

**REVIEW OF EXPERIENCES FROM INTERACTION AMONG DONOR
AGENCIES IN SMALL ENTERPRISE POLICY REFORM IN THE UNITED
REPUBLIC OF TANZANIA**

***A Report Prepared for the DAC Private Sector Development Group
Tanzania
(Supported by the Royal Netherlands Embassy, Tanzania)***

by:

***Dr. Donath R. Olomi and Mrs. Mariam I. Nchimbi
University of Dar es Salaam Entrepreneurship Centre (UDEC)***

***P.O.Box 35046 Dar es Salaam,
Tel: 255-22-2410115 (Direct), 2410500-8 Ext. 2758 Fax: 2410510,
E-mail: ecentre@fcm.udsm.ac.tz, olomi@fcm.udsm.ac.tz, mnchimbi@fcm.udsm.ac.tz***

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EXECUTIVE SUMMARY

0.1 INTRODUCTION

A number of donors have been assisting developing countries, including Tanzania, to reform their environments to be more business friendly. These donors efforts are increasingly been done in collaboration with other donors, governments and the private sector. The Working Group of the OECD Committee of Donor Agencies for Small Enterprise Development initiated a review of their member's experiences in collaboration in this areas in five countries, Tanzania being one of them. In Tanzania, the Royal Netherlands Embassy, on behalf of the Working Group, commissioned the University of Dar es Salaam Entrepreneurship Centre (UDEC) to carry out the review.

The review sought to take stock of donor efforts in this area and draw up lessons and best practices for future interventions by governments, donors and other agencies as well as for the national set-up of future policy formulation processes. The methodology included a review of relevant documents, including previous studies and reports, policies, regulations and programmes; interviews with staff of donor agencies, government departments and private sector organisations which have been involved in the reforms; and a stakeholders' workshop to discuss and validate the draft report. The interviews were mainly held in June and July 2002, while the stakeholders' workshop was held on 10th July 2002.

Efforts were made to ensure that the information in this report is as complete and accurate as possible. However, some of the donor activities were not captured due to unavailability of the persons responsible. Also, some of the staff of donor agencies have not been in the country long enough to recall all recent experiences.

0. 2 REFORM PROCESSES IN TANZANIA: A HISTORICAL PESPECTIVE

The economic reform processes that have taken place in Tanzania can be traced back to a serious economic crisis, which faced the country from 1979 to1985. Until then, Tanzania followed a central planning economic system. The reforms started in earnest in 1986 and have gone through a number of successful phases. The 1979-1985 crisis forced the government to accept far-reaching measures, which entailed changing to a market-led system. These measures were forced upon the country mainly by the World Bank and the International Monetary Fund (IMF) which managed to convince other donors to make the reforms a pre-condition for continued aid.

The first generation of reforms (1986-1995) entailed macro-economic stabilisation or “price reform” measures to correct the distortions of the socialist system. These were followed by development of legal and institutional framework for supporting business activities, development of sector level policies and finally development of implementation programmes for sector-level policies.

The major external supporters of the price reforms were the International Monetary Fund (IMF) and the World Bank. These managed to rally other major traditional bilateral donors to pressurise the government to adopt the reforms. Collaboration among these donors was limited mainly to taking a common position against the government: making the reforms a pre-condition for continued support.

The second generation of reforms (1995-1999) sought to create the right regulatory framework and institutions as facilitating mechanisms for the economic reform process. A number of laws and institutions were introduced during this period with donor support. Collaboration among donors was limited to co-financing the development and of the reform documents.

The third generation of reforms (1997-2002) focused on developing sectoral policies and their implementation programmes. The focus of this review is mainly on reforms which have taken place in the past three years. Policies which specifically targeted SMEs include the SME Policy, 2002 (Draft) and the National Micro-Finance Policy, 2000. Policies and programmes which have a significant bearing on SMEs although not targeted exclusively on them include the Agricultural Development Strategy (ADS), Rural Development Strategy (RDS), Business Environment Strengthening in Tanzania (BEST) and the Poverty Reduction Strategy Paper (PRSP), all of which were completed in the 2000-2001 period.

In general, all initiatives appear to have carried out extensive background analyses of needs and priorities and consulted stakeholders widely during the process of developing the policies/strategies/ programmes. Women were among those consulted. However, the policies and programmes differ in the extent to which they have addressed gender issues. Some have shown the need to address women needs but fell short of specific strategies. Others have come up with specific strategies.

Although there are overlaps the programmes are largely complementary to each other. However, it is very important that their implementation is co-ordinated, otherwise some activities may be duplicated.

0.3 PROCESSES AND TOOLS USED IN RECENT POLICY AND REGULATORY REFORMS

For the most part, the reforms which have been proposed in the past three years have been prepared in a very participatory way. The reform which involved formal policy/strategy or programme development and implementation involved some temporary forums set up specifically for the purpose of developing them.

In addition to supporting policy and regulatory reform measures directly, donors have been supporting government departments and agencies' capacity to better understand their policy environment through policy related studies and to develop and implement enabling policies and regulatory frameworks for private business activities, including SMEs.

Various kinds of support have been extended to the Ministry of Finance (MoF), Ministry of Industry and Trade (MIT), Ministry of Agriculture, Bank of Tanzania (BOT), Tanzania Revenue Authority (TRA), Business Registration and Licensing Authority (BRELA) and Tanzania Bureau of Standards (TBS). Also a number of business associations, including Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), Confederation of Tanzanian Industries (CTI), Tanzania Food Processors' Association (TAFOPA), Tanzania Private Sector Foundation (TPSF) and National Business Council (NBC) have been supported in one way or another.

0.4 COLLABORATION MECHANISMS, OUTCOMES AND IMPACT

Donors have been collaborating in various ways, including sharing information, taking a common stand and sharing costs. The main benefits from collaboration include reduced transaction costs, creating harmony and understanding and increased effectiveness in communicating with government.

Assessing impact of donors' involvement in creating an enabling environment for SMEs is quite problematic, especially when this is considered in the context of collaboration among donors as well as with other stakeholders, such as private sector organisations. The first problem is defining impact or success. There can be different levels of success, ranging from getting some ideas incorporated into reform proposals to seeing the impact of the reforms on the ground.

Most donors are mostly interested in seeing the reforms implemented, For government officials however, the mere existence of the reforms on paper is perceived as a very significant step. This may be explained by the fact that policy making is one of their key responsibilities and its absence reflects badly on them. Compared to donors, private sector organisations are more confident in attributing successful implementation of reforms to their efforts.

For the most part, the policies and programmes that have been formerly developed, have either recently been approved or are still in the process of

approval. It is therefore rather early to talk of their impact. However, the reforms that have been incrementally introduced at both national and district level have had some positive outcomes.

0.5 BARRIERS AND BEST PRACTICES IN COLLABORATION

A number of barriers to effective collaboration among donors, government and civil society and between donors and government have been identified. These barriers are attributable mainly to the donors, government or private sector associations. It should be noted that these observations do not apply to all donors, government departments or associations. However, they exist in sufficient degree to warrant concerns and remedial actions by DAC and other stakeholders in collaboration.

Barriers attributable to government centre mainly around inadequate vision, leadership and co-ordination. This is mainly due to limited human resource capacities, especially in the office of the Permanent Secretary and the Planning and Policy Department. Other barriers include lack of transparency and absence of natural counterparts for private sector in government.

One of the key barriers attributable to donor agencies is lack of a common perspective as to what SMEs are. Donors have different perspectives, targets groups and objectives in supporting what is referred to as SMEs. There is therefore no common language. They also differ markedly in their values. Other barriers include instability of staff, short-term nature of projects, frequent changes in priorities, differences in orientations, and their limited trust and confidence in government and private sector partners. The short-term and ad-hoc nature of some relationships does not augur well for trust, confidence and open communication.

The main barriers attributable to the private sector is lack of natural counterparts in the private sector. This is in turn is due to the underdeveloped culture of association, especially among SMEs.

Donors, government as well as the private sector have problems of internal communication. Few people in government know what is happening with the donors and when these are away, communication and collaboration becomes difficult. Some donor agencies' field offices in Tanzania are not aware of the kind of support being provided from their countries to Tanzania through other agencies. This means opportunities for synergy are wasted. Business associations have no formal means of documenting and feeding back achievements in policy advocacy to their membership. Many officials have difficulties narrating their successes in detail. This may compromise continued support by members, since they may not appreciate what is being done on their behalf by their associations.

There are also some interesting best practices in donor collaboration in Tanzania. In the late 1990s, some like minded donors interested in SME development formed an informal forum where they would meet and exchange information. This has gradually grown into what promises to be a very effective avenue for collaborating and co-ordinating private sector support in Tanzania.

The group is chaired on a rotating basis, exposing each donor very well to the activities of the others. To intensify collaboration and make it more relevant, the group has invited key players in private sector development from government and business associations to join. In addition, the group has prepared a matrix, showing what each of the members is doing. This is to be updated annually. Since July 2002, meetings have been scheduled on an annual basis and these according to the Tanzanian government fiscal year. Terms of Reference have been worked and will soon be approved. Also, efforts are being made to invite other donors to join the forum. These measures will likely enhance its effectiveness in information sharing and other forms of collaboration.

0.6 CONCLUSIONS AND RECOMMENDATIONS

The Tanzania Assistance Strategy (TAS) has proposed a number of measures designed to improve collaboration between the government and donors and in particular to lessen the burdens on both sides. We do not intend to repeat what is in TAS here. The following are the conclusions and recommendations on improving collaboration in creating an enabling environment for SMEs in Tanzania arising specifically from this review.

Leadership and Ownership. Effective and efficient collaboration calls for a strong co-ordinator and leader. This leader should be a local one. This in turn depends on available capacity. The government, private sector and donors should deliberately and systematically aim to build this capacity. To enhance ownership, the offices of the Permanent Secretary and Planning and Policy Departments should be specifically targeted. Monitoring and evaluation of all donor supported interventions should include assessing the extent to which they lead to better ownership and effective leadership and co-ordination within the government or private sector organisations.

Increasing Understanding among Donors. Donors vary in terms of “cultures” (values, orientations, etc). Experience shows that involving the different donors helps moderate their attitudes and behaviours, bringing them closer and closer to the mainstream. It is therefore advised that the DAC Private Sector Development Group Tanzania accommodates all donors who are interested in the private sector, instead of only the like minded ones. Those who have not shown interest should be encouraged to join.

Maximising the Propensity to Co-operate. In order to realise maximum collaboration, it is important that relationships among donors and between donors and government or private sector associations are built on medium or long-terms rather than on ad-hoc and short-term basis. This way, trust, confidence and open communication with donors will be fostered. On the other hand, government departments and associations must undertake to openly and promptly communicate with their donors.

Creating a Common Language among Collaborators. Lack of a common perspective is a serious communication barrier and may make it very difficult to move to sector-wide approaches and basket funding. It is essential that donors and local partners agree on the different categories of business, so that distinction is clearly drawn between what each of the donors is doing within what is called the SME sector.

Learning to Collaborate. Donor collaboration and the need for local ownership and co-ordination of donors are new issues for which there is not much formal knowledge. So far skills for dealing with the challenges involved are acquired by trial and error by donors, government and other stakeholders. The future holds many challenges which may prove daunting. These include dealing with basket funds, enhancing government ownership, joint backstopping by multilateral agencies, etc. There is need to systematise and speed up the process of learning by introducing workshops where government, NGO, donor and private sector officials can be sensitised and learn how to manage relationships in the context of donor collaboration.

Creating Counterparts in Government. So far, there is no “natural” counterpart for SME or private sector support in government. There is need to identify one counterpart, who will be in a position to handle all private sector issues. Also, there is need to have a focal point for women entrepreneurship development. It is recommended that within the Ministry of Industry and Trade, or within the agency to be responsible for the private sector, there should be one office which should be formally recognised as the focal point for women issues in business. This may not necessarily be a dedicated office; it can be an office which takes on this as an additional responsibility.

Sustaining Reforms. To sustain reforms, investment in strengthening business associations should be intensified. This must be done in a way that does not compromise the sustainability of the associations. The problem of apathy and lack of culture of association among the business community, particularly SMEs needs to be addressed if associations have to build the financial muscle required for them to be effective without donor support. It is recommended that a study be commissioned on the desirability, acceptance and viability of requiring all businesses to belong to at least one organisation of their choice (even if this means them forming many competing associations)

LIST OF ACRONYMS

| | |
|----------------|---|
| ACB | Akiba Commercial Bank |
| ADB | African Development Bank |
| ADF | African Development foundation |
| ADS | Agriculture Development Strategy |
| APDF | African Project Development Facility |
| BEST | Business Environment Strengthening Programme in Tanzania |
| BFIA | Banking and Financial Institutions Act |
| BOT | Bank of Tanzania |
| BRELA | Business Registration And Licensing Authority |
| CIDA | Canadian International Development Agency |
| ComSec | Commonwealth Secretariat |
| CRDB | CRDB Bank |
| CREW | Credit Scheme for Rural Women |
| CTI | Confederation of Tanzanian Industries |
| DFID | Department for International Development |
| DRDP | District Rural Development Programme |
| EADB | East African Development Bank |
| EOTF | Equal Opportunities for all Trust Fund |
| ESAMI | East and Southern African Management Institute |
| ESRF | Economic and Social Research Foundation |
| EU | European Union |
| FAWETA | Federation of Associations of Women Entrepreneurs In Tanzania |
| FCM | Faculty of Commerce and Management |
| FINNIDA | Finnish International Development Agency |
| GAT | General Agreement on Trade |
| GDP | Gross Domestic Product |
| GTZ | German Technical Co-operation Agency |
| IFC | International Finance Company |
| ILO | International Labor Organization |
| IMF | International Monetary Fund |
| IPi | Institute of Production Innovation |
| IS | Informal Sector |
| KIDC | Kilimanjaro Industrial Development Centre |
| LGRF | Local Government Reform Programme |
| MCDWC | Ministry of Community Development, Women and Children |
| MCJA | Ministry of Justice and Constitutional Affairs |
| MCM | Ministry of Cooperatives and Marketing |
| MEDA | Mennonite Development Association |
| MFIs | Micro-Finance Institutions |
| MIT | Ministry of Industry and Trade |
| MLRG | Ministry of Local Government and Regional Administration |
| MOF | Ministry of Finance |
| MSE(s) | Micro and Small Enterprise(s) |
| MSME | Micro Small and Medium Enterprises |
| MYLD | Ministry of Youth and Labour Development |
| NBC | National Bank of Commerce |

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| NGO | Non-Governmental Organisation |
| NIGP | National Income Generating Programme |
| NMB | National Micro Finance Bank |
| NORAD | Norwegian Agency for International Development |
| PRSP | Poverty Reduction Strategy Paper |
| PTF | Presidential Trust Fund |
| RDS | Rural Development Strategy |
| ROSCAS | Rotating Savings and Credit Societies |
| RPED | Regional Program on Enterprise Development |
| SACCOS | Saving and Credit Co-operative Societies |
| SEDA | Small Enterprise Development Agency |
| SEED | Small Enterprise Development |
| SIDA | Swedish International Development Agency |
| SIDO | Small Industries Development Organization |
| SME | Small And Medium Enterprises |
| SNV | Dutch Development Organisation |
| STP | Strategic Trade Policy |
| TAFOPA | Tanzania Food Processing Association |
| TBC | Tanzania Business Council |
| TBS | Tanzania Bureau of Standards |
| TCCIA | Tanzania Chamber Of Commerce, Industry and Agriculture |
| TCM | Tanzania Chamber of Mines |
| TDTC | Technology Development and Transfer Centre |
| TEMDO | Tanzania Engineering and Manufacturing Technology Development Organisation |
| TGT | Tanzania Gatsby Trust |
| TIRDO | Tanzania Industrial Research and Development Organisation |
| TPB | Tanzania Postal Bank |
| TPSF | Tanzania Private Sector Foundation |
| TRA | Tanzania Revenue Authority |
| UDEC | University of Dar Es Salaam Entrepreneurship Center |
| UDSM | University of Dar Es Salaam |
| UNDP | United Nations Development Program |
| UNESCO | United Nations Educational, Scientific and Cultural Organisation |
| UNIDO | United Nations Industrial Development Program |
| URT | United Republic of Tanzania |
| USA | United States of America |
| VAT | Value Added Tax |
| VETA | Vocational Education and Training Authority |
| VIBINDO | Viwanda na Biashara Ndogondogo |
| VPO | Vice President's Office |
| WB | The World Bank |
| WDF | Women Development Fund |
| WTO | World Trade Organisation |
| YDF | Youth Development Fund |

1. INTRODUCTION

1.1 An Overview of the SME Sector in Tanzania

Significance of the SME Sector in Tanzania

The Tanzanian economy is characterised by a relatively small large enterprises segment and a very large Small and Micro Enterprise (MSE¹) segment. The large enterprises segment is made up mainly of subsidiaries or franchisees of multinational companies and formerly state owned companies. The MSE segment, on the other hand, is dominated by a very large number of micro enterprises, with varying degrees of formalisation, low level of sophistication, reliance on local inputs, expertise, technology and markets. In between the two segments is an almost insignificant “medium sized” segment.

The MSE sector is now widely seen as a vital tool for employment creation and income generation. However, the micro enterprise segment (enterprise employing less than 10 people) is one of the leading employers (next only to peasant agriculture). This segment is expected to continue creating most new jobs in the economy (ILO, 2000).

Recent Developments and Trends in the MSE Sector

The entrants to the sector have been increasing dramatically, especially after introduction of structural adjustment programmes in the late 1980s. As more people join the crowded sector, the average firm size declines and the degree of informality also increases (ILO, 2000). The proportion of female participants in the sector has been increasing as a consequence of the necessity for women to play a more active income generating role. This has been done due to, among other factors, reduced real salaries and employment opportunities for men, who were traditionally the sole family breadwinners. While the average educational attainment has been decreasing, more graduates of higher learning institutions can be found in the sector. This is due to the retrenchments that have taken place in the formal sector and the fact that the labour market is simply unable to absorb all school and college graduates. This development may also be attributed to the increased legitimisation of the entrepreneurial career following abandonment of the socialism in favour of free market economic development policies.

¹ Micro enterprises are roughly defined as informal and formal businesses employing less than 10 people, while small enterprises are those which employ between 10 and 50 people.

Problems in the Sector

Businesses in Tanzania face a number of internal weaknesses as well as external barriers. Some of these problems are attributable to the socialist legacy, which discouraged entrepreneurship and bred laws, regulations, administrative procedures and attitudes which are not private business friendly. Most of the MSE operators are ill prepared psychologically and resource-wise for what they are doing, having been forced into business due to lack of jobs in the formal sector (Toroka and Wenga, 1997). Key problems include limited entrepreneurial capacity in terms of motivation, knowledge, skills, and experience; limited access to finance, particularly term finance; limited access to appropriate and affordable business premises; limited access to reliable markets; and a hostile regulatory and administrative framework. There is a multitude of taxes whose administration is untransparent, bureaucratic and sometimes corrupt. Business licensing and registration as well as labour laws are cumbersome for large enterprises but out of reach for most MSEs. Perhaps it is due to these that most operate informally.

These problems are far more pronounced at the lowest end of the MSE sector, which is dominated by women, meaning that women bear a disproportionate share of these problems.

1.2 Background and Objectives of the Study

Background

Many countries, including Tanzania, are in the process of reforming their economies from central planning orientation, where the government is the major economic player, to market led systems, where the business activities are left to the private sector. The reforms aim at, among others, creating a better environment for private business activities.

Donors have taken a keen interest in this process because the reforms are considered critical to improved economic performance and poverty reduction, which are the goals of most donor organisations in supporting developing countries. Given the importance of micro, small and medium enterprises in economic vitality and development, donor agencies have taken particular interest in encouraging and supporting reforms that facilitate the performance of this sector.

To this end, the OECD Donor Assistance Committee (DAC) has established a Committee of Donor Agencies for Small Enterprise Development. This Committee has in turn established a Working Group (WG) on enabling environment, which is chaired by the Royal Netherlands Government. The WG has initiated a review of recent experiences resulting from the efforts of member

agencies to support national and local governments' attempts to improve the policies, laws and regulations that affect small enterprise operations. This review is being undertaken in five countries, namely Tanzania, Viet Nam, Caribbean, Peru and Albania. Simon White was appointed the International Consultant for this review.

In Tanzania, the Royal Netherlands Embassy, on behalf of the Working Group, hired the services of the University of Dar es Salaam Entrepreneurship Centre (UDEC), to carry out the national review. Dr. Donath R. Olomi and Mrs. Mariam Nchimbi were responsible for carrying out the review. This document presents the report of the national review. Both the national reviews and the international summary report will be presented and discussed at an International Workshop to be organized by the Working Group in September, 2002.

Objectives of the Review

The review of experiences from interaction among donor agencies in small enterprise policy reform in Tanzania sought to achieve the following objectives:

- (a) Contribute to an understanding of the similarities and differences in agencies' efforts to help Tanzania improve its policy environment for small enterprise development;
- (b) Suggest what can be learnt from this case study (a) for future interventions by governments, donors and other agencies and (b) for the national set-up of future policy formulation processes;
- (c) Suggest what can be learnt from the attempt to collaborate among donor agencies as well as experiences of government and the private sector;
- (d) Contribute to an overall stocktaking of the content, process and outcomes of donor efforts by assessing specific country experiences; and
- (e) Contribute to the Donor Committee's efforts to derive principles of Good Practice that could help guide future collaboration at the country level.

1.3 Methodology

The Consultants reviewed the activities of international agencies and donors in Tanzania by:

- (i) Requesting information from international agencies and donors which have been active in reform activities for small enterprise development in Tanzania. This included both members of the Working Group and other international donors and agencies with activities in Tanzania. The main focus was on activities that have been finalized during the last three years, on-going and about to be started.
- (ii) Interview officials of the agencies and donors as well as relevant Government and private sector agencies to obtain information about their experiences with donor intervention, using a list of guideline questions provided by the International Consultant (**Annex 1**). The government ministries contacted include the Ministry of Finance (External Finance), the Ministry of Industry and Trade (MIT), the Ministry of Agriculture and Food Security (MAFS), the Planning and Privatisation Commission, the Prime Minister's Office (PMO) and the Vice President's Office (VPO). Donor agencies consulted include: The United States Agency for International Development, Department for International Development (DFID), Danish International Development Agency (DANIDA), Embassy of Switzerland, the World Bank, United Nations Industrial Development Organisation (UNIDO), Swedish International Agency for Development (Sida), the International Labour Organisation (ILO) and the Royal Netherlands Embassy. The full list of persons interviewed is shown in **Annex 2**.
- (iii) Obtaining and analysing written reports and policy documents, including "grey literature" containing information on the policy reform and implementation processes as well as about the agencies' and donors' activities. The list of documents which were analysed is shown in the references (**Annex 6**).
- (iv) Drafting a report summarizing the findings for Tanzania and providing answers to the guideline questions. The draft report was presented to a workshop in which some of the donors and other agencies involved were represented in order to be validated. The workshop took place on the 10th July, 2002 at the Royal Netherlands Embassy. During the workshop, it was suggested that the review of recent reforms should be put in the context of the broader reforms implemented since the early 1980s. Participants were requested to provide detailed feedback to the consultants within a week.

The field study took place in June, July and August, 2002. It coincided with another related review by the OECD-DAC on donor burdens and best practices, which was conducted around the same time. The results of the later study have also been reviewed and in many cases, the observations have been quite consistent in both studies.

1.4 Limitations

Efforts have been made to ensure that the information in this report is as complete and accurate as possible. However, one cannot claim that this report has captured all relevant donor supported initiatives. This is due to the following limitations:

- (i) Most of the staff in donor agencies interviewed have not been in Tanzania for a long time. In fact most have been in the country for less than two years. In some extreme cases, they have been in the country for a few months. This made it difficult to adequately capture experiences in supporting SME related reform processes and in particular in collaboration among donors.
- (ii) After the July 10th workshop at the Royal Netherlands Embassy, participants were requested to send observations, particularly on missed or misreported information, on the draft report to the consultant within a week. Only two agencies had responded up to the time of writing the final report.

Despite these limitations, the information gathered is adequate to enable drawing of lessons and best practices on donor collaboration.

It must also be acknowledged that the observations made, especially with regard to barriers to effective collaboration among donors and among donors, government and the civil society are generalisations. In each case, the barriers apply to most, but not all donors, government departments or associations as the case may be. For obvious reasons, we cannot single out the exceptions. The spirit is to identify best practices and barriers that need to be dealt with rather than allocating blame and praise to individuals or institutions.

2. REFORM PROCESSES IN TANZANIA: A HISTORICAL PERSPECTIVE

The economic reform processes taking place in Tanzania can be traced back to the 1979-1985 economic crisis. This crisis in turn was mainly a result of the socialist policies, which were adopted from 1967 to the mid 1980s. The reforms started in earnest in 1986 and have gone through a number of successful phases. This history is briefly reviewed below.

2.1 Socialisation of the Economy: 1967-1976

After independence in 1961, Tanzania continued with a relatively liberal economic policy left by the British for a while. The initial economic development strategy relied on attracting foreign investors and maintaining an enabling environment for private business activities. However, in the mid 1960s, the policy was radically changed for two main reasons. First, it became apparent that foreign investment was not been realised at as fast a rate as it was necessary to realise sufficient economic growth rates. Secondly there was a desire on the part of the government to provide a framework that would assure a more equitable access to and control over economic resources by Africans in particular. Socialisation of the major means of production through nationalisation, establishment and direct management of important business activities by the state was seen as the solution to both problems. As a consequence, the then popular socialist ideology was adopted.

This decision was followed by enactment of legislations and introduction of policies that provided the framework for operationalisation of the socialist principles. They included:

- State control of all major means of production through ownership of major business activities. In 1967, the so-called “commanding heights” of the economy, including banking, insurance, import/export, etc were nationalised. Gradually, however, state companies were established in virtually all spheres. Large farms and houses were later nationalised and put under state management.
- Laws were established to confine performance of certain activities or trading in certain products to specific parastatal organisations, effectively creating monopolies.
- The government introduced a Price Control Commission to set/approve prices for most consumer products.
- A leadership code was introduced, barring civil servants and politicians from running business activities.
- A campaign was launched to discourage private entrepreneurship. The popular press and politicians projected private enterprise as evil and something to be tolerated during the transition to full socialism.

Despite these changes, Tanzania continued to receive large amounts of grants and loans from both bilateral and multilateral donors/institutions to finance its ambitious social sector programmes as well as investment in state owned enterprises. Support was also extended to promote small industries through the Small Industries Development Organisation (SIDO). The government of Sweden was the major donor to SIDO.

By and large, there was no collaboration or co-ordination among the donors. Each donor had own objectives, approach and means of delivering aid (Hyden and Mease, undated).

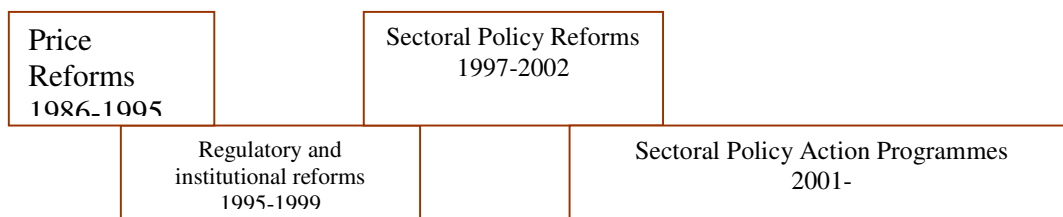
2.2. Economic Crisis: 1979 – 1985

During the late 1970s and early 1980s, Tanzania experienced a severe economic crisis. This was partly attributable to failures in the socialist system. There was also a costly war with Uganda in 1978/79, the international oil crisis of the 1970s, drastic drop in export crop prices in the international market and bad weather. Real GDP growth was a mere 2% in the 1976-1980 period, but this dropped even further to 1.8% during the 1981-1995 period. As a consequence, a severe shortage of foreign exchange ensured, leading to shortage of raw materials and high inflation. By the early 1980s, the economy had almost come to a stand still as almost everything was in short supply. As a consequence, some indigenous and SIDO promoted enterprises evolved, making up for part of what was formerly produced by the parastatals.

2.3. Creating an Enabling Environment for Private Enterprise in Tanzania

The process of creating an enabling environment for enterprise activities was underlined by the paradigm shift in economic thinking in Tanzania, whereby the central planning gradually gave way to the market-led economic system. Indeed, the economic crisis had led the government as well as its traditional supporters to agree that a transformation was needed to get the economy back on its feet. The government was however reluctant for some time to take measures which were not in line with the central planning model as urged by donors and the international financial institutions. It preferred instead to try out its own brand of economic survival strategies until the mid 1985. Having failed to kick-start the economy from its home grown strategies, the government succumbed to these pressures and agreed to implement far reaching economic reforms from 1986 (Mbele, 1996). The process has gone through a number of successful phases.

The first generation of reforms took off in earnest in 1986. These entailed macro-economic stabilisation or “price reform” measures to correct the distortions of the socialist system. These were followed by development of legal and institutional framework for supporting business activities, development of sector level policies and finally development of implementation programmes for sector-level policies. This process can be summarised as follows:



Price Reforms: 1986-1995

The first generation of these reforms aimed at devaluation of the Tanzanian shilling, price de-control, liberalisation of both local trade (de-confinement) and import/export trade and other trade liberalisation and financial sector reforms sought to get “prices right”, and to re-invigorate the export sector by eliminating cost-price distortions (BOT, 1999). These reforms had far reaching consequences for all enterprises, particularly SMEs, which were largely private owned. The positive consequences included:

- The right to deal with activities and products that were formerly confined to state owned enterprises, including import/export
- The right to earn, possess and spend foreign exchange
- Legitimacy and confidence that one could invest. It is then that investment in real estate and to a less extent, farming activities started.
- Freedom to set prices
- Almost all monopolies were gradually done away with

By and large, these reforms were forced on the government. Neither the government nor the private sector of the day was quite ready for them. This is clearly expressed by the terms used to describe the forces behind the reforms at that time. They were often seen as **conditionalities** which the donor community had given Tanzania in order for it to qualify for continued assistance. They were also referred to as a “**bitter pill**”.

Even as late as 1996, it was felt that external pressure was critical for sustaining the direction and pace of change. Lofchie and Callagy (1996) observed that:

...the need for external pressure to maintain a liberalising momentum creates a compelling argument for policy pressure by external donor organisations....

The major external supporters of these reforms were the International Monetary Fund (IMF) and the World Bank. These managed to rally other major traditional bilateral donors to pressurise the government to adopt the reforms. Collaboration among these donors was limited mainly to taking a common position against the government: making the reforms a pre-condition for continued support.

Lofchie and Callagy (1996) also noted that business associations at the time were incapable of influencing the government. Some powerful business interests had vested interest in the planned economic system. Even if this was not the

case, business associations in general felt powerless to effect changes in the business environment in their favour. Indeed, the two analysts (Lofchie and Callagy) were of the view that had the business associations been powerful enough to influence policy, they would have likely derailed or delayed the reform process.

Institutional Reforms: 1995-1999

The second generation of reforms sought to create the right regulatory framework and institutions as facilitating mechanisms for the economic reform process. The following laws and institutions were introduced during this period:

- Investment Act, and Tanzania Investment Centre, 1997 to attract foreign and local investors
- Fair Trade Practices Act, 1994
- Capital Markets and Securities Act, and Tanzania Capital Markets Authority, 1994
- Parastatal Sector Reform Commission (PSRC), 1994
- Business Registration and Licensing Agency (BRELA), 1996
- Tanzania Revenue Authority (TRA), 1995
- Dar es Salaam Stock Exchange (DSE), 1997

Efforts were also made to strengthen business associations. The Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), which was also the largest association, started receiving assistance from Sida from the mid 1990s.

Development of Sectoral Policies and their Implementation Programmes (1997-2002)

The third generation of reforms focused on developing sectoral policies and their implementation programmes. Since these were mostly carried out in the past three years, they coincide with the focus of the detailed part of this study. They are covered in section 4 of this report.

3. BRIEF OVERVIEW OF THE KEY ACTORS IN SME DEVELOPMENT

The key actors in SME development in Tanzania include government departments, donor agencies, business associations, Non-Governmental Organisations (NGOs) and private businesses.

3.1 Government Departments

Various government departments are involved in creating and maintaining an enabling environment for SMEs. These are shown below

Table 1: Government Ministries and their Role in SME Development

| GOVERNMENT DEPARTMENT | RESPONSIBILITY IN SME DEVELOPMENT |
|---|--|
| The Vice President's Office (VPO) | Development and co-ordinating the implementation of poverty eradication efforts, including the Poverty Reduction Strategy (PRS) by ensuring that the Planning Commission, all sectoral ministries and other stakeholders formulate and implement their policies in line with the National Poverty Eradication Strategy |
| The Ministry of Labour and Youth Development (MLYD) | Formulating and implementing policies and strategies for employment promotion in the sectors especially for the most disadvantaged in society such as the disabled, women and youth. |
| The Ministry of Community Development Women Affairs and Children (MCDWAC) | Formulation and implementation of policies and strategies for women empowerment in all spheres of life including business |
| The Ministry of Industry and Trade (MIT) | Policy and strategy development for the promotion of Micro, Small and Medium Enterprises. The Small Industry Development Organisation, which is the government's main agency in this sphere, falls under this ministry. |
| The Ministry of Justice and Constitutional Affairs (MJCA) | Reviewing laws to ensure a suitable legal framework for business activities |
| The Ministry of Regional Administration and Local Government (MRALG) | Effective and efficient functioning of local governments at district/municipal level. The local governments are in turn responsible for creating an enabling environment for business in their respective jurisdictions |
| Prime Minister's Office | Development and co-ordination of the Rural Development Strategy, part of which deals with SMEs |
| Ministry of Agriculture and Food Security | Development of agricultural development strategy and policy and for promotion of agriculture and agri-business in general |
| Ministry of Water and Livestock Development | Livestock development, including the marketing of agricultural and livestock, products |
| Ministry of Co-operatives and Marketing | Co-operative development strategy and marketing systems, particularly for agricultural products |

3.2 Government Agencies

There are a number of government agencies dealing in one way or another with SMEs. These are summarised below:

Table 2: Government Agencies Dealing with SMEs

| Agency | Role |
|---|--|
| Business Registration and Licensing Authority (BRELA) | Company incorporation, registration of business names, patents, etc |
| Tanzania Revenue Authority (TRA) | Collection of taxes |
| Tanzania Investment Centre (TIC) | Facilitation of Investment, both foreign and local |
| Board of External Trade (BET) | Export promotion and import/export facilitation |
| Bank of Tanzania (BOT) | Preparation of a regulatory framework for lending to micro enterprises |
| Tanzania Bureau of Standards (TBS) | Development and control of standards |
| Small Industry Development Organisation (SIDO) | Promotion of SMEs, including industrial ones |
| Tanzania Bureau of Standards | Development and enforcement of standards |

3.3 Donor Agencies

A number of donors have been supporting the SME sector in Tanzania. The list of activities supported by various donors is shown in **Annex 3** and summarised below:

Table 3: Donor Agencies Active in Creating an Enabling Environment for SMEs

| Donor Agency | Activities Supported |
|---|--|
| The Royal Government of the Netherlands – Through its embassy in Dar –es Salaam | <ul style="list-style-type: none"> • Technical Assistance in Development of the BEST. • Private Sector Development Programme – Lake Zone (capacity building in district level business associations, facilitating market linkages and public-private dialogue) |
| The Royal Government of the Netherlands – Through SNV | <ul style="list-style-type: none"> • Developing market linkages with grassroot communities and promoting cultural tourism in Arusha, Kilimanjaro and Tanga • Capacity building in district level business associations and facilitating private-public dialogue in Monduli, Kondoa and Songea |
| Netherlands Agency for Co-operation in Higher Education | <ul style="list-style-type: none"> • Capacity building in teaching, research and consultancy in small business and entrepreneurship development |
| Royal Government of Sweden/Sida | <ul style="list-style-type: none"> • Development of the BEST Programme, 2002 (TA), National Micro-Finance Policy, 2000 (TA), • Establishment of TAMFI • Strengthening TCCIA • Operationalisation of the Competitive Policy and Law, 2002 |
| United States Agency for International Development (USAID) | <ul style="list-style-type: none"> • Capacity building in policy analysis, Ministry of Finance, BOT and TRA, 1999-2002 • SME Policy (2001) development (TA) • Planning to build capacity of associations, business information providers and government departments in six rural regions, 2002-2007 |
| Department for International Development (DFID) | <ul style="list-style-type: none"> • Development of the SME Policy (TA) • Development of the BEST Programme • Capacity building in policy analysis and development in BOT • Survey of SACCOs and MFIs |
| International Labour Organisation | <ul style="list-style-type: none"> • Commissioning and disseminating policy-related studies |
| The World Bank | <ul style="list-style-type: none"> • Institutional and capacity building in NBC Support to the Private Sector Foundation |
| United Nations Industrial Development Organisations (UNIDO) | <ul style="list-style-type: none"> • Support to Tanzania Food Processing Association (training) • SME Policy |
| Japanese International Development Agency (JICA) | <ul style="list-style-type: none"> • Development of Agricultural Development Strategy • Development of the Rural Development Strategy |
| Danish International Development Agency (DANIDA) | <ul style="list-style-type: none"> • Ready to support private sector development strategy • Supporting CRDB by having bought in shares and financing a Micro finance fund |
| Commonwealth Secretariat | <ul style="list-style-type: none"> • Funded background studies for the SME policy |
| Irish Aid | <ul style="list-style-type: none"> • Development of Rural Development Strategy |

3.4 Business Associations

There are a number of SMEs operators' associations in Tanzania. They include:

- **Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA).** This is a umbrella business association with coverage of all regions in Tanzania. TCCIA has branches in all Tanzanian mainland regions as well as a few districts. The regional and district chambers vary widely in terms of their effectiveness in providing information and policy advocacy.
- **Confederation of Tanzania Industries (CTI)** is one of the strongest associations. Traditionally, it had large enterprises as members, but has now established an SME department to take care of the interests of smaller manufacturers.
- **Federation of Associations of Female Entrepreneurs in Tanzania (FAWETA).** This is supposed to have membership in the regions as well.
- **Viwanda na Biashara Ndogondogo (VIBINDO)** is an association of informal sector operators in Dar es Salaam with a membership of 274 economic groups who in turn have over 30,000 individual members, all MSE operators. This makes it the largest business association in terms of numbers.
- **Tanzania Association of Food Processors (TAFOPA),** which brings together food processors who were trained under a UNIDO supported project. This organisation's constitution is deliberately designed to keep it as a women organisation by limiting male membership to 20%. The organisation is supported by a UNIDO funded project, which facilitates supply of imported inputs by buying in bulk and reselling to members in very small quantities.
- **The Tanzania Private Sector Foundation (TPSF)** has been formed as an umbrella organisation for all business, NGOs and employer associations, taking responsibility for policy advocacy.
- **National Business Council.** The Tanzania National Business Council was established in 2001. It brings together 20 key ministries at Principal Secretary level and 20 key representatives of the business community under the Chairmanship of the President of the United Republic of Tanzania. It serves as a dialogue forum and decisions taken by it to improve the business environment are supposed to be implemented immediately, since the key decision-makers in government and its institutions (TRA, TIC) are also represented.

4.0 RECENT POLICY AND REGULATORY REFORM PROJECTS

This section focuses on the policy and regulatory reforms that have taken place in the past three years, aimed wholly or partly at improving the environment for SMEs. Policies which specifically targeted SMEs include the SME Policy, 2002 (Draft), the National Micro-Finance Policy, 2000. Policies and programmes which have a significant bearing on SMEs although not targeted exclusively on them include the Agricultural Development Strategy (ADS), Rural Development Strategy (RDS), Business Environment Strengthening in Tanzania (BEST) and the Poverty Reduction Strategy Paper. These are briefly elaborated below, along with the donors who supported them.

4.1 SME Development Policy, 2002 (Draft)

This policy is in a draft form. Its overall objective is to promote the creation of new and improve performance and competitiveness of existing enterprises with a view to ensuring faster job creation and income generation. The policy is intended to serve as a guide or framework for co-ordinated interventions. It describes the role of implementing agencies and tools for implementation. The Ministry of Industry and Trade (MIT) will be the overall manager and co-ordinator.

Areas covered by the policy include review of policies and regulations, design of new strategies for facilitating the provision of financial and non-financial services to SMEs and developing and institutionalising public-private partnerships for SME development. Moreover, the policy deviates from previous ones in that it identifies strategies for implementing it. The following donors supported development of the policy:

| | |
|--------|--|
| DFID | • Financing technical assistance and stakeholders' workshops, member of steering committee |
| USAID | • Financing technical assistance and stakeholders' workshops, member of Steering Committee |
| UNIDO | • Financing technical assistance and stakeholders' workshops, member of Steering Committee |
| ComSec | • Financed Technical Assistance (background studies) |

In terms of collaboration among the donors, DFID, USAID and UNIDO participated in the Steering Committee for developing the policy and joined forces to finance some activities.

4.2 National Micro-Finance Policy, 2000.

The National Micro-Finance Policy was completed in 2000. Its overall objective is to provide a basis for the evolution of an efficient and effective microfinancial system in the country that serves the low segment of the society and thereby

contribute to economic growth and reduction of poverty. The policy establishes the framework within which micro finance operations will develop; lays out the principles that will guide operations of the system and provides a guide for co-ordinated interventions by the respective participants in the system. The policy also defines the roles and responsibilities of various actors, including that of government. The central bank is given the mandate to coordinate the implementation of the policy. The following donors supported the development of the policy

| | | |
|------------|---|---|
| Sida | • | Financed technical assistance and stakeholders' workshops |
| World Bank | • | Financed background studies |
| DFID | • | Financed a study tour by parliamentarians to Indonesia |
| ADF | • | Co-financed a stakeholders' workshop |

In terms of collaboration, Sida, the World Bank and DIFD co-ordinated their support informally as well as through their membership to the DAC-Sub-group on Micro-Finance which also deliberated the draft policy.

4.3 Strategic Trade Policy, 2002.

The objective of the Trade Policy is to raise efficiency in domestic production and building a diversified export sector. Specific objectives include building an integrated, diversified and competitive economy capable of participating more effectively in the multilateral trading system, stimulation and encouragement of adding value of domestic products , stimulation of investment flows in areas where Tanzania has a comparative advantage and attainment of long-term current account and balance of payment. The policy instruments include:

- Tariff measures
- Non-tariff measures,
- Trade defense mechanisms,
- Trade policy development instruments, and
- international trade policy instruments.

The following donors supported the development of the policy

| | | |
|--------|---|--|
| Sida | • | Technical assistance and stakeholders' workshops |
| DANIDA | • | Technical assistance and stakeholders' workshop |
| DFID | • | Technical assistance |

These donors co-ordinated their support informally as well as through the Steering Committee for developing the policy, to which they all belonged.

4.4 Business Environment Strengthening in Tanzania Programme (BEST), 2001

BEST is a five-year cross cutting, multi-donor financed Programme for ensuring that the mechanism of government does not create barriers to the private sector by way of unnecessary bureaucracy or poor service delivery. It focuses on removing regulatory and administrative constraints on private sector operations and ensuring that the services that government provides to the private sector are efficient and effective

The programme has five components, namely:

- Achieving better regulation
- Improving commercial dispute resolution
- Strengthening Tanzania Investment Centre (TIC)
- Changing culture of government; and
- Empowering private sector advocacy.

The following donors supported the development of the programme

| | |
|------|----------------------------------|
| DFID | • Financing Technical Assistance |
| Sida | • Financing Technical Assistance |
| RNE | • Financing Technical Assistance |

4.5 Poverty Reduction Strategy Paper (PRSP), 2001

The PRSP was prepared in response to the enhanced Highly Indebted Poor Countries (HIPC) initiative. Tanzania was declared eligible for debt relief under HIPC in 2000 on the understanding that the resources that would be released from decreased debt service would be used for poverty reduction. The PRSP was therefore prepared as a framework for channeling the resources into prioritised areas. The strategy employs a number of approaches, including:

- Sustaining macro-economic stability;
- Rural sector development and export growth; and
- Private sector development

JICA and DANIDA supported the development of this programme by participating in the Steering Committee and financing stakeholders' workshops and technical assistance.

4.6 Agricultural Sector Development Strategy (ADS), 2000

The ADS recognises the agricultural sector to be critical to poverty reduction. Its primary objective is to create an enabling and conducive environment for improving profitability of the sector as the basis for improved farm incomes and rural poverty reduction. The lead sector ministries are identified as the Ministry

of Agriculture and Food Security, Ministry of Water and Livestock Development and Ministry of Co-operatives and Marketing. Ministry of Local Government and Regional Administration will be responsible for coordinating local authorities in implementing ADS at the district level. ADS covers crop production and livestock production and agri-business activities in detail. It addresses five key issues:

- Strengthening the institutional framework for managing agricultural development. This includes defining the role of different actors and strengthening the capacities of these actors
- Increasing private sector participation through creation of a favourable climate for commercial activities
- Clarifying public and private roles in improving support services
- Improving net returns from farms in the short term and commercialising agriculture in the medium to long term
- Mainstreaming planning for agriculture in other sectors, so that due attention is paid to such issues as infrastructure development, the impact of HIV/AIDS and malaria, youth migration, etc

DANIDA and JICA supported the development of the strategy by financing technical assistance and stakeholder workshops. They co-ordinated their support by participating in the Steering Committee for development of the strategy.

4.7 Rural Development Strategy

The Rural Development Strategy recognises that poverty is mainly rural and that given that over three-quarters of Tanzanians live in rural areas, development effort must focus on them. It specifies a number of strategies to be used to stimulate social and economic development in rural areas of Tanzania. In order to tackle rural poverty, the strategy focuses on development of business activities in the rural areas.

JICA and Irish Aid supported this activity by participating in the Steering Committee, financing technical assistance and stakeholder workshops.

National Sustainable Industry Policy (NSIP), 1996-2020

The NSIP provides an overall framework for Tanzania's future industrial development and lists specific national objectives, including making the industrial sector contribute more broadly and evenly to the creation of employment opportunities through SMEs. The policy provided that the government will put more emphasis on the development of SME industries. It was also provided that: Support will be intensified towards strengthening capacity for supporting SMEs in, improving the legal and regulatory framework as well as access to finance. However, no implementation plans were developed. Also, the policy remains unimplemented. The development of the policy was supported by UNIDO.

4.9 Gender Sensitivity and Coherence in the Policies and Programmes Developed

Women are a significant part of Tanzanian society and as such any meaningful development effort must mainstream them. It is imperative to pay attention to the special problems and needs of women in development planning in order to avoid their continued marginalisation. Whenever possible, affirmative action has to be taken in order to correct existing imbalances in access to resources and hence make it possible for women to use their full potential in contributing to social and economic vitality and development. It is also important that the reform projects are consistent with each other and that they do not duplicate effort. Below is a brief assessment of the the extent to which the content and process of the reforms have taken these two issues into account. The analysis is also presented as **Annex 5**.

In general, all initiatives appear to have carried out extensive background analyses of needs and priorities and consulted stakeholders widely during the process of developing the policies/strategies/ programmes. Women were among those consulted. However, the policies and programmes differ in the extent to which they have addressed gender issues. Some have shown the need to address women needs but fell short of specific strategies. Others have come up with specific strategies.

Table 4: Gender Issues in the Various Policy/Strategy/Programme Documents

| Gender Issues | SME | STP | ASDS | SIDP | BEST | NMFP | RDS |
|----------------------|------------|------------|-------------|-------------|-------------|-------------|------------|
| Raised | Yes | Yes | Yes | Yes | No | Yes | Yes |
| Strategies specified | No | No | Yes | No | No | No | No |

Review of the policies and programmes reveal that although there are overlaps (e.g. SME policy concerned with rural agro-business activities, which are also dealt with the Rural Development Strategy and Agriculture Development Strategies) the programmes are largely complementary to each other. This is because those who formulated them had the opportunity to learn about what is provided for in the other ones. However, it is very important that their implementation is co-ordinated, otherwise some activities may be duplicated.

5.0 PROCESSES AND TOOLS USED IN RECENT POLICY AND REGULATORY REFORMS

5.1 Motivation and initiative for the reforms

The need for policies/programmes came from various sources. Within the government, the need for some guidance or strategy to address the problems and challenges addressed by these policies/programmes was felt to different degrees, depending on the policy/programme.

In the case of the SME Policy, many observers and stakeholders, including government officials, donors and the private sector had been lamenting that lack of such a policy was one reason for slow progress in the sector. However the Ministry responsible felt that it lacked the financial resources to prepare the policy. When an official of a donor agency visited the Ministry and found that they had no policy, and upon being told that the problem was lack of financial resources, he immediately committed funds to commission a consultant to set off the process.

In the case of the PRSP, the need and urgency for it came from the urge to meet the completion point for HIPC in the time set. The Strategic Trade Policy appears to be a response to the globalisation phenomena and the fear that Tanzania will further be marginalised. It is not clear who was responsible for initiating the process.

5.2 Tools and Processes Used in the Reforms

For the most part, the reforms which have been proposed in the past three years have been prepared in a very participatory way. The reform processes discussed so far are the ones which involved formal policy/strategy or programme development and implementation. For these, some temporary forums were set up specifically for the purpose of developing them. In addition to these, there are a number of relatively permanent (or standing) forums which have been used to facilitate the discussions and eventually communication of reforms to government. Both have been quite useful in bringing about reforms and some of the standing forums have also been used to feed into the formal reform processes.

Standing Forums/Committees

Public Expenditure Review

Since 1996, there has been what is called the Public Expenditure Review (PER). This is a forum which goes through proposed medium term expenditure priorities for government and donor funds. This creates the possibility to allocate enough resources to activities deemed critical for private sector development. PER started from an initiative of the World Bank, which also managed it in the first few years. Gradually, it has evolved into a government led process with wide participation of key ministries, most donors and some NGO and academic institutions. It provides a forum for dialogue on all issues related to public expenditure allocations, sector budgeting and budget execution, and hence a very important link between budgetary aid and its utilisation. It is chaired by the Ministry of Finance. A group of like minded donors (the Nordics) have established a basket fund for PER studies and technical assistance.

Sector Working Groups for PER

These have been established in health, education, tax administration and local government reforms, but not in SME development yet. These have supported and contributed to sector-wide programmes in a number of sectors, including health, education and local government reforms.

Public-private Round Table

The annual budget (Finance Bill) has all along been a key regulatory mechanism. Laws, regulations and taxes that affect business are very often changed through the Finance Bill. Since 1997, business associations and other players have had the opportunity to provide inputs into the Finance Bill by recommending reforms that will enable smooth running of their businesses. These recommendations have been made through public-private round table held annually before the budget.

Donor Assistance Committee (DAC) Group and its Subgroups

Donors from members of OECD have formed a loosely organised group to co-ordinate their assistance to other countries. This forum exist at the international level as well as at the national level. The objectives of the co-ordination include:

- Increased ownership on the part of recipient governments
- Reduced transaction costs in aid delivery, mainly administrative complexities and overlaps and
- Increased aid effectiveness

In Tanzania, DAC has been an informal gathering, meeting occasionally or when there is something to be discussed to share information and exchange ideas. Gradually, this engagement has intensified. There are have also been DAC-Sub groups, which are made of donors interested in a particular sector. For example, there are sub-groups dealing with private sector, health, etc. Within the private sector group, there is a subgroup dealing with Micro-finance.

The sub-group interested in the private sector has prepared a matrix of private sector support activities by the different donors. It has now decided to formalise its functioning by developing Terms of Reference and a time table for its meetings. The proposal is to call this group “DAC Private Sector Development Group Tanzania”.

National Business Council

The National Business Council was established in 2001 as a government-private sector joint body, whose role is to address issues and problems hampering investment and generally business activities. It is chaired by the President and its membership include 20 leaders of business associations and 20 key top civil servants (including Principal Secretaries and heads of regulatory and investment facilitation agencies). It is supposed to meet twice a year, identifying issues to be followed up, allocating responsibility for follow up and demanding progress in the next meeting. So far, only one meeting has been held. This is potentially a very effective forum, if it lives to its expectations.

Temporary Committees

In all cases, a number of committees were specifically set up to play a role in the development of the policy/strategy/programme. These committees cease to exist immediately after the approval of the reform proposal.

Policy/Programme Development Process

Typically, there would be a number of activities and/or organs dealing with the reform process as follows. Drawing from whatever background information is available and in liaison with a Technical Committee, a consultant would prepare the first draft. This would be discussed in the Inter-Ministerial Steering Committee, Stakeholders workshops, relevant DAC Sub-group, DAC and finally the Steering Committee for the reform. When the Steering Committee for the reform is satisfied, it would pass it on to the Cabinet Secretariat. Reforms that do not involve changes in the laws end up with the Cabinet. The different players and their roles are shown below.

Table 5: Activities and Organs Typically Involved in the Reform Processes

| Organ/activity | Composition | Role |
|---------------------------------------|---|---|
| Policy studies (analysis) | Contracted consultants/researchers | To provide background, baseline and justification for reforms |
| Consultants | Local and/ or international experts working closely with local experts in the respective ministry | To do the background studies/analysis and/or draft the reform document |
| Intra-ministerial Technical Committee | Heads of planning and other key departments in the lead sector ministry | To draft the document or work closely with a consultant in drafting the document |
| Stakeholders' Workshops | Selected zonal or sectoral stakeholders in the reform process | To comment on and make suggestions for improving the reforms |
| Inter-Ministerial Technical Committee | Representatives (typically Permanent Secretaries) from key ministries and co-ordinated by the lead ministry | Going through draft and making any necessary changes deemed important |
| Steering Committee | Representatives of government and donors interested in or supporting the reforms | Going through the draft and making any necessary inputs/changes |
| DAC Sub-Committee | Representatives of donors interested in the particular reform (increasingly, government officials are also being invited) | Going through the document and making any suggestions they deem necessary on the content or process |
| DAC | Representatives of donor agencies | Going through the document and making any necessary suggestions on the content or process |
| Cabinet | All Ministers and Principal Secretaries | To approve the reform |
| Parliament | Members of Parliament | To approve the reforms (where these involve changes in laws) or note them (where no changes in laws are involved) |

This process is shown in the following figure:

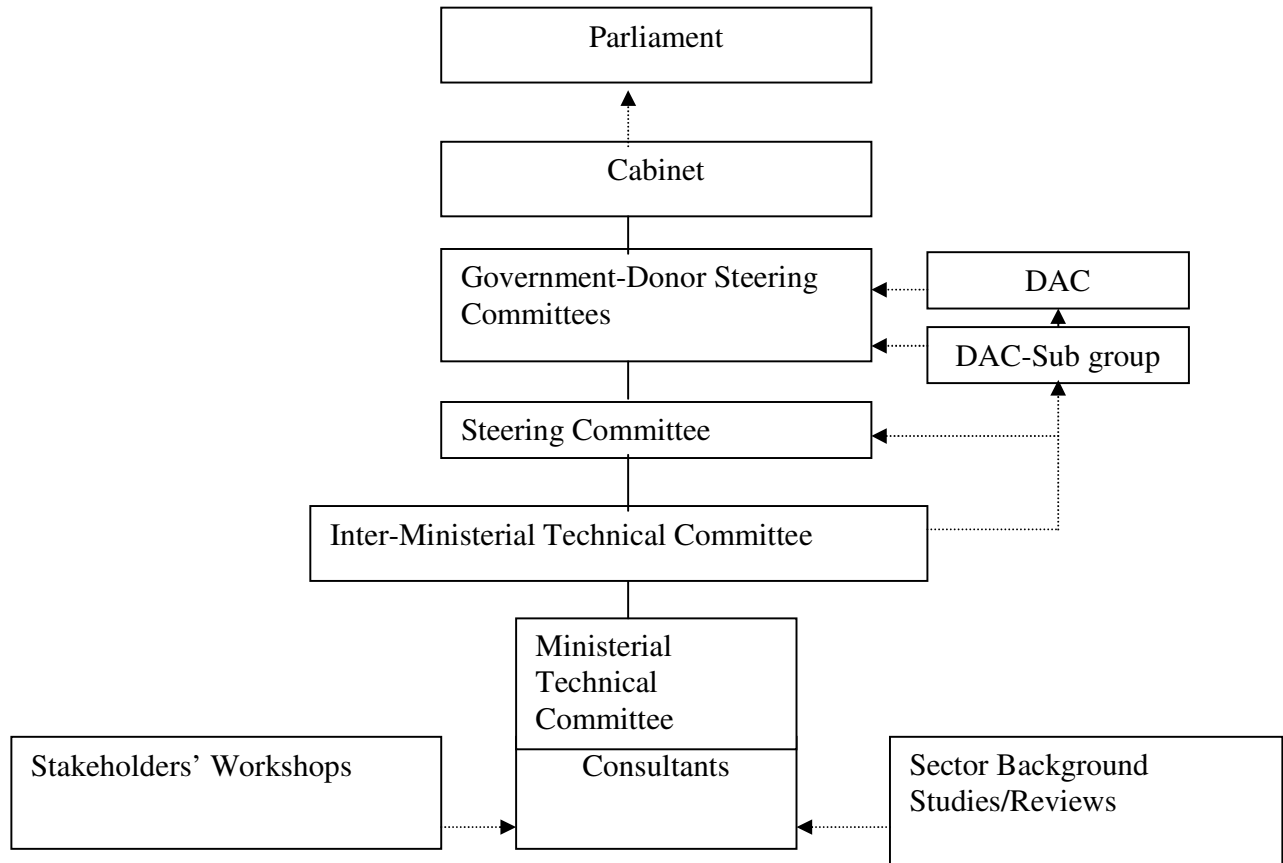


Figure 1: Policy/Programme Development and Approval Process

6.0 INDIRECT SUPPORT TO REFORMS THROUGH CAPACITY BUILDING

In addition to supporting policy and regulatory reform measures directly, donors have been supporting government departments and agencies' capacity to better understand their policy environment through policy related studies and to develop and implement an enabling policies and regulatory frameworks for private business activities, including SMEs. In this regard, a number of studies have been financed by donors. Also, various kinds of support have been extended to the Ministry of Finance (MoF), Ministry of Industry and Trade (MIT), Ministry of Agriculture, Bank of Tanzania (BOT), Tanzania Revenue Authority (TRA), Business Registration and Licensing Authority (BRELA) and Tanzania Bureau of Standards (TBS). Also a number of business associations, including Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), Confederation of Tanzanian Industries (CTI), Tanzania Food Processors' Association (TAFOPA),

Tanzania Private Sector Foundation (TPSF) and National Business Council (NBC) have been supported in one way or another. The nature of the support in each of these is elaborated below.

6.1 Policy research

Many of the policies/programmes were preceded and informed by a number of studies, some of which were done specifically to feed into the policies, programmes, and strategies being developed. These studies were very important in building consensus on the priorities. Some other studies were carried out to bring about critical information that would trigger or feed into the policy/regulatory reforms. These include the following:

Investor Roadmap. 1996 This study examined critical barriers to investing in Tanzania, pointing out measures that need to be taken to make the country more investor friendly. It was funded by the United States Agency for International Development (USAID)

Roadmap Informal Sector Study, 2002 (Draft). This study sought to find out the main barriers to the establishment and development of formal business activities in the MSE sector in Tanzania. It was financed by the International Labour Organisation (ILO) and the United Nations Industrial Development Organisation (UNIDO).

Strengthening and Modernising Commercial Laws: Towards a more conducive environment for SMEs. 1995. This study examined problems with commercial laws and identified reforms needed in this area to make the laws more friendly to SMEs. It was commissioned (and funded) by the United States Agency for International Development (USAID).

Survey of Micro-Finance Institutions (1998). This was funded by DFID.

Survey of Savings and Credit Co-operative Societies (SACCOS), 1999. This was funded by International Co-operative Alliance (ICA), Canadian International Development Agency (CIDA) and Danish International Development Agency (DANIDA).

6.2 Capacity building in government departments and agencies

A number of donors have supported capacity building in government departments and institutions, including the following:

Table 6: Donor Agencies and their Contribution in Development of Various Programmes/Policies

| Ministry/Agency | Donor | Supported Extended/To be extended |
|-------------------------|--------------|---|
| MIT | DANIDA | <ul style="list-style-type: none"> • Rehabilitation of offices • Acquisition of computers and networking |
| | Sida | <ul style="list-style-type: none"> • Supporting capacity assessment and capacity building |
| BRELA | USAID | <ul style="list-style-type: none"> • Capacity building |
| BOT | DFID | <ul style="list-style-type: none"> • Funded a strategic planning workshop for Micro-Finance Department • Survey of MFIs |
| TBS | UNIDO | <ul style="list-style-type: none"> • Upgrading laboratory |
| TRA | USAID | <ul style="list-style-type: none"> • Equipment, staff training for strengthening research and policy department |
| UDSM | NUFFIC | <ul style="list-style-type: none"> • Capacity building in teaching, research and consultancy in SMEs/entrepreneurship |
| Vice Presidents' Office | Sida ADB | <ul style="list-style-type: none"> • Establishment of SELF Loan Facility for on lending to MFIS |

6.3 Strengthening Associations

There have been a number of measures taken to strengthen the business associations to among others, become more effective in policy advocacy. Associations that have been supported in the recent past include TCCIA, CTI, TAFOPA and TPSF, which is an umbrella organisation for all employers and business associations in Tanzania. The support provided by donors in this area is summarised in the table below:

Table 7: Support Provided by Donor in Strengthening Associations

| ASSOCIATION AND COMPOSITION | SUPPORT EXTENDED | RESULTS |
|--|---|---|
| Tanzania Private Sector Foundation (TPSF), an umbrella organisation of all business and employers' associations | <ul style="list-style-type: none"> • USAID and UNIDO have financed meetings, equipment, rent and salaries for executive staff | <ul style="list-style-type: none"> • TPSF has spearheaded formation of Tanzania National Business Council, potentially a very powerful institution for effecting reforms |
| Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), an umbrella association of all regional chambers of commerce | <ul style="list-style-type: none"> • Sida provided equipment and paid salaries for executive officers at head quarters, all regions in Tanzania and selected districts | <ul style="list-style-type: none"> • TCCIA has contributed to advocating to a number of reforms, e.g. taxation, export restrictions, etc • TCCIA is now seen by central government as a partner in development and is consulted |
| Confederation of Tanzanian Industries, an association of industrialists and their associations | <ul style="list-style-type: none"> • DANIDA supported twinning (topping up salaries of executive officers) | <ul style="list-style-type: none"> • CTI was instrumental in establishment of TPSF, TNBC and advocating for a number of reforms through PER and TNBC |
| Tanzania Food Processors Association (TAFOPA), which brings together small scale food processors, mainly women | <ul style="list-style-type: none"> • UNIDO has been supporting TAFOPA in terms of advise through the SIDO/Women Integrated Food Processing Programme | <ul style="list-style-type: none"> • TAFOPA has managed to convince some health officers to administratively relax enforcement of the Food Control Act, 1978 |
| VISOTA, an umbrella association of informal sector operators | <ul style="list-style-type: none"> • DFID supported VISOTA in holding a meeting to discuss the SME Policy | <ul style="list-style-type: none"> • VISOTA managed to provide input into the policy |
| TCCIA- district level and P-P dialogue | <ul style="list-style-type: none"> • RNE/SNV have supported district level chambers of commerce in Arusha, Kondo, Songea and Lake Zone • RNE/SVN have facilitated private-public dialogue at district level | <ul style="list-style-type: none"> • The associations have to some extent been accepted as partners at the local government level • Dialogue has improved trust and resulted into tangible changes in policies and regulations at local level |
| Tanzania Association of Micro-Finance Institutions (TAMFI) | <ul style="list-style-type: none"> • Sida supported its establishment by financing equipment, rent and salaries | <ul style="list-style-type: none"> • TAMFI established |

7.0 COLLABORATION MECHANISM, OUTCOMES AND IMPACT

7.1 Collaboration mechanisms

Donors have been co-ordinating and collaborating in various ways. These include the following:

Sharing information. This is the most basic form of collaboration. Donors do share information about what each other is doing in the country. They also sometimes share information on views and positions of each other on some policy matters. This avoids duplication, wastage of resources, chances of government or other beneficiary of support playing one donor against another, etc. Sharing information has been done both formally through the DAC meetings as well as informally among donors.

Taking a Common stand. If each donor is to give her individual opinion on specific policies to the government, it would be getting multiple and sometimes conflicting advice. Donors therefore attempt to agree on a common policy stand to avoid this problem.

Sharing information and taking a common stand are done formally through DAC and its working groups, but also informally, through day to day official and non-official interactions among donors.

Sharing costs. Sometimes donors will jointly contribute towards meeting costs of a particular activity or project, such as developing the policy/strategy/program, capacity building, etc. This can take two forms: basket funding, in which all donors contribute to a common project fund and joint individually funding, in which donors agree to work together in funding a project, but each commits himself to directly finance one or some components of the project.

7.4. Benefits of collaboration among donors

The collaboration among donors have yielded the following benefits:

- Reduced transaction costs for both government and donors. A government deals with a fewer agencies at a time. Donor agencies do not have to spend a lot of time and energy to get to know what others are doing and how it relates to what it is doing
- Creating harmony and understanding among the donor agencies, some of whom have different orientations, preferences, experiences, etc. Joint meetings and exchange of ideas in the different fora where donors meet is seen as having contributed a lot towards mutual understanding and increased harmony among the donor agencies.
- Collaboration in advising the government, especially when it is done through a forum is seen to lead to better, more balanced policies/programmes. Suggestions from one donor are sometimes improved or countered by another sometimes giving evidence based on past experience in Tanzania or a comparable country. If such an idea was given to government officials directly, they would probably not have the information or confidence to counter them.

- Involvement of donors in preparation of strategy/policy/programmes helps inform them of what is going on, provide for the funding required and even providing valuable inputs from their experiences elsewhere. All of these increase the chances that things will happen, rather than end in papers.

7.3 Outcome and Impact

Measuring outcomes and impact

The aspect of impact of donors' involvement in creating an enabling environment for SMEs is quite problematic, especially when this is done in the context of collaboration among donors as well as with other stakeholders, such as private sector organisations. The first problem is defining impact or success. There can be different levels of success, such as:

- (i) Getting some ideas or proposals/point of view included in the reform document
- (ii) Successful development of the document to the point where it awaits approval by the competent body (e.g. Cabinet or Parliament)
- (iii) Successful approval of the reform document by the competent body
- (iv) Implementation of the reforms suggested
- (v) Impact of the reforms on individual SMEs and their associations
- (vi) Impact of the reforms on national competitiveness, poverty alleviation , income levels and living standards

Discussions with the various donors and associations shows that when they think of impact of reforms measures, they are mostly referring to implementation of the reforms. This makes sense, since the reforms are of no use until they are implemented. For government officials however, the mere existence of the reforms on paper is perceived as a very significant step. This may be explained by the fact that policy making is one of their key responsibilities and its absence reflects badly on them.

Compared to donors, private sector organisations are more confident in attributing successful implementation of reforms to their efforts. Private sector organisations however appreciate the role of donors in strengthening them to a point where they can advocate for change. This is quite in order, because it would be most unfortunate if private sector organisations perceived that reforms are brought about directly by donors. This has however not always been the case. As alluded to before, donor organisations were the main force behind the major macro-economic reforms which took place in the mid 1980s, at the time when the private sector was not only unable to influence change, but could potentially have resisted some of the major shifts in policy. It is noted therefore

that the role of the private sector in influencing reforms has evolved gradually over the past 15 years.

It is interesting to note that the government appears to be comfortable with the fact that donors are assisting private sector associations to build the capacity to pressurise it. This was found to be the case even at the local government level (Jiendeleze, 2001) where attitudes towards the private sector are still relatively less friendly compared to the central government.

Achievements in general

For the most part, the policies and programmes that have been formerly developed, have either been approved or are still in the process of approval. It is therefore rather early to talk of their impact. However, the reforms that have been incrementally introduced at both national and district level have had some positive outcomes

A number of policies, laws and regulations have been instituted in the past three years. Also a number of programmes have been developed. These include:

- National Micro-Finance Policy, 2000
- SME Development Policy, 2001 (Draft)
- National Trade Policy, 2002 (Draft)
- Poverty Reduction Strategy (PRS), 2001
- Business Environment Strengthening in Tanzania (BEST) programme, 2002 (Draft)
- Agriculture Development Strategy (ADS), 2001
- Rural Development Strategy, 2001

Although some of these are yet to be implemented, some reform measures have been taken and implemented in the past three years through the Annual Finance Bills, Presidential Orders and changes in local government policies and regulations.

Examples of achievements in reforms

Taxes

- In the 2001/02 budget, the requirement for the businesses to pay provisional taxes before being granted a license was waived. This was a result of sustained complaints and pleading by the various business associations. Land rent was also reduced from Tshs 600 per acre to Tshs 300 per acre

Creation of the National Business Council

- The TNBC is a powerful forum, which has been formed under the initiatives of the TPSF. The Council brings together 20 government representatives, mainly Permanent Secretaries of key ministries and 20 representatives of the private sector and is chaired by the President of the United Republic of Tanzania. The Forum meets at least four times a year to discuss problems hindering investments and the private sector in general. Decisions made as to what to do with the problem are binding. This means problems agreed upon can be implemented immediately, because the implementing agency would typically be represented at the forum at its highest level. So far, it has achieved the following:
 - Identified issues hampering investment and business performance, agreed on remedial action, time frame and parties responsible. Progress will be reported in the next meeting, to take place in November, 2002
 - Organised investor round tables for local and international investors, both of which were attended by the President of the United Republic of Tanzania.

Cross-border trade

- In 2001, the President of the United Republic of Tanzania ordered that the prohibition against cross-border export of food crops be lifted. This has enabled farmers and peasants in the border regions to legally earn several times what they could earn if the crops were to be sold in the local market. This was a result of repeated pleas by regional chambers of commerce, especially in Mbeya and Rukwa, the regions most severely affected by the restriction.

There are doubts, especially among some donor agencies regarding the ability of the forum to use its power to get things done on the ground.

Achievements at the district level

After urging and consultations with the local business association, the Kondoa District Council in Dodoma has introduced the following changes:

- A policy was introduced in 2001 to the effect that government contracts shall be given to local contractors unless they lack the competence. The association managed to convince the government that the former practice of giving contracts to external contractors was denying the district of jobs, purchasing power and taxes
- In 2001, the crop levy was reduced from Tshs 500 to Tshs 300 per bag to match with what was being charged in neighbouring districts. This was after the association had managed to convince the local government that it was losing revenue as most people were taking their crop for sale in the districts with lower levy

- In Monduli District, the local government responded to a request by the association to do away with very poor service and artificially high fares occasioned by a small group of businessmen who had apparently colluded with some government organs to keep off new entrants in the Arusha-Monduli road transport business for many years. This has the effect of increasing service quality and reducing fares by more than 30%.

Achievements at the sector level

- In July 2001, TAFOPA leadership and later members met the leadership of the Food Control Commission and some District Health Officers to discuss ways of dealing with their illegal business activities (almost all TAFOPA members operate without licenses because they are unable to meet the Food Control Act's stringent premises registration requirements). They managed to convince the government officials to administratively relax enforcement of the Act and assist the food processors to incrementally build capacity to meet the requirements. This has given the members more confidence in developing their predominantly micro enterprises.

8.0 BARRIERS TO EFFECTIVE COLLABORATION

From the discussions held with individuals interviewed as well as other studies,² a number of barriers to effective collaboration among donors, government and civil society and between donors and government have been identified. These barriers are attributable mainly to either the donors, government or private sector associations. It should be noted that these observations do not apply to all donors, government departments or associations. However, they exist in sufficient degree to warrant concerns and remedial actions by DAC and other stakeholders in collaboration.

8.1 Barriers attributed to government

- (I) **Inadequate vision, leadership, co-ordination and ownership on the part of government.** When multiple donors are involved in supporting related activities, they need a framework in the form of a vision set by the government. They also need to be co-ordinated. As the government of Tanzania is concerned, this vision and leadership is very much inadequate. This has led to a situation where some donors are unsure of what to do to achieve the most impact on the sector. Also, in the absence of effective leadership by the government, some donors sometimes take the responsibility of co-ordinating other donors. While ownership, vision and leadership has improved in the past 10 years, it is still inadequate.

² Notable among these is the recent one by Ronsholt (2002) on donor burdens and donor good practices; Hellener's Reports (1997, 1999) and Muchunguzi and Milne (1997)

Ownership varies from one ministry/department to another. The main reasons for limited ownership are:

- (1) Capacity in government departments in terms of experience in policy/programme development and working with donors (including co-ordinating donors) is quite limited. Many of the responsible officials have had no exposure to the analysis and process that is involved in these initiatives. Some ministries are however exceptional in this because they have had a lot of experience in interacting with donors.
- (2) Ownership of the development agenda in terms of taking the initiative to set priorities and inviting financial support is little understood in government. Officials are unsure of how much leadership and co-ordination they can provide to those who support them financially. For the most part, they see themselves as being on the “receiving end” rather than on the “driving seat”.
- (3) There are just a few able people in government ministries dealing with everything and hence activities revolve among the small clique who are already overworked. This limited capacity is dwindling due to HIV/AIDS related deaths, transfers, promotions and resignations. Replacement takes a very long time.
- (4) Poor leadership and supervision within ministries compounds the problem of ownership. Two offices were cited by several of the respondents as critical in ensuring ownership of the development agenda in a ministry. These are the Permanent Secretary, who directs all affairs of the ministry and the officer responsible for policy and planning, who is responsible for guiding the ministry and its units in planning activities including reforms. Ownership is said to be very weak when one or both of the incumbents in these offices lacks understanding or experience/skills and confidence for taking ownership. These two positions are critical in mainstreaming ownership in the rest of the ministry.
- (5) When government officials take a position, they are sometimes unwilling or unable to confidently back it with informed analysis. Subsequently, they do not get the confidence of the donors, which is critical for effectively leading and co-ordinating them.
- (6) Communication within and among the government departments is not widely shared. Several reasons account for this.
 - There are just a few scattered individuals who know what is taking place. As a result, when they are away, things must stop and wait for them.

- Some senior government officials simply do not appreciate the importance and urgency of sharing information.

One Principal Secretary was for example quoted telling one of the Ministry's donors that he could not share information about what is being negotiated with another donor until they had agreed bilaterally with the first donor.

- Many ministries' orientations is still that of working bilaterally. Another is that some government officials are hesitant in feeding back negative developments to the donors in order not to disappoint them. Hence when approval of a policy or programme is delayed or returned by the approving organ, the responsible ministry will not always feedback this information to the donors promptly.

When asked why a meeting of the Steering Committee for a certain programme had not been called, one government official's response was "We have no good news to tell you, the programme is not approved yet".

- Where multiple donors are involved, government departments often think that one of the donors will take responsibility for sharing information with others, whereas the lead government department should do this.

- (iii) **Lack of transparency and open communication.** Most of the donors feel that the government is not communicating with them in a straight, transparent, candid and logical way. Although this situation is improving, a lot needs to be done. The government officials are said to lack confidence to openly talk about what is happening, especially when lack of progress is attributable to weaknesses within the government.
- (iv) **Lack of natural counterparts and champions in the government.** Currently, there is no single government agency dealing with private sector. As a result donors must deal with multiple agencies. There is also no national focal point for development of women entrepreneurship. This means the donors who are supporting these activities have no counterparts to talk to.

8.2 Barriers attributed mainly to donor agencies

- (i) **Multiple perspectives of SMEs among donors.** There are many donors involved in supporting informal, micro, small and medium enterprises either at macro (policy/regulatory/administrative reforms), meso (supporting associations and intermediaries) or micro level (direct support to enterprises). It must be noted that the objectives and nature of the support required for each segment can be quite different. Donors have different perspectives, targets groups and objectives in supporting these activities. Some donors are clearly focused on supporting a particular segment, whereas others may not be so focused.

One of the respondents among the donor agencies told the consultants that he did not believe the Ministry of Industry and Trade was the right institution to spearhead SME development. The reason he gave is that the Ministry is experienced and better positioned to deal with larger enterprises rather than the micro enterprises which this particular donor is interested in. However, both the donor and MIT are talking of supporting SMEs.

Critical barriers to performance and growth of formal small and medium enterprises are different from those facing poor people, who want to eke out a living in the informal sector through partial engagement in income generating activities or those who are in the informal and want to graduate into the formal sector. The well established small and medium enterprises struggling to develop further into larger professionally managed and internationally competitive firms also face a different set of problems. Interventions directed to each of these have to be different in nature and in their objectives.

Although in practice different donors support different groups of enterprises, they still all talk of supporting SMEs. There is therefore need to explore the differences in perspective and agree on meaningful categorisation of the focus for different donors. This will simplify communication and collaboration.

- (ii) **Instability of staff in donor agencies.** Most of the people involved from the donor's side don't stay long (three years is the average). The third year is the time when they have just learnt of the environment, have built the necessary trust and networks and are ready to start making some serious contribution. Although this is considered to be necessary in order to enable the staff share their international experience³, it also seriously affects relationship building between government and donor agencies as well as among the donor agencies themselves. Several examples were

³ Also, where donor staff are part of the embassy staff, local regulations require that they spend no more than three years in Tanzania

cited of support that ceased prematurely just because the responsible official in the donor agency was replaced.

- (iii) **Frequent changes in donor priorities.** Donors change emphasis every three years, hence lack of continuity in the activities and relationships developed. Related to this is the fact that project duration are often very short. Variations in the timing of projects/programmes among donors and between individual donors and the government plans is a major cause of failed collaboration.

Creighton (2002) also singles out lack of sustained commitment to programmes by donors as a major area of concern both for the private sector and NGOs. He recommends a 5 year review of programmes with a 10 year policy review for continuity of programmes

- (iv) **Piecemeal funding of activities.** It was reported that some donors do not want to make full commitment to support activities. Instead, they prefer to fund them in piecemeal. The support can be discontinued any time due to change in staff in the government or donor agency or simply at the whim of the donor agency. This forces the government or business associations to look for multiple donors to support the same activity, because none is sure to continue supporting the activity for a long time. Concern was also raised that some donors support activities halfway. For example support may be extended to a certain association, and just when the association is picking up, support is stopped and the association is asked to stand on its own in order to be sustainable. When the support is terminated prematurely, the development of the association is also stalled.
- (v) **Limited capacity among multilateral/donor agencies' field offices.** Most interventions are conceived at the head office rather than the field office. This is because the headquarters is better endowed with manpower, human resources, experience, information about potential funding possibilities, and networks. Field offices typically have a few staff with limited networks/experience.
- (vi) **Differences in cultures, values and objectives.** People tend to work more (and better) with people they feel confidence and happy working with, when they are like minded. Donors differ widely in terms of openness, language, nationality, assertiveness, objectives, values, etc. Like-minded donors therefore work better together. In some cases, they have grouped themselves in like-minded groups to work together in particular projects. Generally the European donors tend to work together better than with, for example Asian or American ones. These differences are narrowing down as a result of increased collaboration and understanding.

- (vii) **Limited knowledge and experience in collaboration.** Traditionally, donor agencies have been working alone. Collaborative initiatives require them to deal with challenges that they never had to deal with. Currently, there is no systematic knowledge on how to deal with challenges such as:
- Backstopping activities by field staff (in multilaterals) in a collaborative set-up. This must be clearly defined in agreements/contracts, otherwise it might lead to problems.
 - For individual donors, joint/basket funding is problematic since, on one hand each donor has to individually account for money to his/her government and show impact.
- (viii) **Tied aid.** Some donors tie their assistance to procurement of technical assistance, goods and other services from their own country. This makes it difficult to collaborate with more open ones. The government has, through Tanzania Assistance Strategy (TAS), asked donors to commit themselves to untying aid. This is however unlikely to happen to all donors in the near future.
- (ix) **Limited trust and confidence in government and business associations.** Some government departments and business association leaders lament that donors do not trust them. As a result, they do not see the donors as true partners. In some cases, donors grossly underestimate the capacity of local officials in government as well as in the associations. They do not realise that ministries and associations vary widely in terms of capacity. This problem creates a communication barrier.
- (x) **Time taken to approve support and disburse funds.** It takes a very long time – sometimes as long as two years - from when a request for funds is made to the time the money becomes available. By this time needs and priorities may have completely changed. Some donors will make a commitment, but months later, they will back off. If the other donors are aware of the commitment, it means one cannot easily go back to them. This creates a temptation for the recipient to keep other donors in the dark until support comes.

8.3 Barriers attributable to the private sector

- (i) **Lack of natural counterparts in the private sector.** The existing major associations (TCCIA, CTI) include both SMEs and large firms. TPSF is now seen as the speaker of a good part of the large scale segment of the private sector, but there are doubts whether it can speak for micro and small enterprises. Some donors therefore do not know who to deal with

on behalf of the MSEs. Even within the large scale segment, a few (20) companies have formed a CEO Club, which advocates for policy outside the auspices of the TPSF.

- (ii) **Undeveloped culture of association and group action.** The culture of joint action among the private sector, at both the individual and association level is not well developed. Thus, business people as well as sectoral associations have a preference for working with government alone rather than as a larger group. Most SMEs in Tanzania are unassociated. Experience from the past few years shows that the larger and more diverse the group, the more likely that government will hear its voice. Also, without strong associations and group action, it is hard to enforce codes of ethic and deal with complex problems that government and donors are unable to solve, such as corruption and smuggling. Failure of MSEs to associate makes them voiceless, because no single organisation can speak for them.

Donors, government as well as the private sector have problems of internal communication. Few people in government know what is happening with the donors and when these are away, communication and collaboration becomes difficult. Some donor agencies' field offices in Tanzania are not aware of the kind of support being provided from their countries to Tanzania through other agencies. This means opportunities for synergy are wasted. Business associations have no formal means of documenting and feeding back achievements in policy advocacy to their membership. Many officials have difficulties narrating their successes in detail. This may compromise continued support by members, since they may not appreciate what is being done on their behalf by their associations.

9.0 LESSONS AND BEST PRACTICES

9.1 Lessons

The following is a summary of lessons from the experiences reviewed in Tanzania.

Allow for acceptance and local ownership of reforms to evolve

One of the key concerns is to have reforms that are relevant and acceptable to the government and the public. The readiness of the government and the public to accept the reforms and take ownership is critical for their sustenance. In the case of the major shift from centrally planned to a market-led economy, the government as well as the public were forced by the very difficult circumstances to accept these changes. However, over the years, the government (and to a less extent the public) have learned that these reforms are desirable. The level

of resistance has gradually eased and more and more radical reforms can be implemented. Today, the government is not only supportive of the intensification of the reforms; it is gradually taking over ownership and leadership of the process. This suggests that local institutions should be given the time and opportunity to acquire positive attitudes and abilities to lead reforms. One should not expect them to quickly and immediately embrace reforms and take the leadership overnight. The same is true of the Public Expenditure Review (PER), which were initiated and initially managed by the World Bank. They are now gradually becoming government forums. Apparently, not much effort has been done to deliberately speed up the learning process among the civil servants. There is still need and room to speed up the learning, especially at the local government level.

Collaboration begets further collaboration

Collaboration among donors is hampered by among others, differences in “cultures” and objectives. However, experience in the recent collaborative efforts among the donors shows that differences among donors tend to decrease with collaboration as donors increasingly learn from the experiences of each other. Collaboration therefore begets further collaboration. Hence donors who are “different” from the mainstream are better encouraged to join collaborative forums, rather than being left alone

The foundation for true partnership is the nature of relationship, not just money

It is important that the parties concerned are motivated to co-operate in sharing information. A number of factors can discourage government or private sector representatives from sharing information with donors. The most important of these seem to be the nature of relationship between the organisation and the donor. When this relationship is long-term, trust and confidence builds. When it is short term and ad-hoc, the likelihood of withholding information about other support is quite high.

For example, associations A had been supported by donors X and Y. Donor X has had a long term project, whereas Y have attempted to provide ad-hoc support. The donors who has had short term contacts (Y) complained of the association playing them against the other, but not the one with a long term commitment.

Collaboration requires partners to have a common language

Co-ordination among the donors also require that there be a common perspective or at least an awareness of the different perspectives of the collaborating party. One of the problems hampering collaboration is the fact that

although many donors say they are supporting SMEs, they are in effect supporting different target groups with different objectives. USAID is planning to support micro enterprises in some areas. The World Bank, on the other hand, is interested in supporting SMEs and so is DANIDA and Sida. However, the classes of enterprises being referred to are sometimes entirely different.

There is a need to develop a common language, so that different actors can understand each other. Under these circumstances, it is difficult for the donors in the SME sector to make sufficient headway in collaboration as in other sectors. For example, setting up a basket fund that attracts resources from all of the donors can be quite difficult as long as they are targeting different segments of the business community. It is better to have sub-groups of donors dealing with more focused types of activities rather than a large group which cannot agree on common positions.

Ownership and local leadership depends on capacity

Each party in a collaborative reform initiative (donors, government and private sector organisations) prefers that reforms are consistent with own priorities, policies and systems. For every well wishing donor, the reforms should address national priorities. This is likely to happen if and when there is strong local ownership and leadership and wide stakeholder consultations. Local ownership and leadership is mainly a function of capacity in government, especially in the lead Ministry's Permanent Secretary and the office responsible for policy and planning.

A predictable flow of resources increases the speed and quality of reforms

In a developing country like Tanzania, the speed of reforms hinges on three important factors. First is the capacity of the government (especially the lead ministry) in articulating the reforms and planning for the reform process. Second is availability of money to finance the reform process. Where predictable and adequate amounts of money have been availed for the reform of certain regulations or policies, the process has been rather fast. Development of the SME Policy took four years compared to less than two years for most of the other policies and strategies. This is at least partly attributable to the fact that while development of the SME Policy was financed piece meal by different donors on ad-hoc basis (except for the final stages, where USAID and DFID committed enough funds), the other programmes had enough funds committed for their development from the outset.

No funded action plan, no action!

No reforms can have any impact if they end up in paper. SIDP for example has hardly been implemented. The main reason is that after it was prepared, no implementation plan was prepared. This also means that no resources were

committed to its implementation. However, other programmes which were formulated later are poised to be implemented because their development were tied to implementation programmes and funding commitments made by donors. It appears that in an environment where the government faces severe financial constraints, providing for comprehensive implementation and financing framework is critical for realisation of policy or strategy provisions.

A sustainable local advocacy capacity is the best way of sustaining the reforms

Since many of the reforms are yet to be implemented, there has not been an opportunity to gauge their sustainability and what will contribute to their continuity. However, many stakeholders feel that so far, efforts to strengthen business associations have lead to their increased recognition as representatives of the business community as well as their influence on the reforms. There is agreement that both of the two major associations (TCCIA and CTI) have had significant influence in the reforms in the recent past, notably rationalization and reduction of taxes and removal of the restrictions on cross-border trade in crops. TCCIA and CTI have also been instrumental in the formation of the Private Sector Foundation (PSF) and umbrella organisation of the private sector. Private sector leaders report that working as one large private sector association in policy advocacy is far more effective than working as sectoral associations. It is therefore reasonable to conclude that strengthening business associations can be a very sustainable way of evolving an enabling environment for SMEs.

9.2 Best practices

There are also some interesting best practices in donor collaboration in Tanzania.

DAC-Private Sector Development Group Tanzania

What started as an informal forum of like-minded donors interested in supporting the private sector in Tanzania in the late 1990s has gradually evolved into a larger and more diverse group. The group is chaired on a rotating basis, exposing each donor very well to the activities of the others. To intensify collaboration and make it more relevant, the group has invited key players in private sector development from government and business associations to join.

In addition, the group has prepared a matrix, showing what each of the members is doing. This is to be updated annually. Since July 2002, meetings have been scheduled on an annual basis and these according to the Tanzanian government fiscal year. Terms of Reference have been worked and will soon be approved. Also, efforts are been made to invite other donors to join the forum.

These measures will likely to enhance its effectiveness in information sharing and other forms of collaboration.

10.0 CONCLUSIONS, RECOMMENDATIONS AND THE WAY FORWARD

The Tanzania Assistance Strategy (TAS) has proposed a number of measures designed to improve collaboration between the government and donors and in particular to lessen the burdens on both sides. We do not intend to repeat what is in TAS here. The following are the conclusions and recommendations on improving collaboration in creating an enabling environment for SMEs in Tanzania arising specifically from this review.

10.1 Leadership and Ownership

Effective and efficient collaboration calls for a strong collaborator and leader. This leader should be a local one. In reality however, such leadership can be scarce, especially during the early years of the reform. It takes time for it to evolve. Its existence depends heavily on the capacity in government or private sector organisations. During the early years of the reforms, it might be necessary for donors to provide such leadership.

The government, private sector and donors should deliberately and systematically aim to build this capacity. Multiple strategies, including appropriate staffing (recruitment, transfers, promotions) on-the-job training and workshops should be used for this purpose. To enhance ownership, the offices of the Principal Secretary and Planning and Policy Departments should be specifically targeted. Monitoring and evaluation of all donor supported interventions should include assessing the extent to which they lead to better ownership and effective leadership and co-ordination within the government or private sector organisations.

10.2 Increasing Understanding among Donors

Donors will typically vary in terms of “cultures” (values, orientations, etc). Mainstream donor forums can choose to avoid the different donors from collaborative forums. Experience shows that involving the different donors helps moderate their attitudes and behaviours, bringing them closer and closer to the mainstream. It is therefore advised that the DAC Private Sector Development Group Tanzania accommodates all donors who are interested in the private sector, instead of only the like minded ones. Those who have not shown interest should be encouraged to join.

10.3 Maximising Trust and Openness

In order to realise maximum collaboration, it is important that relationships among donors and between donors and government or private sector associations are built on medium or long-terms. This way, communication will be improved as well as trust and confidence. This can be done the following ways:

- avoid investment in short term, ad-hoc activities and focus on medium to long-term commitments
- in return for long-term commitments, government departments/ private sector associations should be required to undertake (in writing) to communicate openly and promptly to the donor about any pertinent information
- in the long term, make all commitments on a long term basis (at least five years)

10.4 Creating a Common Language among Collaborators

Lack of a common perspective is a serious communication barrier and may make it very difficult to move to sector-wide approaches and basket funding. It is essential that donors and local partners agree on the different categories of business, so that distinction is clearly drawn between what each of the donors is doing within what is called the SME sector.

10.5 Ensuring that Policy Pronouncements will be implemented

Reforms that demand substantial investment should not end with pronouncements; they must be followed up immediately with implementation and funding plans and commitments, otherwise not much will happen.

10.6 Sustaining Reforms

To sustain reforms, investment in strengthening business associations should be intensified. This must be done in a way that does not compromise the sustainability of the associations. The problem of apathy and lack of culture of association among the business community, particularly SMEs needs to be addressed if associations have to build the financial muscle required for them to be effective without donor support. It is recommended that a study be commissioned on the desirability, acceptance and viability of requiring all businesses to associate to at least one organisation of their choice (even if this means them forming many competing associations)

10.7 Learning to Collaborate

Donor collaboration and ownership are new issues for which there is not much formal training. So far skills for dealing with the challenges involved are acquired

by trial and error by donors, government and other stakeholders. The future holds many challenges which may prove daunting. These include dealing with basket funds, enhancing government ownership, joint backstopping by multilateral agencies, etc. There is need to systematise the process of learning by introducing workshops where government, NGO, donor and private sector officials can be sensitized and learn how to manage relationships in the context of donor collaboration.

10.8 Creating Counterparts in Government

So far, there is no “natural” counterpart for SME or private sector support. There is need to identify one counterpart, who will be in a position to handle all private sector issues. Also, there is need to have a focal point for women entrepreneurship development. It is recommended that within the Ministry of Industry and Trade, or within the agency to be responsible for the private sector, there should be one office which should be formally recognised as the focal point for women issues in business. This may not necessarily be a dedicated office; it can be an office which takes on this as an additional responsibility.

10.9 Further development of the DAC Private Sector Development Group Tanzania.

This group has come a long way and has already played a very important role in fostering collaboration. However, the following suggestions can extend, event further, the contribution of the forum in improving co-ordination.

- (i) The donor matrix could be further extended to a directory of all donor supported activities in the SME sector. This means covering what the group is doing and much more (what other donors and agencies are doing). It would also be more detailed (along the lines of the directory under preparation by Africa Project Development Facility). This directory would need to be updated annually. However, this activity may be too daunting for a donor agency to undertake. It is therefore recommended that the preparation and updating be commissioned to an academic/ research or consultancy organisation.
- (ii) The group should pay more attention to impact of reform measures. The achievements of donor supported activities should be recorded and shared among the donors.

ANNEX 1: GUIDELINE QUESTIONS

Objectives of the intervention

- What were the formulated and/or underlying objectives of the donor-supported policy intervention(s) (e.g. making the environment more conducive to private sector development, to employment creation, etc)?

Focus and target groups

- Did the intervention(s) focus on a particular policy or piece of legislation or did it involve a comprehensive change of the environment for small enterprises?
- Did the intervention(s) focus on specific size classes or economic sectors of enterprises?

Partners and demand for the intervention

- With which national agencies and stakeholders did the donor work directly (direct counterpart) and indirectly (participants and policy processes)?
- How was the need for the intervention(s) first detected and how was the response initiated? (e.g. agencies' own diagnostics, national counterpart's request, convenor for policy activities)

Process

- What was the role of the intervention(s) (e.g. providing resources, giving legitimacy to the process, providing technical know-how, providing logistics, etc.)?
- What were the mechanisms of cooperation between (a) the agencies and their national counterpart(s) and (b) between national stakeholders?
- What were the main tools provided or used by the agencies to analyze the policy environment and to facilitate policy reform?
- What was the level of commitment of the government and other stakeholders throughout the process (e.g. political support, time, money)?

Themes and topics covered

- Which policy areas were covered in the policy process – e.g.

- Specific MSME policies,
- Registration, licensing, and permits at start-up/formalization
- Various economic and financial policies, taxation, labour laws, property rights, and provision of services during operation, and/or
- bankruptcy and related laws at exit?
- Others
- Were the following aspects systematically taken into account?
 - Gender aspects
 - The division of responsibilities between different levels of government (national down to local)

Outcome and impact

- Which policies, laws and regulations were enacted or changed as a result of the policy process? (or to which stage did they get if they were not enacted or changed?)
- Which institutions were created or upgraded as result of the policy process?
- Which steps have been taken to implement new or improved policies, laws and regulations? Is there any evidence at the local level of actual implementation?
- Is there any evidence on the impact of the new or modified policies, laws and regulations on micro, small and medium-sized enterprises, or on poverty alleviation, employment generation or other development objectives?

Collaboration among donor agencies

- With which other donor agencies or international agencies were there any kind of collaboration?
- What was the character of the collaboration among donor agencies, e.g. awareness of each other's initiatives, information sharing, joint planning or joint activities?
- Was the collaboration based on local initiative or due to head office expectations?
- What were the motivating factors for the collaboration, e.g. pooling of resources, demanded by local stakeholders, building synergistically on each other's mandate and expertise?

- Did the collaboration among donor agencies increase the effectiveness of the process or did it confuse and/or duplicate efforts, (e.g. along principal themes or topics, to what extent was the policy advice consistent? Were the reform processes consistent, or competitive? Did the agencies provide conflicting policy advice or work in parallel?)
- What were the impeding/key factors that made collaboration among donor agencies difficult/successful?

Lessons learnt

- In summary, were the interventions successful, and were the objectives of individual agencies reached? What are the main factors of (partial) success and (partial) failure?
- What can be learned from this case study (a) for future interventions by Governments, donors and agencies and (b) for the national set-up of future policy formulation processes?
- What can be learnt from the attempt to collaborate among donor agencies? What can be learnt from the views and experiences of Government and the private sector? What can be gleaned from this case for good practice guidance for future donor collaboration?
- Ensure that the summary covers the existing concepts and approaches in work on the business enabling environment, notes the most interesting projects, lists the best worst practices, and signposts towards good practices.

ANNEX 2: LIST OF PERSONS INTERVIEWED

| NAME | ORGANISATION | POSITION | ADDRESS AND PHONE | E-MAIL |
|------------------------------|--|---------------------------------|-------------------------------------|--|
| 1. Mr. Steven Collet | Royal Netherlands Embassy (RNE), Dar es Salaam | | 2118566 | Steven.collet@minbuza.nl |
| 2. Mr. Stafford Baker | United States Agency for International Development (USAID) | | 2117537-42 | Sbaker@usaid.gov |
| 3. Prof. Samwel Wangwe | Economic and Social Research Foundation (ESRF) | | | |
| 4. Ms. Anushka Abeynayake | International Labour Organisation (ILO), Dar es Salaam | | 2126821 | Abeynayakea@ilo.org |
| 5. Karen Sorensen | United National Development Programme (UNIDO) | | | Ksorensen@unido.org |
| 6. Liz Ditchburn | Department for International Development (DFID) | | 2600572-8 | Lditchburn@dfid.gov.uk |
| 7. William Creighton | Natural Products/ Irish Aid | | 0744-261678 | Wpcreighton@twiga.com |
| 8. Grace Rubambey | Bank of Tanzania | | 213884 | Gcrubambey@hq.bot-tz.org |
| 9. Mariot Kalanje | Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA) | 2119436 | 0744-276197 | Tccia.hq@cats-net.com |
| 10. Arnold Kilewo | Tanzania Private Sector Foundation (TPSF) | | 0741-266707/2183090 | Tpsf@cats-net.com |
| 11. Mr. Mkiramweni | Tanzania Private Sector Foundation (TPSF/TNBC) | | 0744-781078 | Dan@africaonline.co.tz |
| 12. Ewa Hagwall | Sida | | 2111235 | Ewa.hagwall@sida.se |
| 13. Rasmus Lauridsen | DANIDA | | 2113887-8 | Raslau@um.dk |
| 14. Benson Ateng | World Bank | | 2116198 | |
| 15. Mr. Ezamo Maponde | Prime Minister's Office | | | |
| 16. Mr. D. Massawe | Ministry of Industry and Trade | | | |
| 17. Mr. Bede Lyimo | Ministry of Industry and Trade | | | Bedeml@yahoo.com |
| 18. Mrs. Bitegeko | Ministry of Agriculture and Food Security | | 2862074 | |
| | NORAD | | 2113366 | |
| 19. Kerstel Kulaya | GTZ | | 2115901/03 | (by phone) |
| 20. Joyce Mapunjo | Ministry of Finance (External Finance) | Deputy Permanent Secretary (EF) | 2111025 | |
| 21. William Mdundo | Planning and Privatisation | | 0741-307044 | Wmdundo@yahoo.co.uk |
| 22. Stefano Vescovi | Embassy of Switzerland | Attache | Box 2454, Tel 2666008, Fax: 2666736 | Swissem@twiga.com |
| 23. Dorothy Hope Nsherenguzi | Embassy of Switzerland | Economist | Box 2454, Tel 2666008, Fax: 2666736 | Swissem@twiga.com |

ANNEX 3: DONORS' INVOLVEMENT IN SME POLICY/REGULATORY AND CAPACITY BUILDING ACTIVITIES

| TYPE OF SUPPORT/ASSISTANCE | DONOR | ACTIVITIES SUPPORTED | DURATION | FORM OF SUPPORT | COLLABORATORS | ACHIEVEMENTS |
|---|--------|---|------------|---|----------------------------|--|
| • National Programme/Strategy Development | JICA | Development of the Rural Development Strategy, 2001 | 2000-2001 | Financing TA and Zonal (stakeholder) Workshops | DANIDA (shared costs) | Strategy Approved |
| • National Programme/Strategy Development | Sida | Development of the BEST programme | 2001 | Financing TA | RNE, DFID (shared costs) | BEST with Cabinet |
| • National Programme/Strategy Development | RNE | Development of BEST Programme | 2001 | Contributed to the cost of TA | DFID, Sida (shared costs) | BEST with Cabinet |
| • National Programme/Strategy Development | DFID | Development of BEST Programme, 2001 | 2001 | Contributed to the cost of TA | DFID, Sida (shared costs) | BEST with Cabinet |
| • National Programme/Strategy Development | DANIDA | Development of Agriculture Development Strategy | 2000-2001 | Contributed to cost of TA and Stakeholder (Zonal) Workshops | JICA (shared costs) | Strategy Approved |
| • National Programme/Strategy Development | DFID | Private sector development strategy | Up to 2003 | Ready to provide support | | Activity is yet to start |
| • Policy research | USAID | Investor Roadmap for Tanzania Study | 1998 | TA (Paid the consultant) | DANIDA (source of funds) | Report likely used in recent advocacy activities |
| • Policy research | ILO | Informal Sector Roadmap | 2000-2002 | TA (Paid the consultant) | UNDP, UNIDO (shared costs) | Report discussed in a stakeholders' workshop |
| • Policy research | UNIDO | Informal Sector Roadmap | 2000-2002 | TA (Paid the consultant) | UNDP, ILO (shared costs) | Report discussed in a stakeholders' |

| TYPE OF SUPPORT/ASSISTANCE | DONOR | ACTIVITIES SUPPORTED | DURATION | FORM OF SUPPORT | COLLABORATORS | ACHIEVEMENTS |
|----------------------------|------------|---|-----------|---|---------------------------------|---|
| | | | | | | workshop |
| • Policy research | DANIDA | Impact of Licensing system on enterprises | | Financed the study | | |
| • Policy development | DANIDA | SME Policy Development | 2000 | Funded UNIDO's contribution | UNIDO | Policy with Cabinet |
| • Policy development | DFID | SME Policy Development | 2000-2002 | Financed Zonal (stakeholder) Workshops | USAID (shared costs) | Policy with Cabinet |
| • Policy development | DFID | SME Policy Development | 2000 | Financed stakeholder workshop (VISOTA) | | |
| • Policy development | DFID | National Micro-Finance Policy | 1999-2000 | Financed a tour for Members of Parliament to Indonesia in 1998 | | SME Policy in place |
| • Policy development | ComSec | SME Policy Development | 1997-1998 | Financed (TA) for background studies | | |
| • Policy development | ADB | National Micro-Finance Policy | 1999-2000 | Co-financed a seminar for Members of Parliament | World Bank, Sida (shared costs) | Policy in place |
| • Policy development | USAID | SME Policy Development | 2000-2002 | Financed Zonal (stakeholder) workshops and miscellaneous activities for completing the write up | DFID (shared costs) | SME Policy with Cabinet |
| • Policy development | World Bank | Rural Micro-Finance Project | 1998 | Financed a Demand Survey for Micro Finance | JICA/JG (provided the money) | Report identified overlaps and articulated need for |

| TYPE OF SUPPORT/ASSISTANCE | DONOR | ACTIVITIES SUPPORTED | DURATION | FORM OF SUPPORT | COLLABORATORS | ACHIEVEMENTS |
|--|------------|---|-----------|---|--------------------------------|----------------------------------|
| | | | | | | MFI policy which is now in place |
| • Policy development | World Bank | National Micro-Finance Policy | 1999 | Co-financed seminar for Members of Parliament | Sida, ADB (shared costs) | Policy in place |
| • Policy development | Sida | National Micro-Finance Policy | 1999 | Co-financed seminar for Members of Parliament | World Bank, ADB (shared costs) | Policy in place |
| • Policy development | Sida | National Micro-Finance Policy | | Co-financed stakeholders' meeting | World Bank, ADB (shared costs) | |
| • Policy development | Sida | National Trade Policy | 2000-2002 | TA (Consultant) | | |
| • | | | | | | |
| • Regulatory reforms | Sida | Development of a Regulatory framework for MFIs (BOT) | 2000-2002 | TA, Workshops | | |
| • Regulatory reforms | DANIDA | Establishment of a Commercial Court | 2000 | Rehabilitation of the building, equipment | | Court in place |
| • | | | | | | |
| • Institutional building/strengthening in central government | USAID | Strengthening TRA research and policy department | 2000-2001 | Equipping the department, sponsoring staff for training | | |
| • Institutional building/strengthening in central government | USAID | Identifying Quick Wins (activities that could be self-sustaining) in government | 2001 | TA (Financed consultants) | | Quick wins identified |

| TYPE OF SUPPORT/ASSISTANCE | DONOR | ACTIVITIES SUPPORTED | DURATION | FORM OF SUPPORT | COLLABORATORS | ACHIEVEMENTS |
|--|-------|--|-----------|--|---------------------------------------|-------------------------|
| | | ministries | | | | |
| • Institutional building/strengthening in central government | DFID | Strategic Planning for the Micro Finance Department at BOT | 2000 | TA (Financed consultants) | CIDA, Sida, DANIDA (shared costs) | Strategic plan in place |
| • Institutional building/strengthening in central government | DFID | Survey of SACCOs (BOT stakeholder) | 1999 | TA (Financed retreats) | ICA CIDA, Sida, DANIDA (shared costs) | |
| • Institutional building/strengthening in central government | DFID | Survey of Micro-Finance Providers (BOT stakeholder) | 1998 | TA (Financed consultants) | ICA CIDA, Sida, DANIDA (shared costs) | Survey report in place |
| • Institutional building/strengthening in central government | RNE | Capacity Building in SME SupportT | 2002-2003 | TA to facilitate capacity assessment in supporting MSEs in MIT | | |
| • Institutional building/strengthening in central government | Sida | Operationalisation of the Competitive Policy and Law (MIT) | 2002-2003 | TA | | |
| • Institutional building/strengthening in central government | Sida | Modernisation of the Registry Function in MIT | 2002 | Equipment, staff training | | |
| • Institutional building/strengthening | Sida | Strengthening TBS' income | 2002-2004 | Equipment, staff training | | |

| TYPE OF SUPPORT/ASSISTANCE | DONOR | ACTIVITIES SUPPORTED | DURATION | FORM OF SUPPORT | COLLABORATORS | ACHIEVEMENTS |
|--|--------|---|------------|--|---------------|--|
| • Strengthening in central government | | generation/sustainability capacity | | | | |
| • Institutional building/strengthening in central government | Sida | Strengthening CMSA and DSE | 2000-2002 | Financing awareness campaigns, staff training and TA to develop a process model | | |
| • Institutional building/strengthening in central government | DANIDA | Strengthening MIT (EAC) | 2002 | Rehabilitation of offices, computers, networking | | Office rehabilitated and equipment functioning |
| • Institutional building/strengthening in sector advocacy | USAID | Establishment of TPSF | 2001 | Equipping the office, rent, salaries for permanent staff | | |
| • Institutional building/strengthening in sector advocacy | RNE | Strengthening public-private dialogue | 2000-2002 | Strengthening dialogue capacity of district associations | | District associations strengthened in membership and advocacy capability |
| • Institutional building/strengthening in sector advocacy | Sida | Strengthening TCCIA and its regional chambers | 1996- 2002 | Technical assistance (Commissioned Southern Sweden Chamber to provide a full time expatriate to TCCIA HQ for 3 years), to 2002 | | TCCIA has become a stronger organisation and has successfully advocated for changes in policies, regulations and taxes |
| • Institutional building/strengthening | Sida | Strengthening TCCIA and its regional chambers | | Equipped TCCIA HQ and all regional and 14 district | | |

| TYPE OF SUPPORT/ASSISTANCE | DONOR | ACTIVITIES SUPPORTED | DURATION | FORM OF SUPPORT | COLLABORATORS | ACHIEVEMENTS |
|---|--------|---|------------------|--|---------------|---|
| hening in sector advocacy | | | | chambers with computers, printers, photocopiers and financed connection to internet by 2001 | | |
| • Institutional building/strengthening in sector advocacy | Sida | Strengthening TCCIA and its regional chambers | | Paying salaries of executive officers in all regions for 5 years, requiring chambers to incrementally contribute | | |
| • Institutional building/strengthening in sector advocacy | Sida | Strengthening TCCIA and its regional chambers | | Financed Strategic Plan development workshops for leadership of TCCIA in 2001 | | TCCIA has a strategic plan, some regional chambers are in the process of preparing theirs |
| • Institutional building/strengthening in sector advocacy | Sida | Strengthening TCCIA and its regional chambers | 2002- | TA to help link ZNCCIA with TCCIA | | |
| • Institutional building/strengthening in sector advocacy | DANIDA | Business sector development programme | 1889-2002, 2003- | Twining (topping up salaries of executive staff) for CTI | | |
| • | | | | | | |
| • Financing SMEs | Sida | | | On-lending grant to PRIDE Tanzania | | |
| • Financing SMEs | Sida | | | On-lending grant for PTF | | |
| • Financing SMEs | Sida | Enhance lending capacity | | On-lending grant for PRIDE | NORAD | |
| • Financing | Sida | Enhance lending | | Fund for Tanzania | | |

| TYPE OF SUPPORT/ASSISTANCE | DONOR | ACTIVITIES SUPPORTED | DURATION | FORM OF SUPPORT | COLLABORATORS | ACHIEVEMENTS |
|--|--------|--|-----------|---|---------------------|--|
| SMEs | | capacity | | Venture Capital Fund (TVCF) | | |
| • Financing SMEs | Sida | Enhance lending capacity | | Bought shares in Akiba Bank through SwedFund | | |
| • Financing SMEs | Sida | Enhance lending capacity | | On-lending funds to MFIs in Morogoro, Singida, Dodoma, Rukwa, Coast regions | | |
| • Financing SMEs | DANIDA | Enhance access to credit | 1999-2003 | Introduction of micro credit project through CRDB Bank in Iringa, Dodoma, Mbeya, Iringa | | |
| • Institutional strengthening, finance to SMEs | Sida | Capacity building/training of MFI managers and staff, under SELF | 2001-2005 | Sponsoring training programmes for SELF regions | | Loan fund application has more than tripled after training |
| • Institutional strengthening, finance to SMEs | Sida | Establishment of TAMFI | 2002 | Equipment, rent and salaries of secretariat | | TAMFI established |
| • Institutional strengthening, finance to SMEs | DANIDA | Strengthening CRDB Bank | 1996-2003 | Bought a third of the shares | | CRDB Bank functioning well |
| • Institutional strengthening, finance to SMEs | DANIDA | Building Venture Capita Fund | 1998-2008 | Financed Fedha Fund and First Capital Partners | NORAD (shareholder) | Fund functioning |
| • Institutional | DANIDA | | | | | |

| TYPE OF SUPPORT/ASSISTANCE | DONOR | ACTIVITIES SUPPORTED | DURATION | FORM OF SUPPORT | COLLABORATORS | ACHIEVEMENTS |
|--|-------|---|-----------------------------|---|---------------|--------------|
| strengthening, finance to SMEs | | | | | | |
| • Skills Development for SMEs | ILO | Business Skills Training (SIYB) | | Provision of standardised training programmes and materials | | |
| • Skills Development for SMEs | USAID | Improve Business Management Skills in MSEs | 1994-1999, then 2002 – 2007 | To contract a private company to provide business skills training to MSE operators in Morogoro, Iringa, Tanga, Mbeya, Rukwa, Ruvuma (PESA Zone) | | |
| • Market linkages development for SMEs | RNE | Linking rural producers to markets outside their locality/country | 199?-2002 | Market linkage project (FAIDA-REA) operating in Kilimanjaro and Arusha | | |
| • Market linkages development for SMEs | RNE | Linking rural producers to markets outside their locality/country | | Market linkage projects operating under PSD. Lake Zone | | |
| • Market linkages development for SME | USAID | Supporting market linkages in rural areas | 2002-2007 | Financing a private company to link rural producers with markets in Morogoro, Iringa, Tanga, Mbeya, Rukwa, Ruvuma | | |

| TYPE OF SUPPORT/ASSISTANCE | DONOR | ACTIVITIES SUPPORTED | DURATION | FORM OF SUPPORT | COLLABORATORS | ACHIEVEMENTS |
|---|----------------------|--|-----------|--|---------------|--------------|
| | | | | (PESA regions) | | |
| <ul style="list-style-type: none"> Market linkages development for SME | Sida | Export Promotion of Ecological Products from Africa (EPOPA) | 2002-? | Financing extension of the project to Tanzania to deal with certification and linking small producers with Swedish importers | | |
| <ul style="list-style-type: none"> Market linkages development for SME | Sida | Gateway East Africa | 2002-? | Financing the project to establish long-term relationships between Swedish and East African companies | | |
| <ul style="list-style-type: none"> Market linkages development for SME | DANIDA | Joint Venture Promotion | 2000-2010 | Facilitating establishment of contacts and feasibility studies | | |
| <ul style="list-style-type: none"> Support to technology development | ILO | Improved Solid Waste Mgt (idea) | 2002-? | | Sida | |
| <ul style="list-style-type: none"> Support to technology development | Sida | Improved Solid Waste Mgt (willing to support, waiting for response) | 2002-? | | Sida | |
| <ul style="list-style-type: none"> Strengthening BDS providers | NUFFIC (Netherlands) | Developing training research and consulting capacity in SME and entrepreneurship at UDSM | 1999-2003 | Financing training at Ph.D., masters level, study tours, workshops, equipment | | |

ANNEX 4: ANALYSIS OF CONSISTENCY AND GENDER SENSITIVITY OF PROGRAMME RELATED TO SME POLICY IMPROVEMENT

| | SME Policy | STP | ASDS | PRSP | RDS | TAS | SIDP | BEST | NMFP |
|---|---|---|---|--|---|---|---------------------|---|-------------|
| Focus on SME | yes | Yes, targeting improvement of commercial dispute resolutions, availability of finance | | Yes, a means of poverty reduction | Yes, one of the priority area | | yes | Yes, more emphasis given | yes |
| Focus on the informal sector | yes | | | Yes, a means of poverty reduction | Yes, considered a major source of income generation | | yes | Yes, more emphasis given to enable them make a transition to formal sector | |
| Focus on private sector in general | A stakeholder considered to be a major investor in the SME sector | Yes, objective is to formulation of and implementation of Private sector development strategy | A priority area increase private sector participation in agribusiness | Yes, creates the process for a more systematic private sector involvement in the fight against poverty | Yes, | A priority area addressed as the engine of growth | yes | Yes, including businesses of all sizes and stages of development, formal/informal | |
| Addresses Gender issues | yes | Yes, mentioned but not translated into strategies | yes | Acknowledges that poverty is gendered, but this is not translated into any specific strategy | Yes, | yes | yes | no | |
| Ultimate objective | Poverty alleviation | Poverty alleviation | Rural poverty alleviation | Poverty alleviation | Rural poverty alleviation | Poverty alleviation | Poverty alleviation | Poverty alleviation | |
| Coherent with other policies/strategies | yes | | yes | yes | yes | yes | | yes | |
| Methodology | Participatory consultative process | Participatory consultative process | Participatory consultative process | Participatory consultative process | Participatory consultative process | Participatory consultative process | | Participatory consultative process | |

Generally, major policy initiatives reviewed are complementary to one another.

- Though each initiative may have a different focus, the ultimate objective is to eradicate poverty.
- All acknowledge the importance of private sector involvement in the fight against poverty and hence call for an enabling environment for the sector to operate efficiently

ANNEX 5: FOCUS, COHERENCE AND GENDER SENSITIVITY OF POLICIES, STRATEGIES AND PROGRAMMES

| | SME Policy | STP | ASDS | PRSP | RDS | TAS | SIDP | BEST | NMFP |
|---|---|---|---|--|---|---|---------------------|---|-----------------------|
| Focus on SME | yes | Yes, targeting improvement of commercial dispute resolutions, availability of finance | Partly on small holder farmers | Yes, a means of poverty reduction | Yes, one of the priority area | | Partly | Yes, more emphasis given | Partly |
| Focus on the informal sector | yes | No | Yes | Yes, a means of poverty reduction | Yes, considered a major source of income generation | | yes | Yes, more emphasis given to enable them make a transition to formal sector | Yes |
| Focus on private sector in general | A stakeholder considered to be a major investor in the SME sector | Yes, objective is to formulation of and implementation of Private sector development strategy | A priority area increase private sector participation in agribusiness | Yes, creates the process for a more systematic private sector involvement in the fight against poverty | Yes, private investment in rural enterprises is considered to be an ingredient for successful rural development | A priority area addressed as the engine of growth | yes | Yes, including businesses of all sizes and stages of development, formal/informal | Micro |
| Addresses Gender issues | yes | Yes, mentioned but not translated into strategies | yes | Acknowledges that poverty is gendered, but this is not translated into any specific strategy | Yes, stresses the need to have a focus on rural women | yes | yes | no | Yes, but r strategies |
| Ultimate objective | Poverty alleviation | Poverty alleviation | Rural poverty alleviation | Poverty alleviation | Rural poverty alleviation | Poverty alleviation | Poverty alleviation | Poverty alleviation | Poverty alleviation |
| Coherent with other policies/strategies | yes | Yes | yes | yes | yes | yes | | yes | Yes |
| Methodology | Participatory consultative process | Participatory consultative process | Participatory consultative process | Participatory consultative process | Participatory consultative process | Participatory consultative process | | Participatory consultative process | Participatory |

Generally, major policy initiatives reviewed are complementary to one another.

- Though each initiative may have a different focus, the ultimate objective is to eradicate poverty.
- All acknowledge the importance of private sector involvement in the fight against poverty and hence call for an enabling environment for the sector to operate efficiently

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