SPEECH BY THE PRESIDENT OF THE UNITED REPUBLIC OF TANZANIA, HIS EXCELLENCY BENJAMIN WILLIAM MKAPA, AT THE INTERNATIONAL CONFERENCE ON REFORMING THE BUSINESS ENVIRONMENT, GRAND HYATT HOTEL, CAIRO, 29 NOVEMBER 2005

Chairperson;
Conference Participants;
Ladies and Gentlemen:

My second and constitutionally final term of office as President of the United Republic of Tanzania is about to end. I should, therefore, like to commend the Business Environment Working Group of the Committee of Donor Agencies for Small Enterprise Development for convening this conference and to thank them for the opportunity to share my thoughts with you before I leave office.

Over the last 10 years I provided leadership to Tanzania, a poor country struggling to fight the hydra that poverty is. I cannot claim to have all the answers to winning this war. But I have gained considerable experience and knowledge of what works and what does not. I am here to share with you that experience and that knowledge, the thrust of which is that the private sector has an important role to play in this war on poverty.

Accordingly, improving the business environment for everyone is necessary if we are to maximize the contribution of the private sector to poverty reduction. And improving the business environment for everyone in turn requires political will, political drive and political leadership at the highest level.

Macro-Economic Fundamentals:

Chairperson:
Ladies and Gentlemen

I want to believe that I provided my country with such political will, such political drive and such political leadership; leadership that was not afraid to take on entrenched bureaucratic interests and inertia, and engender changes in outlook and mind-set in government.

In these past 10 years I sought to put in place macro-economic fundamentals for private sector led growth, bringing inflation down from over 30 per cent in 1995 to below 5 per cent now. Government revenue increased from an average of T.Shs. 37.4

billion a month in fiscal year 1995/96 to a monthly average of T.Shs.140 billion in fiscal year 2004/05. Deficits were curtailed, and fiscal discipline and budgetary transparency strengthened. Economic reforms to create a market economy were promulgated and implemented, including investment promotion and privatisation. As a result, economic growth shot up from 3.6 per cent a year in 1995/96 to 6.7 per cent last year.

Efforts were made to improve the business environment for Foreign Direct Investment (FDI) as well as for local formal and informal investors. Between 1995 and 2004, the Tanzania Investment Centre approved 2,527 projects which provided almost 500,000 jobs. Of those projects, 44 per cent were locally owned, 32 per cent were joint-ventures between local and foreign firms, and only 24 per cent were wholly owned by foreign investors. Those investments helped to improve the investment/GDP ratio from 16.5 per cent in 1996 to 21 per cent in 2004.

A national vision for development—the Tanzania Development Vision 2005—was promulgated, as well as the Growth and Poverty Reduction Strategy, which had a business environment improvement component. Relations with donors improved, and partial debt relief was obtained under the Enhanced HIPC Debt Relief Initiative.

Poverty levels have now begun to decline. The proportion of people living in poverty declined from 38.6 per cent in 1991/92 to 35.7 per cent in 200/01, and those living in abject poverty from 21.6 per cent to 18.7 per cent over the same period. The trend is encouraging, but we wish it could be faster and deeper. Today, when I look back at what we did in Tanzania over the last 10 years, I wonder what more we could have done to have greater impact on poverty.

The Challenge of Inclusion

Chairperson:

As I wind up my office, one of my greatest concerns, besides HIV/AIDS and an unfair globalization, is **exclusion**. Nationally and internationally we have inherited or created institutions and systems that exclude too many people from the benefits of national and global prosperity. Historically, at least in Tanzania, the attraction of socialism was its promise of inclusiveness, and the apprehension against capitalism stemmed from its inherent tendency to competitive exclusion.

Our experience is that the virtues of socialist inclusiveness were sometimes exaggerated and their benefits were often eroded by inefficiencies of socialist production. We also learnt that the exclusiveness of capitalism could actually be ameliorated through a people-centred development vision, targeted fiscal measures, better regulation and an improved business environment. With my socialist heritage, the greatest value I see in reforming the business environment is to create space for more people—nationally, regionally and globally—to be included in the economic mainstream and to partake in the opportunities and benefits of an expanded market economy.

The Cold-War and its ideological underpinnings is a distant refrain, and according to Francis Fukuyama the history of struggle between capitalism and socialism has ended. If, therefore, we are to have a sustained and successful liberal economic model it must be one that is engineered in such a way as to include more people; one that provides something for most people.

Chairperson:

In Tanzania, I am sometimes criticized that the economic reforms I have initiated, and the business environment I have created, have benefited foreign investors, with little for the domestic small investor. The criticism is not entirely a valid one because, as I said, only 24 per cent of projects approved by the Tanzania Investment Centre are wholly owned by foreign investors. The rest are either local or joint ventures between local and foreign investors. But I agree we could and should do more to help the small investor.

I do hope, therefore, that the outcome of this conference will feed into the efforts of the next President of Tanzania as he seeks to induce a larger impact on poverty. I also hope that the outcome of this conference will feed into the policy reviews of our development partners such that they will help us more to address the challenges we face as we seek to improve the business environment for Micro, Small and Medium-sized Enterprises (MSMEs) in both the formal and the informal sectors of our economy.

The Primacy of Growth

Chairperson:

The experience of Tanzania, as I am sure it is the experience of other developing countries, is that growth is a sine qua non for poverty reduction. The distributive aspect of growth is a different matter, but without growth there is no hope for sustainable poverty reduction. And while a conducive environment for large scale and foreign investment is necessary for positive results at the macro level, a conducive environment for MSMEs is necessary for positive results at the micro level, and in ensuring fairer distribution of the benefits of economic reform and growth.

Furthermore, my experience as Co-Chair of the World Commission on the Social Dimension of Globalisation as well as my membership in the Commission for Africa has convinced me even more that improving the business environment for both domestic and foreign investors is necessary for sustained advances in economic growth and the building of national capacity for poverty reduction and self-development.

In the World Commission on the Social Dimension of Globalisation report, we expressed our real concern at the so-called "Race to the Bottom", where developing countries seek to out-compete each other in providing incentives—including tax breaks and lowering labour and environmental standards—in order to attract Foreign Direct Investment. But we also agreed that, "In countries with inappropriate domestic regulatory and tax barriers, measures to reduce these are clearly required. They not only impede the entry of FDI but also impair the competitiveness of the domestic economy and impose higher prices on consumers." In other words, it was our view that improving the business environment is a necessary step in building national capacity to benefit from globalisation.

Likewise in the Commission for Africa. There we dwelt at length on the investment climate in Africa. We noted that sub-Saharan Africa had low domestic and foreign investment and suffered from high capital flight and low remittance flows compared to other developing countries. We noted further that while the average investment-to-GDP ratio for all developing countries was 24 per cent, in sub-Saharan Africa it was only 18 per cent. We saw that while only 3 per cent of South Asia's private wealth was held outside the region, the rate for sub-Saharan Africa was estimated at 40 per cent. Recent experience shows that it is only 6-7 per cent of FDI, and around 5 per cent of remittances flowing to developing countries that goes to sub-Saharan Africa.

In the face of these realities, the Commission for Africa could not help but come to the conclusion that, "Africa has been an unattractive continent for investment both by Africans themselves and by outsiders. The challenge is to generate an environment where Africans want to invest in their own farms, businesses, countries and continent, and which attracts greater flows of foreign investment".

On its part, the World Bank, in its 2005 World Development Report entitled "A Better Investment Climate For All" shows conclusively, convincingly and authoritatively that enhancing the investment climate can accelerate economic growth significantly. It notes that improving the investment climate for agriculture and in rural areas is of particular importance for many of the poorest people.

I endorse this finding wholeheartedly. Our experience in Tanzania and in other countries such as Mozambique is testimony to the veracity of this assertion. We have shown by actual experience and example that improving the business environment for domestic and foreign investors creates sustained economic growth.

An African proverb says: "However nice the elbow may be, it cannot remove dirt from the eye". Our experience is that there are things that can best be done by governments, and there are things that can best be done by the private sector. Working together, in smart partnership, each doing what they are best at doing, the country moves forward.

An Investor Roadmap Survey

Chairperson:

Let me now briefly share with you Tanzania's experience with the actual dynamics of reforming the business environment so that business can do best what it is best at doing. In 1996, we received assistance from USAID to conduct an Investor Roadmap Survey to identify barriers to doing business in Tanzania. Some of the identified barriers related to administrative arrangements, while others related to nuisance taxes, a multiplicity of taxes and fiscal authorities, non-clear and non-transparent procedures, and dated laws that needed to be updated, reformed or repealed. Based on the findings of the Survey, the government undertook the following remedial measures:

(1) We organized stakeholder meetings to brain-storm on the findings and suggest workable solutions.

(2) We reviewed and completely reformed the 1990 National Investment Policy which had a shorter vision span, and was rather restrictive.

(3) We then repealed the 1990 Investment Protection Act and enacted instead the 1997 Tanzania Investment Act which solved identified problems.

(4) We also transformed the Investment Promotion Centre (IPC) into a Tanzania Investment Centre (TIC) which is more facilitative and promotional. The TIC became a **one-stop-centre** in order to shield potential investors from the hustle of dealing with different government institutions and procedures.

(5) We established forums to promote public-private dialogue and partnership including:

   (a) **The CEO-Roundtable** composed of leading captains of industry, trade, investment and commerce. The government, under my leadership, meets and engages them in a constructive dialogue to address concerns of the private sector.

   (b) **The Tanzania National Business Council (TNBC)** composed of 20 representatives each from the private and public sectors, including key leaders from the Federation of Free Trade Unions. The TNBC meets at least twice a year under my chairmanship.

   (c) **The International Investors' Roundtable (IIRT)** composed of investors from within Tanzania as well as from outside Tanzania. Like the TNBC process, the IIRT meets regularly under my chairmanship.

Chairperson:

Tanzania has found these public-private forums very useful and productive, and political commitment to them is enduring, resolute and unquestionable. And, the government does not go to these forums to defend entrenched positions. Both the public and private sectors engage in an open-minded constructive dialogue aimed at improving the business climate, reducing the cost of doing business, promoting private sector development, creating jobs and promoting growth.

These processes at national level are now being replicated at regional level. Thus, some regions are already establishing Regional Business Councils (RBCs), Zonal Investment Centres, and Regional Investment Forums. These initiatives and processes are partly a reflection of changing business culture and mindset of public officials towards greater commitment and embracing markets and the private sector. We believe that soon we will not have in our midst the kind of civil servants in the following story.

Three boys are in the schoolyard bragging of how great their fathers are.
The first one says: "Well, my father runs the fastest. He can fire an arrow, and start to run, I tell you, he gets there before the arrow."
The second one says: "Ha! You think that's fast! My father is a hunter. He can shoot his gun and be there before the bullet."
The third one listens to the other two and shakes his head. He then says: "You two know nothing about fast. My father is a civil servant. He stops working at 4:30 and he is home by 3:45"!!

The Business Environment Strengthening for Tanzania (BEST) Programme
Chairperson:

Let me now briefly talk about the Business Environment Strengthening for Tanzania (BEST) Programme. I am pleased to note that on Thursday there will be a breakout session on this Programme. The BEST Programme aims to achieve the following:-

(1) To reduce of the cost of doing business in Tanzania including for Micro, Small and Medium-sized Enterprises (MSMEs);

(2) To enhance efficiency in government service delivery to the private sector, including timely resolution of commercial disputes; and

(3) Promotion and maintenance of better partnerships between the public and private sectors, thereby improving the capacity of the private sector in influencing government policy and its implementation.

Chairperson:

As you will hear in due course, under the BEST Programme, the following ten Principles of Good Regulation are actively promoted:

(1) Regulate only when absolutely necessary;
(2) Keep the law short, simple and clear so that everyone can understand and comply with it;
(3) Try not to interfere with trade and market forces;
(4) Think small first: Do not place unnecessary burdens on business, especially small firms;
(5) Balance risk, cost and practical benefit: The benefit of regulations must outweigh the costs, and be in proportion to the risk being addressed;
(6) Provide flexibility for the future: Focus on setting the objective to be achieved, not on the process;
(7) Make sure you can enforce the regulation at a reasonable cost;
(8) Constantly monitor whether the regulation is working or not;
(9) Allow enough time for full consultation, notification and phasing in; and
(10) Integrate with previous regulations.

In other words, Chairperson, the BEST Programme embraces the principle that "Simplicity is the Key: If it is not absolutely necessary to make a law, it is absolutely necessary not to!!"

Small and Medium Enterprises Credit Guarantee Scheme (SME-CGS) and Training

Chairperson:

One of the greatest problems facing Micro, Small and Medium-sized Enterprises (MSMEs) that dominate the African private sector is access to finance. And it must be that kind of finance that helps them to climb smoothly up the business ladder—from micro to small businesses; from small businesses to medium-sized enterprises; and to link them with large companies through supply contracts, technology transfer and training. Africa needs much more comprehensive and varied financial services to meet all these challenges and the costs of such financial services need to go down quickly.

During fiscal year 2004/05, the Government of Tanzania decided to establish the Small and Medium Enterprise Credit Guarantee Scheme (SME-CGS) to promote and support SMEs by improving access to financial resources. The Scheme is now operational, managed by the Central Bank—The Bank of Tanzania—as an agent of government.

The Scheme provides credit guarantees to participating financial institutions for short to medium term financing of SMEs and cooperates with various stakeholders in promoting SMEs entrepreneurial skills. About six banks are currently participating and some are already conducting free training programmes for potential borrowers as a prerequisite for accessing credit.

Property and Business Formalization Programme

Chairperson:

It is widely accepted that property rights are at the heart of the incentive structure of market economies. Moreover, fully specified property rights reward effort and good judgement, thereby assisting economic growth and wealth creation. It is also a fact that in developing countries, informal and unregistered businesses and properties exclude the majority of SMEs from expanding and creating wealth. Having worked so hard to create a market economy, we now need to do more to empower our people to enter, operate and benefit in such a market.

As of now, regrettably, we have systems and institutions for inclusion of the informal sector that are too cumbersome and some of which the ordinary people do not understand. Others are too costly in terms of time and money. So the majority of the people hold their assets and conduct their businesses outside the legal, formal sector.

A recent diagnostic study of the informal, extra-legal sector in Tanzania conducted by Hernando de Soto's Institute for Liberty and Democracy shows that the extra-legal economy in Tanzania holds assets worth USD 29 billion, much more than what Tanzania has received over the years in terms of FDI, aid or loans. In other words what the poor of Tanzania own, if made liquid, is much more than what the outside world can ever give them!!

We are now moving into the reform design phase that should help us make the necessary changes to give life to this "dead capital", and make it possible to use it to leverage the participation of the majority of our people in an expanded market economy.

Chairperson:

I began by saying that my ten years' experience in leading a poor country has given me a unique insight into what works and what does not work in promoting sustainable growth and poverty reduction. I have shared with you Tanzania's experience, through public-private partnerships, in improving the business environment. The result is one of the fastest growing economies in Africa for several years now.

And there is no reason why the experience of Tanzania cannot be replicated in other sub-Saharan African countries. That is why I readily accepted to co-chair the Investment Climate Facility (ICF), an African Union/NEPAD initiative supported by the Commission for Africa and the G8.

This new and exciting facility, with a proposed budget of USD 550 million to be contributed by donors and the private sector over seven years, will act on key obstacles to doing business in Africa. Through it, we hope to generate and shape policies—nationally and regionally—to make Africa more attractive to domestic and foreign investment, while fighting the negative image of the continent spawned by the international media, giving the false impression that Africa is one large risky country.

I have great hopes for the ICF and I urge all development partners and big companies with long term interest in Africa to rally around it and support it in practical terms. I thank the British government for recently showing the way in providing USD 30 million to kick-start the ICF, as well as Royal Dutch Shell and

Shell Foundation that have committed themselves to contributing a combined total of USD2.5 million over 5 years, as well as Anglo American plc, who have committed themselves to contributing another USD2.5 million over the same period.

Chairperson:

Africa is poor, but potentially rich; rich in terms of its natural resources, and rich in terms of the latent entrepreneurship and remarkable resilience of its people. Together we can remove the obstacles that stand in the path to Africa's prosperity. Among those obstacles is an inappropriate business environment, covering things such as real and perceived obstacles, ease of establishing businesses, infrastructure, barriers to competition, customs procedures and taxation, bureaucratic red-tape and image issues.

In Smart Partnership, between governments and the business community, we can address these issues and unleash Africa's capacity for dignified self-development. This is a cause to which I have committed myself, and to which I invite all those with Africa's interest at heart.

I thank you for your kind attention.