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# TANZANIA SME DEVELOPMENT POLICY 2003

“ten years after”

IMPLEMENTATION REVIEW



UNITED NATIONS  
INDUSTRIAL DEVELOPMENT ORGANIZATION



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November 2012

Competitiveness, Upgrading and Partnership Unit  
Business, Investment and Technology Branch  
UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

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This report has been prepared by Leny van Oyen and Linus Gedi, UNIDO Consultants, within the framework of *UN Delivering as One*. The opinions, figures and estimates set forth are the responsibility of the authors and should not necessarily be considered as reflecting the views or carrying the endorsement of UNIDO.

#### **Comments**

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It is hoped that the stocktaking on the implementation of the SME Development Policy is useful to the main stakeholders involved in SME development (public and private actors as well as development partners) to start a consultation on the future.

As the intention of this review is forward looking, the report constitutes a modest contribution to the discussions among the stakeholders on priorities with respect to “the next steps” for the benefit of Tanzanian SMEs on their *Stairways to Economic Heaven* (World Bank, 2012) within an environment supported by essential policy actions and institutional measures.

## *Abbreviations and acronyms*

ADAT	Artisan Development Agency of Tanzania
AfDB	African Development Bank
ATTI	Appropriate Technology Training Institute
BARA	Business Activities Registration Act
BC	Business Council
BDG	Business Development Gateway
BDS	Business Development Services
BEST	Business Environment Strengthening in Tanzania
BET	Board of External Trade
BF	Basket Funding
BoT	Bank of Tanzania
BR	Business Registration
BRELA	Business Registration and Licensing Agency
CARMATEC	Centre for Agricultural Mechanization and Rural Technology
CBE	College for Business Education
CGF	Credit Guarantee Facility
CIBDS	Centre for International Business Development Services
CIDA	Canadian International Development Agency
CIP	Competitiveness Industrial Performance
COMESA	Common Market for Eastern and Southern Africa
COSTECH	Commission for Science and Technology
CP	Cleaner Production
CPCT	Cleaner Production Centre of Tanzania
CRDA	Co-operative and Rural Development Bank
CS	Commonwealth Secretariat
CSP	Corporate Strategic Plan (SIDO)
CTI	Confederation of Tanzanian Industries
DANIDA	Danish International Development Agency
DB	Doing Business
DFID	Department for International Development
DIT	Dar es Salaam Institute of Technology
DITF	Dar es Salaam International Trade Fair
DPG	Development Partners Group
DSM	Dar es Salaam
EAC	East African Community
ED	Entrepreneurship Development
EDC	Entrepreneurship Development Centre
EE	Entrepreneurship Education
EEP	Economic Empowerment Policy
EEZ	Exclusive Economic Zone
EOTF	Equal Opportunity for All Trust Fund
EPA	Economic Partnership Agreement
EPZ	Export Processing Zones
EPZA	Export Processing Zones Authority
EU	European Union
FAO	Food and Agriculture Organization
FAWETA	Federation of Associations of Women Entrepreneurs Tanzania



FDI	Foreign Direct Investment
FSDT	Financial Sector Deepening Trust
FYDP	Five Year Development Plan
HH	Household
GBS	General Budget Support
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GNI	Gross National Income
GoT	Government of Tanzania
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ILO	International Labor Organization
IMED	Institute of Management and Entrepreneurship Development
IPI	Institute of Production Innovation
ITC	International Trade Center
ITDT	Institute for Technology Development and Transfer
IMF	International Monetary Fund
JAST	Joint Assistance Strategy for Tanzania
KOICA	Korea International Cooperation Agency
LGA	Local Government Authority
M&E	Monitoring and Evaluation
MAFC	Ministry of Agriculture, Food and Cooperatives
MCDGC	Ministry of Community Development, Gender and Children
MDG	Millennium Development Goals
MF	Micro Finance
MFIs	Micro-Finance Institutions
MIT	Ministry of Industry and Trade
MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania (see: NSGRP)
MLDF	Ministry of Livestock Development and Fisheries
MoE	Ministry of Education
MoF	Ministry of Finance
MoIE	Ministry of Investment and Empowerment
MoH	Ministry of Health
MoLYWCD	Ministry of Labor, Youth, Women and Children Development
MoU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
MUVI	Muunganisho Ujasiriamali Vijijini (Rural MSME programme)
MVA	Manufacturing Value Added
NBS	National Bureau of Statistics
NCPT	National Cleaner Production Tanzania
NEDF	National Entrepreneurship Development Fund
NEEC	National Economic Empowerment Council
NGO	Non-Governmental Organization
NMB	National Micro-finance Bank
NSGRP	National Strategy for Growth and Reduction of Poverty (MKUKUTA)
ODOP	One District One Product
OECD	Organization for Economic Cooperation and Development

PASS	Private Agricultural Sector Support Trust
PMO	Prime Minister's Office
POPC	President's Office Planning Commission
PPP	Public Private Partnership
PRS	Poverty Reduction Strategy
PSD	Private Sector Development
RALG	Regional Administration Local Government
RECs	Regional Economic Communities
R&D	Research and Development
RECP	Resource Efficiency and Cleaner Production
REPOA	Research on Poverty Alleviation
RFF	Rural Finance Fund
RIA	Regulatory Impact Assessment
SACCOs	Savings and Credit Cooperative Societies
SADC	Southern Africa Development Community
SCF	Small and Medium Enterprise Competitiveness Facility
SDC	Swiss Agency for Development Cooperation
SECO	State Secretariat for Economic Affairs (Switzerland)
SEZ	Special Economic Zones
SIDA	Swedish International Development Agency
SIDO	Small Industries Development Organization
SME	Small and Medium Enterprises
SNV	Netherlands Development Cooperation
SPX	Subcontracting and Partnership Exchange
SSA	Sub-Saharan Africa
SSC	South-South Cooperation
SUA	Sokoine University of Agriculture
TAFOPA	Tanzania Food Processors Association
TANEXA	Tanzania Exporters Association
TANTRADE	Tanzania Trade Development Authority (former BET - Board of External Trade)
TASISO	Tanzania Small Industries Society
TAWOMA	Tanzania Women Miners Association
TBS	Tanzania Bureau of Standards
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
TDC	Technology Development Centers
TDTC	Technology Development and Transfer Centre
TDV	Tanzania Development Vision (2025)
TEMDO	Tanzania Engineering and Manufacturing Design Organization
TFDA	Tanzania Food and Drug Administration
TGT	Tanzania Gatsby Trust
TIC	Tanzania Investment Centre
TICR	Tanzania Industrial Competitiveness Report
TIE	Tanzania Institute of Education
TIN	Tax Identification Number
TIRDO	Tanzania Industrial Research and Development Organization
TNBC	Tanzania National Business Council
ToT	Training of Trainers
TPC	Training cum Production Centre
TPSF	Tanzania Private Sector Foundation

TRA	Tanzania Revenue Authority
TShs	Tanzanian Shillings
TZS	Tanzania Mark of Quality (TBS)
TWCC	Tanzania Women Chamber of Commerce
TWTDP	Tanzania Women Textile Development Project
UDEC	University of Dar-es-Salaam Entrepreneurship Centre
UDSM	University of Dar-es-Salaam
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
UNW	United Nations Women
URT	United Republic of Tanzania
USAID	United States Agency for International Development
USD/US\$	US Dollar
VAT	Value Added Tax
VET	Vocational Education and Training
VETA	Vocational Education and Training Authority
VIBINDO	Vikundi vya Biashara Ndogo Ndogo
VPO	Vice President Office
WB	World Bank
WDF	Women Development Fund
WED	Women Entrepreneurship Development
WG	Working Group
YDF	Youth Development Fund

## Foreword

As one of Tanzania's development partners, UNIDO has been working already for many years to support SME development initiatives undertaken by the country. UNIDO assistance covered various complementary and consecutive projects operating both at the central and regional levels with funding from different donors. Its ongoing programme portfolio - implemented in coordination with other UN agencies in the framework of the *UN Delivering as One* framework - covers activities in different areas at the policy, institutional and enterprise levels. These activities encompass in particular the following fields of support:

- strengthening industrial policy making capacities, including on SMEs, and statistics;
- promoting investment;
- supporting value-addition in the agro-business sector;
- building trade capacity;
- promoting renewable energy;
- fostering cleaner production.

This report covers the findings of a rapid assessment of the implementation of the SME Development Policy officially launched by the Government of Tanzania in February 2003. The assessment was conducted within the context of a subcomponent of the UNIDO Country Programme in Tanzania that aims to strengthen policy-making capacities, including on SMEs, and statistics.

The report is structured as follows:

The report starts with an **Introduction (Section I)** that describes the overall purpose of the review and the approach followed. It describes the scope of the assessment as well its limitations.

**Section II (Context)** starts with a snapshot overview of basic socio-economic country data followed by a short overview of the wider policy framework. It thereafter zooms in on the main features of the SME Development Policy and also includes key facts and figures together with trends related to SMEs. Moreover, a brief overview is given of development partner support in the field of SME development.

**Section III (Review of progress from 2003 to date)** covers a rapid assessment of the implementation of the policy against its objectives and highlights both milestones and challenges faced in implementation.

**Section IV (Voices from SMEs)** is based on interviews of some 10 SMEs. Their case stories illustrate the challenges faced by SMEs and the issues addressed in the SME policy that persist to date.

**Section V (*Conclusions and Way forward*)** presents the steps ahead in the form of key messages for the different stakeholders (Government, the private sector and development partners), including recommendations for further UNIDO assistance in the field of SME development.

Leny van Oyen and Linus Gedi, consultants, have prepared this report under the guidance of UNIDO's Competitiveness, Upgrading and Partnership Unit. The report is based on document review and discussions of the consultants with the main stakeholders in Tanzania during a field mission in the period 27 August – 7 September 2012.

## **Executive summary**

*This rapid review of the implementation of the SME policy of 2003 is aimed at throwing light on the achievements, reflecting on the challenges and on the way forward, including possible areas for further assistance. The analysis is based on desk review and interviews of the main stakeholders in the field. The latter included the main public and private sector organizations, the main development partners and some SMEs.*

*After one decade, the SME policy remains a valid development framework for the sector, although with scope for updating in light of the country's development since 2003. Despite notable achievements in assisting the development of SMEs in the country, there are also challenges that impeded its effective implementation, in particular inadequate coordination and weak synergy among stakeholders in this crosscutting sector, insufficient resources to implement envisaged programmes, compounded by lack of prioritization and at times inconsistencies in legislation.*

*The effective implementation of its key pillars will require strengthening of the coordination capacity of MIT, inter alia to enhance synergies among SME support interventions of private and public sector stakeholders. There is also scope for deepening complementarities of development partners' projects on the ground within the spirit of increasing the likelihood of generating sustainable impact and UNIDO needs to continue taking an active role in the PSD & Trade Working Group. For a complete list of "key messages on the way forward" - addressed to the different stakeholders - reference is made to the main report.*

# I INTRODUCTION

## 1. Purpose of the review

In Tanzania, policies are typically subject to a comprehensive review after some 10 years of implementation. As the Cabinet of the Government of Tanzania approved the SME Development Policy almost a decade ago, i.e. on 11 February 2003, its review is imminent. Thus, a comprehensive SME Policy review is envisaged, which will be led by the Ministry of Industry and Trade (MIT) and conducted in a participatory manner involving the main local stakeholders.

The current report is intended as a modest contribution of UNIDO to the MIT in the process of MIT's preparation for the SME Policy Review. This assessment is forward looking, as its findings regarding progress in the implementation of the SME Development Policy are the basis for recommendations on *the way forward* for the main stakeholders, namely the Government of Tanzania, the lead Ministry (MIT), the Tanzanian private sector and Tanzania's development partners engaged in support to SME development. The exercise is in particular expected to be relevant for guiding further UNIDO assistance in this field.

It is to be stressed at the outset that the present analysis made by UNIDO of progress in the implementation of the SME Policy since its promulgation is qualified as 'rapid'. Indeed, a comprehensive review of the implementation of a policy with a very wide coverage - which is the case of the SME Development Policy - requires thorough in-depth analysis of the different areas covered by such policy. In this respect the findings of this UNIDO activity - entailing desk review and a short field mission - are to be seen as a first step contributing to the policy review process. By no means does the assessment claim to be exhaustive and complete.

## 2. Approach

### *Methodology*

The starting point constituted of the planned objectives and actions formulated in the Government's SME Development Policy. They provided the structure for the core questions underlying the assessment, namely:

- *Which measures/initiatives were taken, when, and by whom?*
- *What were/are the results to date and what can be said about their impact (for private sector; for the Government of Tanzania)?*
- *Which obstacles/constraints were/are faced in implementing the objectives and respective activities planned for each of the objectives? What were/are the reasons?*
- *In case of problems in implementation, which remedial actions have been/are taken or foreseen to be taken?*

- Which lessons can be drawn to guide the way forward as regards the SME policy?
- What are the main challenges and risks ahead?

The review is based on triangulation of information obtained through

- (i) Consultations with representatives of the main stakeholders (public & private sector actors and development partners);
- (ii) Discussions with a small number of SMEs (the latter with a view to get real life examples of achievements realized and challenges faced in the implementation of the SME Development Policy);
- (iii) Documents review (official Government of Tanzania documents, documents prepared by UNIDO and by other development partners), research papers and articles from different sources concerning the overall socio-economic situation and industry/SME sector related issues and trends in Tanzania).

### **Scope and limitations**

It is to be noted that this review:

- (i) Covers all 7 objectives of the SME Policy (see Section II below), though zooming in greater detail on those areas that have potential for further UNIDO assistance;
- (ii) Is focused on Tanzania’s Mainland SME Development Policy (thus not including Zanzibar) and covered contacts at the national level (Dar es Salaam) - though taking into consideration issues related to SMEs at the regional/district/village levels in the interviews and document review.
- (iii) Refers to “SMEs” though including also micro enterprises, as the latter category covers a large proportion of enterprises in Tanzania; therefore, even if the term “SMEs” is used, this implicitly covers also the micro segment (hence the Policy’s coverage is *de facto* “MSMEs”); Tanzania’s definition of MSMEs is as follows (SME Development Policy, p.3):

<i>Category</i>	<i>Employees</i>	<i>Capital investment in machinery (in million TShs)</i>
Micro enterprise	1-4	up to 5
Small enterprise	5-49	5-200
Medium enterprise	50-99	200-800
Large enterprise	100+	above 800

- (iv) Examines the implementation of the SME Development Policy while realizing it is integral part of and directly related to (i) a longer term and wider umbrella policy framework (in particular Vision 2025, Mkukuta I and II, Five Year Development Plan 2011/12 – 2015/16) as well as (ii) other sectoral/thematic policies, such as Kilimo Kwanza (Agriculture), Sustainable Industrial Development Policy 1996 – 2020, Micro-Finance Policy, Trade Policy and Trade Integration Strategy, National Empowerment Policy, Gender Policy, etc. Some of these were developed prior to or more or less



concurrently with the SME Development Policy in the early 2000's, whereas others have been more recently developed and adopted; the current assessment also recognizes that some areas of action in the Policy cover initiatives that started prior to 2002; the intention is to capture to what extent support has been strengthened as a result of the SME Policy;

- (v) Uses the initial implementation plan included in the SME Policy document as reference; in the absence of detailed baseline data in each of the objective areas of the Policy (against which progress since 2003 up to now can be measured), the assessment used qualitative and quantitative information that could be obtained within the time span of the exercise through document review and interviews. In this respect, the review also uses and combines findings of different surveys and related analyses to contribute to general conclusions pertaining to progress in SME Policy implementation, while recognizing that these surveys tend to differ in terms of coverage (such as number, size, sector, location of enterprises);
- (vi) Looks into progress achieved by GoT, private sector actors and initiatives of development partners as regards SME policy implementation in general terms; given its mandate and its time span, the review by no means evaluates the performance of specific interventions and their respective outcomes/impact beyond a general assessment of results against SME Policy objectives;
- (vii) Involves consultations with a cross-section of the main actors among Tanzanian public and private stakeholders and development partners; the range of actors in the 7 objective areas being very vast and covering a multitude of ministries, support organizations, donors, implementing agencies, NGOs, it was evidently not feasible to reach out to all involved in the SME development issues during the short duration of the field mission. As regards external support, priority was given to larger (in terms of funding) donors and main emphasis was put on identifying trends (particularly in those fields of the SME policy that external assistance has put emphasis on).

## II CONTEXT

### 3. Country snapshot: basic socio-economic data and trends

Overall, Tanzania's economic performance is characterized by strong GDP growth rates over the past years. While the economic growth indicators are very encouraging and despite progress in fields such as school enrolment, infant mortality and other relevant indicators, growth has not been broad-based and poverty incidence remains high, especially in rural areas and among vulnerable groups. Reference is made to Annex I that summarizes the country's basic socio-economic data and trends therein. As regards trends in perceptions on the business environment in which SMEs operate, reference is made to Chapter 6.

In essence, the key challenge of the country is to sustain economic growth and to reduce poverty. In this context, investment in education and skills and the generation of income and jobs are at the core. The population is young and annually more than 850,000 persons enter the labor market.<sup>1</sup> Fostering SME development is among the main sources of employment creation for these job seekers.

Agriculture employs about three-quarters of the country's labor force, with limited transformation (agriculture accounts for less than one third of GDP). The sector is dominated by subsistence farming; small average plot sizes; and limited mechanization. Market opportunities for staple and cash crops are constrained by poor infrastructure. SMEs have a key role to play in bringing about the needed reinforcement of agriculture-industry linkages. Their contribution is relevant in multiple fields, from the modernization of agricultural production to the increase in agricultural productivity, the local processing of agricultural produce/commodities as well as to the creation of off-farm employment opportunities.

The increase in manufactured exports as a proportion of total merchandise exports is considered a sign of economic transformation (UNIDO 2012; WB 2012). Indeed, in the period 2000-2010 Tanzania leads in terms of the annual growth rate of manufactured exports (30.9%), above comparator countries such as Uganda (29.5%), Rwanda (17.1%), Zambia (16.3%) and Kenya (15.7%). Still, this growth is fragile, in that it is based on a limited number of export products, involving limited processing of resources, reflecting the rise in the gold price and being concentrated in a relatively small group of (mainly larger) enterprises. Commodities and goods often leave the country in semi- or unprocessed forms and there are both opportunities and challenges for SMEs - that constitute the vast majority of the industrial sector actors - to contribute to and gain their share in this transformation process.

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<sup>1</sup> This figure is most likely an underestimation; already in 2002 reference was made to some 700.000 new entrants into the labour force every year (source: SME Development Policy, p.5); as the number of education establishments has increased over the years, as well as enrolment figures, the actual number of new entrants is expected to be considerably higher.

#### 4. Synopsis of the wider policy framework

The SME Development Policy is one of several policies that underpin the country's Vision 2025. The latter envisions that "Tanzanians will have graduated from a least developed country to a middle income country by the year 2025 with a high level of human development. The economy will have been transformed from a low productivity agricultural economy to a semi-industrialized one led by modernized and highly productive agricultural activities which are effectively integrated and buttressed by supportive industrial and service activities in the rural and urban areas" (Vision 2025, 1999, p. 2).

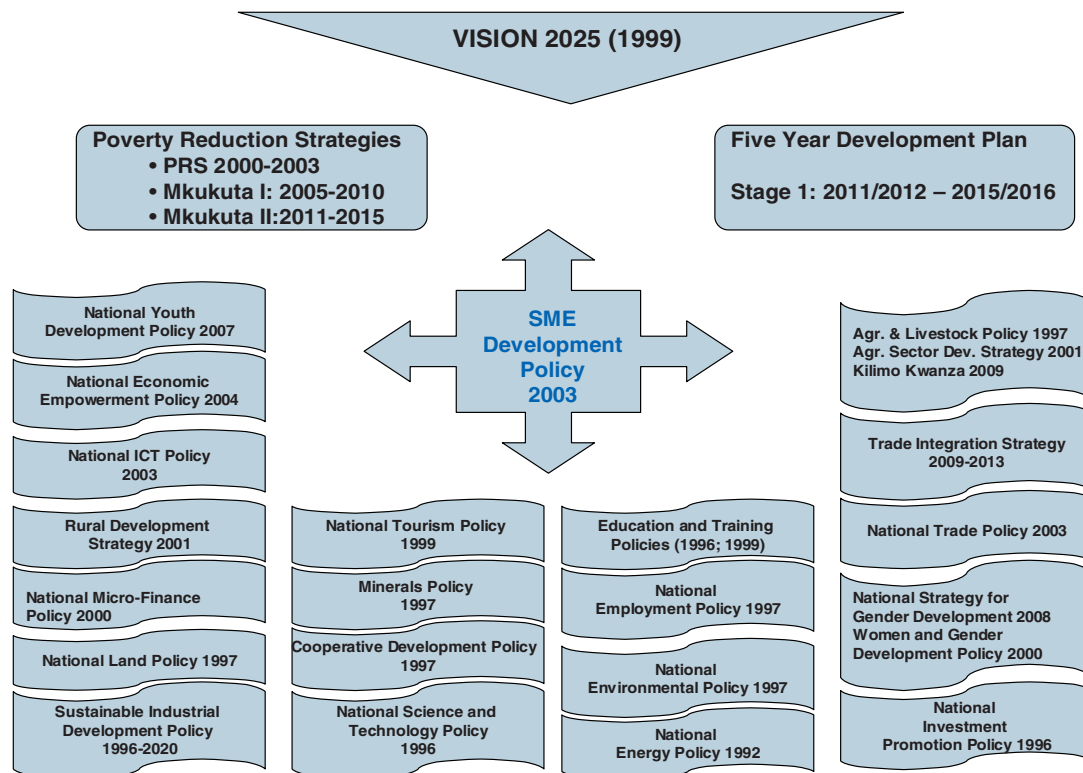
Poverty Reduction Strategies (PRS), namely PRS 2000-2003, Mkukuta I (2005- 2010) and Mkukuta II (2011-15) constitute the national planning framework to implement the 2025 Vision. It is under these consecutive umbrella frameworks that various policies, strategies and plans have been formulated during the past decade, including the SME Development Policy. Recently, the Government embarked upon a new planning paradigm based on Five Year Development Plans (FYDP) up to 2025, the first one covering the period 2011/12 – 2015/16.

Whereas the first FYDP 's strategic direction is in line with existing policies, priorities and initiatives, it reflects an 'auto-evaluation' by highlighting that, for different reasons, prior planning did not result in the required progress on the trajectory towards meeting the objectives of Vision 2025. The new Plan's aspiration entails a focus on "strategic priority interventions to move Tanzania to a higher growth trajectory coupled with a shift from an agriculture-based to an industry-based economy" (Foreword of President Kikwete, June 2011, p. i). Emphasis is on prioritization of initiatives based on the country's growth opportunities and implementation effectiveness. Employment creation, especially for the youth, is one of the main cross-cutting aims of the Plan and the role of the private sector to generate broad-based growth is recognized: "... this Plan focuses on how the growth process should be made more pro-poor, by addressing supply constraints in key sectors with higher multiplier effects in creating employment, mainly by engineering productivity growth, especially in agriculture, manufacturing and in SMEs" (FYDP, p. 51).

Figure 1 illustrates how the SME Policy is positioned in its context, i.e. Tanzania's wider development agenda and its evolution over the past decade, listing the main strategic frameworks and policies that have a direct or indirect link to SME development. The list is not exhaustive but highlights at least the main strategies and policies.

In addition to the different strategies, policies, frameworks, and reform programmes formulated at the national level during the past decade, major steps were taken in the process of regional integration, which is of direct relevance to SME sector development. In this respect the coming into effect of the East African Customs Union (2005) and of the East African Common Market Protocol (2010) are highlighted among the strategic steps taken by the member countries (Kenya, Tanzania, Uganda, Rwanda and Burundi) of the East African Community (EAC) towards economic integration. In addition to the EAC, Tanzania has maintained its membership and takes part actively in integration related efforts (establishment of a Common Market) within the context of the Southern Africa Development Community (SADC).

**Figure 1**  
**Wider strategic framework of SME Development Policy**



## 5. Overview of the SME Development Policy 2003

The SME Development Policy 2003 was the outcome of a lengthy preparation process that followed a participatory approach. Zonal workshops conducted over the period 1998-2001 brought together the main stakeholders, resulting in a situation analysis of the key issues that were the inputs for the formulation of a draft policy document (2001/2002). Following a second round of consultations on the draft policy in 6 locations across the country, the policy document was finalized in November 2002 and got Cabinet’s approval in February 2003. The “owner” of the Policy is the Ministry of Industry and Trade (MIT) that led the preparation and formulation process, with the support of some development partners, namely Commonwealth Secretariat, UNIDO, the Department for International Development (DFID) and the US Agency for International Development (USAID).

The **rationale** given for the need of a specific and tailored policy focusing on SME sector development was in essence:

- Significance of the sector for employment creation, income generation and poverty alleviation;
- Base for industrial development;
- Constraints inhibiting the growth of the sector;

- Need to revitalize the sector;
- Importance of an effective institutional framework for implementation, coordination, monitoring and evaluation.

The **policy structure** is built on **7 pillars** with corresponding **Policy Statements**, namely:

1. **Legal and Regulatory Framework:** *the Government will enhance implementation of programmes aimed at simplification and rationalization of procedures and regulations so as to encourage compliance and minimize transaction costs.*
2. **Physical Infrastructure:** *the Government will continue to improve the physical infrastructures and provision of utilities in collaboration with Local Authorities, private sector and development partners.*
3. **Business Development Services:**
  - a) **Entrepreneurship Development:** *the Government will promote entrepreneurship development through facilitating improved access of SMEs to financial and non-financial services;*
  - b) **Business Training:** *the Government will enhance the capacity of institutions providing business training to SMEs;*
  - c) **Information:** *the Government will facilitate and support programmes aimed at increased access of information pertinent to the development of SMEs;*
  - d) **Technology:** *the Government will facilitate acquisition and adaptation of technologies as well as enhance networking between R&D Institutions and SMEs in a bid to upgrade technologies so as to raise the productivity and competitiveness of the sector;*
  - e) **Marketing:** *the Government is committed to facilitating support programmes aimed at improving SMEs' access to market;*
4. **Access to Finance:** *the Government will enhance financial reforms aimed at further liberalization of the financial sector and the creation of financial intermediaries to cater for SMEs.*
5. **Institutional Framework for SMEs Development:** *the Government will facilitate strengthening of institutions and associations supporting the SME sector.*
6. **Rural Industrialization:** *the Government will facilitate the establishment of manufacturing enterprises in rural areas so as to add value to agro products.*
7. **Cross Cutting Issues:**
  - a) **Environmental considerations:** *the Government will ensure that environmental considerations are given due emphasis in all SME development interventions.*
  - b) **Gender and the Disadvantaged Groups:** *the Government will ensure that gender mainstreaming is enhanced in all initiatives pertaining to SME development.*

c) **HIV-AIDS:** *the Government will continue to implement programmes that check the spread of HIV-AIDS amongst SME operators.*

**Guiding principles** reflected in different sections of the Policy include in particular:

- Complementarities with ongoing initiatives, seeking harmonization and coordination;
- Cooperation among stakeholders as a prerequisite for success (active participation and consensus-building through dialogue);
- Recognition that different policies, institutions (public and private), programmes and projects support SME development;
- Emphasis on public-private partnership (PPP) in implementation;
- Importance of capacity building;
- Focus on monitoring and evaluation of interventions (periodic review to identify bottlenecks in implementation);
- Application of good practice principles in implementation
- Compliance of development partners with the Policy principles.

For each of the 7 pillars or objective areas of the Policy, a list of **strategic actions** defines the priorities of the Policy. A first 5-year strategy is integral part of the Policy (its Annex 1), specifying the activities to be undertaken under each objective, the time frame and the key actors concerned (envisaged to be updated after 5 years of implementation). Subsequent to the launching of the Policy, detailed guidelines meant to serve as an operational tool for the implementation of the Policy were drafted by the then SME Section of the Industry Department of the MIT, with UNIDO support (Guidelines, July 2003). These guidelines - entitled SME Development Programme - corresponded to the structure of the Policy and its first 5-year planning.

Table 1 below includes the structure of activities listed under each of the objective areas of the Policy (adapted from the Guidelines, 2003, p.26). The actual assessment (Section III) follows the same structure, taking a bird's eye view of the implementation in each of the fields listed in the Policy.<sup>2</sup>

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<sup>2</sup> In the review in Section III also the sub-activities pertaining to BDS (condensed in Table 2) as well as the activities included in the Policy regarding each of the cross cutting themes are specified.

**Table 1 SME Development Policy in brief**

SME Development Policy - Overall Objective: foster job creation and income generation through promoting the creation of new SMEs and improving the performance and competitiveness of the existing ones to increase their participation and contribution to the Tanzanian economy					
Expected results by Objective area and specific actions					
Enabling legal and regulatory business environment	Improved access to physical infrastructure and work places	Strengthened entrepreneurial culture and markets for sustainable business development services (BDS)	Improved SME access to finance	Strengthened stakeholder capacities to achieve effective implementation of SME assistance programmes and interventions	Rural industries development
1.1 Simplified business registration and licensing procedures	2.1 Local authorities allocate and develop land for SMEs	3.1 Interventions in Entrepreneurship Development through the education system	4.1 Suitable financial products for SMEs developed and promoted	5.1 Establishment and strengthening of associations of SMEs supported	6.1 Extension services aimed at promoting rural industrialisation through SMEs strengthened
1.2 Simplified tax system and tax incentives to nurse SMEs introduced	2.2 Industrial clusters and trade centers developed	3.2 Interventions in Business Training	4.2 SME windows in existing financial institutions established	5.2 SME Forum established	6.2 Establishment of industrial clusters/business centres at regional, district and ward levels facilitated
1.3 Government procurement procedures to facilitate SMEs participation reviewed	2.3 Underutilized public buildings identified and allocated to SMEs	3.3 Interventions in Information services	4.3 Innovative financial products for SMEs promoted (hire-purchase, leasing, inventory financing, venture capital)	5.3 Strengthening and networking among service providers to SMEs facilitated	6.3 Transfer of technology to rural areas including upgrading of existing technologies facilitated
1.4 Window established within the commercial court for SME disputes resolution		3.4 Interventions in Technology services	4.4 Simplification of procedures of financial institutions facilitated	5.4 Government capacity to coordinate, monitor and evaluate SME Policy strengthened	6.4 Establishment of rural industrial cooperatives supported
1.5 SMEs sensitized and trained on industrial property rights		3.5 Interventions in Marketing services	4.5 Resources mobilized for the establishment of new financial institutions/instruments	5.5 Knowledge and skills of relevant Government officials at all levels on SME development	
<b>7. Cross cutting issues:</b> Environmental considerations, gender & disadvantaged groups and HIV/AIDS related matters - to be mainstreamed at the level of each objective					



## 6. SMEs: key facts, figures and trends

There are no precise figures on the SME sector but different information sources, including several surveys conducted over the past decade, permit to draw at least a sketchy picture of the sector and its evolution. The most salient features are included in Box 1 below. It is to be noted that the figures are indicative – based on different surveys that are complementary though not identical in method and coverage. In any event, recognizing that it is difficult to present precise figures on a sector that is largely informal, the main purpose is to give an approximate picture of Tanzania's SME sector.

### Box 1

#### SMEs in Tanzania: basic data

- **Vast number of businesses:** there are estimated to be more than 3 million SMEs (de facto MSMEs) employing more than 5.2 million people in Tanzania of which some 45% are located in urban and the remainder in rural areas; the industrial sector encompasses some 25,000 enterprises, 97% of which have less than ten employees (compared to 40 large manufacturing enterprises with 500+ employees, covering about one third of employment in industry).
- **Huge informal sector:** a large proportion of businesses is considered informal; the estimated size of the informal economy as a percentage of GDP has decreased over time: from 62.5% in 1991 to 43.6% in 2005 and 39.7% in 2010; the estimated size of the informal sector as a percentage of GDP *excluding agriculture* is lower and moved from 43.1% in 1991 to 30.1% in 2010 and 27.4% in 2010 (showing a gradual trend from informal to formal). Also, there is a **predominance of women:** 64% of informal sector activities are run by women, covering e.g. small scale manufacturing and food services.
- **Important source of employment:** it is estimated that the informal sector employment rate encompassed 93.3% of all employed persons (2006). The informal sector absorbs 62.5% of yearly urban labor force increase versus 8.5% by the formal sector; more than 80% of the operators are self-employed without employees.
- **Primarily micro and household (HH) operations:** whereas in 2000 about 35% of all HH were engaged in some type of small business, in 2006 more than 40% ran a business (as primary or secondary activity of the HH); the average annual growth rate in employment in non-agriculture HH enterprises equals 12.9% versus 4.0% national average. HH members of small business found to be on average better off than average household (higher average HH income).
- **Main motivation:** to earn or to supplement their incomes (livelihood). **Main economic activities:** wholesale and retail **trade** is dominant, particularly in the informal sector (55%), followed by **manufacturing** (22%).
- **Low level of formalization:** in the period 1996/97 – 2011/12 there has been a steady increase in the number of registered companies (from around 2000 to 7000/year) as well as in the registration of business names (from some 2500 to more than 15000/year). Still, most small businesses are sole proprietors, many are not registered (only about 4% of small business is registered with BRELA), and few have a tax identification number (TIN).



- **Limited formal education and limited training:** about half of the population of entrepreneurs has completed primary school; one-third secondary school; less than 10% obtained technical training after secondary school or pursued higher education. Some 70% did not receive training before the start of the business. Level of training of **employees mainly semi-skilled**.
- **Weak business records:** deficiencies in record keeping by many enterprises, both micro and small; **limited use of the Internet** for doing business; **increase in use of mobile phone services** (financial services; information services).
- **Low level of business association membership:** less than 10% (small enterprises), **gaps in knowledge of service providers**.
- **Low average minimum wage:** although wage increases have been reported (as per data for the period 2001-2006), the average minimum wage rate in the informal sector is below the government minimum wage; payment mainly in cash, and “unpaid workers” (relatives and apprentices).
- **Main constraints: lack of credit facilities:** reliance on own savings and relatives/friends as source of loans; very limited access to banking institutions including MFIs (14% of HH enterprises); high cost of credit; fear to borrow; also: **getting work space** (especially for those operating in urban areas); **unreliable power supply; poor quality of infrastructure; high transport costs; access to markets**.

*Sources: SME Development Policy, 2003; TRA, 2011; UNIDO, 2012, World Bank, 2011; MIT, 2012*

## 7. Perceptions on the business environment and trends

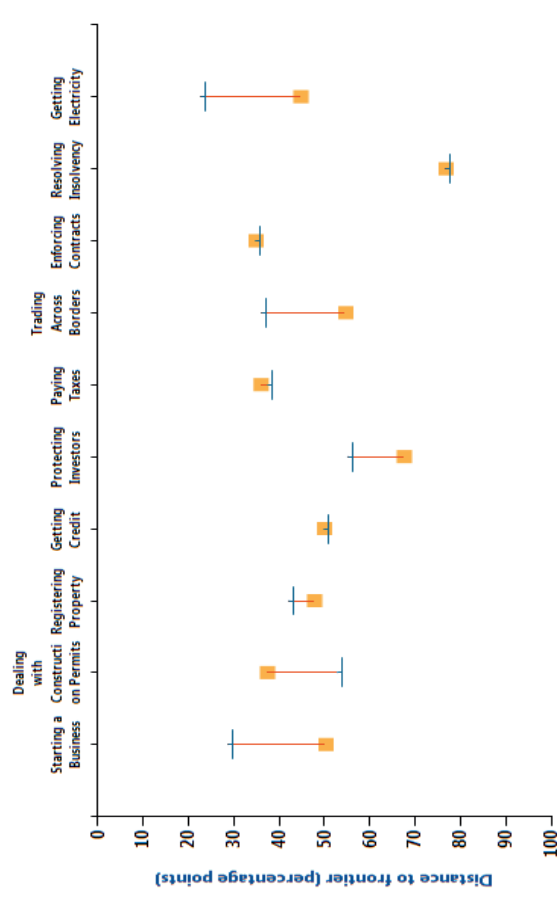
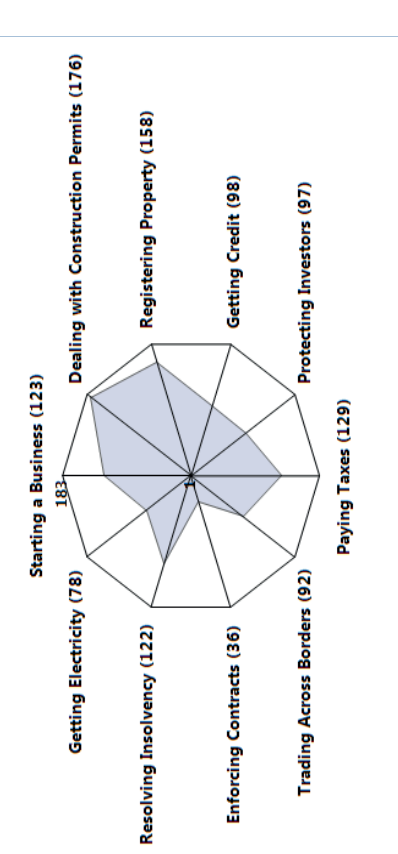
Over the past decade, several parallel initiatives have emerged to rank the factors in a country’s business environment (including Tanzania) that influence private enterprises performance and decisions to invest and allow for benchmarking across countries and regions. The results of the best-known surveys are summarized in Table 2 below. It is recognized that the respondents in such surveys vary (business community at large; Foreign Direct Investors - FDI; service providers; etc.) and that sector coverage varies. However, it is assumed that the findings reflect the concerns of domestic SMEs in Tanzania to the extent the issues are in general terms similar (with the exception of access to finance) but vary in intensity.<sup>3</sup> As shown below, whereas there is variation in terms of the precise parameters and indicators of perception measurements and corresponding rankings, the ultimate messages emerging from the different surveys tend to converge around comparable and complementary findings.

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<sup>3</sup> Another informal sector survey is planned (WB) that is expected to confirm the findings of prior diagnostics on the features of enterprises in this segment (cf. Section 6) and their environment (cf. Section 7).

**Table 2**  
**Business Environment Perceptions**

<b>Survey</b>	<b>Key findings and rankings</b>		
<p><b>World Bank Enterprise Surveys - Tanzania (2006)</b></p> <p>Sample of 419 respondents of which</p> <ul style="list-style-type: none"> <li>65% - manufacturing sector</li> <li>62% - small enterprises</li> <li>27% - medium enterprises</li> </ul>	<p>The top 5 obstacles as identified by enterprises in Tanzania:</p> <ul style="list-style-type: none"> <li>• Electricity (particularly power outages)</li> <li>• Access to financing (availability and cost)</li> <li>• Tax rates</li> <li>• Transportation</li> <li>• Access to land</li> </ul>	<p>Top 3 for small enterprises:</p> <ul style="list-style-type: none"> <li>• Electricity</li> <li>• Financing</li> <li>• Transportation</li> </ul> <p>Top 3 for medium enterprises</p> <ul style="list-style-type: none"> <li>• Electricity</li> <li>• Tax rates</li> <li>• Financing</li> </ul>	<p>Benchmarked with regional averages/Africa:</p> <ul style="list-style-type: none"> <li>• Electricity constraints much more serious in Tanzania</li> <li>• Other constraints with overall similar ratings</li> </ul>
<p><b>World Bank – Benchmarking FDI Competitiveness (2006)</b></p> <p>Sample of 297 respondents of which</p> <ul style="list-style-type: none"> <li>67% - manufacturing sector</li> <li>37% - 100% local enterprises</li> </ul>	<p>Comparative SWOT analyses for different sub-sectors (no combined ranking) include the following main weaknesses:</p> <ul style="list-style-type: none"> <li>• Difficulty of sourcing local inputs</li> <li>• Numerous business start-up procedures</li> <li>• High number of power cuts</li> <li>• Poor availability of professionals and skilled workers</li> <li>• High wages for professionals and technical workers</li> <li>• Availability of industrial land and buildings</li> <li>• Corruption perception</li> </ul>		
<p><b>World Bank – Doing Business (DB) – (2012)</b></p>	<ul style="list-style-type: none"> <li>• DB ranking: 2011: 125; 2012: 127 (from 183); ↓ (decrease) in rank</li> <li>• Comparison (DB 2012): Kenya (109); Uganda (123); Regional average SSA (137), Mozambique (139)</li> <li>• By topic (2012): <ul style="list-style-type: none"> <li>❖ Starting a business: 123 (2011: 122)</li> <li>❖ Dealing with construction permits: 176 (2011: 177)</li> <li>❖ Getting electricity: 78 (2011: 80)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Due to changes in the DB methodology, comparison with rankings since 2004 is not meaningful; DB 2012 introduced the “distance to frontier measure” that measures how far the business environment has moved toward or away from the most efficient practices and strongest regulations in the areas covered.</li> <li>• The “Distance to frontier” Figure (DB 2012) is reproduced below, showing that in some fields the country is close and in others far from the frontier.</li> <li>• Comparing Tanzania with comparator economies in the region, the bottlenecks reported to persist concern in particular the indicators</li> </ul>	

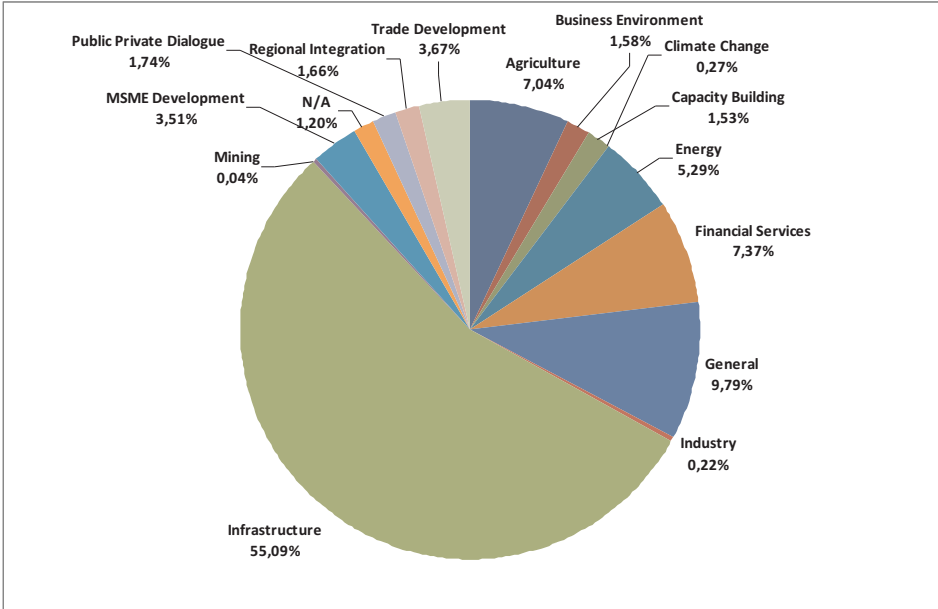
	<ul style="list-style-type: none"> <li>❖ Registering property: 158 (2011: 155)</li> <li>❖ Getting credit: 98 (2011: 96)</li> <li>❖ Protecting investors: 97 (2011: 93)</li> <li>❖ Paying taxes: 129 (2011: 123)</li> <li>❖ Trading across borders: 92 (2011: 115)</li> <li>❖ Enforcing contracts: 36 (2011: 33)</li> <li>❖ Resolving insolvency: 122 (2011: 120)</li> </ul>	<p>with the furthest outliers (see Graph, DB 2012).</p> <ul style="list-style-type: none"> <li>● DB indicators are focused on the formal sector; as there is no distinction in the DB survey in terms of perceptions by size, it is likely that ranking of bottlenecks would vary among enterprises of different sizes (e.g., getting credit being more difficult for the small and medium segment)</li> </ul>
<p><b>World Bank – Doing Business in the East African Community (2011)</b></p>		
<p><b>World Economic Forum, World Bank and African Development Bank – Africa</b></p>	<p>Based on the wider DB Survey, reference is made to the analysis focused on the EAC, given its importance for Tanzania's business community, including SMEs (source of both business opportunities and competition).</p> <ul style="list-style-type: none"> <li>● On average EAC countries rank higher than SSA and COMESA region averages as regards 8 out of 10 indicators measuring the ease of doing business</li> <li>● Still, Tanzania ranks slightly below the SSA average (above Burundi but below the other EAC member countries)</li> <li>● Tanzania's change score from DB06-DB11 is + 0.07, above Kenya (+0.02) and below Rwanda (+0.4)</li> <li>● Global Competitiveness Index (GCI) – ranking of Tanzania (lower ranking = better average scores) GCI 2008-2009: 113 (out of 134)</li> </ul>	

<p><b>Competitiveness Report (2011)</b></p> <p>Based on inter alia annual survey to capture the perceptions of enterprises on different aspects of the business environment; no details on sample size/structure of each of the countries covered</p>	<p>GCI 2009-2010: 100 (out of 133) GCI 2010-2011: 113 (out of 139)</p> <ul style="list-style-type: none"> <li>● The top 10 most problematic factors for doing business in Tanzania (2011 report) including % of responses: <ul style="list-style-type: none"> <li>i. Corruption (17.4)</li> <li>ii. Access to financing (15.1)</li> <li>iii. Inadequate supply of infrastructure (13.3)</li> <li>iv. Tax rates (9.0)</li> <li>v. Tax regulations (7.9)</li> <li>vi. Crime and theft (6.3)</li> <li>vii. Inefficient government bureaucracy (6.2)</li> <li>viii. Inflation (6.0)</li> <li>ix. Poor work ethic in national labor force (4.0)</li> <li>x. Inadequately educated workforce (3.9)</li> </ul> </li> </ul>
<p><b>UNIDO Africa Investor Survey 2011</b></p> <p>Periodic survey conducted with participating African countries (19) to assess the need to improve their investment climate</p>	<p>The survey conducted in 2010 (covering 19 countries) included 403 respondents in Tanzania; the survey was more focused on medium to large size investors in terms of fixed assets (of which 65% domestic enterprises in the case of Tanzania) and on the assessment of services provided by investment promotion agencies. Yet some key findings related to the business sector, including business support and business linkages, are of interest for the current review:</p> <ul style="list-style-type: none"> <li>● In terms of time-to-license (days), Tanzania scores slightly under the mean of 69.3 with 65.5 days (though higher than Uganda, Rwanda, Kenya and Burundi)</li> <li>● Small companies have a rate of employment growth that is well above that of medium and large companies</li> <li>● As regards perceptions on support institutions (labs, training centers etc.) and consulting services, peak responses highlighted good quality yet difficulties in terms of affordability</li> <li>● Few respondents were engaged in subcontracting or forward linkages with manufacturers; many mentioned in fact low interest in subcontracting, in fostering suppliers' access to finance or improvement of suppliers' efficiency</li> <li>● Poor quality was often listed as the main reason for limited or no local purchasing</li> <li>● Affordability of innovative production technologies was cited by many respondents as a constraint</li> </ul>

### 8. External support to SME development in brief

Private sector development (PSD), in a broad sense, is on the agenda of most development partners of Tanzania, including bi – and multilateral donors, agencies, international NGOs and also a growing number of private donors. According to information on the Development Partners Group (DPG) in Tanzania, there are 17 bilateral and 5 multilateral donors (the UN counted as one) that are in one manner or another supporting PSD, as they are represented in the PSD Working Group (see below). These figures exclude PSD related support from non-OECD countries and from private donors. The DPG mechanism - put in place with a view to strengthening aid management and its effectiveness -covers thematic Working Groups (WG) pertaining to agriculture, health, environment/natural resources/climate change and PSD & Trade. At present the PSD & Trade WG is chaired by the Danish International Development Agency (DANIDA), with UNIDO as co-chair. It goes beyond the scope of this review to list all programmes and projects that have been funded and implemented over the past decade/are on-going to date in the field of SME support. Still, where appropriate, reference will be made to some key projects under Section III. Consolidated information is provided in Chart 1 below (source: PSD & Trade WG) that indicates the current areas of external funding. The WG’s data basis includes the programmes and projects of 15 development partners. Even if the figures are said to be neither complete nor up to date<sup>4</sup>, they provide at least an *indication* of the sector distribution of available funding (recognizing that SME support is a *subset* of PSD/Trade related development cooperation). Whereas the percentage of funding related to MSME development is low, it is to be highlighted that other fields such as trade development, public-private dialogue, business environment, financial services (to just cite a few) have a direct link to MSME related support.

**Chart 1**  
**External funding by sector (PSD & Trade)**

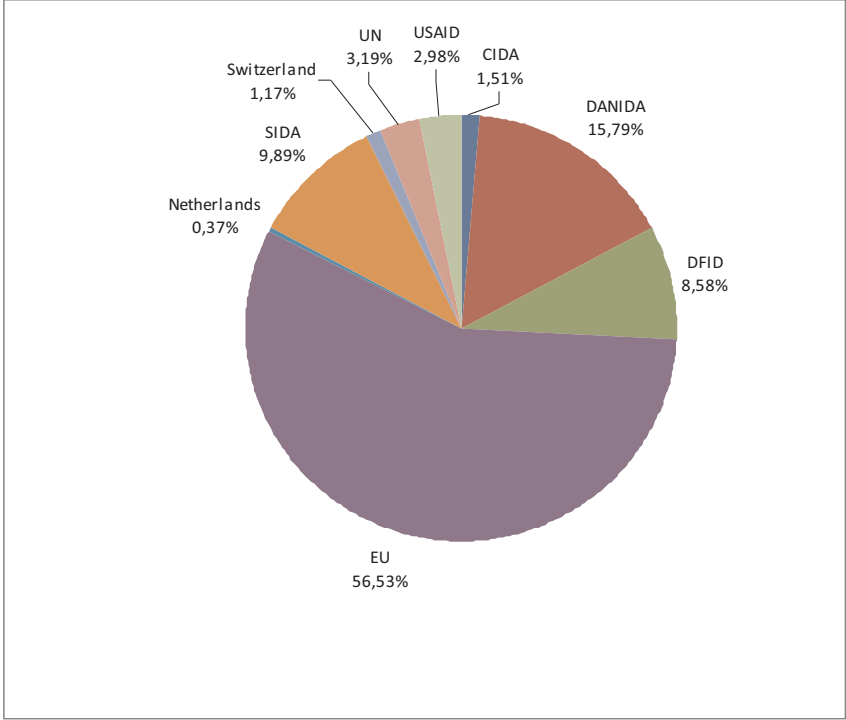


Source: DPG, PSD & Trade WG

<sup>4</sup> E.g., the size of World Bank funding is not specified in the data base of the PSD & Trade Working Group (missing in Chart 2)

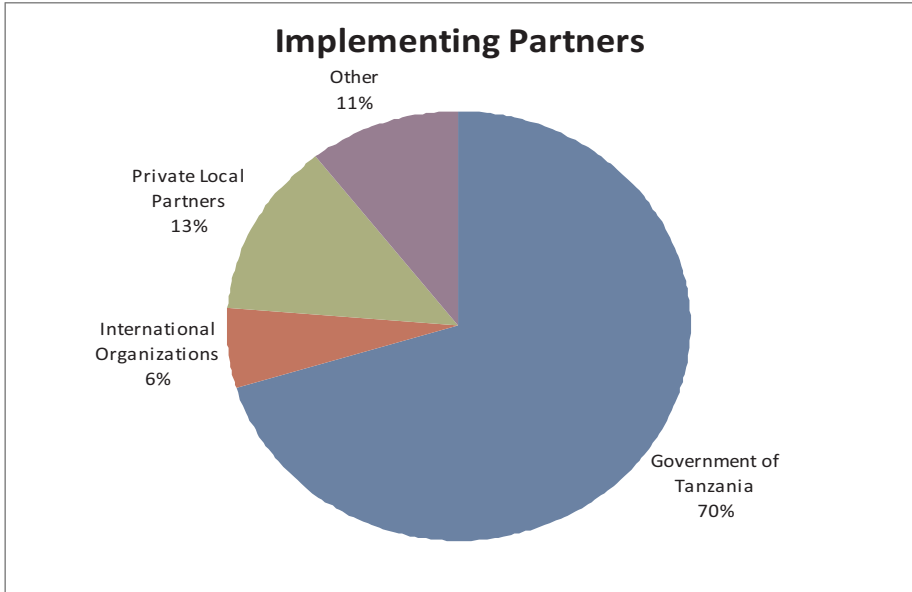
Chart 2 shows the distribution by donor, followed by the distribution of implementing partners (Chart 3). The major Government share in implementation is explained by the General Budget Support (GBS) and Basket Funding (BF) modalities.

**Chart 2**  
**External funding by donor**



Source: DPG, PSD & Trade WG

**Chart 3**  
**External funding by implementation partner**



Source: DPG, PSD & Trade WG

With some exceptions, in particular the BEST programme, the Financial Sector Deepening Trust/FSDT, the formulation of the Trade Integration Framework, in addition to General Budget Support (GBS), and UN's One Plan, there is no indication of a clear trend towards more joint donor initiatives.

The WG holds monthly meetings, organizes brownbag lunches (sometimes inviting outsiders as key speakers) and the group periodically undertakes joint trips (to illustrate, in July 2012 the group visited SIDO). According to some of the respondents, past focus of the agenda was said to be mainly on large multi-donor programmes pertaining to the regulatory environment. The SME Policy as such has not been a specific agenda item.

Several respondents would like to see the PSD & Trade WG to do more, i.e., deepen and broaden the WG's agenda beyond information sharing, based on experiences in other sectors (infrastructure; agriculture) where donor cooperation was considered more advanced. It was reported that the agenda is now gradually shifting to cover also productivity related initiatives (thus going beyond regulatory environment issues), although this is considered still at an infant stage. Led by DFID and based on the experience of the FSDT, a concept aimed at establishing a multi-donor Value Chain Development Trust is under preparation.

### III REVIEW OF PROGRESS FROM 2003 TO DATE

#### 9. General assessment

The SME Development Policy, as defined about a decade ago, aimed at fostering “*a Tanzanian SME sector that contributes increasingly to equitable economic growth, income and employment generation*” (overall objective). To what extent has the Policy been successful in achieving this objective? Indeed, compared to a decade ago more people are engaged in business activities. Different indicators show this upward trend:

- Increase in the number of households that run a business as a primary or secondary activity (about 35% in 2000, 40% in 2006 - a figure that is estimated to have further increased since then);
- Enterprise creations recorded by SIDO, the parastatal organization under the MIT with the mandate to develop and support SMEs across the country (steered by subsequent Corporate Strategic Plans/CSP that are acknowledged to have been guided by the SME Development Policy): from 22,780 (2002/03-2005/06) to 83,441 (2008/09 – 2010/11), corresponding to a gradual increase of direct employment created in the order of around 370,000 jobs. In the last CSP period additional income generated was estimated at Tshs. 12 billion, with outreach to more than 3 million people (SIDO, CSP 2011/12 – 2013/14). SIDO services to enterprises in rural areas have been gradually increasing;
- Increase in the number of TIN registered taxpayers (including individual and enterprise registrations), i.e. 1,035,281 in June 2012 compared to 190,000 in July 2003; zooming in on VAT registered tax payers, the number increased from 13,634 in 2003 to 17,860 in June 2012. To the extent that the number of registered large tax payers has not significantly increased (from 100 in 2003 to 400 in 2012), the increase in registered tax payers emanates mainly from the smaller tax payers and also reflects an increase in the formalization of business;
- Another sign of both increase in business activity and formalization concerns the trend in business registration through Business Registrations and Licensing Agency (BRELA): the number of annual registrations of companies went up from 1,892 (1996/97) to 7,000 (2011/12); in the same period also the annual registration of business names went up: from 2,480 to 16,500 (BRELA, 2012).

The question can be raised (and also has been raised by persons interviewed) to what extent the evolution of the SME sector and, more importantly, GDP performance and employment creation, can be attributed to a specific policy, i.e. the SME Development Policy. Ultimately, it is indeed difficult to provide evidence if yes/no this Policy made a key difference to explain socio-economic developments over the past decade. Would these have occurred anyway? Are they less the result of the Policy and more related to the wider the economic conjuncture and other policies? And would the results have been better, if implementation of the Policy and monitoring thereof would have been more rigorous?

There does not seem to be ‘one good answer’. In fact, the discussions with the respondents revealed both strong and weak points in the implementation of the Policy. To the extent it is an on-going policy framework, there is scope for highlighting risks and opportunities. These



different dimensions add up to a SWOT presented in Table 3 below. It is to be noted that this is a general assessment based on discussions with respondents in Tanzania. As details matter, subsection B discusses progress under each of the objective areas of the Policy including also a review of progress against the planned activities.

**Table 3**  
**Perceptions on SME Development Policy implementation: a SWOT analysis**

<b>STRONG POINTS</b>	<b>WEAK POINTS</b>
Policy seen as reference document of which the main pillars are still valid today (“the ink is not dry”)	Important policy, but broken planning cycle: Policy has no legal basis (not followed by Act)) and gap between the policy and its implementation (gaps in resource allocation and in monitoring follow-up - said to be not unique for SME Development Policy)
SME Policy seen by most as important and necessary “to know where to go”	Several institutions listed in strategy (matrix of priorities) as key actors, but no lead agency designated for each of the activities
Important mobilization of stakeholders around the theme of SMEs and Policy conceived in a truly participatory manner	“Everyone implements it” as SME is a cross-cutting issue; SMEs tied up in industry and trade sectors (MIT) but do not only belong to MIT sectors; result: rather scattered interventions and difficult for MIT as line Ministry to coordinate all sectors (a challenge to be accommodated; cf. way forward)
MIT as initiator and “owner” of the Policy	Fragmentation in policy and institutional frameworks: many separate policies (usually reference to SMEs in other policies but not systematically to SME Development Policy); difficulty for MIT as line Ministry to address this phenomenon
Mainly “home-grown” preparation (not donor driven)	As the SME sector is vast, covering different players with different needs and interests, it is a challenge to coordinate the different programmes and projects that fall under the SME policy framework; also possibly scope for prioritization of programmes and projects to improve resource use efficiency
Evolution of MIT’s SME desk to a SME Directorate over past decade, reflecting importance attached to SME sector	SME Directorate has limited number of staff and needs more specialists (small coordination entity and within a line Ministry - compared to other countries with full-fledged SME Ministries or coordination Bodies
Existence of several support institutions and cooperation among these institutions (example: SIDO and impact on the ground; network of support organizations)	Tendency towards overlaps in mandates/activities (e.g. work of MIT versus Ministry of Investment and Empowerment; work of SIDO versus and National Economic Empowerment Council)
Policies developed since 2003 have referred to and are said to have borrowed from the SME Development Policy (cf. National Economic Empowerment Policy (2004) and PSD Policy	Role of local Government underestimated (closest to SMEs to facilitate support such as workspace, yet often seeing SMEs primarily as source of revenue)

statements (under preparation)	
Other countries have used Tanzania's SME Development Policy as model document	Contradictory regulations; delays in the streamlining of business regulations and even a 'step back' (to the extent the implementation of the Business Activities Registration Act – that was to streamline licensing – is pending)
SME sector was and continues to be a "key savior" as regard employment creation; entrepreneurship considered stronger than a decade ago	Limited representation of SMEs in private sector dialogue fora; not 'one private sector voice';
Action Plan (Matrix, Annex 1) gender mainstreamed (with support of ILO (2004)	Policy lost attention over time (Steering Committee discontinued beyond first year; M&E Manual (UNDP support, 2010) not used given lack of resources
MSME survey and BDS inventory undertaken (MIT, 2012)	
<b>OPPORTUNITIES</b>	<b>THREATS</b>
Possibility for updating of Policy after one decade, albeit no major changes expected to be needed; question of streamlining of different parallel policies however crucial, as well as well-defined implementation strategy and rigor in monitoring	Tendency for interlinked and in principal mutually supportive policies to be implemented in a "silo manner" and risk of duplication (e.g., SME Development Policy, National Economic Empowerment; now PSD policy under preparation; duplications in the efforts of different institutions); some respondents question if a special policy is indeed needed to the extent the issues faced by enterprises, from small to large, are in their view broadly the same
Government sensitized at the highest levels as regards the importance of SMEs; to illustrate: multiple framework documents in approximately the same time period (Mkukuta; FYDP, ...) that refer to SME support as priority area	Perception that SME is mainly about micro enterprises; also, despite being a key source of employment, informal household enterprises seen as "illegitimate" and to be in particular formalized; gaps in understanding to be addressed, also at level of policymakers
As EPZ and EEZ (covering larger investments) emerge as priority areas in the Five Year Development Plan/FYDP: ample scope for explicitly including among priorities the importance for domestic SMEs to benefit from such schemes (especially in terms of business linkages) – benefiting from lessons learned elsewhere	Confusion between service provider and facilitator/steering functions; tendency to engage in direct service provision as income generation/survival strategy of organizations that end up looking for business more than focusing on promotion and advocacy.
Focus on strengthening efforts aimed at addressing the challenge of fostering youth employment	Several regulations have been streamlined yet many obstacles persist (e.g., regarding business premises, conditionality for accessing start up capital)
Stable political context in Tanzania and active role of the country in regional efforts to facilitate regional trade and foster SME development	Limited involvement of the private sector in development of recent Government plan (FYDP)
Opportunities for competitive SMEs as the result of regional integration efforts (lobbying resulting in a paragraph on SMEs in the East–African Charter)	At times donors deviate from good practice principles (grants to enterprises; to banks)
Interest of member of Development Partners'	Some donors felt they are spending more time

PSD & Trade Working Group to deepen and widen the agenda of the WG; opportunity to involve non traditional donors and NGOs involved in SME support	coordinating with other donors than with Government
Focus on SMEs as high priority in forthcoming Country Economic Memorandum/WB (2013)	Emphasis on production and productivity (agriculture) support needs to go hand in hand with more attention needed to processing and market access

## **10. Assessment against planned objectives and actions: achievements and challenges**

The strategy of the SME development policy took the form of priority actions structured by objective areas (cf. Table 1). The rapid assessment generated the following findings under each of these areas (with most emphasis on the fields in line with UNIDO's mandate and interest):

<b>Objective 1 - Legal and Regulatory Framework: what progress was made as regards the simplification and rationalization of procedures and regulations?</b>	
<b>Action</b>	<b>Achievements and challenges</b>
1.1 <i>Simplify business registration and licensing procedures</i>	<p><b><u>Business registration</u></b><sup>5</sup></p> <p>Respondents acknowledged that in this respect a lot has changed for the better (one time around 60 acts and regulations were said to have governed the conduct of doing business, including business registration). Earlier on registration was concentrated in Dar es Salaam, meaning that entrepreneurs from throughout the country had to come to Dar es Salaam to register their company or to register a business name. It was stated to cover some 3 months and documents could get lost. It evidently discouraged formalization, especially of business far from Dar es Salaam. Like other regulations, business registration has been subject to a regulatory impact assessment (RIA) and the ensuing guillotine approach (resulting in non essential regulations to be abolished).</p> <p>In search for efficiency, effectiveness, and affordability for business, the system now contains fewer steps, at lower fees and, most importantly, registration can be done in the proximity of the business. Registration forms can be downloaded in principle from one's home from the internet. Reform is ongoing and continuing: pending the amendment of the Evidence Act, electronic signature and electronic payment is not yet possible to date (as electronic submissions are not yet recognized in the court as legal documents); even if for now the original documents need to be submitted to the Business Registration and Licensing Agency (BRELA - see below), the Prime Minister's Office is leading further reforms needed to allow for electronic submission. These steps are an indication of the drive to facilitate easy and fast registration, not only at the country level but also including the search for harmonizing business registration (EAC). At present and pending the acceptance and introduction of the electronic signature system, forms are delivered (or sent via courier service from the regions) and for now entered into the system by BRELA. It takes max. 5 days for processing by BRELA (provided information is complete); business name registration takes 1-3 days (including checking on names). In brief, whereas the ultimate goal is "online registration from home", BRELA is for now in a transition phase (pending the acceptance of electronic signature).</p> <p>BRELA was established in 1999 (based on the foundation of the former Registry of Companies); its role is to facilitate the implementation of different pieces of legislation and related registration through a centralized system: the Company Act (latest Amendment; 2006); regulations pertaining to company closure; the Business Names Registration Act; the registration of Trade Marks, and the Patent Act (innovations; innovations). Manufacturing industries can either register</p>

<sup>5</sup> Elaborated description of issues pertaining to business registration, given UNIDO's interest and experience in other countries

directly with BRELA or through the Tanzania Investment Center's (TIC) one-stop shop (especially for foreign investors). Fees are not determined by BRELA (business name = 6000 TS; company registration fee depends on company size). At TIC investors are assisted with the filing of their application, but it is BRELA that registers a company.

BRELA's records are steadily on the rise: whereas in 2006/07 a total of 4,004 companies registered, 7,058 companies registered in 2010/11. As regards business names there is a similar trend: 8,008 in 2006/07: 8,008 and 14,866 in 2010/11: 14,866). The organization thus plays a key role in the business formalization process. It is to be noted that BRELA won in April 2012 an Arch of European Quality Award. The organization has some 60 staff and it is autonomous (in the sense of receiving no State budget but being able to retain non-tax revenues/stamp duties). Its overall revenue position shows an upward trend; whereas the fee levels remained unchanged, the customer base grew (with the exception of patents). The organization bought a plot of land and will soon construct a new office building. Talks on harmonization of business registration at level of EAC are on going; several African countries have contacted BRELA to look at the system being put in place (Namibia, Uganda, Zambia).

On 31 July 2012 BRELA and TCCIA signed a Memorandum of Understanding (MoU) covering cooperation in the field of business registration; even though the Chamber already facilitated informally the submission of registration documents (using its wide network of "antennas" in the regions and districts across the country), the MoU formalized this cooperation and will also allow for intensifying awareness raising about the importance and benefits of business registration and of having a business name. Sensitization is important, as people (i) often do not see the difference between registration and licensing and (ii) are reluctant to register. BRELA already engaged in training TCCIA staff and ultimately all processing will be done electronically via one centralized registration system at BRELA). In addition to TCCIA office, operators can register using lawyers or regional trade officers. In total there are reported to be at present 97 registration points across the country. It is too early to assess the implementation of the MoU (signed end July 2012) that is expected to be win-win for both BRELA and TCCIA.

It is somewhat confusing that BRELA's name includes licensing, whereas currently the organization deals with registration only (licensing falls under the Marketing Directorate of MIT – see below). If enterprises choose to operate without a name and not incorporate, only a license is needed; if opting for name/incorporation, BRELA is the entity for the establishment of businesses as legal entities. Note that the MIT issues licenses for medium and large companies and the license is issued only once. There are however special cases that demand renewal of license every six months like in case of liquor trading. For small businesses, the local government issues licenses.

Despite progress in establishing a central web based business registration system (under preparation, including

electronic signature and payment features), BRELA's system is not conceived as *one single* registry of businesses; de facto there are different registries: companies; business names; patents. Somewhat surprisingly, system entry of business is focused on the business names – that may/may not be descriptive in terms of indicating the sector in which the business is operating. According to the information obtained from BRELA, it will not be possible to search the system by sector, which is in fact reducing BRELA's information service potential. Another issue is that a company can be involved in wide ranging fields (common in Tanzania) - listed in its registration -, making it complicated to use information from the company registry for data on sectors

Current plans of BRELA include activities such as:

- Introduce mobile registration including presence at exhibitions to offer on the spot registration services; the planned online registration does not take away the importance of real services, taking into consideration that internet use is, at least for now, limited, especially in rural areas;
- Intensify awareness-building activities using different communication channels (TV, newspapers, presence at trade fairs...)
- Continue training of BRELA staff and system users (partner organizations)
- Operationalize the agreement with the Tanzania Revenue Authority (TRA) to link the BRELA system and that of TRA (database – server linkage) – note: national ID registry that includes linkages to other IDs (TIN/TRA) is under preparation
- Analyze how to optimize the use and dissemination of information included in the data base, once web-based (including linkage with business information centers).

As regards donor support: the multi-donor BEST programme supported BRELA with data capture (conversion of records into electronic format; server; generator), which is ending now.

**Business licensing**<sup>6</sup>

Business licensing applies to any business activity, with or without a business name. It used to be complex. For example, a supermarket needed a separate license for its butchery, bakery etc. etc. sections that required renewal every 6 months. Measures have been taken to streamline the process, but - unlike business registration – there have been obstacles that persist to date. In 2007 the Business Activities Registration Act (BARA) passed parliament but has not been put into

<sup>6</sup> The Directorate of Marketing/MIT is in charge of licensing



	<p>implementation. The underlying idea was to keep the entry barrier low for enterprise creation (including no fee), yet there are diverging views in this respect (for Local Government licensing is a main source of revenue and also of control). The Ministry of Finance has reintroduced the principle of license fees – though foreseen to be eliminated with in the BARA Act – which is seen as a step back in streamlining licensing procedures. Fees depend on business size and location; the Ministry of Finance proposed the following tariffs: cities - Tsh. 50,000; municipalities - 30,000; districts - 20,000; rural - 10,000 (yearly), with room for the concerned local Government authority to decide (seen as potential source of “harassment” of businesses). Reference has been made to higher actual costs, even exceeding taxes. It is to be noted that license fees, unlike taxes, are not based on earning levels. As the past Business License Act was not repealed, supposedly the fees were to be paid again since Jan 2011 but it has not yet been implemented. Negotiations on the Act continued (including lobbying and impact studies highlighting discouraging effects on formalization, on tax base as well as contradictions among different sections of the Act.. At present the Attorney General’s Office is preparing its advice to Cabinet.</p> <p>According to MIT, business licenses are for now still issued free of charge and virtually the same day, provided application requirements are fully complied with (as detailed in the business license application form based on the Business Licensing Act no.25 of 1972, revised in March 2004).</p>
<p>1.2 <i>Simplify tax system and introduce tax incentives to nurse SMEs</i></p>	<p>Several respondents mentioned that during the past decade people slowly start talking less about taxes; a lot of so called nuisance taxes were scrapped and tax administration has been streamlined; it was reported that there is a “friendlier attitude” between the tax collector and the tax payer, including joint meetings bringing together private sector associations and TRA. The latter now have more offices close to the tax payers (“block system”) and a lot was said to have been done in terms of awareness building of taxpayers in a targeted manner, i.e., using different types and channels of communication for large, medium and small enterprises. Reference was also made to the streamlining of the customs system (document processing involving different actors).</p> <p>For TRA there is no difference between large, medium or small operations: fiscal charges are based on turnover. This being said, over time thresholds have been raised to alleviate the fiscal burden on small enterprises. Still, whereas there is for start-ups a grace period of 3 months (income tax), it was reported that this grace period is not applied. Whereas taxes were scrapped (such as pre-tax combined with the license), reference was made to new “nuisance taxes” that were added, especially at the level of local Government. Tax incentives/exemptions as per the Tanzania Investment Act (1997) mainly apply to large and medium size companies. Exemptions related to Export Processing Zone (EPZ; 2002 Act) and Special Economic Zone (SEZ; Act 2006) operations vary according to the nature of the investment. They apply to the first 10 years of operations, and cover primarily FDI and larger domestic investors. To illustrate, annual export turnover of SEZ investors should not be less than US\$ 5 million for foreign and US\$ 1 million for local investors; as regards EPZ</p>

	<p>investments the minimum annual export turnover figures are US\$ 500,000 for foreign investors and US\$ 100,000 for local investors.</p> <p>The number of tax payers with a TIN number is on the rise (see Section 9), which is mostly explained by an increase in small enterprises; efforts have been undertaken to help these business with improving their bookkeeping, so that when audited, there is no surprise and no overcharge; even though not every business has a TIN, this does not take away that local taxes are paid.</p> <p>For now BRELA and TRA/TIN are not linked, whereas ideally enterprises register once for both, with one single number. Tanzania is in the process of introducing a fingerprints identification system; as coverage is not (yet) national, a separate finger printing has been already introduced by TRA for TIN. The application for a TIN can be already done on line and electronic filing pertaining to TIN and VAT is already possible (procedure put in place by TRA).</p> <p>It is to be noted that TRA undertook an internal study on the informal sector within the spirit of identifying approaches to encourage formalization. TRA is also part of a WG pertaining to the “Road map’ exercise, on-going since 3 years, that is aimed at addressing the obstacles in the business environment – structured according to the Doing Business parameters.</p> <p>External partners of TRA are in particular DFID, DANIDA, and WB.</p>
<p>1.3 <i>Review Government Procurement procedures to facilitate SMEs’ participation</i></p>	<p>There have been several amendments in the Government Procurement Act, but the Act contains no special reference to SMEs as suppliers. There is however reference to local companies (can be from large to small). Still, it is very difficult for SMEs to meet the prerequisites for tendering (e.g. bank guarantees). Calls for tenders are not published in Swahili newspapers and, in any event, bidding for a tender is a complicated process. Some mentioned that SMEs need to be assisted to become suppliers of Government.</p> <p>SIDO reported support to 123 SMEs in its previous CSP period to sell their products to, in particular, local government. Training and coaching of SMEs to participate in tendering is part of its support interventions.</p> <p>It is to be noted that the Implementation Framework of Kilimo Kwanza includes under Pillar 7 (<i>Industrialization for Kilimo Kwanza</i>) an activity covering a “Buy Tanzanian” campaign starting with Government procurement.</p>
<p>1.4 <i>Establishment of a window within the commercial court for handling SME disputes</i></p>	<p>There is no special window for SMEs in the commercial court (based in Arusha and in Dar es Salaam). Fees are the same for enterprises, from large to small. Mainly large enterprises use the commercial court avenue to handle disputes.</p> <p>Respondents mentioned that the issue has not really come up as a main constraint, when listening to SME voices. Hence, dispute resolution is “not a big thing”. In case of complaints (such as enterprises being evacuated from the land they</p>



	<p>occupy), they resolve it directly themselves or ask the support of TCCIA. Also the cost of using the commercial court is stated as a discouraging factor, if SMEs at all know about it.</p> <p>In terms of external support, it is to be noted that dispute resolution was one of the five components of the multi-donor BEST programme.</p> <p>BRELA's functions include also the registration of trade and service marks and the granting of patents. Whereas the registration of companies and business name registrations are on the rise, applications for patents are few (inventors were said to follow international routes to protect inventions/innovations). BRELA's figures as regards applications for trade and service marks and their actual registrations show little change over the past decade. Still, SMEs were found to feel insecure on how to protect their innovations, given limited knowledge on patents and property rights.</p> <p>BRELA received assistance from the World Intellectual Property Organization (WIPO) covering training (Training of Trainers in the field of intellectual property rights, trademarks and service marks, as well as automation related assistance).</p> <p>It is to be highlighted that the legal and regulatory framework received sizeable support through the BEST programme (involving different donors, i.e., DANIDA, DFID, Netherlands, the Swedish International Development Agency/SIDA and later also the WB). This programme is virtually completed, apart from the Private Sector Advocacy component (BEST-AC) that is on-going (current phase ending in 2013).</p> <p>Notwithstanding step by step improvements and achievements in terms of support to the reduction of procedural and administrative barriers of the "Better Regulation" component of BEST, respondents mentioned a number of challenges faced and lessons learned, such as being overly donor-driven, rooting in Prime Minister's Office (PMO) with instructions for Ministries without corresponding budget links which constrained implementation).</p> <p>Reference is also to be made to the annual Doing Business (DB) survey (WB) that resulted in a Road Map exercise (on-going since 3 years under the aegis of the PMO, with WB support) aimed at improving Tanzania's DB positioning (see Table 2 for the trend). The exercise entails Working Groups structured in accordance to the DB criteria. It is to be noted that the WB also engaged in conducting Regional Cost of Doing Business surveys (covering the different regions of Tanzania Mainland and Zanzibar).</p>
1.5	<p><i>Train and sensitise SMEs on property rights</i></p>
	<p><i>Donor support related to the legal and regulatory framework in general</i></p>
<p><b>Objective 2 - Improved Access to Physical Infrastructure and Work Places: to what extent did the situation improve?</b></p>	
2.1	<p><i>Local Authorities to allocate and develop land for SMEs</i></p> <p>Land reform is ongoing but the issue of allocation of working sites remains complicated. Some local authorities have allocated land but lack of funding at local level for compensating owners is a constraint. The problem is more serious in urban areas (less an issue in villages), resulting in more "mobile businesses". Local Government was said to not always</p>

		<p>see it as its role to offer working space for businesses. Therefore, sensitization of local Government regarding the importance of business premises is said to be a continuous effort. The issue got also weight in the current FYDP that includes a budget to sensitize and support local Government in this area.</p>
2.2	<p><i>Develop industrial clusters and trade centers</i></p>	<p>MIT's SME Directorate is engaged in sensitization efforts aimed at reserving for SMEs a portion of the land allocated for EPZ/SEZ based business operations.</p> <p>The provision of infrastructure for businesses is part of SIDO's support instruments covering industrial estates with engineering facilities, Training cum Production Centers (TPCs), Technology Development Centers (TDCs), and business incubators.</p> <p>SIDO promotes and supports cluster development through programmes such as One District One Product (ODOP) and the rural MSME programme MUVI ("Muunganisho Ujasiriamali Vijijini") supported by GoT and the International Fund for Agricultural Development (IFAD). Examples are support to agro-processing cluster in Rombo district and improved palm based innovative industrial cluster in Kigoma (source: SIDO CSP 2011/12 – 13/14).</p> <p>Reference has been made to forthcoming assistance of Korea's International Cooperation Agency (KOICA) to strengthen/expand SIDO's industrial estate facilities. The recent CSP also refers to the conversion of existing industrial estates into incubation facilities.</p> <p>The micro/small business membership organization VIBINDO worked with the Dar es Salaam Municipal Council to build a center providing workspace. The building – not yet occupied – was said to have design errors (work space per unit too small) and also the initial rental fee of Tsh 90.000/month was considered high; the rental fee has been meanwhile brought down but as the space is considered inappropriate, there is little interest.</p> <p>Reference was also made to the construction of a market area, within the context of DANIDA's informal economy support initiative.</p>
2.3	<p><i>Identify and allocate under-utilized public buildings to SMEs</i></p>	<p>According to MIT, efforts were made but by the time the under- or no longer utilized public buildings were identified, they were no longer available (already sold).</p>
<p><b>Objective 3 - Business Development Services (BDS):</b></p>		
<ol style="list-style-type: none"> <li>1. <b>Entrepreneurship Development:</b> <i>was entrepreneurship development promoted?</i></li> <li>2. <b>Business Training:</b> <i>were capacities of institutions providing business training to SMEs strengthened?</i></li> <li>3. <b>Information:</b> <i>is there better access to information pertinent to the development of SMEs?</i></li> <li>4. <b>Technology:</b> <i>to what extent has the acquisition and adaptation of technologies been facilitated and is there better networking between R&amp;D Institutions</i></li> </ol>		

<p><i>and SMEs?</i></p> <p><b>5. Marketing:</b> <i>are SMEs supported in their efforts to improve access to markets?</i></p>	<p><b>Some observations on BDS in general:</b></p> <p>It was reported that many providers focus on few BDS areas, focusing on training, business planning, management, marketing/trade facilitation; not all areas are well covered, such as the offer of technology related services that remains weak (which several attributed to demand).</p> <p>A decade ago BDS were said to be highly subsidized and some respondents indicated that subsidization to induce a market for BDS created a tendency to want services for free. Yet demand for BDS seems on the rise and enterprises are more ready to pay for services (even though this mainly applies still for more organized businesses). This trend is stated to be more spontaneous than attributable to the SME development policy. Although gradually less dependent on subsidies, many BDS providers were seen as tightly linked to donor-funded activities, with few “living on their own”. The case of SIDO (present in 21 regions) was highlighted as special, in that it is a Government institution that works like the private sector.</p> <p>A study conducted in Dar es Salaam in the period 2006/2007 showed gaps in awareness of BDS by micro and small enterprises; the use of support varied, depending on the type of service, yet the proportion of use remained below 25% for all services (Research on Poverty Alleviation/REPOA, 2009). Some respondents also noted that not so good BDS practices persist here and there, such as grants to enterprises.</p>
<p><b>3.1 Entrepreneurship Development</b></p> <p>3.1.1</p> <p><i>Inculcate through education, training and other programmes, value attitudes that are conducive to development of entrepreneurship</i></p>	<p>Emphasis was put on the need to change the mind set (“find a job in a big company and earn good money”; or “become civil servant”) through the education system. The latter is said to be focused on skills geared to a market that is not there and there is a need for more enrolment in technical and vocation education.</p> <p>Entrepreneurship Education (EE) is now built into all levels of education, which has been attributed not only to the Education Policy but also to the SME Development Policy. The current challenge is reported to be “the content of entrepreneurship education”, in that different institutions have different approaches, without a common ground in terms of curriculum/materials development and teachers training.</p> <p>Since 2005 EE has been mainstreamed in the school curriculum from grade 3 to high school (grouped under life skills); emphasis is on confidence building, creativity, and vocational skills. The quality and learning outcomes are considered not the greatest, and it was noted that the materials mainly refer to petty business. There is the intention to improve the same at the primary and secondary school levels through efforts at different levels: training of teachers, of curriculum developers, of examiners, of school inspectors, and of policy makers at central/local levels).</p> <p>At the level of higher technical education, several institutions started EE and notwithstanding improvements, quality and</p>

	<p>focus was said to vary, depending on the experience of the teachers. EE is now compulsory in some programmes. There are also different ED specializations at present: bachelor and master degrees, as well as post-graduate programmes (e.g., UDEC).</p> <p>Moreover, private training institutions emerged; offering short and long term ED training (e.g., IMED that mainly targets school leavers and to a lesser extent business people and retirees). In general, non-formal education services have grown (i.e., short courses offered typically through projects and involving different providers that are not always accredited). There was said to be scope for better exploiting available materials, both from international and local sources (EMPRETEC, CEFE, SYB, IYB, etc.) and for more harmonization among different support efforts in the EE field (e.g., NUFFIC/The Netherlands, International Labor Organization/ILO, UNIDO).</p> <p>The National Economic Empowerment Council (NEEC) takes leadership on formal and informal EE. As training is provided at different levels but without a common understanding on the EE concept and as there is some duplication in EE offerings, the need is felt for a national framework to guide formal and informal EE; in this respect NEEC works with TIE (see below) and with the ILO (on-going); the latter conducted in this context a scoping study (March 2012), which contains a series of relevant recommendations in terms of EE strategy and actions needed to improve EE at the different levels of education – both formal and informal.</p>
3.1.2	<p><i>Review school curricula to accommodate entrepreneurship development</i></p> <p>The Tanzania Institute of Education (TIE) mainstreamed EE since 2005 in the curricula of the different formal education levels it covers: pre-primary, primary, secondary (ordinary and advanced) education and teacher education (certificate and diploma). NUFFIC's NICHE project in the field of EE encompasses different dimensions of capacity building to improve the quality of EE curricula at the primary, secondary and teachers' education levels. Another partner involved in improving EE content, approaches and materials is the National Council for Technical Education.</p> <p>UNIDO started a pilot project to introduce separate EE curriculum in secondary schools (officials from the Ministry of Education have been sensitized, teachers have been trained; 27 secondary schools and 5 teacher colleges selected and 2 teachers from each school trained); the next step was to start the pilot training (pupils) in January 2011, yet the launching is pending (resource gap for copying syllabi). It is to be noted that there is a divergence between the approaches followed in the UNIDO project (a stand alone EE curriculum in secondary schools) versus the mainstreaming policy of Tanzania adopted since 2005. The forthcoming national EE framework (see 3.1.1) is expected to result in harmonized approaches.</p>
3.1.3	<p><i>Introduce entrepreneurial programmes in vocational and technical training</i></p> <p>EE was said to be most developed at the vocational training level (reference being made to the Vocational Education and Training Authority (VETA) and support from in particular the ILO and The Netherlands); EE is included in the training of vocational teachers.</p>

		The FYDP put major emphasis on skill gaps at different levels of education and challenges, such as low enrolment in science, engineering compared to other disciplines, inadequate use of ICT in training institutions, weaknesses in learning and teaching facilities, inadequate number of teachers in training institutions and small number of technical colleges.
3.1.4	<i>Facilitate entrepreneurship development programmes for selected target groups/sectors e.g. school leavers</i>	As mentioned under 3.1.1: EE in both formal and informal education, involving both public and private institutions and projects, is now widespread. There are many providers - not all regulated – and it is difficult to enforce harmonization and coordination. This may create some confusion for target groups in choosing where to go for EE training.
<b>3.2 Business Training</b>		
3.2.1	<i>Embark on capacity building of business training institutions aimed at improving quality of services provided</i>	As mentioned above, there has been an increase in training offerings, both in the form of formal and informal training. The mission is not in a position to assess to what extent <i>business training</i> – involving a wide range of public and private players - has improved over the years in terms of quality and outreach.
3.2.2	<i>Facilitate tailor-made business training programmes for start-ups and for strengthening existing businesses</i>	Several respondents mentioned that opportunity costs for the business owner are a constraint affecting demand for training (“if one day away from the business for training, how to eat that day?”). This encourages training to be offered in half day rather than full day sessions or building awareness of operator to foresee “a back-up” in the business when attending training.
<b>3.3 Information Services</b>		
3.3.1	<i>Set up of business centers for SMEs</i>	Business information centers exist in many regions (set up inter alia with support of the Indian Government, among others). TCCIA mentioned that they are operational yet somehow not in high demand. The Chamber now diversified the service mode of delivery by setting up a phone enquiry service (as internet penetration is not yet high). It was also noted that most information enquiries come from outside Tanzania.  SIDO has information centers at the head office and in the regions where SMEs can access internet and other business and technological information (these facilities were said to need strengthening in terms of effective information service delivery).  There is increased access to computers, but most small enterprises, especially the ones in rural areas, do not use IT to access information; even medium-sized enterprises are said to sometimes ask their membership organization for information they could in principle find on the web (indicating that there is room for further sensitization).
3.3.2	<i>Support training on information technology, e.g. E-commerce</i>	



		<p>E-commerce and e-payment are not really developed in Tanzania; people were said to be concerned about hackers. However m-payment (through mobile phones) is rapidly growing in Tanzania.</p> <p>Cell phones are also used in service delivery such as by the Ministry of Agriculture to inform farmers on food/commodity prices.</p> <p>There is at present no data bank for SMEs.</p> <p>Recently the SME Directorate/MIT undertook a survey of BDS providers (planned to be completed by end 2012) that is expected to result in a directory of service providers. The survey included the main institutions (and was also addressed to donors and international agencies); still, it is not sure if also the wide range of private BDS providers will have been captured by the survey.</p> <p>There is a dedicated national web site (SME Directorate) that is not yet on line.</p>
3.3.3	<i>Establish a data bank for the SMEs including a national web site for SMEs and a directory of service providers</i>	<p>The SME Directorate/MIT undertook a survey of MSMEs in the period 2010-2011 covering a total of 6,134 interviews across the country, with a survey selection based on the 2002 Census and somewhat biased towards small enterprises in rural areas (about 70% of the sample). The final survey report, once completed, is expected to be published on the web site of the SME Directorate.</p> <p>There is no indication to which extent the National Bureau of Statistics (NBS) analyzed the results of the 2002 Census with respect to SMEs.</p>
<b>3.4 Technology and Environment</b>		
3.4.1	<i>Establish mechanism for enhancing linkages between SMEs and technology providers</i>	<p>There are several R&amp;D institutions in Tanzania aimed at providing advice and training, with complementary mandates (e.g., Tanzania Engineering and Manufacturing Design Organization/TEMDO; Institute of Product Innovation/IPI which evolved into the Technology Development and Transfer Center/TDTC; Centre for Agricultural Mechanization/CAMARTEC. Also SIDO is engaged in addressing technology needs through its 7 Technology Development Centers (based in SIDO's industrial estates – 3 more planned by 2014).</p> <p>The mission was not able to assess the width and depth of linkages between SMEs and the range of technology related service providers in Tanzania. The observation has been made that the step from prototype development to commercial production is not always evident and the R&amp;D institutions also face challenges in terms of funding.</p> <p>A report on the growth and impact of investment in Tanzania (The Tanzania Investment Centre/TIC, 2008) recognized the</p>
3.4.2	<i>Facilitate joint ventures</i>	

	<i>aimed at enhancing technology upgrading and transfer</i>	<p>importance of giving more attention to the promotion of domestic investment (especially by SMEs) and enhancing linkages between FDI and domestic investment. The report acknowledged that impact of FDI on technology transfer and value addition remained weak.</p> <p>As regards manufacturing, it is noted that the FYDP puts emphasis on “fast-tracking the provision of a conducive environment for investment” and “fast-tracking investment and technology development” (p. 71), aiming at value addition and export development, with emphasis on resource-based and/or agriculture led efforts.</p>
3.4.3	<i>Implement capacity building of Industrial Support Organizations (ISOs) and other service providers</i>	<p>The mission is not in a position to assess the extent and results of capacity building support to the range of different ISOs and other service providers. Such capacity building efforts tend to take place within the context of donor supported projects, often in the form of Training of Trainers (ToT) in fields covered by the projects (e.g., strengthening of trade related services in general and support to businesswomen in international trade through CIDA/ITC)</p>
3.4.4	<i>Promote incubators</i>	<p>Business incubation is indeed an area in which initiatives have emerged (Universities; SIDO; etc.). It was reported that whereas many institutions host incubator facilities, there is a wide divergence in the concept/the type of services offered.</p>
<b>3.5 SME Market Access</b>		
3.5.1	<i>Promote business linkages between large and small enterprises</i>	<p>CTI’s experience as regards business linkages shows the complexity of convincing large enterprises to support the development of small(er) ones. There were said to be a few examples (local bottle manufacturer becoming supplier of brewery and not selling in the region), but not many so far. There was felt to be need for more efforts (sensitization) in this field. A complicating factor mentioned is the link between the large company and its mother firm (most large ones being multinationals); most medium firms in Tanzania are owned by Indian nationals/are branches of Indian firms, implying that there are established contractual agreements with the Indian firm, without incentives to change this. Questioning on quality etc. is seen to some extent as an excuse not to buy locally.</p> <p>It is too early to assess UNIDO’s Subcontracting and Partnership Exchange (SPX) project at the level of TCCIA. Launched in January 2011, the data base includes at present 160 companies (in particular in metal working, plastics, food processing, wood processing); these are mostly small enterprises (using the official definition); the next stage is to benchmark these with competitors (done for 15 companies at time of mission); SPX fora are organized, bringing together companies of the same sector); there is the intention to linking SPXs in the region, i.e., the ones in Ethiopia, Zambia; Tanzania and Uganda. The SPX staff consists for now of 3 persons (of which two paid from project; the SPX manager is senior TCCIA staff devoting 50% of his time to the SPX operations). Reference is also made to an ongoing pilot upgrading project in Tanzania – with links also to the SPX project).</p>

		<p>There are said to be limited local supplies in the mining sector at present, despite opportunities; even if mining companies want to buy locally, banks give no loans to a supplier unless the buyer gives a guarantee to the supplier (vicious circle).</p> <p>It is to be highlighted that supply linkages are not planned in the contracts pertaining to concessions; Similarly, EPZ legislation has no reference to incentives in case of local procurement of goods/services.</p>
3.5.2	<p><i>Strengthen marketing agencies and institutions that support SMEs</i></p>	<p>The Tanzanian Trade Development Authority (TanTrade, established in 2009 and emerging from the Board of External Trade) acts as the main implementation agency to implement and oversee trade related policies and strategies, in particular the National Trade Policy (2003), the Export Development Strategy, the Integrated Trade Strategy and the Agricultural Marketing Policy. TanTrade works closely with sector associations in providing trade related services covering both the domestic and export markets. Also business membership organizations play a role in market related services (e.g., the TCCIA issues certificates of origin).</p> <p>It was reported that market related enquires focus in particular on nearby countries and only to a limited extent on internal market enquiries. As regards opportunities related to regional integration, it was highlighted that not all enterprises/sectors are equal in this regards. E.g., the challenges were said to be biggest for small enterprises, as they have “less muscle” than larger ones. The soap industry was listed as a sub-sector that lost out in the competition, particularly with Kenya (2 out of 17 smaller companies ‘died’). Incidentally, regional integration was not among the themes explicitly covered in the 2003 Policy.</p> <p>As regards marketing management related training, a study conducted in 2010 of needs of SMEs engaged in food processing (commissioned by the Small and Medium Enterprise Competitiveness Facility/SCF funded by Denmark) found as top three training needs (enterprises): market research; brand management and product development. Few enterprises surveyed in this study engaged BDS providers without subsidization through external assistance projects and a gap was detected between the needs of enterprises and the services offered by BDS providers.</p> <p>The mission has no information to what extent bulk provision systems have been developed since the launching of the SME Development Policy</p>
3.5.3	<p><i>Create SMEs bulk provision systems through a cooperative mechanism</i></p>	
3.5.4	<p><i>Facilitate SMEs to participate in local and international markets through trade fairs and</i></p>	<p>The facilitation of participation in/organization of trade fairs are integral part of the activities of different organizations (SIDO; TanTrade; NEEC; projects); it is an area where some duplication is observed (e.g. between NEEC and SIDO, as also NEEC engages in direct support to enterprises – at times SIDO clients). Under the TPSF there is also a Matching Grant facility that co-finances participation of SMEs in trade fairs and market research undertakings.</p>



3.5.5	<p><i>missions</i></p> <p><i>Facilitate SMEs to meet standards</i></p>	<p>Whereas earlier on SMES were said to be reluctant, they have now started coming to the Tanzania Bureau of Standards (TBS), as they need the TBS mark of quality, especially for exporting. Within the framework of Mikukuta, TBS was supported to accelerate the certification of SMES. SIDO acts as a gateway (a letter of SIDO facilitates support to SMEs in the certification process - free of charge). Cooperation between TBS and SIDO (in a way a subsidy to incite enterprises) is considered necessary to trigger demand (before this agreement with SIDO, there was less demand from SMEs).</p> <p>Awareness building started some 4 years ago under the agricultural sector development programme (focused on value addition), yet awareness building was said to have stopped at the end of the project.</p> <p>Training offered to enterprises has inspired request for certification, although not all make it in the process of certification. The plan is to strengthen cooperation with SIDO and others with a view to doing more handholding of enterprises (based on a first inspection report, focus is assisting SMEs in getting to right level). Awareness building is seen as a continuous process and it is planned to train more SIDO supervisors (done in Tanga but no budget to expand outreach of such training).</p> <p>In the period 1999 – June 2012 a total of 204 products (SMEs) were certified, using the TBS mark of quality (TZS). Most of these (199) were certified after 2003. In total 22 got Tested Product Certificates - which includes a ceremony and use of the media to show role models. TBS uses zonal exhibitions (SIDO) to promote the quality mark. There are challenges related to limited budgets to ensure follow-up of the training done countrywide.</p> <p>The TBS quality mark requires in principle yearly renewal. Before certification, the enterprise engages in a contract with TBS (covering training, TBS enterprise visits and market sample testing - at any time); the rate of renewal varies, depending on the product and on volume (some more often than others).</p> <p>As many new products enter the market (for which there may not yet be a Tanzanian standard), TBS can use a fast-track system – if available (using an international standard) or has to prepare a new standard. Pending the new standard, TBS can issue a certificate that product is tested and is safe; such interim approval may/may not be enough for clients abroad (depends on client).</p> <p>As regards cooperation with the Tanzania Food and Drug Administration (TFDA): the latter is policing as regulator and primarily focuses on the enterprise premises and product registration. In this regards TFDA acceptance is a precondition for any certification by TBS. Compared to TFDA, TBS sees itself as facilitator, demand driven and focusing on the final</p>
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		<p>product rather than on premises); also: cooperation with TBS is voluntary. At times there appear to be overlaps between TBS and TFDA, as safety and quality go together.</p> <p>Reference has been made to a Food Safety Policy initiated and coordinated by the Ministry of Health (not yet in advanced stage).</p>
3.5.6	<p><i>Facilitate training on trade issues i.e., multilateral trading systems and regional trading arrangements</i></p>	<p>In brief, certification by TBS has been simplified (and free of charge, to sensitize SMEs); also at airport, port, regional border crossings there has been an effort to simplify “in and out” certification.</p> <p>In addition to training and attempts to deepen cooperation among donors in the trade-related field, progress was reported on the ground, i.e., it was reported that customs systems have been streamlining (document processing of different port operations involving shipping companies, the port authority, TFDA, TBS, customs...). In general, exporting was said to have changed in that there are less obstacles than before. Reference was also made to an Export Guarantee system, covering pre and post shipment finance via commercial banks (to cover commercial risks); a new scheme operated by the Private Sector Foundation (TPSF) also covers political risks.</p> <p>The TCCIA – issuing certificates of origin – mentioned that not trading companies but more and more also manufacturing companies request certificates of origin (products being wheat flour; plastic; maize flour, soaps, etc.) The benefit of EAC is shown by an increase in the volume of exports to neighboring countries (EAC and others): Uganda, Rwanda, Zambia, Mozambique, Malawi, etc.</p> <p>It is to be noted that the International Trade Centre (ITC) is launching a survey of non-tariff measures that affect businesses engaged in exports (2012).</p>
<p><b>Objective 4 - Access to Finance: has the situation improved for SMEs?</b></p>		
4.1	<p><i>Promote transferring good practice models and lessons learned in traditional financing mechanisms into modern financial products for SMEs</i></p>	<p>Access to finance remains a major problem in Tanzania. Focus is Micro-Finance (MF) – which is not what SMEs typically need to develop and grow. Even though many banks claim to have SME windows, access remains difficult. There is a big gap (high spread) between the savings interest rate (3%) and the lending interest rate (ranging between 18-22% or even higher and considered high, notwithstanding inflation rate levels). A survey conducted by a business organization indicated that the same sectors and the same people tend to be served in terms of access to finance. Banks are said to focus on traders. For manufacturers the cost of finance is (too) high and, in general it is difficult to meet requirements (collateral; audited accounts, and the like). As one entrepreneur put it: to get a \$ 5000 loan, the bank wanted a house collateral and ended up using savings reserved for children’s’ education...; in principle one cannot mortgage the house one lives in.</p>

		<p>Many mentioned the expectation that MF will pressure banks to change (given competition for clients); still, they cannot be dictated and markets do not yet seem to be working efficiently.</p> <p>Some spoke about the “exploitation tendency” of MFIs: 18-24% interest rates; risks involved in sponsoring individuals; and time involved in repayment (weekly for small loans; monthly for larger loans). Moreover, MFIs are said to be not regulated yet.</p> <p>There are no Development Banks; an Agricultural Bank is in the making (within the context of Kilimo Kwanza) - not targeted at SMEs. Some mentioned that, already, agriculture is faring better than industry, with windows for farmers notwithstanding risks (rain fall dependence). Many highlighted that SME windows of banks must have more outreach.</p> <p>Of the multiple loan schemes the following are mentioned:</p> <ul style="list-style-type: none"> <li>• SIDO’s credit services include group loans and individual loans (sources of funding are the National Entrepreneurship Development Fund/NEDF and the Regional Revolving Fund (RRF); SIDO plays two roles in this respect, i.e., that of (i) financial service provider (almost 12,000 loans disbursed over the period 2010/11 with average loan repayment of 96%) and (ii) advisor on financial management and facilitator, linking enterprises to financial institutions.</li> <li>• The Tanzania Private Sector Foundation’s Business Development Gateway Programme (BDG) that has so far covered 1576 small business through some Tsh 5 billion (soft loans provided only to entrepreneurs having completed business management and entrepreneurship training. The BDG programme involves cooperation with SIDO, TCCIA, NMB Bank, Tanzania Commission for Science and Technology and also covers also Zanzibar. Apart from the financial scheme BDG is said to have conducted training to some 10.000 people in business planning and related skills, 6,000 of which won a ‘seed grant’ totaling some Tsh 20 billion (The Citizen, 30.08.2012)</li> </ul> <p>It is to be noted that Tanzania is a leader in m-commerce (mobile money services) – to pay bills, salary etc. In general, there is said to be more trust in the phone and in the wallet than in conventional banking. A study by FINSCOPE found that only 16% of the population has access to banks – which seems a very low estimate.</p>
4.2	<p><i>Facilitate the establishment of SME windows within existing banks and encourage simplification of procedures</i></p>	<p>Leasing is a new area of support in Tanzania introduced through a WB/IFC supported project but the mechanism was said to be not fully operational yet and said to require further promotion.</p> <p>USAID is developing some new initiatives, such as</p> <ul style="list-style-type: none"> <li>• a social venture capital fund targeting loans for SMEs and technical assistance for enterprises (BDS) with an estimated total of approximately \$12 million;</li> </ul>
4.3	<p><i>Promote innovative financial products for SMEs such as hire purchase scheme, leasing, inventory financing, venture capital</i></p>	

	SMEs	<ul style="list-style-type: none"> <li>• a catalytic fund in support of the Southern Agricultural Growth Corridor (under discussion with the WB);</li> <li>• a project aimed at facilitating the use of movable assets as collateral (e.g., a full warehouse, a tractor, etc.).</li> </ul> <p>Other schemes that assisted SME are matching grants administered by the TPSF and the SME Competitive Facility. Funds assisted a number of SMEs to improve the quality of their products, packaging and participation at trade fairs.</p>
4.4	<i>Facilitate simplification of procedures of financial institutions</i>	<p>The SME Credit Guarantee Facility/CGF (set up under the Bank of Tanzania) was reported to be not operational or semi-dormant (“heard less and less about”). This scheme was to provide an incentive for banks to lend to SMEs.</p> <p>Another scheme, set up within support of DANIDA, however generated encouraging results so far: the Private Agricultural Sector Support Trust (PASS). PASS started in 2000 within the context of an agricultural sector development project aimed at addressing problems such as low agricultural productivity; missing inputs, equipment, gaps in practices, use of old seeds, etc. The need for an organization to facilitate access to commercial banks was identified (as banks state that bankable proposals are missing; that there is no proper accounting – banks want 3 years of audited accounts - and no property as collateral, etc.); focus is on agriculture in the vast sense (value chains).</p> <p>PASS’ key role is to facilitate the link between the agro-based SMEs and Banks; PASS started with BDS (identification of projects; business plan preparation; feasibility studies; organization of groups; linkages with banks). In 2002 Denmark set up a CGF, at first with one bank (CRDB); since 2007 new banks are included in the scheme (now covering 7 banks) – it was reported to take time to develop a cooperative relationship with banks. Whereas there were initially few clients, PASS now has in total 100.000 clients (since 2002), and a repayment rate of 95%; per year. PASS has about 20.000 customers. As the country is large, the total figure is encouraging but low considering that 70% of the population is engaged in agriculture; indeed, 20.000 clients/year spread over 26 regions remains a limited coverage.</p> <p>PASS needs to sustain its operations, both enterprises and banks pay (enterprise: 2%/loan (business plan); banks: 4% of outstanding balance).</p> <p>As banks feel 4% is too much, they have an incentive to engage a loan without going through PASS (if knowing client well). Loan size average is 70 million Tsh (this can go up to 400 million Tsh – the ceiling up to which PASS management can decide itself). The Fund is considered in a healthy state and more branch offices/PASS are envisaged to be able to enhance outreach (by end 2012 PASS plans to have 5 branch offices compared to only one branch office at the start). PASS cooperates with SIDO, SNV, Rural Livelihood Development Centers/RLDC – Swiss) and with MFIs to enhance outreach.</p>

	<p>Lessons learned from PASS: guarantee funding not 100%, given the need to incite to performance/avoid misuse of funds (50% guarantee; pledge farmer: 20%; rest 50-50 (PASS and Bank); all have an incentive to be careful. USAID established within the context of one of its on going project a credit guarantee scheme (as incentive cum insurance), working with one bank (CRDB). There is no indication if/how the PASS experience has fed into the development of this new initiative.</p> <p>It was also mentioned that free and easy money (Government grants) had spoiled people (risk of not much analysis and people getting away without repayment).</p> <p>Notwithstanding the Credit Guarantee, the cost of credit still there (18 – 22%) and it is difficult to convince banks to “lend to a chicken farmer” if the interest rate on Government borrowing is more attractive. The main challenge is to get banks to come out of the “comfort zone”, as they tend to work with people they know. Awareness building is considered important: encourage enterprises to open a bank account/to keep money safely etc.</p> <p>As of Sept 2012 a Credit Reference Bureau is put in place, covering a listing of all and defaulting payers and encompassing all banks.</p>
4.5	<p><i>Mobilize resources and promote establishment of new financial institutions for SME development</i></p> <p>Reference was made to an increase in the establishment of new banks, yet not to an increase in lending by existing/new institutions targeted at SME development</p>
<p><b>Objective 5 - Strengthened stakeholder capacities to achieve effective implementation of SME assistance programmes and interventions: <i>has the institutional support landscape (including also services of business membership organizations) improved?</i></b></p>	
5.1	<p><i>Support establishment and strengthening of Associations of SMEs</i></p> <p>During the past decade there is stated to be progress in the capacity of business organizations in terms of dialogue (substantiating positions, use of the media, lobbying, link with parliamentary committees, and such) and they are step by step getting into service provision to their members. Notwithstanding this technical professionalization, many associations are reported to remain organizationally rather weak (no proper income to pay for skilled permanent staff; limited access to funding). The BEST-AC support aims at strengthening business membership organizations and includes a fund that provides grants for advocacy initiatives. The following are cited in particular:</p> <p>TCCIA: covering at present 20.000 members and with offices spread over all regions; members include associations;</p> <p>VIBINDO: an umbrella organization covering informal sector operators, established in 1995; currently member of TPSF and not a member of TCCIA; VIBINDO started with 19 groups and 2337 individual members and covers to date 480</p>



	<p>groups and 62000 members. The organization engages in lobbying and advocacy (example: its position as regards the BARA Act); research and training; access to credit (for now via SACCOS though planning to have own bank); micro health insurance (primary health care provision facilitation); marketing services; facilitation of business working premises;</p> <p>TPSF: the apex organization that emerged from donor support; is said to be going through some turbulence since a few years linked to conflicts at the level of the composition of the Board and its representativeness; facilitation to solve disagreements is on-going.</p>
5.2	<p><i>Establish a forum for SMEs</i></p> <p>The Tanzania National Business Council (TNBC) is in principle an important forum for dialogue between the public and private sectors, bringing the Government machinery and the private sector under one roof (chaired by the President). Created in 2001 and operational as of March 2002, it encompasses 40 members (20 private – mainly large operations; SMEs associations are only observers; 20 Government/at cabinet level). It organizes different events: council meetings; local investor round table meetings; international investor round table meetings. Council meetings result in a Policy Action Matrix on agreed issues, specifying who is to implement and the corresponding timeframe; the implementation of the Action Matrix is overseen by PMO.</p> <p>There has been some discontinuity in the organization of the Business Council (BC) meetings (funded by Government): the last one was 2009 (the one in 2010 was not held, given general elections and in 2011 there were misunderstandings within private sector); the next BC meeting is planned for Nov/Dec 2012. Also, the implementation of resolutions has proven to be challenging (follow-up reported to be limited).</p> <p>Also regional Business Councils have been organized (based on the idea that whatever can be solved at district and regional levels should be addressed there), with the TCCIA as secretariat; whereas some regional councils are active, others are said to be dormant, which some attributed to a funding problem; others emphasized lack of local ownership and the error made at the start to organize and fund these from the central level rather than ‘by them’. Moreover, BC discussions are in principle not costly.</p> <p>At present, when issues require public-private discussions, business organizations tend not to wait for a BC meeting but deal directly with the concerned Ministries – one to one or involving multiple stakeholders. As regards issues related to the business environment, there are more routes at present, apart from the BC: Road Map Working Groups; Ministries engaging in discussions with the stakeholders.</p>
5.3	<p><i>Facilitate strengthening</i></p> <p>Some were of the opinion that public sector funding going to business organizations weakens their advocacy capacity There is reported to be a club of BDS providers (young graduates established as side effect of training; “TDBDS”).</p>

	<i>and networking of service providers of SMEs</i>	<p>However, overall, BDS providers are said to be not organized as a group (that could be affiliated to an apex body). SNV tried to stimulate interest in BDS networking, but this did not yet go far (said to be an issue of leadership: the ones that are successful have no time to organize an association).</p> <p>As mentioned in Chapter 9, it has proven difficult for the SME Directorate of MIT to force coordination among the range of actors directly or indirectly involved in SME development issues.</p> <p>The institutional framework was found by several to have become much more complex instead of strengthened. The concern of duplication in the structure of Government was expressed, concerning similar activities undertaken by different institutions (examples given related to activities undertaken by NEEC; TIC; SIDO; Department for PSD in PMO versus MIT versus Ministry of Investment; SME Policy versus forthcoming PSD policy).</p> <p>Need for effective coordination (who does what; who does what best), monitoring and evaluation of the Policy remains a core theme at present. Also as regards donors, it was stated that ‘a lot is going on’ yet coordination merits to be strengthened.</p>
5.4	<i>Strengthen Government capacity to coordinate monitor and evaluate Policy</i>	<p>It was highlighted that awareness has been built and people have been trained, yet that this is to be organized on a continuous basis, taking into consideration staff turn over. Several mentioned the need to keep sensitizing at the highest levels.</p>
5.5	<i>Enhance the knowledge and skills of relevant government officials at all levels on SMEs development</i>	
<b>Objective 6 - Enhanced Rural Industrialization: to what extent has support reached out to enterprises in rural areas, aiming at greater value-addition?</b>		
6.1	<i>Strengthen extension services aimed at promoting rural industrialization through SMEs</i>	<p>The observations made so far in this report as regards the different areas of support to SMEs did not make a distinction between urban and rural based SMEs. It is recognized that rural enterprises face more constraints such as in terms of access to inputs, access to markets, and quality of infrastructure, access to services. It is in this respect that SIDO and TCCIA have the widest outreach and are as respectively service provider / membership organization closest to the businesses.</p>
6.2	<i>Facilitate the establishment of industrial clusters/business centres at regional, district and ward levels</i>	<p>In the case of SIDO, rural industrialization cum value addition is an explicit component of its Corporate Strategy, covering a range of operations, such as the One District One Product strategy implemented together with local Government and the private sector (TCCIA), the “MUVI” programme which covers six regions, support to selected value chains, strengthening of regional and district level BDS providers (public and private)</p>
6.3	<i>Facilitate the transfer of</i>	<p>Attention to rural industrialization is reflected in the recent FYDP <i>inter alia</i> through emphasis on</p>

	<p><i>technology to rural areas, including upgrading of existing technologies</i></p>	<ul style="list-style-type: none"> <li>● Agro-processing (value-addition of primary export goods)</li> <li>● Introduction of labor intensive technology in rural areas</li> <li>● Formation of youth cooperatives.</li> </ul>
6.4	<p><i>Support establishment of rural industrial cooperatives</i></p>	<p>The mission was not able to collect detailed information on work done as regards introducing/improving production and processing technologies in rural areas (for example, SIDO's TDCs in areas of agro-processing - mainly cashew nut; other initiatives by the Technology Development and Transfer Centre (TDTC) of the University of Dar es Salaam in the field of palm oil processing, grain milling and artisanal mining; and efforts of the Tanzania Engineering and Manufacturing Design Organization (TEMDO) and the Centre for Agricultural Mechanization and Rural Technology (CAMARTEC).</p> <p>On the side of the donors, value-chain support is on the agenda of most of them, explaining the findings of a recent mapping of value-chain initiatives funded by DANIDA and IrishAid: no less than around 70 different initiatives were identified across the country. This resulted in the observation that “there is a huge potential to improve aid-effectiveness in this area” and a concept towards establishing a multi-donor value-chain development programme is under preparation (learning lessons inter alia from the Financial Sector Deepening Trust programme).</p>
<p><b>Objective 7-Cross cutting issues of environment, gender and disadvantaged groups</b></p>		
<p><b>1. Environment: were environmental considerations given due attention in interventions focused on SMEs?</b></p>		
7.1.1	<p><i>Facilitate creation of awareness on environmental issues to SMEs and their service providers</i></p>	<p>Tanzania's Environmental Policy (1997) - that preceded the SME Policy - was followed by the Environment Law in 2004; the National Environmental Management Council is the regulating body. There were said to be gaps in enforcement and the incentive for enterprises to comply (e.g., by putting in place waste treatment plants) is low. The Cleaner Production Centre - CPC (in place since 1996) said to have been involved in the formulation of the SME Policy only at a late stage (was more actively involved in the formulation of the industrial policy in which 'environment' was reported to have been addressed in a more comprehensive manner).</p> <p>It was stressed that cleaner production is not about environment per se (is now called RECP: Resource Efficiency and Cleaner Production), yet covering efficiency issues pertaining to energy use, material use, inefficient processes, and pollution prevention, i.e. lowering resource use to cut down waste at source, in addition to pollution management); key message in awareness raising efforts targeted at enterprises is that it is about the potential for economic gains, not simply about pollution control (“raising the economic flag before the environment flag”). The CPC indicated that the EAC is now adopting the RECP approach – aimed at promoting the efficient use of resources (energy, water, raw materials).</p> <p>In terms of pollution, attention was drawn to the volume of production by SMEs compared to (not many) large</p>



	<p>companies with typical environmental challenges (cement, textile, beverages); the SME Policy could have been the starting point for awareness campaigns on resource efficiency/pollution control/prevention issues.</p> <p>The CPC started as a UNIDO project that focused on cleaner production (CP) awareness, CP assessments, demonstrations in different sectors to show results and get enterprises on board, and training (initially under MIT and later on under the Vice President's Office); the Center is registered as a Trust and has a small core staff (of which 3 technical); there is cooperation with Universities, R&amp;D organizations and the private sector. The organization receives no subsidies and enterprises pay for services. It also manages projects and at present acts as implementing agency of the Lake Victoria Environmental Management Programme (WB, SIDA and Government funding), which has an enterprise support component; i.e., in the urban centers (Mwanza etc) there are enterprises that contribute to pollution (discharge in and around the lake). New projects with UNIDO are forthcoming: focusing on e-waste; mobile laboratory.</p> <p>The Environmental Management Council promotes CPC's services through an introductory letter. No information was obtained on the evolution in SME demand for services. In addition to CPC, reference is to be made to TBS (see below) and also to SIDO. E.g., SIDO's training of trainers (ToT) in the field of food processing includes a module on cleaner production.</p> <p>It is to be noted that the FYDP highlights environment and climate change issues, stressing the need for review of past environment policy and conservation/biodiversity strategies. Priority was said to be given to awareness and training in environmental impact assessments and risk evaluation of climate change.</p>
7.1.2	<p><i>Facilitate simplification of environmental impact assessment procedures</i></p> <p>No reference has been made to the simplification of impact assessment procedures. TBS was involved in the preparation of standards and training on these standards. Some impact assessments have been delegated to TBS (e.g., in the field of plastics).</p>
7.1.3	<p><i>Encourage proper waste management including recycling techniques</i></p> <p>According to CPC, the SME Policy's focus on waste management was too narrow; there should have been more emphasis on pollution prevention. A few years back UNIDO initiated a plastics recycling project at TIRDO which helped in awareness creation to plastic products manufacturing industries that now have internal recycling systems (waste collection for recycling, though mainly limited to hard plastics; flexible and film plastics are still a menace to the environment and more effort is needed on containing of other solid and watery waste from industry (and particularly at SME level).</p> <p>As mentioned below, SIDO's CSP includes attention to waste management.</p>
7.1.4	<p><i>Facilitate production of technologies which apply</i></p> <p>Through its different programmes SIDO advises SMEs on technology choices, which takes into account inter alia environment and energy related factors.</p>

	<i>renewable energy</i>	<p>Focus on environment and energy (including renewable energy) is reflected in its latest CSP as a separate output, covering:</p> <ul style="list-style-type: none"> <li>• Dissemination of energy efficient technologies (reference was made to dissemination work in the field of biomass, briquettes, energy saving equipment and solar energy)</li> <li>• Promotion of waste management (reference was made to support to the organization of 132 groups of waste collectors who have been trained and provided with simple tools for collection, grading), with focus on paper, plastic, saw dust and waste fish.</li> </ul> <p>Another example of support in this field: within the context of WB's Gender and Energy Programme for Africa, local communities, including women entrepreneurs, have been trained in the use of alternative fuel (saving time and money and providing alternatives for charcoal, using agriculture and crop residues (WB, May 2012).</p>
<b>2.</b>	<b>Gender and the Disadvantaged Groups: was gender mainstreaming enhanced in initiatives pertaining to SME development?</b>	
7.2.1	<i>Facilitate SME service providers to design special programmes for women entrepreneurs and disadvantaged groups</i>	<p>Gender inequalities have been addressed over the years but are said to remain a major challenge in the country's socio-economic development (FYDP). Of the different past and present initiatives and programmes addressing women entrepreneurs, the following are mentioned:</p> <ul style="list-style-type: none"> <li>• Women Entrepreneurship Development Unit (SIDO-WED), focused on the food processing sector – training of trainers and training of entrepreneurs on food processing (including food hygiene), management and entrepreneurial skills; initially created with UNIDO support, SIDO-WED received subsequent assistance from others donors, such as Commonwealth Secretariat and EC's Centre for the Development of Enterprises (CDE); SIDO-WED supported the creation of the Association of Food Processors (TAFOPA) and currently supports the strengthening of the TWCC – see below); SIDO-WED is also the Focal Point in Tanzania for ITC's ACCESS! for African Business in International Trade programme (funded by CIDA) and is integral part of the ACCESS! network covering COMESA, ECCAS, ECOWAS and selected SADC member countries). Today SIDO-WED has trained about 9,000 persons, most of whom are women. About 4,000 of these are in business, operating micro to small agro-processing enterprises.</li> <li>• Tanzania Handicraft Association (TANCRAFT) and Hand-products of Tanzania (HOT): they work closely with SIDO in empowering women</li> <li>• SERO: Business Women's association involved in leasing and financing</li> <li>• Equal Opportunities for All Trust (EOTF)</li> <li>• Tanzanian Women Chamber of Commerce (TWCC) : apex women entrepreneurs organisation established in December 2005 that now has some 2000 members (18 companies ; 6 associations – TAFOPA, TAWOMA, and others); is part of the African women in agri-business network and has 5 branches in the country</li> </ul>

		<ul style="list-style-type: none"> <li>• WB funded “business incubator without walls” programme (MKUBWA) focused on growth-oriented micro and small enterprises operated by women (implemented through the Tanzania Gatsby Trust, TGT)</li> <li>• Work done by ILO through e.g. its women entrepreneurship “WEDGE” project (to be noted that ILO funded gender mainstreaming of the SME Policy’s implementation strategy)</li> <li>• Ongoing work of UN-Women in Tanzania (e.g., planned support to the strengthening of TWCC)</li> </ul> <p>Time did not allow the mission to do a proper inventory of the multiple efforts (BDS and financial services) targeting women entrepreneurs and their outreach. To the extent this objective covers also ‘disadvantaged groups’, it is to be noted that emphasis tends to be gender equality, without indication to what extent other disadvantaged groups have been the explicit targets of programmes. However, it is to be noted that in SIDO’s capacity building programmes an effort is made to include disabled persons among participants.</p>
7.2.2	<p><i>Identify factors inhibiting women and the disadvantaged groups from going into business and design programmes which will address those factors</i></p>	<p>The initiatives listed under 7.2.1 are built on the obstacles faced, such as in the case of women entrepreneurs: house in the husband’s name, implying that women cannot use it as collateral for their business.</p> <p>According to World Economic Forum’s Global Gender Gap Report 2012, Tanzania ranks 46th out of 135 countries in the World (lower ranking being better score).</p> <p>Interventions by SIDO have in certain cases focused on empowering youths living under difficult conditions. This was done in collaboration with orphanage/rehabilitation centers.</p>
<b>3.</b>		<p><i>HIV-AIDS: was this theme addressed within the context of support to SME operators/workers?</i></p>
7.3.1	<p><i>Create awareness on HIV/AIDS related matters amongst the SME operators</i></p>	<p>There was no time for interviews related to efforts (with focus on SMEs) addressing this national challenge. Document review (SIDO) shows attention in the form of awareness campaigns targeted at staff and planning of HIV/AIDS work place programme (through incentives). SIDO-WED training programmes have always included a delivery module on HIV/AIDS and malaria.</p>
7.3.2	<p><i>Support potential vulnerable groups to engage in income generating projects</i></p>	

### 11. Some SME case stories

Interviews with some 10 SMEs as part of the SME Development Policy implementation review resulted in cases that illustrate the challenges the Policy tried to address and that show that many of these challenges continue to persist. For the sake of confidentiality, the findings are kept anonymous.

#### **SME 1**

*The genesis of this company was a family idea to start growing mangoes for the market and it was in 1992 when three partners from within the family started a mango farm a few kilometers south of Dar es Salaam. By the year 2000 the business was already producing over 32 tons of mangoes that were sold locally in prime hotels and some were exported to the Middle East. Seeing that the activity was growing and needed formalization for growth and competitiveness in accessing markets, in 2000, a company limited was formed with 2 more family members co-opted, bringing the ownership to five. At that time, harvested mangoes were sorted and packed at home. Boxes designed and printed in neighboring Kenya were used for packing the mangoes for the export market. The business was still a part time activity, as all partners were employed elsewhere. They gradually engaged also in exports of other commodities, such as rice, beans, and chilies. Since this business involved shipping (not air freighting like the mangoes), payments were delayed, which affected the liquidity of the enterprise in attending to orders that were ever-increasing.*

*As a result of rapid growth, it had become necessary to run the business on full time basis, led by a managing director. When they started roasting and exports of cashew nuts, the total number of shareholders rose from 5 to 39 in order to raise investment and operational capital. The number of employed persons on a permanent payroll (including the managing director) rose from 3 to 6. The capital base has increased from Tshs 48million (2006) to about Tshs 700million at present, and business has meanwhile further expanded its business lines, diversified its markets and growth in sales has been steady, though there was a slight fall in 2009 due to the global recession. Among the main milestones for the company's success, its managing director mentioned commitment of staff and Board, improvements and stability of product quality, brand building and ensuring timely and reliable delivery of customer orders.*

*The development of the company has not been smooth and in particular the following challenges were cited: availability and access to affordable credit (the start of the company has mainly been from partners' contributions; they shun loans on account of high interest rates and collateral requirements); availability of technical advice, particularly in the field of production, processing and packaging; long process of developing standards for new and innovative products; sourcing of technology and maintenance (for example, the company had to seek international advice to calibrate a newly bought moisture meter); difficulty to find suitable businesses premises; taxation on packaging materials.*

*Suggestions made by the company to address challenges faced by SMEs covered: concerted efforts to ensure availability of credit at affordable cost; strengthening of BDS services stating that SIDO, cited as the most effective industrial support institution, cannot meet all BDS needs; strengthening the business associations to respond to members needs by effectively lobbying and advocating for a better business environment; solutions for provision of business premises for SMEs (the export processing zones catering mainly to medium and large enterprises); and addressing the problem that micro and small enterprises are vulnerable to local government harassment.*

## **SME 2**

*Starting as a family business in 1979, different activities were undertaken by this woman entrepreneur, initially trading in food grains and cottonseed cake and later cattle farming. Due to feed availability problems, mainly caused by lack of grazing areas around Dar es Salaam, the cows were sold, which generated the start-up capital for a new business: trade in gemstones (to Thailand). Through this business, which she did without much knowledge and guidance, she got swindled and lost virtually all the capital gained from the sale of the livestock. After a 2 year jobless period, she picked up the idea of making hand woven baskets and containers from locally available natural fibers – similar to the products she had seen in Thailand. The enterprise registered a business name in 2009.*

*The business started using miyaa (a kind of wild coconut) that were obtained from Bagamoyo Coast region and Mtwara. Initially she contracted weavers in Mtwara region, but losses were greater than gains, which led to the hiring of 4 weavers and on site production in Dar es Salaam. In the period 2009-2010, some 2000 baskets were produced. As part of efforts to improve the quality of the products, the use of leather lining and straps was tested and sample products presented at a major local women entrepreneurs meeting in 2010 raised interest and generated many enquiries for the new products. At this juncture, she sought for advice from SIDO on how to raise capital to increase production and improve on the quality, given a promising emerging market for her products. Through SIDO assistance she got credit to buy tools for increasing the production and she was also linked to the media to promote her products. With an average turnover of Tshs 1,250,000 per month, the enterprise continues to grow. In 2012, the business secured a third loan of Tshs 6 million from SIDO, with a view to expanding the business and further diversifying its activities (now also involving making of shoes and of bead decorations). The total labor force has increased to 15 persons, including 10 bead makers.*

*Challenges mentioned include difficulties to sell on credit, low level of working capital, constraints in accessing larger credit and the high cost of lending. This situation has deprived her of an opportunity to supply children shoes to a school where she was given an order. Moreover, accessing skills training on the design and finishing of basketry and leather products were said to be lacking, and availability of quality leather is irregular.*



### **SME 3**

*This woman owned business was registered in 2004, though it started as a family business much earlier. After retirement from a job in the medical sector, the entrepreneur started tailoring and making dyed prints (batik). The tailoring business started with one sewing machine and some Tshs 50,000 working capital. She attended a six month course on tailoring and later (1998-1999) an 8 month course on designs, dying and tailoring organized by the then UNIDO executed Tanzania Women Textile Development project. She later attended a 6 months handloom course organized by the Artisan Development Agency of Tanzania (ADAT) in 2000. She started making handloom cloth (vikoi) in 2001 and gained a growing market after participating in the Dar es Salaam International Trade Fair (DITF). Following training on the importance of formalizing businesses organized by the Equal Opportunities for All Trust Fund (EOTF), she decided to register her business in 2004.*

*The business capital has now grown substantially, excluding buildings and equipment which value well over Tshs 20 million. Average turnover is Tshs 5 million (2009-2010). Due to problems of getting yarn for the handloom business, this line of business has now stopped for about two years. Whereas the enterprise earlier on employed 6 permanent staff, since the closure of the handloom business only 2 are left, with one casual staff involved in the dying and tailoring activities.*

*Challenges experienced relate to the difficulty to find skilled weavers, limited capital to expand the business, high bank interest rates (even higher rates charged by Micro Finance Institutions—MFIs), gaps in the availability of yarn, which has stalled the weaving business, disposal of dyes for the printing business (making batik). She in fact had to stop dyeing cloths at her premises, as disposal was a problem. Therefore, getting suitable work premises was mentioned among the problems faced. Reference was made to the importance of sector focused production estates for SMEs (providing required facilities for production and also for waste disposal), and access to common market outlets for SME products, citing the case of National Theatre Centre in Uganda and the Maasai market in Kenya (for SMEs). The Machinga complex in Dar es Salaam was criticized for its layout (very small spaces not suitable for the small businesses). Moreover, the “piracy” on SME product innovations was said to deprive those who developed such products, emphasizing the need for raising awareness on respect for property rights.*

### **SME 4**

*This engineering company was started by a retired army officer in 1998. The company manufactures various products, such as trailers, construction bars, and brick making machines, spares and components. The entrepreneur puts emphasis on the production of quality products as explanation to why the business is flourishing. The company has a contractor’s license for both building and mechanical engineering and has been able to compete in construction and consultancy jobs. Having started with a capital of Tshs 10 million, today the company’s worth is estimated at Tshs 500million. The enterprise is also involved in training of college students under the Structural Industrial Training Programme (SITP).*

*Challenges mentioned are similar and include lack of skilled labor force, weak extension services to assist take off and to nurture start-up enterprises, lack of affordable credit (procedures being cumbersome, interest rates as well as penalties on over drafting or on delays in loan repayments high). There was said to be weak supervision in the implementation of many policies, including the SME policy – having noble objectives and quite good strategies yet requiring actual implementation and more rigorous supervision.*

*Suggestions made included the establishment of a special bank for SMEs, the supervision of banks providing credit to SMEs and better monitoring of programmes formulated for the development of the sector. Reference was made to the United Kingdom where funding provided for SME development and programme implementation was said to be monitored closely followed. Also Singapore was cited as a country with effective support to SMEs. Emphasis was put on strengthening BDS and skill development (such as by VETA and DIT), ensuring that curricula contribute to having practical and skilled professional graduates, and strengthening sector focused interventions that are complementary.*

## **SME 5**

*The business, established in 2004, makes cement blocks. It is owned by 3 family members, with an initial investment of Tshs 1.6 million. It employs at present 15 permanent staff. The initial target market for the blocks focused on large construction projects such as banks, hotels and other large projects requiring high-density blocks. However in 2010, they stopped the regular manufacturing of the blocks due to limited demand for the product and preference by many builders for cheaper blocks. The company now manufactures cement blocks only on order and has moved to making flash doors and insulated panels (mega panels) that can be used in low cost housing projects (making it possible to save substantially on building time and also having an insulation effect). The business concept is new in Tanzania, but there were said to be prospects that it will pick-up as many developers and investors know its advantages over the conventional building materials and types. In 2011, the company had a turnover of Tshs 900 million.*

*The company cited in particular the following challenges: erratic power supply - being detrimental for most business in the country, surcharges depending on power use, cumbersome procedures for payment of taxes, interference by local government authorities (thus making a call for a centralized system), poor coordination among law enforcement bodies (environment related), inflexibilities in the labor law, gap between payments for fire and health services versus the quality of the services that are needed.*

## **SME 6**

*This Cooperative Society located in Chang'ombe industrial area in Dar es Salaam started in 1998 with 34 members. Today membership has grown to 76 (74 men and 2 women), sharing the same premises. All members are owners of individual enterprises in different fields of business: carpentry (windows and doors), metal work (mainly gates, burglar proof grills for windows and doors, etc.), fabrication of equipment such as cooking stoves, hot water stills, kerosene burners, food vending, building materials trading, scrap trade, garbage collection and environment cleaning.*



*The Society is managed by an executive committee of 10 members, comprising of a chairman, a secretary who is also the society's manager, a treasurer, among others. The source of income for the society's operations comes from fees fixed by the members themselves, in particular a monthly fee of Tshs 5,000 and a 0.2% levy on all items sold by the members. Each member contributes to the payment for security of the premises and towards a youth fund. The Society earns income from charges for goods stored by outsiders. For instating discipline among members, violation of set regulations may attract a fine of Tshs 500,000 and 3 months suspension of operating from the premises.*

*Daily sales of members were said to have risen substantially over the years. The society is pleased with the current procedures of issuing license, which they find to be simple and free. They are also able to pay tax annually. However, despite the relatively smooth operations of the members of the Society, which is also affiliated to VIBINDO, they find there is more lip service by the Government authorities on provision of work premises that are close to markets, with services such as water and electricity. Irregularities on the supply of power affect adversely the operations of many members doing fabrication and machining jobs. To overcome these challenges they suggested due consideration be made when allocating work premises. In addition to being near markets and basic infrastructure, location of premises should also be linked to sources of raw materials.*

## **SME 7**

*This business was started in 1984 by a young university graduate while working as bank officer in one of the local banks. The woman entrepreneur developed the business idea based on her father's grain milling business, the apparent demand of milled maize and finger millet flour and her food science and technology studies. Indeed the bad state of the country's economy in late eighties and early nineties had caused hardships in food supply and the business was also an important complement to her rather low income as employee.*

*She started by repackaging and selling in Dar es Salaam flour from their family hammer mills in Moshi. As demand increased, the idea was to launch her own milling unit in Dar es Salaam. At the bank where she worked there was also opportunity to get a loan to start the business, but the condition given was to have a shed or building to house the machines to be bought. This proved difficult, as she had no plot to construct a building. This resulted in withdrawal of the earmarked credit of Tshs 240,000 for buying a huller and hammer mill. However, this did not deter her from pursuing the project. She eventually started the business at a family plot after purchasing the machines from the equipment supplier on a hire purchase basis. The business started in 1993 as a milling and packing enterprise, essentially using own savings, with an initial investment of Tshs 500,000. Two years later, she quit her bank job to concentrate on her business, which was now registered. The enterprise focuses on finger millet and maize flour as well as compounded flours of maize and soybeans.*

*In 2009, cooperation was secured with a France based partner (27% shareholding) to produce a high nutritional value ready-to-eat food, used for nutritional interventions. The partner brought in the technology and also trained technical staff on food safety and quality to meet with international standards. The company employs 69 persons, most of which work*

*as production staff, in addition to administrative and support staff. Today the business has an investment value of Tshs 1.6 billion and annual turnover of Tshs 700 million.*

*The company cited the cost of credit as an important obstacle for most SMEs, in addition to challenges such as work premises (SMEs were said to remain to be in shanty areas and places where there is no or limited infrastructure development and away from markets). Many SME development programmes were found to be not sustainable and the need for a strong voice for advocacy and lobbying for SMEs at the national level was emphasized as important for driving the development of SMEs concomitant to their role in the country's economy. Business organizations such as CTI were considered strong, yet said to cater mostly for medium and large industries. Implementation of policies to enhance SMEs' growth and impact on the economy was considered weak. To make existing policies "work", the need for adequate resources and strong support organizations mandated to coordinate development of the sector was stressed.*

### **SME 8**

*This family business started in 2008 and formally registered with BRELA as Limited Liability Company in 2009. The business idea developed after the owner and managing director had visited a relative in the UK who runs a mini-food supermarket and following another exposure tour to Dubai. This led to the start both of a supermarket and a bakery within the same premises, (latter was added in 2012). The start-up capital of Tshs 10 million was raised from own savings complemented by a bank loan of Tshs 5 million. Today, the business has a turnover of about Tshs 30 million per month (up from Tshs 12 million in 2009). The managing director is proud of this achievement and is confident that the supermarket will sustain this growth path in the years to come. The business currently employs 6 persons (the managing director included).*

*Notwithstanding this achievement, the company cites as challenges that affect growth and performance as the limited sources of credit and high cost of borrowing, exacerbated by stiff conditionality and cumbersome procedures making access to finance difficult. This is said to be particularly a constraint for SMEs, especially the starters. Another issue relates to VAT: the fact that micro enterprises are not VAT registered deters the company from buying goods from these micro enterprises even if they produce quality products comparable to VAT compliant companies. This affects the market and growth opportunities of such micro enterprises, and makes buying and selling on credit difficult. Other SME related needs mentioned included the strengthening of BDS provision and training on environmental issues.*

### **SME 9**

*This enterprise was established in 2006 by two friends having technical training in carpentry. They formally registered the business in 2012 that is focused on wood and aluminum furniture and fittings. It started with a capital of Tshs 1 million in 2006, which has grown to Tshs 40 million today. Sales have quadrupled since the start and the business employs 2 permanent staff, engaging also on average 4 carpenters on contract work basis.*

Challenges cited are the cost of equipment and tools, the cost of raw materials (some of which are imported) and competition with imported cheap products (which are said to be not necessarily quality products). Accessing workspace was also among the difficulties mentioned and claims regarding the provision of workspace considered to be, to a large extent, “a lip service”. This company had to restart at new premises at the cost of over Tshs 25 million when it was evicted from the location from where it had operated for 5 years. Other constraints mentioned were poor infrastructure, power cuts, the cost of credit, in addition to the need for streamlining taxes (e.g. reduced rates on machinery and tools) and for strengthening BDS provision to nurture SMEs’ growth.

### **SME 10**

*Papercraft, considered a medium scale enterprise by employment and capital investment criteria, is a subsidiary company of Large local, business undertaking in Tanzania manufacturing industries and in eastern Africa region. It was established in 2010, under the EPZ Mabibo area to manufacture paper packaging materials mainly for internal consumption by other Bakhresa companies locally and abroad .It has invested about Tshs 628 million in terms of building, machines and related services. Being under the EPZ enjoys 0% VAT, and easy access to power and water. The plant capacity is 500,000 for 2kg bags and 50,000 for 24kg bags per day. The company has also facilities for making boxes, though currently not in operation. The former bags are sold at Tshs 60 and latter at 140.*

*It managed by a general manager assisted by a production manager in-charge. Total labor force is 60, 5 in management and administration, with the rest in production. The company does not seem to have major challenges as it is financed through the mother company and still enjoys EPZ incentives. This case certainly shows the differences between companies started by SMEs and those by large and experienced companies with access to sufficient resources.*

#### **General comments based on SMEs’ voice:**

*SMEs feel the SME Development Policy has helped addressing some of their problems, such as making registration and certification easier, but there are other areas which have not adequately addressed their needs, such as the issue of access to credit and having adequate work premises. There are other problems, like weak/inadequate power and water supply; although not only affecting SMES, they get hit most.*

## 12. Conclusions

The general conclusion of the rapid assessment is that:

- ✓ At the time of its formulation, the main stakeholders considered the SME Development Policy an important and comprehensive document conceived in a participatory manner;
- ✓ Overall, its key pillars remain valid to date, although not surprisingly, ten years later, some of the activity areas included in the implementation strategy can be updated;
- ✓ Since its launching in 2003, many new initiatives programmes and projects have seen the light, many of which have shown encouraging results;
- ✓ Notwithstanding achievements, there have been gaps in the implementation of this Policy, for different reasons, in particular:
  - Underestimation of the complexity of implementing a vast range of planned interventions in different sectors/thematic areas that involve many stakeholders (public & private actors, donors);
  - Lack of clarity in the implementation strategy regarding the lead agency for each subject area (organizations were listed, but no lead organization was designated);
  - Insufficient rigor in the steering of the implementation process (steering committee became dormant after the first year);
  - Recognition of the importance of a focal point to coordinate the implementation process (SME Desk in MIT evolving into SME Directorate), yet insufficient support to enable the Desk, later the Directorate to carry out this key role (lack of resources and lack of decision making power vis-à-vis other Ministries etc. involved in the implementation of cross-cutting issues);
  - Development of new policies and strategies with partially overlapping purposes (the case of the 2003 SME Development Policy and the 2004 Economic Empowerment Policy, resulting in different institutions engaging in similar activities; more recently: the development of a Private Sector Development Policy with seemingly little reference to SMEs);

Gaps in coordination and duplicating policy and institutional mandates and corresponding activities result in suboptimal use of (limited) resources at a time when the expectations from micro, small and medium enterprises are very high: they are seen as the main sources of employment creation and income generation for the large number of job seekers that annually enter the labor market.

### 13. Key messages on the way forward

This rapid assessment aims to be forward looking, and the key messages in this respect are addressed at the different main stakeholders:

#### Government

- ✓ Deepen awareness of the contribution and challenges of the sector at large and reiterate at the highest level the importance attached and corresponding commitment to support SME development and address common SME challenges, such as access to affordable credit, work premises;
- ✓ Support the prolongation of the SME Development Policy as a reference document through an updated version resulting from consultations between key public and private stakeholders;
- ✓ To the extent required to advance implementation of SME policy priorities, prepare and enact relevant legislation;
- ✓ Target and prioritize within the implementation strategy, as “SME Development” is broad, with different players (that have different needs and interests), numerous priorities and limited resources. When focusing priority interventions, consider past achievements and the main constraints to be addressed and agree on the respective roles at different levels (Ministries; public support institutions; business membership organizations);
- ✓ Monitor implementation of the Policy through annual action plans, reflecting remedial actions in consecutive plans (including strengthening of monitoring capacity);
- ✓ Seek and support effective linkages and synergies (and avoid fragmentation and duplications) in the implementation of the existing policy and institutional framework related to SME development;
- ✓ Pursue the streamlining of regulations, with involvement of the private sector, if regulations are contradictory or if implying a step back on the path towards a better business environment;
- ✓ Examine at what level and how the coordination of SME Policy implementation can be best organized (learning in this respect from experiences elsewhere) and review the necessary conditions pertaining to the legitimacy needed in terms of institutional mandate and responsibilities and the resources required to “make coordination happen”;
- ✓ Ensure that, in other policies and support measures with wider objectives, SME development concerns are explicitly addressed, as appropriate (for example: search for linkages between EPZ/SEZ and non-EPZ/SEZ enterprises);

- ✓ Stimulate the exchange of experiences on what worked/works (in view of up-scaling) and what not and inculcate the application of good practice principles in SME support (BDS and financial services).

### **Private Sector**

- ✓ Take active part in the updating of the SME Development Policy (provided this updating scenario is accepted by policymakers), as the Policy is a common -public and private (PP) -guide covering the areas on which support to the development of the sector should focus;
- ✓ Encourage the harmonization of the SME Development Policy updating and the formulation of a private sector development policy (under preparation) to avoid confusion and overlaps;
- ✓ Contribute to enhancing the general understanding of the SME “sector” and bring SME issues explicitly on the agenda of the National Business Council events (once again organized) and seek to reflect these issues in a common private sector voice vis-à-vis the public sector, notwithstanding divergence among private actors and divergence of interests. Provided there is interest, attempt the formation of a SME Forum as envisaged in the SME Policy;
- ✓ Contribute to the search for harmonization and coordination of SME support initiatives among business membership organizations;
- ✓ Support and take part in efforts aimed at identifying what works and what not (see above) and build future interventions on lessons learned;
- ✓ Stimulate discussion on the division of labor in service delivery (facilitation versus delivery of services and risks of confusion, if support organizations engage in both in parallel).

### **Development Partners**

- ✓ Within the spirit of enhancing aid effectiveness, pursue the deepening of the agenda of the Development Partners’ Working Group (DPG) on PSD and Trade through joint efforts and real coordination between related support in the field of SME development (Example under preparation: harmonization/coordination/joint efforts on numerous Value Chain support initiatives); only solid harmonization of the planning, implementation and monitoring of donor interventions will avoid duplications and maximize impact;



- ✓ Identify new avenues for strengthening donor coordination of SME related support without adding to the number of coordination meetings (update of data base – to be repeated periodically - and inclusion in DPG portal; search for other options to facilitate communication, such as thematically focused sub-networks that share specific information on their respective areas of work, for example, via email groups);
- ✓ Involve private donors and their implementing partners in donor coordination in the field of SME support; the same applies to other non-traditional donors from non-OECD countries, to the extent they are involved in SME development related support;
- ✓ Reinforce the communication of the Development Partners Working Group on PSD and Trade (as a group) with the main Tanzanian stakeholders (public and private) involved in SME development and encourage also the engagement of Tanzanian partners in the discussion as a group;
- ✓ Foster sharing of results of surveys on the business environment and perceptions of SMEs to avoid the proliferation of parallel exercises funded by different donors that generate similar findings;
- ✓ Initiate or take part in discussions with public and private stakeholders on lessons learned in SME support (including opportunities for up-scaling and for pursuing good practices in support service delivery).

## **UNIDO**

- ✓ Share the findings of this assessment with the Development Partners Working Group on PSD & Trade;
- ✓ Look into areas where further assistance could be mobilized by UNIDO (including mobilization of donor interest), such as:
  - Support to the SME Directorate (MIT), based on Government decisions, on its role and tasks as regards the 'next steps' to be taken with respect to the SME Policy, in particular: its updating (including of the implementation strategy); coordination and monitoring of implementation; development of new projects in line with the strategy and building on past achievements (search for up-scaling)
  - Support to the completion of the centralized business registration system and to stimulating registration by enterprises (use of BRELA data bases and linkages among them and with data base of TRA; use of data bases for legally valid and up-to-date information service delivery for policy makers, the private sector, researchers and others);
  - Facilitating the sharing of experiences, lessons and tools on cluster development elsewhere with stakeholders in Tanzania (SIDO, others) engaged or planning to

engage in cluster development support (targeting urban/rural based enterprise development);

- Given the stated BDS gaps, focusing interventions on the identification of technology related needs with local support institutions (SIDO's TDCs, TEMDO, CAMARTEC, others) and developing jointly project concept(s) based on (i) needs and (ii) UNIDO experience and targeting different levels of enterprises (from micro to medium; urban/rural); where possible, building on prior inventories/assessments of BDS capacity and of opportunities for BDS market development.
- ✓ Review and where needed reposition UNIDO's current project in the field of Entrepreneurship Development/ED within the context of related assistance in this field and take into consideration the country's emphasis on mainstreaming of ED in curricula at different levels of education;
- ✓ Take active part in discussions at the level of development partners regarding the harmonization of approaches and cooperation in the field of value-chain development support (as UNIDO has an ongoing project in this field in Tanzania and can also share experiences and lessons from other countries);
- ✓ Take into consideration the need for outreach to SMEs as regards the forthcoming support to CPC (mobile laboratory);
- ✓ Reflect energy efficiency, environmental as well as technology related issues in the approach followed in the ongoing enterprise upgrading pilot project;
- ✓ Engage in discussion with BDS providers involved in energy efficiency/renewable energy related advice and support (SIDO, others) and examine how UNIDO services, experiences and tools can strengthen their service capacity for SMEs in this field; follow the same approach for environment related services (material use; waste management, others);
- ✓ Support associations in enhancing their advocacy and lobbying capacity (in cooperation with BEST-AC).

## **ANNEXES**

## ANNEX 1

### Snapshot overview of Tanzania's socio-economic context: basic indicators and trends

Population (millions)	31.9 (2000)	43.7 (2010)	45.0 (2011 estimate)
Population growth rate	2.8 (2000-2010); 1.96 (2011 estimate)		
Age structure	0-14: 42%	15-64: 55.1%	≥ 65: 2.9%
Median age	18.5		
Real GDP growth (%)	7.8 (2004) 7.4 (2005) 6.7 (2006)	7.1 (2007) 7.4 (2008) 6.0 (2009)	7.0 (2010) 6.4 (2011) 6.8 (2012 estimate) Av. 2000-2010: 7.1 (SSA: 5.0)
Main drivers of growth/subsectors (% growth by sub-sectors, 2011)	Communications: 18.8 Construction: 9.2 Financial intermediation: 9.1		Manufacturing: 7.7 (8.8, 2010) Transport: 6.7 Agriculture: 4.3
GDP by sector (%)	2006	2010	
-Agriculture, forestry, fishing and hunting	30.4	28.1	
-Mining and quarrying	3.5	3.7	
-Manufacturing	8.6	9.9	
-Construction	8.6	8.8	
-Wholesale/retail trade, hotels, restaurants	15.4	15.9	
-Transport, storage and communication	7.0	8.0	
-Finance, real estate and business services	11.4	10.4	
Inflation rate	6.5 (2010)	12.7 (2011)	9.0 (2012 estimate)
GDP per capita (constant 2005 \$)	860 (1990) SSA: 1617	866 (2000) SSA: 1569	1286 (2010) SSA: 2017
Real GDP per capita growth (%)	4.1 (2010)	3.4 (2011)	3.7 (2012 estimate)

GNI per capita (current US\$)	320 (2002)	530 (2010) 1,165	(Sub-Saharan Africa - SSA: 540 (2011))
Agricultural productivity (value added per worker)	1990-92: 219 (SSA: 299)	2005-2007: 271 (SSA: 316)	
Value added as % of GDP (2009)	Agriculture: 29 (SSA: 13)	Industry: 24 (SSA: 30)	Services: 47 (SSA: 57)
Manufacturing value added (annual growth rate, 2000-2010)	8.3 (Tanzania); Comparator countries: 8.4 (Mozambique); 6.6 (Uganda); 3.7 (Kenya); Zambia (5.3)		
Utilization of arable land (%)	24	Under irrigation (% of land suitable for irrigation)	1% (est. FYDP)
Exports of goods (% of GDP)	10.4 (2003); 22.8 (2011)		
Imports of goods (% of GDP)	16.6 (2003); 33.1 (2011)		
Manufactured exports (% of total merchandise exports), 2009	25 (SSA : 31)		Manufactured exports annual growth rate, 2000-2010 (%): 30.9 Comparator countries: Uganda: 29.5; Rwanda: 17.1; Zambia: 16.3; Kenya: 15.7
High technology exports (% of manufactured exports), 2009	4 (SSA: 6)		
Current account deficit (% of GDP)	7.8 (2010)	6.4 (2011)	4.9 (2012 estimate)
FDI net inflows (\$ millions)	415 (2009); proportion of total FDI/Africa: 3% (2011)		
FDI flows inward (% of gross fixed capital formation)	2005-2007: 15.3 2009: 15.3 2010: 15.5		2011: 15.0 (Average, Africa: 10.3)
Net ODA, \$ per capita	67 (2009); SSA: 53		
Domestic credit by banking sector, % of GDP	18 (2009); SSA: 79		
Poverty incidence - Tanzania Mainland (%), of which - Dar es Salaam - Rural	38.6 (1991) 28.1 (1991) 40.8 (1991)	35.6 (2001) 17.6 (2001) 38.7 (2001)	33.6 (2007) 16.4 (2007) 37.6 (2007)
Population below international poverty line (%)	Below \$1.25 a day: 88.5 (2000) - 67.9 (2007) Below \$2.00 a day: 96.6 (2000) - 87.9 (2007)		
Human Development Index (HDI)	153 out of 187 countries (country ranking in 2011 and trend in selected HDI indicators):		
-Life expectancy at birth	50.5 (1980)	50.4 (2000)	58.2 (2011)
-Expected years of schooling	7.3 (1980)	5.4 (2000)	9.1 (2011)
-Mean years of schooling	2.5 (1980)	4.6 (2000)	5.1 (2011)
-GNI per capita (2005 PPP\$)	834 (1990)	839 (2000)	1,328 (2011)

Adult literacy rate (%) ages 15 and older	73 (2005-2009) - (SSA: 62)	
Population with at least secondary education (%), 2011	Female: 5.6 (- SSA: 22.2)	Male: 9.2 (SSA: 34.9)
Labor force participation rate (%), 2011	Female: 86.3 (SSA: 62.9)	Male: 90.6 (SSA: 81.2)
Employment by economic activity (%), 2006-2009	Male	Female
-Agriculture	71	78
-Industry	7	3
-Services	22	19
Unemployment -- % of the population	14.9 (FYDP, 2012); also: underemployment in farm and non-farm activities and seasonal unemployment (especially in rural areas)	
- Youth (15-24), %	8.8 (female: 10.1; male: 7.4%), 2005; FYDP (2012): youth unemployment above 14.9%; 60% of unemployed between 15 and 35 years	
HIV/AIDS adult prevalence rate (%)	5.7 (2007-2008); population between 15-49); 6.6 (women); 4.6 (men)	

Sources: World Bank, World Development Report 2012; World Bank, Tanzania on stairways to economic heaven, 2012; UNDP, Human Development Report 2011; AfDB/OECD/UNDP/ECA, African Economic Outlook - Tanzania, 2012; UNCTAD, World Investment Report, 2012; President's Office Planning Commission, Five Year Development Plan 2011/2012 - 2015/16 (June 2012)



## Annex 2: List of persons met

<i>Organization</i>	<i>Name and Position</i>	<i>Contact Details</i>
<b>Public sector</b>		
Ministry of Industry and Trade (MIT), Directorate of Small and Medium Enterprises	Dr. Consolatha Ishebabi Acting Director	+255 22 21 278 98 +255 713 30 80 39 consodeo@hotmail.com
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	Janet Lyatuu Principal Trade Officer	+255 22 21 278 98/ 291 01 +255 754 43 43 17 anaselijane@yahoo.com
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	Christopher Mashingo-Principal Trade Officer	+255 22 2125832
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	Ms. Leonila Kalebo Kishebuka Deputy Registrar Intellectual Properties	+255 713 32 82 49 +255 22 218 01 39 leonillah@yahoo.com
	Mr. Peter Abisai Mbotto Internal Auditor	+255 715 44 08 19 +255 753 44 08 19 mdoembotto@yahoo.com
	Mr. Bosco Gadi Acting Business Support Manager	+255 713 23 31 80 +255 754 31 40 49 ringgadi@gmail.com
Tanzania Revenue Authority (TRA)	Ms. Mary Ngelela Maganga Planning and Modernization Programme Manager	+255 787 774 969 +255 22 21 21 500 mmaganga@tra.go.tz
Tanzania Institute of Education (TIE)	Ms. Razia Yahaya Curriculum Review and Development Department	+255 712 23 45 63 razia.yahaya@tie.go.tz
National Economic Empowerment Council	Ms. Joyce Peters Chonjo Director of Empowerment & Facilitation	+255 22 21 33 902/ 21 37 362 +255 754 274 365

(NEEC)		+255 719 905 546 oteyjoyce@yahoo.co.uk jchonjo@uwezes haji.go.tz www.uwezes haji.go.tz
Private sector		
Tanzania Chamber of Commerce, Industry and Agriculture	Mr. D.C. Machemba Executive Director	+255 222 119 436 +255 784 66 50 53 www.tccia.com
	Mr. Adam A. Zuku Senior Chamber Development Officer, Manager SPX	+255 22 21 194 36/ 21 281 36 +255 784 52 77 50 azuku@tccia.com azuku@gmail.com www.tccia.com
Tanzania National Business Council	Mr. Samson Chemponda Executive Secretary	+255 21 22 984 +255 754 598 tnbc@tnbctz.com www.tnbctz.com
Confederation of Tanzania Industries	Mr. Hussein S. Kamote Director of Policy & Advocacy	+255 22 211 49 54 +255 784 66 09 18 +255 767 66 09 18 cti@cti.co.tz www.cti.co.tz
VIBINDO	Mr. Gaston Kikuwi Chairperson	+255 784 54 61 22 vibindo@gmail.com
	Mr. Jumbe Ngutto Treasurer	vibindo@gmail.com
Tanzania Private Sector Foundation	<i>See BEST-AC</i>	
Tanzania Women Chamber of Commerce	Ms. Fatma Riyami Chairperson, TWCC and Manager-owner of NatureRipe Kilimanjaro Ltd	+255 773 284 00 +255 22 215 14 57 NatureRipe Kilimanjaro Ltd +255 22 21 51 457 info@natureripe.co.tz
Private Agricultural Sector Support Trust (PASS)	Mr. Iddy Lujina Managing Director	+255 23 2603 765 +255 754 788 338 ilujina@pass.ac.tz pass@pass.ac.tz www.pass.ac.tz
Cleaner Production Centre of Tanzania (CPCT)	Prof. Cleophas L.C. Migiro Executive Director	+255 22 260 23 38 / 40 – 42 +255 754 662 222 cpct@arscp.org cmigiro2002@yahoo.com
Institute of Management and Entrepreneurship Development (IMED)	Dr. Donath Olomi Chief Executive Officer (former Director, University of Dar es Salaam Entrepreneurship Centre/ UDEC)	+255 22 220 32 11 +255 754 296 660/ 715 296 660 olomi@imedtz.org info@imedtz.org www.imedtz.org
University of Dar es Salaam (UDSM)	Mr. Lucien A. Msambichaka Professor, Department of Economics	+255 784 86 66 41 msambi@hotmail.com

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### Annex 3: List of documents consulted

Title	Year
AfDB, OECD, UNDP, ECA, African Economic Outlook, Tanzania 2012	2012
BEST Programme - Snapshots	Not dated
BRELA – step by step guide to access BRELA services and brochures	2011/2012
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