterprises in detriment of the great majority.

#### **3.4. Monitoring and Evaluation of Results**

The results of all the promotional measures and/or actions needs to be properly monitored and assessed to avoid repetition of experiments that do not build on past experience and lessons learned in other contexts. This principle will guide the establishment and empowerment of a focal point at the Government level aiming at ensuring its role as facilitator of development through proper support measures. The Government must commit to continue learning from best practices developed in other countries and suitable to be adapted to Tanzania. This could be endeavoured through desk research, fact-finding missions, joint pilot projects and bilateral as well as multilateral support from foreign SME support institutions.

## Chapter VII

# Components of the Proposed Policy

This part of the SME Policy proposal introduces a number of areas where, directly or indirectly, the Government has to adopt concrete measures to achieve the objectives described in the previous chapter. This policy proposal emphasises that many steps are to be taken by the private sector, NGOs and local authorities. The focus on the role of Government as a promoter, enabler and facilitator is very clear and, by no means, it is intended to follow a top-down, interventionist strategy of SME support, which would go against the principles outlined earlier.

The sequence in which the support areas are presented in this policy proposal does not imply a ranking of their significance. Effective support will often require different programmes, tailor-made for specific SME target groups. Research and more detailed planning about such support packages will be responsibility of MIC-SME, in close co-operation with donors and other relevant stakeholders. Later in Chapter IX, there are some hints on how support packages and programmes could be promoted.

## 1. Creating an Enabling Legal Framework

Experience from countries in Africa (e.g. Kenya, Mauritius, Namibia, South Africa), Asia (e.g. India, Japan, Korea, Malaysia, Singapore) and Latin America (Argentina, Brazil, Chile, Mexico) shows that properly designed SME legislation can play a positive role in fostering the development of the sector. This happens when the purpose and principles are clear and phasing-out dates are set for implementing change.

In order to formally recognise the importance given to SMEs in the overall economy of Tanzania and to facilitate policy implementation in different areas, the Government should commit to pass new enabling legislation. As it has said in Chapter III, the proposal of an SME Enabling Act should constitute the natural outcome of the National Conference on SMEs. This piece of legislation should be complemented with other key acts needed to create an enabling legal framework. Part of this work is already underway. For example, the upcoming legislation on Rural and Micro-Finance will be probably enacted before the SME Policy itself. Besides, in some cases changing market behaviour in anticipation of legal steps may obviate formal legislation.

Other areas, however, may warrant urgent consideration. One of these is the facilitation of market access for SMEs, with preference for special groups of Tanzanians. The Competition Policy and Act prevent the constitution of monopolies and set up rules to ensure compliance with international principles of free competition. Legislation laying down certain conditions and principles for non-discriminatory public-sector procurement rules and incentives for big business subcontracting to small enterprises could accelerate progress and lead to participation among all firms rather than only a few privileged ones. It could also highlight commitment needed from small enterprises and the supply of support services. This legislation could make special provisions to facilitate empowerment of indigenous entrepreneurs, women businesses and the youth.

Trends similar to the above can be observed in the amendments introduced in the United States to the Small Business Act in April 1999, which extend the outreach of procurement

preferences (to women, to new minorities, etc.) previously reserved to other affirmative action groups. The ongoing South African legislative initiatives for SMEs go in the same direction under the generic title of “empowerment”. Tanzania may also pursue its own policies of empowerment, being SME Policy one of the fundamental ones. Empowerment policies do not go against market principles. On the contrary, empowerment reinforces the chances of markets to work properly by extending opportunities to new players who, for a variety of reasons, did not have in the past the chance to compete. In other words, empowerment means ensuring that free competition can truly take place.

## **2. Streamlining Regulatory Conditions**

All over the world, and certainly also in Tanzania, there is discussion and frequently disagreement about the proper degree of regulation and deregulation in the business scene. Unduly strict regulations often harm small and, in particular, emergent enterprises and benefit the larger and established ones, whereas less regulation may lead to aggressive competition between market entrants, to the neglect of worker rights, or to health hazards and environmental destruction.

The Tanzania Investor Road Map and other official documents have already made recommendations for the Government to simplify a cumbersome system and introduce, where needed, appropriate regulations. These must result of transparent, consultative processes, with all the interest groups having a chance to state their interests and concerns, and with national economic growth and job creation as the overriding objectives.

Based on this approach the MIC-SME, in close co-operation with the Fair Trade Commissioner and other Government bodies, should closely monitor and, where possible or necessary, co-ordinate and assist the regulatory reform process, with particular emphasis on:

- Appropriateness of existing and proposed legislation and regulations in the fields of taxation, land use, tendering procedures, training requirements, health and occupational conditions, etc., and how they can be made more suitable for SMEs.
- Simplification and standardisation of documents, including business registration and licensing; loan applications; purchasing, sub-contracting and tender documents; export documentation and other commercial documents; registration of contracts; simplified tax return forms for SMEs; etc.
- Need for regulations to strengthen small enterprises in their access to raw materials and other inputs controlled by monopolistic suppliers.
- Steps taken by local authorities to reduce restrictive regulatory conditions.
- Facilitation of feasible avenues of legal assistance that could help levelling the legal playing fields for SMEs, with particular attention to women and young entrepreneurs.
- Introduction of modern regulations on quality standards and recommendations to adopt environmentally friendly production and waste management techniques.
- Support all steps aimed at improving the court system, with special consideration to the introduction of a small-claims-court system with outlets spread all over the country, even in small towns and villages.

## **3. Establishing Differential Taxation and other Incentives**



Tanzania's tax system is currently under reform. However, there is still a wide gulf of understanding between the administration of tax by the officials of the Tanzanian Revenue Authority (TRA) and the business owners that pay the taxes. Currently, the officials of the TRA and the entrepreneurs/taxpayers live in two different worlds. The entrepreneurs' workshops organised by MIC-SME and the subsequent consultations with stakeholders that led to the preparation of this SME Policy proposal revealed that:

- Officials of the TRA are focused solely on immediate revenue generation through taxation. They are interested in enforcement at all costs. TRA's intention is to have a system that is open, fair and transparent but the reality, from the perspective of the small business owners, is just the opposite.
- SMEs are like clients without rights or options. Few of them fully understand the process. None of them see any connection between the taxes they pay and the net benefits that accrue to their local communities.
- SME experience of the taxation process is that it is arbitrary, open to negotiation, with hidden or direct methods of coercion that are used by TRA officials to solicit bribes.
- The entrepreneurs are also subjected to taxation measures that often make it financially impossible for them to start their businesses. The opportunity to contest tax rulings is equally problematic since the appeals process currently is under the control of the TRA, first through the office of the Commissioner of Income Tax and upon appeal through the Taxation Appeal Board.
- Tax incentives that apply to companies benefiting from investment certificates are not always honoured by TRA (e.g. a five-year grace period on corporate tax).

Recommendations that emerged from the entrepreneurs' workshops, included the following:

- TRA should educate people on taxation regulations and procedures.
- Tax assessors should avoid unnecessary bureaucracy.
- Good relationships between tax collectors and taxpayers should be encouraged.
- There should be a grace period for all business start-ups and this must be honoured in any case.
- There should be a relationship between the tax collected and the services provided in the community.
- The number of taxes should be reduced and adjusted to avoid tax evasion.
- Licence fees should be lowered. Bureaucracy for licensing procedures should be reduced and all activities and procedures to obtain a licence should be in one place.
- The central and local governments need to work together to devise a tax collection system that reduces the level and overall burden of taxation on the business community.

To complement the above recommendations, other proposals, based on experience developed in countries that faced similar problems, may include:

- A lower rate of corporate taxes for SMEs, comparable to the situation prevailing in the United States and other countries (e.g. in Mauritius).
- An alternative to the above is the exemption of a minimum amount of profit from taxation, in order to encourage reinvestment (in Tanzania, the minimum non-taxable amount is ridiculously low).
- More generous depreciation allowances could have a similar effect to a tax-free profit level.
- Exemptions to or rebates from import duties on manufacturing input and capital equipment could be important to exporting SMEs where significant cash flow is tied up in import duties.
- With the cost of tax compliance often quite substantial for SMEs, higher write-offs could be granted for expenses incurred, including training, research, technology transfer and export marketing expenses.
- Tax incentives to large firms and the banking sector to stimulate subcontracting and greater volumes of loans to small enterprises. Tax incentives have also been included in

some countries to help overcome the gender bias of larger firms and service establishments towards SMEs owned by women.

- Permission granted to large firms and banks to deduct from corporate taxes voluntary contributions to developmental and charitable initiatives following the model of the United States. This could allow the private sector to contribute to SME support initiatives that today rely entirely on Government or donor funds.

The overview of the tax issues affecting SMEs that emerged from the workshops, which were complemented with observations made during the preparation of this policy proposal is in no way complete. More in-depth research needs to be done to determine what would be the best course of action to support SMEs in Tanzania. This has to be made taking into consideration the general goals of the TRA and the commitments made by the Government with the International Monetary Fund, the World Bank and other donors that are supporting economic reform. SME Policy should provide the framework for this further work.

## **4. Easing Access to Credit, Equity and Guarantees**

Access to finance is always quoted as a major constraint for all SMEs and can seriously affect their ability to survive, increase capacity, upgrade its technology and even, in many cases, expand its markets, improve management or raise productivity.

Most of the current financial assistance for SMEs in Tanzania is offered as loans but lack of collateral, the fear of excessive debt burdens and the low profitability for banks in lending to SMEs, impose definite limits on the levels of credit that SMEs can expect to receive. The Rural and Micro Finance Policy is addressing the need of creating a sound and sustainable financial sub-sector specialised on savings and credit facilities for very small entrepreneurs. However, two important areas deserve the attention of SME Policy:

### **4.1. Credit Guarantee Schemes**

The NIGP is already working with six private banks on the design, capitalisation and implementation of a Mutual Credit Guarantee Scheme that will sell guarantee products to “graduating” companies that lack adequate collateral to access bank credit. Guarantees help building linkages between small non-bankable borrowers and formal financial institutions. Guarantee schemes seek to create “additionality” of lending, i.e. to induce banks to lend to clients who otherwise would not be eligible for bank credit. The familiarisation of the bank with the client should eventually lead to the “graduation” of the borrower.

International experience demonstrates that, in addition to umbrella credit guarantee funds, other mechanisms can facilitate access of SMEs to credit. These are:

- Guarantee funds created by self-help organisations on the basis of member contributions with the aim to issue credit guarantees only to their members. Examples are the mutual guarantee associations that exist in Italy and France.
- Guarantee funds created by self-help organisations with donor grants to serve the needs of their clients. Here, the ownership is unclear, hence the incentives to use the funds diligently. An NGO usually acts as a guarantor on behalf of an external guarantee entity, which agrees to issue a standby letter of guarantee to a local bank under risk-sharing conditions. Examples of these schemes already exist in various countries of Africa and Latin America.
- Guarantee funds owned by NGOs, which are topped up by a standby letter of guarantee issued by an external organisation to the local bank. In this set-up, the local organisation (e.g., a local authority, a business association) operates both guarantees (its own guarantee fund and external letter of guarantee) under one single arrangement.

There are also examples of guarantee schemes for SMEs can become profitable products for the financial sector. In Argentina, Sociedades de Garantía Reciproca (SGRs) are private institutions whose task it is to issue guarantees to banks that loan capital to small companies. In essence, there are four parties involved in this system: the SGR itself, the SME, investors, and banks. The Argentine Government has issued income tax and value added tax exemptions for an investor that buys equity (minimum of \$240,000) in the SME if it intends to use the SGR system. Since income taxes in Argentina are 35%, this is a substantial incentive for the investor. They do not pocket the savings however. Instead, the amount of the net savings they wish not to be taxed upon is placed in the SGRs risk fund. The risk fund functions like a savings account since the investors collect interest on the amount they place in the fund. The risk fund exists to ensure banks that if the SME defaults on its loan, they will still be paid in full. In Argentina, banks normally charge interest rates to SMEs as high as 25% but with the SGR system can issue loans to at much more favourable rates. Additionally, the small company obtains capital from the investor who purchases its equity. The investor is limited in how much equity it can purchase - 49%, and as such, cannot control the SME. However, since the investor is actively involved in the management of the small business, the SGR system works in practice as a combination between guarantee and risk capital schemes.

The SGR scheme could also work in a context like Tanzania where income taxes are very high and there is also a high level of tax evasion. One example can make it easier its understanding. For instance, Ford Corporation (investor) buys 49% of the equity of the SME X in Argentina. Ford gets the income tax exemption and decides to place all of the money it would have paid in taxes (35% of its earnings) in the SGR risk fund, which as stated earlier functions like a savings account. Ford is paid interest on the amount it puts in the fund. If Ford chooses to place a portion of the 35% of earnings in the risk fund, then 35% of the remainder is taxed. The SME X needs capital, so it gets a loan from, e.g., Citibank at a favourable interest rate because it has a guarantee from the SGR. If the SME X fails to make its payments, Citibank is paid by the SGR and the money is extracted from the risk fund.

## **4.2. Venture Capital Funds for SMEs**

In Tanzania, a fundamental missing element in the present financial support system is the provision of equity or venture capital specialised on the needs of SMEs. Most viable SMEs in the country are under capitalised and usually rely, to an extent more than prudent, on loan capital (i.e. short-term debt) or on retained earnings that are usually inadequate. In some cases, SMEs may need an injection of equity capital where the investor participates in the risk so that returns are linked to the success of the business. Similar to the SGR scheme, venture or risk capital often (although not on all occasions) involves investment not only in additional financial capital but also in the introduction of new technology, management assistance and, in some cases, new market outlets. Most venture capital for SMEs comes from private or public companies, but some investments are from individuals (referred to often as “business angels”), who, in most cases, want to make a direct contribution to the management of the company and to improve and/or expand its operations.

The few private equity funds (and one or two venture capital funds) that currently operate in Tanzania target exclusively big business categories. However, there are experiences in other countries that have demonstrated the viability of enterprise development funds that adopt the characteristics of private equity or, in some cases, even venture capital funds. The Southern Africa Enterprise Development Fund (SAEDF), for example, was established through a US Congress Act and capitalised with US\$ 100 million to perform equity, quasi-equity, loan and guarantee operations in the SADC area. By law, SAEDF has to restrict its operations to companies or financial institutions that attend the needs of indigenous and historically disadvantaged entrepreneurs in the entire Southern Africa region. SAEDF policy has a preference for women-operated and other disadvantaged categories of SMEs.

SME Policy should vigorously encourage SAEDF investment in Tanzania with adequate promotional measures, building on existing contacts already developed by SIDO and NIGP. Preparing a convincing “business plan” may be the first vital step by an SME to obtain the financing in the form of an equity investment and the support network is expected to offer substantial help in this respect. New venture capital funds that specifically target SMEs should be promoted in Tanzania.

## **5. Facilitating Access to Business Advisory Services**

The Government has repeatedly recognised the need of facilitating SME access to some form of business advisory services, which represent the first window of help that a new entrepreneur has. Without making that help available, most beginning entrepreneurs would be lost. If these services are taken as an investment, it is one of the best that the Government can provide to its emerging enterprises. The Government of Tanzania understood and addressed this need in the early 1970s when it established SIDO. Unfortunately, lack of adequate funding and an outdated governance structure makes SIDO unable to perform today as it should under different better conditions.

As part of the new support framework, the Government should work with the donor community and private sector institutions to set up a network of Business Service Centres. These should build on the existing SIDO Regional Offices but more services should be made available in areas with no access to SIDO services. Properly outfitted "one-stop" services, with self-help training resources and educational materials, as well as highly qualified business consultants can greatly improve the chances of success of the new entrepreneurs. A national network of these centres also becomes a learning network for the consultants providing the advisory services. They can share "best practices" and can introduce business ideas from one region to the next. They can also help set-up business networks and business associations amongst entrepreneurs from various regions. Some of these services can become value-added services to support the operations of the Business Service Centres. In time, these centres pay for themselves as they help new businesses get started. Eventually, every successful business that gets started becomes a new source of tax revenue for the country.

The services to be provided must be accessible to entrepreneurs, with premises in good central locations, in large regional centres. They have to be also affordable, aiming at offering free general services and charging for special training courses and consulting. The Centres should be provided with resources that could be used by entrepreneurs on an independent basis - self-study programs, instructional tapes and literature. They should be also co-ordinated at a national level to keep them connected with each other, to keep their staff well-trained, to supply advanced services through the headquarters operation, to assist with the building of business networks, etc.

Other services such as regulatory services and licensing can be associated with the Business Service Centres. If these regulatory and licensing services are properly packaged and administered, they can be a major source of revenue to cover the operating costs of the centres. At the same time, there is a need for extension services to meet the needs of more remote urban communities and rural farm communities.

SME Policy must aim at consolidating the provision of business advisory and extension services under the umbrella of the new SIDO, transformed into an autonomous Small Enterprise Development Agency governed by a mixed Board of public, private and perhaps donor representatives. Then, co-ordination must be ensured with extension services of other ministries such as the Ministry of Community Development, Women's Affairs and Children, the Ministry of Labour and Youth, and the Ministry of Agriculture and Co-operatives. The Agency, in co-operation with VETA, will take the leading role in providing basic business and entrepreneurship training to the extension personnel of these ministries. This would then become an affordable and efficient manner for extending business development training, information and business advisory services to special categories of entrepreneurs such as women, the youth and rural families.

## **6. Improving the Physical Infrastructure and Business Facilities**

International experience demonstrates that it may not be the size as such that is the real cause of the weakness of SMEs but their isolation. The limited resources and the consequent weakness of SMEs could, to a significant extent, be overcome by grouping of SMEs within the same sectors. Industrial clusters may provide the physical framework for such groupings leading to integration through inter-firm relations.

Beyond the success stories of Northern Italy and Southern Germany, industrial clusters have grown up spontaneously in developing countries, demonstrating a desire and need of SMEs from the same sub-sector to group their activities together and locate themselves close to each other. The spontaneous development of clustering of SMEs from specific sub-sectors creates opportunities to support efforts focused on promoting flexible specialisation. This is a new alternative to mass production, based on the flexible use of general purpose machinery by skilled workers in smaller firms who, by working together, are thus able to manufacture a range of products for changing markets. The key elements of flexible specialisation are the co-operation within innovative clusters of small enterprises operating at close proximity to each other through networking involving a range of relationships and leading finally to collective efficiency, which is not attainable for individual firms operating in isolation. Such capability can come out both spontaneously through market pressures forcing co-operation towards innovation or through initiated collective actions to facilitate expansion into international markets. Although most industrial clusters that have been successful in developing countries have been primarily in the footwear-manufacturing sector, there are also examples of clusters in metalworking and hosiery, in textiles and clothing, and carpentry.

Building on the experience developed by SIDO during the past two decades, the concept of industrial clusters should be further developed in Tanzania. This is an important area for study due to its implications in addressing a key constraint to SME development. The Government, the private sector and donors should work together to create the conditions for favouring a gradual concentration of growing SMEs manufacturing similar products in localised areas. This will promote backward and forward linkages with other companies as well as special services to cater for the needs of the firms. Special promotional measures should include:

- specialisation and co-operation between the firms of the cluster with a view to developing collective efficiencies;
- common services to improve forward and backward linkages with markets and with suppliers of inputs;
- co-operation between the firms in upgrading technology;
- consultative meetings, organised dissemination of information, etc.;
- development of sub-sectoral business associations to provide leadership and co-ordination;
- setting up of sub-sectoral service centres to provide assistance in the clusters.

## **7. Supporting Access to Technology**

### **7.1. Technology Upgrade**

Upgrading technology in SMEs is vital for the development of the sector and the economy at large. While improving the management skills of SME owners and managers is important, SMEs will not be able to modernise and expand into efficient competitive businesses without raising technological levels. Technology is upgraded through research and development but also through technology transfer.

In Tanzania, technical service centres set up as part of SIDO's industrial estates ended under utilised or operating as commercial production or service units for industries of all sizes. Most of them were established with donor help with limited assessment of the real demand for the services offered on the part of the SME occupants. Something similar happened with CAMARTEC, which had to resort to survive to commercialisation of its technologies. Currently, with the support of SIDA, CAMARTEC is under restructuring.

There are some interesting and successful efforts at upgrading technology in developed countries concentrating on setting up research and technological development centres and institutes related to sub-sectors in the clusters where many small firms from the sector are working. New efforts are now underway in a few developing countries (e.g. Chile for the shoe-making sector). As a fundamental part of its SME Policy, the Government of Tanzania should promote new initiatives which, building on the lessons learned by SIDO, CAMARTEC and similar entities in other countries, aim at developing high-quality technical services centres through partnerships between the public and private sectors.

## 7.2. Business Incubators

Business incubation is a new approach adopted in some countries to transform technologies developed at research centres into viable business ideas and eventually into successful SMEs. Israel is a country where the concept of business incubation was adopted to support technology development through SMEs. Technological incubators in Israel are support organisations that give fledgling entrepreneurs an opportunity to develop their innovative technological ideas and set up new businesses in order to commercialise them. Incubators have also been successful ways of promoting entrepreneurial ventures and revitalisation of depressed areas in the United States and the United Kingdom, where the private sector has played a more active role in financing them through a combination of Government or City funding with venture capital. In the transition economies of Eastern Europe, business incubators have been established as development tools to encourage entrepreneurship utilising funding provided primarily through the European Union PHARE Programme. In the SADC region, a new programme to promote business incubators is being developed through a partnership between the International Finance Corporation (IFC) and the South African entity “Business Partners” (the former Small Business Development Corporation).

A typical business incubator supports novice entrepreneurs at the earliest stage of technological entrepreneurship and helps them implement their ideas by turning them into commercial products and forming productive business ventures. This is a very risky stage of business development, and commercial money does not take this kind of risk. Therefore, in order to keep good ideas from coming to naught, Government or development agencies usually assume risks that commercial investors do not want to take, by funding this riskiest stage of the incubator. The technological incubators provide entrepreneurs with physical premises, financial resources, tools, professional guidance, and administrative assistance, so that, during their stay in the incubator, they may turn their abstract ideas into products of proven feasibility, novelty, advantages, and necessity in the international marketplace. The entrepreneurs' term of activity in the technological incubator considerably enhances their prospects of raising the financial investment they need, finding strategic partners, and emerging from the incubator with businesses that can stand on their own feet.

The technological incubator is usually an autonomous non-profit corporation. It is structured to permit ten to fifteen R&D projects to run simultaneously, and is organised and equipped to support the projects in all respects during their stay. The principal purpose of the technological incubator is to help entrepreneurs successfully implement and commercialise their projects. Stay of each project in the incubator is between two to five years. During this time, the entrepreneur should carry his/her idea to the stage of explicit product definition and proven technological and marketing feasibility. There should be a prototype or working model and an orderly business plan. The project should be ready for commercial investment and/or a strategic partner who is an expert in the field. After the two to five-year period, entrepreneurs should be able to continue on their own availing themselves of outside investments.

There are no predetermined fields of specialisation at the incubators. Some incubators (especially those located near research institutes) prefer projects that can benefit from the technological infrastructures available to them. In Tanzania, pilot incubators could provide opportunities to new business ventures in the field of traditional medicaments and drugs and also in developing new products in the food-processing sector. The UNIDO-supported project for women entrepreneurs in the food-processing sector, which is carried out by SIDO, could serve as a basis for establishing a first business incubator in Tanzania.

## 7.3. Know-how Agreements and Sub-contracting

In terms of technology transfer, SME Policy must be very careful with its recommendations. In the case of SMEs poised for modernisation and expansion to become more competitive, the enterprises concerned may have to upgrade their technologies beyond the basic simple level associated with “appropriate technology”. However, this approach may suit micro-entrepreneurs and the informal sector.

SME Policy should stress that all technology adopted by SMEs, at whatever stage of their growth, should conform to their needs, resources and capabilities. This means that equipment introduced can be installed, operated and maintained with the skills available and that the output generated at

economic levels of operation is in accordance with the real market potential. Recommendation on technologies should only be made after all these factors and alternatives have been assessed.

World wide, technologies are transferred through a variety of forms that include informal personal contacts overseas, visits undertaken on the entrepreneur own initiative and expense, etc. The practical implementation of technology upgrading or modernisation for SMEs has too often taken place in the past through the guidance and information provided by machine manufacturers' agents who, in many cases, have exerted undue influence on the equipment purchased and used by SMEs. In Tanzania CAMARTEC was partially playing this role.

The SME Policy must empower the Government with adequate tools for promoting the transfer of technology also through modern and recognised formal arrangements such as know-how and technical assistance agreements and subcontracting:

- Know-how and technical assistance agreements with other SMEs located in developed countries could help Tanzanian SMEs to improve their capacity in terms of design, manufacture, servicing or testing of a product. These arrangements could involve the sales of drawings, blueprints, specifications and detailed data on the designs of products or parts as well as the equipment and tooling that may be needed to produce the item. Training of personnel from the receiving enterprise is a side product of these agreements. Private consultants can provide advice and guidance, on both the choice of technology and the appropriate provider, and the manner of implementation of the agreement. Alternatively, it can be provided by technology advisory services. UNIDO supports transfer programmes by providing framework or model agreements that enterprises can use when negotiating contracts. UNIDO could be requested by the Government to develop local capacity in this field.
- Sub-contracting. Experience has shown that sub-contracting in large orders in developing countries simply uses cheaper labour to carry out assembly and finishing jobs. It only adds about 20% to 25% of value and involves virtually no real technology transfer. Efforts to promote new and stronger linkages are needed in Tanzania by both Government and private sector organisations. They have to convince foreign firms, multinationals and other investors, that it makes sense to subcontract more work with a greater technology content and so raise the skill and technical level of SMEs working as subcontractors. A new SIDO and other development and advisory services as well as technological institutions can help by assisting SME subcontractors to satisfy the technical and quality requirements of the contracting firms.

## **8. Encouraging Joint Ventures**

Entering into a joint venture with an experienced local or foreign partner is an effective way for SMEs to acquire experience and skills, enter new markets, structure additional financing and meet competition.

The SME Policy must aim at ensuring that the Tanzania Investment Centre (TIC) is transformed into a channel of information about joint ventures and other types of partnerships that facilitates networking to Tanzanian SMEs. Antennas of the TIC could be established at local level, perhaps utilising the current SIDO network. A simple intranet system could be the only investment necessary to put "online" information about investment opportunities in SMEs in the various regions of Tanzania. In addition, the Government could explore the need and scope for an appropriate co-ordinating mechanism to ensure that foreign joint-venture initiatives give due attention to SMEs, contribute effectively to capacity building among emergent enterprises and fit in generally with the SME Policy framework.

SME Policy should vigorously recommend the removal of discrimination against small investors that result from the provisions made in the current Investment Act. Although the minimum threshold has been lowered for foreign investors, the US\$ 100,000 minimum requirement for local businessmen to obtain investment certificates is excluding most SMEs. The threshold should be lowered to about US\$

50,000 for local investors. The current incentive levels encourage capital-intensive activities that run against the Government's objective of maximising employment opportunities.

## **9. Supporting SME Exports**

Currently, very few Tanzanian SMEs produce goods that meet the quality requirements established by highly demanding international markets. Even exporting to neighbouring countries is an opportunity that has been explored by local SMEs in very rare cases. Tanzania requires the expansion and modernisation of the exporting sector, in order for it to take on a significant role in the national economic development. This will result in an increase in productivity, in technical innovation, and constitute a dynamic factor in the process of economic growth. Unless effective export-promotion policies are implemented, Tanzanian SMEs will not be able to compete internationally.

A first step towards the development of an export-oriented mentality among Tanzanian SMEs has been taken by AMKA, which was established as an independently owned trust in response to Tanzania business and export market demands. AMKA aims to:

- Help Tanzanian businesses develop export markets and increased sales
- Facilitate the work of international organisations seeking to export Tanzanian product
- Positively impact on the lives of individual producers/workers and their communities through helping develop fair trade export relationships.

AMKA has a very limited reach but its model could be reproduced by local organisations in various regions of Tanzania to allow SMEs to access new markets overseas. A successful example of this type of support exists in Zambia, where the European Union funded a project that established the Zambia Export Growers Association (ZEGA) as a not-for-profit entity. Afterwards, when market conditions permitted, a new company was created (ZEGA Ltd.), which is currently providing cooling and storage facilities in the proximity of the Lusaka International Airport to facilitate exports of flowers and fresh produce to European markets.

Additionally, SME Policy, based on the principle that the Government assumes a subsidiary nature limiting its role to the design and co-ordination of support programmes, should encourage the establishment of export promotion mechanisms with national coverage. A model to follow could be the Export Enterprise Re-conversion Programme (PREX) that is currently in place in Argentina. PREX supports the development of exports by SMEs by co-financing the use of consulting services required to carry out projects aimed at increasing their participation in international markets or entering the export business. These services may cover any operational aspects of the firm's business as well as advice relating to product and market development activities. PREX also supports the improvement of public administration activities affecting export performance and provides technical assistance and consulting services to the pertinent public institutions. PREX is being financed through a World Bank loan and involves a counterpart provided by the Argentine Government.

## **10. Promoting Rural Industrialisation**

Tanzania is basically an agrarian economy with about 85% of the population living in the rural areas and, mainly, involved in farming and livestock production. Unfortunately, the rural population lacks capacity to bring their produce to the consumer markets on time and most of it gets rotten due to inadequate preservation. It is therefore of vital importance to promote at least some elementary industrialisation of food in the rural areas. New actions could build on the experience gained by small food producers through pilot projects like the UNIDO sponsored food-processing programme for women entrepreneurs that is being implemented by SIDO. SME Policy must reflect this fact through a series of actions that should be undertaken by the Government in collaboration with the private sector and NGOs engaged in rural development.



- Improving the physical infrastructure, which is fundamental to attract SME investment in earmarked rural areas.
- Supporting training, credit delivery, marketing and the provision of extension services to rural primary producers willing to engage in value-adding activities.
- Promoting the creation of private trading companies in regional centres to help rural SMEs to commercialise their produce and basic manufactures in national urban centres and foreign markets. These trading companies should be, if possible, profit-oriented. However, in some cases, they may adopt schemes similar to AMKA or ZEGA through co-operation with donor-funded programmes.
- Targeted tax breaks and rebates, and perhaps, other direct monetary incentives to re-allocate industrial activity to the rural areas.

## 11. Conforming with WTO Requirements

Following the Uruguay Round of trade negotiations under the aegis of GATT, the World Trade Organisation (WTO) emerged as the only body dealing with the rules of trade among nations. WTO encompasses:

- The General Agreement of Tariffs and Trade (GATT), which deals with issues of trade in merchandise.
- The General Agreement of Trade in Services (GATS), which deals with services.
- Trade Related Intellectual Property Rights (TRIPS), dealing with patents and copyrights.

WTO agreements impact on agriculture, trade, services and manufacturing. World markets are opening up due to lowering of tariffs and dismantling of other restrictions in all countries. Everywhere in the world, awakened entrepreneurs have greater opportunities to benefit from their comparative advantages. On the contrary, domestic markets will be increasingly threatened because of lowering of tariffs and freer entry of foreign goods. As a consequence, all companies (large enterprises or SMEs, those that serve domestic or international markets) will have to undertake internal exercises to identify factors affecting their international competitiveness in terms of cost as well as quality. In particular, SMEs will need to study if it can stay competitive once the product becomes freely importable or tariffs are further lowered or at both.

SME Policy must encourage measures aimed at ensuring that Tanzanian SMEs increase their competitiveness under the new WTO regulations. The WTO regime will benefit those countries that demonstrate that the Government and the private sector are in permanent dialogue to determine how and what should be negotiated at multilateral negotiations to the best of their advantage. Creating an SME Forum at a national level is the first step. Subsequently, joint actions at EAC and SADC level may follow to ensure that Tanzanian interests are defended with a stronger voice in international negotiations.

## 12. Complying with Environmental Regulations

Although the WTO has no specific agreement on the environment, there is increasing pressure by environmentalists on WTO for taking proactive measures to protect the environment. International trade in critical areas may be undermined in the guise of environment if such issues find place and are emphasised in WTO. More and more, countries with severe legislation that protect some species are banning imports from countries that where heavily relying on those exports. In Tanzania, exports of textiles have been affected by concerns in foreign markets about the use of certain harmful dyes. This has had a serious impact on SMEs that were engaged in the production of clothing made of batik and other similar fabrics. SME Policy must ensure that SMEs engage in production of goods that comply with international regulations in terms of protection of the environment.

Additionally, in order to promote environmentally sustainable development, SME Policy must encourage the expansion of business initiatives that also contribute to improving environmental

conditions at a local level. One example that deserves full support to extend its reach is the income generation project in Dar es Salaam through solid waste management. This resulted from an agreement between NIGP and Monoko Enterprises of Dar es Salaam, a local firm specialising in solid waste management. The overall objective of the project is to promote and support micro and small enterprises in the field of recycling and other environmental urban activities. This model can achieve two objectives, namely protection of the environment and increase of opportunities for the youth.

Closely linked to the above measures aimed at improving environmentally friendly activities, it must be introduced occupational health and safety standards in other areas. Tanners and leather manufacturers are dealing with toxic chemicals and also operating dangerous mechanical equipment that, in some cases, endanger their lives. In mining, SME Policy must promote support measures to avoid the use of mercury and other environmental hazardous pollutants by small-scale miners.

In the rural areas, SME Policy may be a tool to encourage micro and small-scale entrepreneurship in environmentally friendly activities such as reforestation and bee keeping. Both activities can be also good employment opportunities for the youth and entire families. NIGP is already supporting pilot bee keeping projects in the Kilimanjaro Region, which would generate new sources of income for about 1,300 peasants. Additionally, SME Policy must make provisions to launch awareness campaigns about the goodness of local produce in selected international markets that pay special consideration to the organic content of agricultural products. Tanzanian rural SMEs could greatly benefit from the opening of niches for local organic products in highly demanding international markets.

### **13. Adopting Quality Standards**

SME Policy must also encourage an increase in quality standards of the products and services provided by SMEs. Because the market historically has been supply-driven, with consumers having very little choice amongst the products being offered, the quality standards of Tanzanian products have declined to the point that they fail to compete with lower-cost imports. To-date, few existing manufacturers take notice of the national standards and regulations or apply them in a consistent fashion. Local manufacturers have not adapted yet to the increased competition on quality that has occurred due to trade liberalisation. As the market becomes more demand-driven, quality control will become vital element for the SMEs in order to meet the rising expectations of local and international consumers.

The Tanzanian Bureau of Standards (TBS) has already published 546 standards in the fields of agriculture and food, chemicals, textiles, leather, general techniques, building and construction, electrical and mechanical engineering. Manufacturers producing in conformity with Tanzania Standards are granted licences to use the “tbs” mark on their products. Standards assure better quality, health, safety, and help to increase productivity. SME Policy should raise the awareness on quality issues and consider the establishment of a financial facility to facilitate SME access to testing, standardisation including ISO 9000 standards, and quality assurance.

### **14. Training in Entrepreneurship, Skills and Management**

The acquisition of relevant vocational, technical and business skills is one of the critical factors for success in small enterprises. Literacy and entrepreneurial awareness are seen as particularly important to enable people to advance from informal survivalist activities into sustainable enterprises. The Government has a central responsibility for education, training and experience transfers, which is shared with a wide range of institutions, including churches, NGOs, and the private sector. This also applies to the sphere of entrepreneurship sensitising, the training in skills relevant to small enterprises in different sectors and industries, and the acquisition of management experience by SME owners and staff.

The Government has designed VETA as the focal point of vocational education and training in Tanzania. VETA schools offer 31 different courses in areas such as carpentry, masonry, bricklaying,

and tailoring. The VETA programme does include some entrepreneurial training and basic business courses that are related to the business enterprises of the various trades and also provides training to micro-entrepreneurs at some of its vocational training centres. In specific fields of SME operations, SIDO has been also very active in providing training, first through the training cum production programme and currently through training to groups of micro-borrowers.

SME Policy should also make specific provisions to complement existing training initiatives with new strategies aimed at facilitating access to training by SMEs. Areas of concern for these strategies should be:

- Dissemination of information to more effectively reach entrepreneurs all over the country. Such information should also help match particular needs and specific training programmes. SIDO regional and local centres should play a significant role in this process.
- School curricula and other school-related activities should give more scope for the inculcation of entrepreneurial attitudes and a general awareness about income generation opportunities.
- Training to become more sector-specific, focusing on the particular needs and practical problems of SMEs. Different programmes should be developed for survivalist entrepreneurs lacking even basic literacy; micro-enterprises in rural areas; women entrepreneurs wanting to focus on particular issues and problem areas and needing particular time considerations to match home duties and training; business and skill needs in sectors like construction, manufacturing, small-scale agriculture, tourism, etc.; self-employment problems experienced by the youth, where the emphasis will have to fall on awareness about opportunities and development paths

## **15. Capacity-building and Institutional Strengthening**

Tanzanian business support organisations are financially weak, and most of them have a very limited capacity to actually support and strengthen SMEs. The Government has realised the importance of supporting the development of private sector associations as a means of improving their capacity to fully participate in new programmes that require public-private partnership for their implementation. SME Policy must make specific provisions to encourage all relevant stakeholders to support, among others, the following principles:

- SME membership in at least one business-related association of their own choice.
- Freedom of association, combined with the development of a system of voluntary accreditation for business associations wanting to be eligible for any type of Government or donor support. Through such accreditation, minimum standards would be set with respect to accountability and transparency.
- Eligibility of associations with significant support for representation on the envisaged SME Forum.
- Support to accredited business associations to operate as local service centres in small communities.

SME Policy should encourage the consolidation and extension of programmes such as the one being conducted by SIDO in co-operation with GTZ and aimed at strengthening the capacity of self-help organisations that support particular areas of businesses. One concrete example to be supported is VIBINDO, the umbrella organisation of survivalist and micro-enterprises operating in the informal sector in the Dar es Salaam area. VIBINDO supports young entrepreneurs by facilitating their access to finance and social services such as health insurance. Additionally, VIBINDO seeks to encourage formalisation of business through lobbying aimed at removing barriers to entry, with the underlying understanding that being informal is a consequence of a hostile business environment rather than an objective pursued by young entrepreneurs.

## **16. Advancing Opportunities for Women and the Youth**

This section refers to the role of SME Policy as a tool to advance affirmative-action measures that could target special categories of entrepreneurs who, for historical, cultural or economic reasons have been more disenfranchised than others.

In terms of gender, the Government of Tanzania is formally committed to the principle of equality and is a signatory of the UN-CEDAW. For example, the Government has made a specific commitment to address the four areas included in the Beijing Platform of Action including women's economic empowerment and poverty eradication. However, gender inequality is still significant and pervasive in the country. Women contribute disproportionately to production and reproduction and are largely disenfranchised in terms of ownership and control over production and participation in decision-making structures. The most significant aspect of gender disadvantage in Tanzania is women's lack of ownership of productive assets. The disadvantage is embedded in customary law relating to marriage, payment of bride wealth, division of property on divorce or widowhood and the inheritance of property. Within this framework, women have a subordinate role with regard to decision-making at national and household level; access to and control to resources such as land, credit, information, education and training; control over labour product and assets; and legal status within society.

In addressing these gender-based constraints, Tanzanian policy-makers need to be creative enough to devise instruments that facilitate access to technologies that are best suited for women. It should do more than just include provisions on behalf of women in an SME Policy document. Building on the experience developed in the United States and other countries, it could set a trend to address the overall discrimination faced by women in the society at large. As in the US Small Business Act, as reformed in April 1999, Tanzanian SME Policy could make provisions to:

- vigorously promote the legitimate interests of SME concerns owned and controlled by women;
- remove, insofar as possible, the discriminatory barriers that are encountered by women in accessing capital and other factors of production; and
- require that the Government engage in a systematic and sustained effort to identify, define and analyse those discriminatory barriers facing women and that such effort directly involve the participation of women business owners in the public/private sector partnership.

The problems of the youth at large, although of a different nature from those faced by adult women, also deserve special attention within the framework of affirmative action measures. SME Policy, in this respect, could contribute to improve the opportunities for young men and women to engage in business activities and generate sustainable income. This aspect of SME Policy will require close co-operation with the National Employment Policy and the Vocational and Training initiatives carried out by VETA, and with other programmes such as the NIGP. Umbrella grouping of self-help organisations, e.g. VIBINDO in Dar es Salaam, should be supported and encouraged to increase their capacity as lobbying bodies on behalf of the youth. There is a direct correlation between being young and being informal in performing business. Hence, the aspects of SME Policy aimed at removing barriers to allow informal sector operators to join the mainstream economy should be primarily geared to address the needs of the youth. Coaching young entrepreneurs to become successful businessmen will undoubtedly have a direct impact on the reduction of the size of the informal sector and on the increase in the number of sustainable SMEs.

## **17. Promoting Support from Universities**

In the United States, Small Business Development Centres (SBDCs) are support centres that were set up in more than 50 universities throughout the country with funding from the Small Business Administration (SBA). The SBDC services range from free counselling to individual businesses in financial management, marketing, technical problems and in investment decisions. SBDCs also work

closely with the incubator programmes designed to provide new entrepreneurs and businesses with small affordable premises to help cut costs by sharing administrative services such as bookkeeping, secretarial help, marketing services, etc., where they also can more easily take advantage of on-site management counselling and training provided. The US experience shows how universities and academic institutions can be harnessed for SME development. Canada, Australia, the UK, Argentina, Mexico and other countries in Latin America have in some districts set up similar programmes with universities.

Tanzanian universities could initiate pilot projects aimed at promoting support services for SMEs after the model of the US SBDCs, perhaps in the framework of EAC in conjunction with Kenyan and Ugandan partners. The Morogoro University could be selected for a pilot initiative to support networking activities for SMEs focused on food technology. The SIDO facilities available in the Morogoro area and the TCCIA could be utilised as resources to launch the pilot project.

## **18. Fostering Linkages with Large Enterprises**

International experience has demonstrated that successful SMEs rely overwhelmingly on customers and larger suppliers for technical advice and assistance, especially when setting up new production lines, organising testing facilities and advice on materials and equipment.

In France and Italy, business associations and chambers of commerce arrange meetings, seminars and consultation forums and clinics where SMEs obtain information on new technologies and equipment, improved techniques, management and marketing from representatives of larger firms operating in the same or similar sub-sector.

In the UK, large enterprises have formalised assistance to SMEs through the creation of “enterprise agencies” on a local basis that provide grass roots advice and counselling. Started with the founding of the London Enterprise Agency in 1976 and Enterprise North for the Northern part of the country soon after, the enterprise agencies are efforts by the local or regional larger businesses to provide help to smaller businesses. Most of the support was through referrals or “sign-posting” as it has been called. For example, it involved telling entrepreneurs possible ways of raising finance through both equity and loans, where to go to obtain training or information, how to get suitable premises or assistance with accounting or taxes, obtaining government orders, or get into export markets. The agencies are centrally located, funded by the large businesses and staffed by qualified and experienced professionals (usually nearing retirement) seconded from large companies who pay their salaries and benefit. Most local enterprise agencies have small staffs of two or three professionals with the largest - such as London - up to 20 persons. The large companies fund most of the operating costs of the agencies - office rental, travel expenses, support staff, materials, etc., but the Government Department of Trade and Industry has been contributing in recent years and so have local authorities. The enterprise agencies in the UK are a significant example of a cooperative effort between the public bodies and the local private sector. The umbrella organisation “Business in the Community” co-ordinates the activities of the Local Agencies.

The UK model could serve as a basis for the creation in Tanzania of a Small Enterprise Development Agency, which should supersede SIDO by allowing a central body and the regional offices to gain in autonomy. This way, the Agency and the Regional Offices could also have access to funding from private sector sources.

Kenya has also a number of examples of less formal links through which large firms help SMEs. The British American Tobacco Company has co-sponsored a project to help SMEs in marketing through exhibitions and symposia held in collaboration with small business associations. General Motors (Kenya) provides workspace for artisans in Nairobi and other areas to expand their business activities, and at the same time is helping to organise suppliers of motor vehicle spare parts. There are now 80 suppliers of local vehicle components, most SMEs with less than 20 employees. Furthermore, Kenya Monitoring and Business Counselling (K-MAP), which is supported by USAID and other donors, uses volunteer counsellors from large businesses to help SMEs.

The Kenyan model could be replicated in Tanzania as part of future arrangements with foreign investors that either benefit from existing incentive packages such as the investment certificates granted by the Tanzania Investment Centre, or establish themselves in the future in Export Processing Zones (EPZs). In this respect, there is a proposal to establish a pilot EPZ in Dar es Salaam that was initially prepared by the MIC and is now being developed by the Planning Commission in consultation with other stakeholders. The pilot EPZ is likely to be located in premises that are currently not utilised and that will be rehabilitated through a partnership between the Government (buildings) and private investors (equipment). SME Policy should recommend that the EPZ legislation include provisions requesting that foreign investors that benefit from tax exemptions reserve a percentage of their procurement to Tanzanian SME suppliers.

## Chapter VIII

# A New Institutional Framework for SME Promotion

Currently, as it was presented in the previous chapters, numerous stakeholders made up of Government ministries and agencies; private sector associations; NGOs and donors are involved in the development of programmes aimed at supporting the SME sector. Most of the stakeholders agree that there is not an integrated master plan to build the policies, procedures and support programs for SMEs, one exception being the Micro Finance Policy. This current system of support causes duplication of activities; gaps in programming, sometimes with conflicting goals and objectives that run counter to each other; non logical sequence in which things are done; etc. Even though a Donor Co-ordination Committee for the development of the Private Sector exists and meets regularly, the donors continue to have divergent views concerning the list of priorities that must be acted upon in order to create a sustainable enabling environment for SMEs. The stakeholders continue, for the most part, to conduct independent research studies and planning missions to develop independent programs of support.

The 1998 COMSEC Report on SMEs argued that, although proper support of micro finance is needed, the timing of Rural and Micro Finance Policy formulation was inadequate. COMSEC experts felt that these actions were taken in advance of other issues that should have been resolved first such as the development of the Policy Framework for SMEs. Had that process been followed first, different conclusions and priorities and different directions might have been taken leading to a more effective, integrated micro finance program of services that would dovetail with a number of other business advisory and advocacy support services.

Other areas of concern emerged from the COMSEC report, which remain of fundamental importance and deserve immediate attention. One example is the reform and judicial enforcement of the laws and regulations affecting all aspects of business in Tanzania - and how they are linked to small business lending. Banks will not loan money to SMEs until they are satisfied that they can find recourse in the judicial system when business borrowers encounter financial problems. Provisions included in the Bill No. 5 for the Land Act, 1999, made things even worse than they were before the Act was sanctioned. Similarly, there is the need to pursue integration and inclusion of women as equal partners in all forms of business activity linked directly to the reform of social and cultural laws. Another area is vocational training. VETA has been designed as the focal point for vocational training initiatives and a tax has been established to provide resources to this institution. At the same time, SIDO has been left with no funding for developmental activities. Vocational training as well as business management and entrepreneurship training are critical to the development of the SMEs. All of the elements of the enabling business environment are related. Most of the policies and programmes that affect the development and growth of the SMEs are linked in some way. The COMSEC Report recommended that those types of linkages be made during the development of a National Policy Framework for SMEs.

From the COMSEC report it can be inferred that lack of co-ordination was a direct consequence of lack of leadership. Then, with the support of UNIDO, the MIC invited all stakeholders to provide inputs in order to develop a Policy for the SME sector accepted and "owned" by all parties. In parallel, MIC officials embarked on the necessary training and exposure to successful experiences to improve their capacity to properly monitor and co-ordinate the entire policy formulation and implementation process. UNIDO agreed to coach and advice on SME Policy formulation, addressing also this pressing need of building capacity at the Government level.

The UNIDO experts prepared this document building on the lessons learned from the COMSEC Report, the subsequent review of other literature on SME development, consultations with a number of promotional agencies and institutions, and own observations on the current situation of the Tanzanian economy at large. This chapter presents the experts' proposals of institutional reform for the consideration of all stakeholders involved in the process of SME Policy formulation. Hence, the new

institutional set up hereby proposed must be only taken as indicative and aimed at putting the first milestones in this participatory exercise.

## **1. A Public/Private Partnership Approach**

Based on the principles presented in Chapter VI, SME Policy should promote an appropriate division of responsibility and co-operation between the private sector and the Government in providing together support to SMEs. There are specific functions and responsibilities that are the tasks of Government and others, which in an ideal situation, should be carried out more effectively by the private sector and its representative organisations. NGOs and donor-sponsored programmes should be also part of the co-operative efforts.

### **1.1. The Government**

The Government must ensure the legal and fiscal framework in which SMEs operate is conducive to growth and development. The Government must initiate the incentives and environment needed to stimulate SME development, and must set up appropriate policies (financial, fiscal etc.), which are a basic factor in determining economically and financially sustained SMEs.

The Government must be also responsible for providing basic education and skills training to guarantee an adequately trained and skilled labour force to meet the need of the various sectors of the economy. It may delegate some of these responsibilities to institutions in the private or NGO sector, but in the final analysis the Government must provide the resources and ensure an adequate volume and quality of training.

Beyond the need to ensure adequate basic training in technical and management skills, through its public agencies, the Government must disseminate information on programmes and schemes for regional development, on efforts that promote exports and the incentives and assistance they are offering for enterprise development.

The Government may help to forge links between enterprises and the research and technological development being undertaken in institutions of higher learning and public financed research centres.

### **1.2. The Private Sector Organisations**

SME Policy should support private sector organisations to gradually take over more and more of the direct provision of support services. However, the main function of such organisations is advocacy, namely transmitting the opinion and needs of their members, to the Government in consultations on the setting of policies.

While advocacy may be the prime role, private sector organisations must keep their members informed on policy matters and on the availability of all forms of assistance being offered from whatever source. They might also help to put out information on new technologies and data that could be of assistance in the production and marketing of products and rendering of services.

Private Sector Organisations in Tanzania are still weak, have low capability to offer quality services and lack the financial resources to recruit and maintain qualified staff to help their SME members. Gradually, private sector organisations must take over in providing more and more services to the SME sector. An example of the limited tasks that these private sector organisations may take over from Government at this stage of their development is the certification of origin of products for export. This is a measure that is already being considered by the COMESA Secretariat. Possibly also some role in the transmission of tax returns by enterprises could be assumed by private sector organisations. For other more sophisticated tasks, they need to refer to other entities and work with them in a networking fashion.

### **1.3. Networking**



In order to overcome the difficulties posed by the weaknesses of private sector organisations and the limited resources available in the Government, SME Policy must encourage building co-operation between the public and private sector, making it extensive to NGOs and donors. Co-operation should be also forged between academics and the business world and between large and small enterprises. Unfortunately, a high and exaggerated degree of individualism permeates Government ministries, agencies and private sector organisations, and there is an intensity of competition for funding, especially from donors. This situation can be overcome by new approaches that give priority to the development of networks.

Networking is a support system where SMEs seeking assistance can benefit from help and advice from a variety of sources. These may be technology research institutes, management or business development advisory centres, universities' postgraduate students and faculty members, professional staff and management of large firms, retired executives and private consultants. SMEs looking for advice can, through the network, reach the appropriate persons that are able to provide the assistance. This may take place through referral from business advisory services which, through a preliminary consultation and diagnosis, will decide who where suitable help can be available.

SME Policy should ensure that, the role of initiating the networking be assigned to one "focal point" in the Government and to one promotional institution or development agency, in the initial stages of launching and building up the system. The process will require patience and will take time to develop and become accepted, but is the best guarantee of sustainability. The focal points proposed to the consideration of all stakeholders in SME Policy preparation are a Department of SMEs in the MIC and a Small Enterprise Development Agency (a new SIDO), which will be supported by a network of Regional and District -level Business Development Centres.

## **2. An SME Department at the Ministry of Industry and Commerce**

The Minister and the Permanent Secretary at the Ministry of Industry and Commerce have repeatedly stated that the future of private sector development in Tanzania rests on the country's capacity to foster a strong indigenous entrepreneurial class. Indigenous entrepreneurs were in the past, for ideological reasons, denied the chance to engage in business activities. Hence, they are still disadvantaged after more than ten years of market-oriented economic reforms. But for the country to count with a rooted indigenous entrepreneurial class, a top down approach has to be avoided. Competitive indigenous entrepreneurs can not be "invented" by just appointing respected Tanzanian citizens in the boards of privatised companies or by inducing foreign investors to take academicians or politicians in their companies' boards. Indigenous entrepreneurs can only develop by taking risks themselves through new business ventures. Examples of these entrepreneurial individuals abound in Tanzania and they have to be "empowered".

Empowerment policies must primarily rely on support measures for fostering competitive SMEs where indigenous entrepreneurs can play the game with their own means. This approach to economic empowerment means the creation of new rather than mere re-distribution of existing wealth. All this thinking has been clearly echoed in the SIDP 1996-2020.

For these reasons, the MIC has to give to SMEs the recognition they deserve in terms of policy making and resources. Building on the recommendations by COMSEC, MIC-SME, currently a section within the Department of Industries, should be upgraded to the level of a ministerial department. This does not mean an increase of the current bureaucracy but just a message that SMEs are one of the keys to Tanzania's long-term growth and economic development. An SME Director, under the direct supervision of the Principal Secretary of the MIC and with a direct access to the Minister of Industry and Commerce, should be appointed to lead this department.

A Capacity Building Programme for this department will be then essential. The staff of the department cannot be expected to perform their duties unless they are well trained and coached about SME Policy issues. Resources in terms of budget, technology and equipment have to be allocated for the team to complete their assigned tasks. For example, the department must count on adequate transportation of

its own, so it can permanently monitor the needs of entrepreneurs all over the country. It must also have a sufficient annual budget to finance its operations. Staff and specialists must be paid adequate wages so they can concentrate on their work without the need to rely on donor consultancies or study trips.

The SME Department could be, among others, responsible for the following tasks:

- SME Policy review and follow-up of implementation.
- Establishment of a Business Advisory Resource Centre, perhaps in co-operation with private sector organisations. Business information is one of the fastest ways of making people aware of the support they can receive. It is one investment that is guaranteed to provide multiple returns to the Government, donors and the private sector.
- Establishment of updated data bases on SME promotional institutions operating in Tanzania.
- Development of linkages and co-operation arrangements with SME support agencies in other countries, primarily at EAC and SADC levels.
- Constitution, in close co-operation with the Ministry of Finance, of a mechanism of control over organisations receiving or channelling public-sector and donor funds for SME support. Each project's funding should be based on agreed Terms of Reference and a Memorandum of Understanding. Monitoring and evaluation on an input/output basis should be done at the end of specific project phases, and based on mutually agreed and objectively verifiable indicators. Recipients of financial support should be under contractual obligation to utilise the funds strictly within the framework of the respective programmes.
- Evaluation of the organisations who receive financial support from the public sector and donors at the end of each financial year. The evaluation should be conducted by an appointed agency under the SME Department supervision.
- Preparation of the Annual Review on SMEs in Tanzania, to be presented every year at the SME Forum and then forwarded to cabinet and parliament. This document should outline progress made over the year in the different problem areas and with all the support programmes. It should also set benchmarks and try to quantify macro trends. The first review should also contain a summary of the National Conference on SMEs.

Within the framework of the ongoing public administration reform, an upgraded and “empowered” MIC-SME Department, after it has demonstrated that it provides a useful service to the indigenous SMEs, could eventually become the policy making and monitoring branch of an autonomous SME Development Government Executive Agency. The US Small Business Administration, SEBRAE in Brazil, SERCOTEC in Chile, SMIDO in Mauritius, and others, provide an array of models that should be carefully studied before adopting a setting that better suits Tanzanian needs.

### **3. The SME Development Government Executive Agency**

An SME Development Agency (SMEDA) should become the focal point for the implementation of SME policies in Tanzania. SMEDA should supersede SIDO and, perhaps, incorporate NIGP and other existing programmes that are currently operating in isolation from each other but that target the same categories of beneficiaries and provide similar support services. This will allow SMEDA to concentrate in two or three core areas of business development and delegate tasks to other existing programmes that have already developed adequate expertise or have taken the leadership in their promotion (e.g. NIGP’s work on Credit Guarantees).

The new legislation should merge SIDO into SMEDA. This should be a Government Executive Agency governed by a Board composed of high-rank representatives from Government bodies (Ministry of Industry, Ministry of Labour, Vice President’s Office, etc.), the private sector and donors.

SMEDA funding should come from budgetary allocations (about 30 percent), donor contributions to specific programmes (about 30 percent) and pension fund, insurance companies and other sources of private money (between 40 to 49 percent). Private investors and banks should be allowed to deduct

from their corporate tax obligations a percentage of the non-refundable contributions (grants, donations) that they make to SMEDA either for specific projects or for expansion of its capital base. Additionally, SMEDA could make investments in partnership with international and local private investors, following the model used in the UK and the USA to revitalise and rehabilitate urban areas.

SME Policy must pay recognition to the role that SIDO played in the recent history of the country. Since its inception in 1973, SIDO has been promoting the development of small industries, through a network of offices in all the regions of mainland Tanzania. Since then, SIDO has played an important role in facilitating the growth of emerging industries within the framework of a centrally planned and state-controlled economy. For a long time, it was the only provider of a wide range of business development services such as credit, infrastructure, training and technology. With the economic reforms introduced in Tanzania since the mid-1980s, the Government funding dropped and then donors followed suit. Then, SIDO decided to redefine its role as a service provider to all kind of micro and small enterprises rather than just small industries, reflecting the new reality of the emerging private sector. In 1994, SIDO started a process of restructuring aiming at improved effectiveness and efficiency as well as long-term sustainability. With this initiative, SIDO wanted to respond to the needs of SMEs operating in a market-oriented economy but, primarily, to its own worsening financial situation. It was thought that its role should be in the future on a limited number of core services such as credit, training and consultancy. Of the proposed core services, SIDO restructuring plan says that credit could become fully self-financing in the short to medium term. For the other services, SIDO aims at the highest possible degree of self-financing. Given the low incomes in its market, it expects, though, that some cross-subsidisation from other services will remain necessary. Services and programmes that cannot be provided efficiently or do not meet clients' demands (e.g. common facility workshops, production units, etc.) are already being phased out. SIDO expects to mobilise financial resources through the effective use of assets, buildings and land in particular, and by charging fees for the services it provides.

SME Policy should take into consideration the progress made in restructuring SIDO but should go beyond a mere strategy for survival. The recommendation is that SME Policy indicates that SMEDA concentrate in the provision of wholesale business support services to the emerging indigenous entrepreneurs. Some services should be provided directly and others should be subcontracted to private consultants and NGOs. These services must include:

- entrepreneurial and business training
- business linkages,
- sub-contracting and marketing assistance
- dissemination of information
- setting up business incubators and other type of technology centres
- capacity building at SME associations
- consolidation and expansion of the Regional Business Development Centres (RBDCs), which will offer services to local entrepreneurs including pre and post start up counselling, basic business and management training, sign posting and referral services, after care support as well as experience exchange

SMEDA should consider either incorporating as an autonomous programme or establishing a strategic partnership with other initiatives that will act as an integrated SME Finance Facility (SMEFF). NIGP could provide the basis to constitute SMEFF, which could also include other donor-funded programmes. NIGP status as a Trust Fund provides the best "container" to receive funds from a variety of sources. SMEFF should provide financial support to income generating projects and growing SMEs including:

- loans (micro-credit, leasing, factoring, etc.)
- a mutual credit guarantee fund
- equity in the form of risk capital for selected projects that meet certain developmental criteria or favour special groups (women, the youth, rural SMEs)
- selected non-refundable contributions to special categories of projects
- institutional capacity-building for retail intermediaries

## **4. Regional and District Business Development Centres**

The current SIDO restructuring plan provides that its Regional Offices gain in autonomy, in order to make effective use of their resources, reduce bureaucratic procedures and focus their services on the particular needs of their clients. Regional Offices are being requested to develop a market-driven programme and achieve a high level of self-financing. They therefore need to be able to make decisions on their programmes, including expenditure and income generation, themselves.

SME Policy must provide full support to this component of SIDO restructuring plan that aims to constitute the Regional Offices as RBDCs. With the assistance of GTZ, the regional offices are already analysing their external and internal situation and develop business plans with the objective to become more cost-effective and attain a higher level of self-financing. The business plans will help the regional offices to decide which services they can and should provide and to monitor their performance in the long run. Action plans will be included for the divestiture of non-core and non-performing programmes. The SIDO-GTZ project will be able to assist eight offices only, over a period of three years. SMEDA should make sure that all existing regional offices could benefit from similar assistance to undertake their restructuring and transformation into efficient RBDCs.

Each RBDC will be overseen directly by a Regional Board bearing responsibility for ensuring implementation of SMEDA's goals in the concerned region. It will be composed of 5 to 7 representatives of the SME sector, Government and associations of the private sector. Each RBDC should make sure that:

- it supports the realisation of the Agency's objectives, and is in agreement with its strategies and policies;
- is market oriented and appropriate in the context of the region;
- is self-financing to the extent possible given the Agency's target group, and will result in long-term sustainability.

Experience from other countries demonstrates that an effective level for the promotion of SMEs is also at the village, town or city level. Local authorities have direct contact with entrepreneurs down to those involved in survival activities. Local administrative infrastructure should be therefore utilised for the expansion of the network of RBDCs that will result from the existing 20 regional offices of SIDO.

Besides, NGOs could take the leadership to establish new business development centres in local communities previously excluded from these services. District Business Service Centres (DBSCs) should have as lowest common denominator the provision of information and advice services to micro and small enterprises in their vicinity. In addition, DBSCs could provide training, mentoring, business plan preparation, marketing and sub-contracting support. To achieve operational efficiency and maintain acceptable standards, DBSCs will have to be accredited with SMEDA and the corresponding RBDC, perhaps, through a franchise-type relationship. This should allow DBSCs to be eligible for Government support.

The Government should not be responsible for the funding of DBDCs but, on the basis of criteria and guidelines to be established by SMEDA and the RBDCs, financial support could be made available for some of the activities undertaken by them. Such support should be conditional to the centres meeting specific conditions and remaining registered with SMEDA and the corresponding RBDC.

As far as practically possible, DSCs should encourage groups of SMEs to strengthen their co-operation within particular sectors, industry niches or geographic regions. Training and mentoring efforts to strengthen such group action may also qualify for financial support.

## 5. The SME Forum

SME Policy should also aim at establishing the SME Forum as a body responsible to raise the attention of the authorities and the public on the state of SMEs in Tanzania. The Forum should meet on an annual basis and be chaired by the President of Tanzania.

The MIC should present the Annual Review on SMEs before the Forum, which could become a fundamental component of the Dar es Salaam International Trade Fair. Convening an SME Forum during international trade fairs is common practice in other countries.

The Forum should involve the active participation of donors; micro-finance institutions and other financial intermediaries; government bodies such as MIC, VPO, MLYD, MoF, BoT, etc.; the new SMEDA, RBDCs and DBDCs; VETA; representatives of the private sector such as TCCIA, TCI, etc.; umbrella organisations such as VIBINDO Society, etc. The Forum could also raise the interest of foreign potential investors such as investment funds in search of new investment opportunities in emerging markets. Every year, an invited foreign keynote speaker could also present his experience in SME promotion in his country of origin.

## 6. A Network of Private Consultants

In addition to the actions to be undertaken by the Government at the central, regional and district levels, the new institutional framework in support of SMEs should include a mechanism for the development of the consulting profession in Tanzania. The independent group of local private consultants in Tanzania is still weak but it can become a significant source of help for SMEs. Indeed, there is already an umbrella organisation, the Tanzanian Association of Consultants (TACO) that could be chosen as the focal point for initiatives in this regard. Building on international experience, SME Policy should ensure that the following difficulties are properly addressed:

- The costs of consultancy services. Donor agencies and those who are familiar with all aspects of SME development recognise that the true demand for consultancy services will only be evident, if the SMEs are required to pay themselves - at least in part - for the service. Special arrangements that proved to work in other countries should be also tried in Tanzania. For example, a group of consultants could agree to provide a minimum number of days - say 80 to 100 per year - at a rate 20 to 30% below the rate for other larger clients. The SME client would be required to pay at least 25-30% of the reduced consultancy fees. The remainder of the fee would be paid from a fund created from contributions by donors, central government, local or regional authorities and, if feasible, from smaller additional contributions from chambers, associations and, possibly, banks. Consultant help on these terms would be limited for any specific SME to an agreed number of days per year, after which the SME itself would pay a higher part of the daily fee or perhaps all of it at a certain point.
- The quality and reliability of the services. These could best be achieved by the setting of minimum standards and background - qualifications, experience etc. - for a person to offer consultancy services and the registration of all consultants, personal resumes, and lists of their main clients. A code of practice needs to be laid down and action taken against those who violate the code. The control, registration and monitoring of clients should be undertaken by the private sector associations (TCCIA, CTI, etc.) through a small committee composed of respected business and public figures including possibly some legal and academic representation. The monitoring should also cover adherence to the agreed financial arrangements. It is inevitable that in the early stages this arrangement will entail administration and bureaucracy (and costs) but this is a small price to pay to ensure that consultancy businesses with acceptable standards develop. Control of the consultancy profession in Tanzania should be through a combination of Government standards and regulation and self-control of the profession by its members together with the business community.

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## **LIST OF INSTITUTIONS VISITED**

### **Government of Tanzania**

1. Small Enterprise Section, Ministry of Industry and Commerce
2. Registrar of Companies, Patents and Trademarks, Ministry of Industry and Commerce
3. Fair Trade Practices Commissioner, Ministry of Industry and Commerce
4. Ministry of Labour and Youth, Employment Department
5. Vice President's Office, Poverty Alleviation Department
6. Bank of Tanzania (BOT), Micro Finance Department
7. Planning Commission

### **SME Promotional Institutions/Projects**

8. Small Industries Development Organization (SIDO)
9. UNIDO Women's Food Processing Project at SIDO
10. SIDO, Dar-es-Salaam Regional Office
11. Tanzania Gender Networking Programme (TGNT)
12. Vocational and Educational Training Act (VETA)
13. Promotion of Rural Initiatives and Development of Enterprises (PRIDE Tanzania)
14. National Income Generating Programme (NIGP)
15. Community Development Trust Fund (CDTF)
16. Mennonite Development Associates (MEDA)
17. AMKA
18. National Micro Finance Bank (NMB)
19. Economic and Social Research Foundation (ESRF)
20. University of Dar es Salaam, Department of Management
21. Economic Research Bureau (ERB)
22. Dar-es-Salaam International Trade Fair

### **Private Sector**

23. Tanzania Private Sector Foundation (TPSF)
24. Tanzania Food Processing Association of Entrepreneurs (TAFOPA)
25. Tanzania Chamber of Commerce, Industries and Agriculture (TCCIA)
26. Confederation of Tanzania Industries (CTI)
27. Private Sector Initiatives (PSI)
28. VIBINDO Society
29. Wood Plus Ltd.
30. Mamba Printers
31. Mikunguni Enterprises

### **Donor Agencies/Programmes**

32. International Labour Organisation (ILO), Micro-enterprise Programme
33. Delegation of the European Commission in Tanzania
34. Embassy of Italy, Commercial Department
35. DANIDA, Royal Embassy of Denmark
36. DFID, British High Commission
37. SIDA, Royal Embassy of Sweden
38. CIDA, Canadian High Commission
39. India High Commission