2nd May, 2000.

GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA

THE INTEGRATED FRAMEWORK FOR TRADE DEVELOPMENT

VOLUME III

EXPORT DEVELOPMENT PROJECT: FOUNDATION FOR EXPORT-LED GROWTH AND ECONOMIC TRANSFORMATION

FINAL REPORT

This report has been prepared by the Secretariat of the National Steering Committee on the Integrated Framework, under the guidance of the Ministry of Industry and Trade and in consultation with other concerned Ministries, organizations of the private sector, development partners and non-governmental organizations. The report has been discussed and approved by the National Steering Committee chaired by the Permanent Secretary of the Ministry of Industry and Trade

ACKNOWLEDGEMENTS

On behalf of the Steering Committee for the Integrated Framework, I take this opportunity to express our sincere appreciation to all those who have contributed in different ways to the process of developing the Integrated Framework programme for Tanzania and more specifically in the preparation and production of this report. In the first place we acknowledge financial assistance extended by the World Bank Country Office and the Office of the UNDP Resident Representative in facilitating the process of developing this programme. The World Bank financed the initial consultancy input and the Roundtable of November 14, 1999, while the UNDP financed the Workshop of April 14, 2000. Appreciation is also due to the World Bank Country Office for encouraging the Secretariat to take up the challenge of writing this report and advising on format and structure, the Royal Danish Embassy for facilitating the collection of information and data in Kenya, Uganda and Mauritius, the Royal Netherlands Embassy for an opportunity to research into current initiatives on "Private Sector Development" and the Office of the Department for International Development (DFID) in Dar es Salaam for technical assistance in researching into ongoing initiatives on legal and regulatory reforms and re-drafting the Component on "Improving the Legal and Regulatory Environment for Business in Tanzania."

I also wish to extend our thanks to the individual members of the National Steering Committee whose pro-active contribution to the consultative process through eight meetings held as part of the preparatory process, have moulded the programme and consequently the nature and form of this document. Similarly we acknowledge the Secretariat's diligence and dedication in the process of writing, rewriting and editing the report during the consultative process. We also extend our thanks to the National Development Corporation for hosting and facilitating the meetings of the Steering Committee. Finally, sincere appreciation is due to the participants of the October 14, 1999 Roundtable and those of the April 14, 2000 Workshop for their frank comments and opinions which have contributed to tremendous improvement of the report. The list of members of the National Steering Committee and of its Secretariat is reproduced overleaf.

I trust that the spirit of joint effort and co-operation which has culminated in the production of this report in a timely manner and at minimal cost will be continued as we enter the implementation phase of the Integrated Framework Programme for Trade Development in Tanzania.

To all we say: "Thank you and keep up the spirit."

Prof. Joshua Doriye
Permanent Secretary, Ministry of Industry and Trade,

Dar es Salaam, 2nd May, 2000.

MEMBERS OF THE NATIONAL STEERING COMMITTEE

1.	Prof. Joshua Doriye	Permanent Secretary, Ministry of Industry and Commerce, Chairman
2.	M/s Kristina Kuhnel	Swedish Embassy/Sida
3.	M/s Mavis Owusu-Gyamfi	British High Commission/DFID
4.	Mr. Frans Van Rijn	Royal Netherlands Embassy
5.	Mr. Otto Ilmonen	Embassy of Finland
6.	Mr. Kjell Nilsson	Royal Danish Embassy
7.	Mr. Joram Rugemalila	Embassy of Japan
8.	Mr. Alex Baum	European Union Delegation
9.	Dr. Ben Tarimo	World Bank Country Office
10.	Mr. John A. Rubuga	International Monetary Fund
11.	Mr. Ernest S. Salla	UNDP
12.	Mr. Felix Ugbor	UNIDO Representative
13.	Mr. T.E. Asfaw	ITC/UNCTAD/WTO Representative
14.	Mr. Marwa Kisiri	Vice President's Office
15.	M/s Wilma Mwaikambo	Ministry of Agriculture & Cooperatives
16.	Mr. D.K. Boniface	Ministry of Foreign Affairs
17.	M/s Diana E. Makule	Planning Commission
18.		Ministry of Finance
19.	M/s Elizabeth Tagora	Ministry of Communication and Transport
20.	M/s Bertha V. Nyange	Ministry of Natural Resources and Tourism
21.	Mr. E.G. Ndunguru	Ministry of Energy and Minerals
22.	Mr. M.M. Takrima	Ministry of Trade, Industry and Marketing, Zanzibar.
23.	Mr. D. Thewa	Bank of Tanzania
24.	Mr. E. Mnzava	National Development Corporation (NDC)
25.	Mr. M.J. Mfaume	Board of External Trade (BET)
26.	Mr. C. Ekelege	Tanzania Bureau of Standards (TBS)
27.	Mr. Ntabajana	Small Industries Development Organization
28.		Tanzania Investment Centre (TIC)
29.	Mr. A. Mkiramweni	Tanzania Private Sector Foundation (TPSF)
30.	Mr. J.M. Seni	Tanzania Chamber of Commerce Industry and Agriculture (TCCIA)
31.	Mr. U. Mumburi	Confederation of Tanzania Industry (CTI)
32.	Mr. E.N.A. Munissi	Tanzania Association of Exporters (TANEXA)

MEMBERS OF THE SECRETARIAT

1.	M/s D. E. Makule	Planning Commission
2.	M/s B.V. Nyange	Ministry of Natural Resources and Tourism
3.	Mr. E.G. Ndunguru	Ministry of Energy and Minerals
4.	Mr. Siddik Juma Khamis	Ministry of Trade, Industry and Marketing, Zanzibar
5.	Mr. M. Mfaume/Mr. Kashangwa	Board of External Trade
6.	Mr. E. Mnzava	National Development Corporation
7.	Mr. J.M. Seni	TCCIA
8.	Mr. D. Thewa	Bank of Tanzania
9.	Mr. C. Ekelege	Tanzania Bureau of Standards
10.	Mr. E.N.A. Munissi	Tanzania Association of Exporters
11.	Mr. E.C. Elias	Ministry of Industry and Trade
12.	Mr. B. Lyimo	Ministry of Industry and Trade

TANZANIA

EXPORT DEVELOPMENT PROJECT: FOUNDATION FOR EXPORT-LED GROWTH AND ECONOMIC TRANSFORMATION

TABLE OF CONTENTS

Dar es Salaam, 2nd May, 2000.

CURRENCY EQUIVALENTS
(as of February, 2000)
Currency Unit = Tanzanian Shilling
US$1.00 = 800 Shillings

ACRONYMS AND ABBREVIATIONS

BET	Board of External Trade
BUDS	Business Uganda Development Scheme
CBI	Centre for Business Information
COMESA	Common Market for Eastern and Southern Africa
CRBD	Cooperative and Rural Development Bank Ltd
CTI	Confederation of Tanzania Industry
EAC	East African Community
EC	Exporting Company (Trading House)
ECGS	Export Finance and Guarantee Scheme
EDC	Export Development Council
EDS	Export Development Strategy
EIA	Environmental Impact Assessment
EPO	Export Promotion Organiztion
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
IF	Integrated Framework for Trade Development
ITC	International Trade Centre
JITAP	Joint Integrated Technical Assistance Programme
LDC	Least Developed Country
MAC	Ministry of Agriculture and Cooperatives
ME	Medium Scale Enterprises
MEM	Ministry of Energy and Minerals
MIGA	Multilateral Investment Guarantee Agency
MIT	Ministry of Industry and Trade
MTS	Multilateral Trading System
MNRT	Ministry of Natural Resources and Tourism
MOF	Ministry of Finance
NBC	National Bank of Commerce
NDC	National Development Corporation
NGO	Non Governmental Organization
NICs	Newly Industrializing Countries
NMB	National Micro Finance Bank
NPQS	National Plant Quarantine Service
PITC	Phillipines International Trading Corporation
PLANCOM	Planning Commission
SADC	Southern Africa Development Community
SME	Small and Medium Scale Enterprises
SSBA	Support for Sector Business Associations
TANAPA	Tanzania National Parks Authority
TANEXA	Tanzania Exporters Association
TBS	Tanzania Bureau of Standards
TCM	Tanzania Chamber of Mines

TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
TDCF	Technology Diffusion and Competitiveness Fund
TPSF	Tanzania Private Sector Foundation
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
VETA	Vocational Education Training Authority
WTO	World Trade Organization

1. INTRODUCTION

Tanzania is a Sub-Saharan LDC, with a population of 31 million, covering an area of 945,000 sq. km. Per capita GNP stands at US$210 while about 50% of the population subsists below the poverty line (less than US$1 a day). Agriculture remains the leading sector, contributing about 50% of GDP, 75% to export earnings and providing livelihood to 80% of the population.

The Tanzanian economy is struggling to emerge from the confines of import substitution and a protected domestic market resulting from the inward looking policies of the 1970s and 80s. Export orientation is unquestionably accepted as imperative reflecting the successful experience of the Newly Industrialising Countries (NICs) in export-led growth. As is the case with most LDCs, there is imminent danger of marginalization in the emerging global economy, inspite of being a founding member of the WTO and participation in several regional integration schemes i.e. the EAC, SADC and COMESA, and notwithstanding a relatively rich resource endowment.

The Tanzanian export sector has portrayed intermittent trends of stagnation and decline over the past two decades reflecting the structure of an economy characterised by the continued predominance of traditional agriculture. Effective strategies for the development of the export sector have to be rooted in sound foundations for structural transformation, starting with the transformation of the agricultural sector itself and diversification to reduce overwhelming dependence on a single sector. Transformation of agriculture partially rests on introduction of new export crops, and continuation of efforts to enhance the productivity and yield of the traditional commodities. This project is an initiative to re-orient the economy in that direction.

This report explores Tanzania's export possibilities in the context of subsectors with high potential for enhanced performance. It reviews strategies for realistic export-led economic growth, inherent in Vision 2025, based on the identification of high growth export sub-sectors or leading products and their prioritisation over-time. It examines briefly, the fundamental factors comprising the foundations for successful economic transformation ranging from status of the social services to capacity for the supply and delivery of goods and services in the marketplace, and traces the ideal course for economic transformation. The process entails the simultaneous consolidation of the education sector and the transformation of agriculture and other primary sectors and culminates in the gradual development of a sustainable industrial structure. These foundations have to be in place before a nation embarks on the process of industrial transformation underpinning the dramatically high rates of growth, involved in the process of becoming a NIC.

Chapter two presents the status of the foreign trade sector and the need for change in current trends. It introduces the link between the aspect of export trade development with economic transformation. Chapter three reviews the status of the Tanzanian private sector, highlighting its low level of development and weaknesses, and need for initiatives for its development as the engine of growth through wealth generation.

Three issues are involved in the question of programme sustainability and are covered in chapters two and three. The first aspect relates to sectoral priorities and linkages and the central role that Agriculture retains regardless of the roles ascribed to other sectors. The second aspect emphasizes the importance of public and private sector capacity building with priority on the improvement of the legal and regulatory framework and sectoral policy environment as the basic premise for private sector development and trade growth. The third issue concerns the need to ensure early and gradual programme ownership by Tanzanian stakeholders i.e. the private sector and the Government, so that donors and multilateral agencies play an initial stimulating role as catalysts for change. These are preconditions for programme success through the attainment of a sustainable process of domestic and foreign trade development.

Chapter four is a review of the proposed "Export Development Project" covering project objectives, strategies for export development and the role of the public and private sectors, donors and multilateral development agencies. Lessons are drawn from the experiences of nations that have successfully embarked on economic transformation through export-led growth and those which have been struggling to lay the foundation for such transformation. The chapter also presents a synopsis of project description including indicative project financial cost estimates. Preliminary information on project beneficiaries, management modalities and accessibility criteria, conforming to best international practices and reflecting successful experiences in other environments has been prepared for a few components and is presented in the Annexes to Chapter 4. For a few components, such as the Export Processing Zone project, a full-fledged feasibility analysis has been undertaken and copies can be made available on request.

The indicative financial costs presented for components for which no feasibility has been undertaken require more explanation. In the process of project preparation, the Steering Committee considered two options: a first-best effort scenario entailing the undertaking of full-scale financial, economic and environmental analysis for each component; and a second-best effort scenario entailing a detailed descriptive analysis, based on emerging experience on similar projects in comparative environments. The second option facilitate the establishment of mere indicative financial figures and preliminary considerations on economic and environmental impact.

The Committee opted for the second best effort option. Consequently, chapter 4 presents a flexible programme with an indicative cost of US$50 million, which can be reviewed downwards considerably through variation of component initial size and outreach. There is also considerable detail on economic impact, management structure and practices for a few components. The Secretariat is continuing with field work on a wide range of aspects concerned with component implementation modalities, implementing agencies, performance indicators, evaluation and monitoring procedures. The intention is to finalise component preparation in close co-operation with identified donors during the post-pledging phase. Apart from flexibility this approach has contributed to large savings on time and funds particularly with respect to components which may not receive donor support for implementation. Finally this approach is more amenable to basket-funding by a group of donors working in close co-operation. Detailed feasibility and economic analysis will be undertaken only for components which secure financing.

Chapters five and six dwell on project management issues and project benefits and risks respectively. Finally chapter seven covers recommendations on the way forward with suggestions on the different sets of agreements between financiers and the beneficiary on one hand, and between the beneficiary and its implementing agencies or contractual project management teams, as the case may be.

The conclusion emphasizes that the chances of programme success hinge on the flexibility aspect i.e. preference for implementation of small project components which stand a better chance of securing support at the pledging session. It is noted that there are a number of existing initiatives on which to build and that the objective in doing so should focus on three factors. First the initiation and maintainance of support for private sector development in all respects. Second the avoidance of the temptation to go for big projects through emphasis on starting small and growing with experience. Third and finally the promotion of gradual but increasing private sector ownership and takeover of the initiative from the begining.

As stated above, there are a number of annexes providing details to support the analysis presented in Chapter four. In this regard, there are six annexes (A.1 to A.6 for components on public sector institutional capacity building and five annexes (B.1 to B.5) on components concerned with private sector development. There are four other annexes (C, D, E and F), dwelling on the Export Finance scheme, the TBS Packaging Technology Centre, the Zanzibar Private Sector Development project and the program's Environmental Impact Assessment review respectively. Finally, Annex G presents a summary of the "Proceedings of the Consultative Workshop held on April 14, 2000.

2. FOREIGN TRADE SECTOR BACKGROUND.

For more than two decades, Tanzania's foreign trade has been characterised by a persistently large trade deficit stemming from intermittent stagnation and decline of exports against a trend of growing imports. Concerted efforts in economic revival have led to increased imports largely attributable to capital investments in a rapidly growing mining sector while exports exhibit a fluctuating trend, including a steady decline over the past three years, 1997 to 1999.

This trend has prevailed in spite of extensive policy reforms including the restructuring of the productive and service sectors and reflects the unchanged structure of an economy that has remained dependent largely on a traditional agricultural sector. For almost two decades the manufacturing sector has remained small, contributing about 8% to GDP. Its performance in exports has remained equally low at an average of 13.8% for the period 1995-98. Two bright spots relate to the mining and tourism sectors which have demonstrated a strong growth trend in the recent past. In 1998, the mining sector grew by 27% and contributed 15% to exports. Investments are expected to reach US$500 million by the end of year 2000. The tourism sector shows vast potential and of recent has been contributing more than 50% to earnings of the services sector, based on an average growth rate of 16% over the past three years. Actual earnings amounted to US$342 million from 360,000 visitors in 1997 and are expected to reach US$570 million from 500,000 visitors by year 2000. This trend is expected to continue. The consequences of declining exports and increasing imports is a widening trade deficit, from US$589 million in 1997 to US$777 million in 1998 and US$ 878 million in 1999. Table 1 below portrays the status and trends of Tanzania's exports and their composition since 1990.

Table 1: Composition and Trend of Tanzanian Exports – 1990 to 1998. (All Values in Million US$)

	1991		1993		1995		1997		1998	
Commodity	**Qty Tonnes**	**Val US$**	**Qty Tonnes**	**Val US$**	**Qty Tonnes**	**Value US$**	**Qty Tonnes**	**Value US$**	**Qty Tonnes**	**Value US$**
TRADI-TIONAL										
Coffee	52464	77	58590	96	47970	143	40226	117	53620	115
Cotton	38669	63	61150	78	70860	120	70595	116	38030	54
Sisal	4807	2	4950	3	11340	6	12951	9	10940	7
Tea	20850	22	19750	38	21600	23	19304	30	22690	32
Tobacco	8581	17	10620	17	17080	27	21485	13	12690	26
Cashew Nuts	19000	17	32160	23	75560	64	56740	75	140350	112
Sub total	**114371**	**197**	**187220**	**256**	**244410**	**383**	**221301**	**360**	**287320**	**346**
NON TRA-DITIONAL										
Petroleum products		**7**		**9**		**11**		**12**		**7**
Minerals		**42**		**69**		**49**		**93**		**103**
Mfg Goods		**70**		**52**		**109**		**104**		**72**
Others		**42**		**53**		**134**		**149**		**148**
Sub total		**161**		**183**		**299**		**358**		**330**
G. TOTAL		**358**		**439**		**683**		**719**		**660**

Source: Tanzania: The Economic Survey 1998, The Planning Commission.

Poor performance in export trade is a consequence of problems facing the traditional sector including: high susceptibility to the vagaries of nature, declining terms of trade, little value adding prior to exporting, and lack of concerted measures and initiatives at diversifying the export base. The consequences of this trend in the face of globalistion and the submergence of the domestic market are apparent. Export-led growth remains the 21st Century's engine of growth and development, more so for LDCs to whom the attainment and sustainance of dramatically high rates of growth is an imperative rather than a desirable target. For instance, World Bank projections on poverty indicate LDCs will have to experience minimum growth rates of about 7% for the period up to 2015 if they are to stem an increase in the proportion of population living in poverty.

The solution to this daunting problem is the implementation of strategies that focus on the development and growth of the export sector, for both merchandise goods and services, as a priority. The solution lies in the establishment of national competitive platforms for select product lines and categories of services for which specific LDCs have a combination of unique comparative advantages, potential access to otherwise difficult markets, and can attract both domestic and foreign investment through aggressive policies. It is a solution which requires committed assistance from the international community and multilateral development agencies, good governance and dynamic policies from governments and acceptance of reasonable returns for hard work and diligence by the private sector. Further these roles have to be fulfilled pro-actively in a spirit of continuous co-operation and co-ordination. This is the essence of the Integrated Framework for Trade Development sponsored by the WTO in conjuction with World Bank affiliated institutions and UN system agencies. Details of the consultative aspect of the Integrated Framework are available in a separate report (Volume II) titled "Report for Consultation on Trade-related Assistance, 13 November, 1999."

The current report (Export Development Project) is an elaboration of project concepts raised in Volume II as the means of stimulating export trade development in Tanzania. The projects comprising the Tanzanian programme address three groups of constraints constituting the barrier to export trade i.e. supply and delivery capacity constraints, trade support services constraints and those related to effective participation in the MTS. There is an extensive program, JITAP designed to address the third constraint. IF Programme proposals addressing this area supplement the JITAP programme, through addressing missing links, and do not constitute repetition.

3. THE PRIVATE SECTOR

The relatively underdeveloped status of the Tanzanian private sector, and its weaknesses in the context of competitiveness stem from its historical background. This status is evident in the basic economic data. For instance the fact that 80% of the population depend on the rural economy implies that informal and micro enterprises primarily organized around the household unit dominate the agricultural sector and have to play the core role in any effort towards economic transformation based on a revolution in agriculture. SMEs also stand to play a major role in agricultural transformation, in the process of industrialization and through investments in tourism and other natural resources extraction activities such as gemstone mining. SMEs are the inevitable stepping stones in the process of creating competitive advantages to spearhead entry into the export market. Yet the data on SMEs development over the past thirty years reveal three trends: (i) most micro enterprises and SMEs have been located in urban areas focusing their activities in the distribution network; (ii) the relatively more educated youth who should be the nucleus for introduction of modern agronomy practices that underpin rural transformation have tended to migrate to urban areas where they constitute a growing informal sector involved mainly in petty trading activities; and (iii) apart from the production of traditional cash crops and a limited supply of food-crops, links between the rural sector and the rest of the national economy and the export sector remain tenacious. There is need for concerted measures for the integration of the rural economy into the modern sector and into the global economy so that the benefits of globalization can reach this section of society. The essence of poverty alleviation and gender related issues should be the attainment of such integration.

With regard to medium enterprises, there have been commendable efforts in initiating measures for the emergence of new enterprises through the establishment of risk-taking financing schemes in particular the venture capital funds such as the Tanzania Venture Capital Fund, Fedha and also Faida Fund. These are modest beginnings and expanded schemes with wider coverage would be required in future. Venture capital involvement in more agricultural based projects particularly those stimulating productive activity presents a growth opportunity.

From an indirect perspective, the weaknesses of the domestic private sector are apparent in the status and performance of sectoral associations. The tourism sector has no sector-wide association while the existing eight sub-sector associations are weak and ineffective. The mining sector associations are strong at the large scale level but remains weak at the level of small scale operators. Intuitively agriculture, in view of its amorphous nature, can best be served by strong sub-sectoral associations interlinked in a sector-wide association. A number of sub-sector associations formed recently include: The Tanzania Coffee Association, The Tanzania Cotton Association and the Tanzania Flower Growers Association. At the same time there are ongoing efforts to register a Chamber of Agriculture as a sector-wide association. Nevertheless, at the sub-sector level existing associations remain few and very weak. The private sector is yet to recognize, appreciate and cultivate the synergy of common action and the benefits inherent in efficient sub-sector associations in terms of contributions to the process of establishing a more conducive environment, raising productivity and increasing competitiveness.

FDI can and does contribute to domestic private sector development, especially in the industrial sector through supply contracts and technology diffusion. However, in Tanzania FDI flows have been largely directed to the mining and tourism sectors. Apart from providing employment opportunities, FDI involvement in the agricultural sector is a necessary development force in view of its potential as a bridge between domestic smallholder outgrowers and the export market. It provides a ready demonstration effect and accessibility to modern agronomy practices, appropriate inputs and guaranteed access to market outlets. For instance the development of smallholder coffee production during the colonial era revolved around the synergies flowing from large plantation farmers. Kenyan development of horticultural produce for exports revolved around the existence of large-scale farmers who were also exporters, until 1972 when the Government took concrete policy initiatives including the establishment of a formal institution, to nurture the development of the sector. Slow development of the private sector reflects four underlying constraints and premises: lack of formal consultative mechanisms for public and private sector co-ordination; scarcity of investible financial resources compounded by a business environment characterised by a high level of wilful default in commercial borrowing; weak policy co-ordination and implementation at the sectoral level; and lack of concrete strategies for the development of the private sector as the engine of growth in a market driven development strategy.

3.A FINANCING CONSTRAINTS

The financing constraint emerged as the most debilitating factor characterising the economic problems of the 1980s. Perhaps the economic reforms came at a time when the problem had already reached unmanageable proportions, evident in the debt overhang problem. With respect to medium and largescale enterprises it is proving difficult to turn round privatised industrial and agricultural public enterprises so as to earn the expected dividends in terms of employment, wealth generation and government revenue. Reluctance to touch the tax regime resulting from government financial constraints is contrary to the spirit of building a conducive policy environment through adjustment of taxation rates to more competitive levels, at least for specified incubation periods.

The informal sector, inspite of its relatively higher financial discipline and repayment record, poses unique financing problems related to the high loan portfolio management costs due to the small size of required loans. Yet support is necessary for its transformation into the formal economy through, among others, initiatives in the development of activities promoting production for export as part of measures aimed at poverty alleviation. Nevertheless there are innovative schemes round these problems, based on organizing individual entrepreneurs into groups with financial intermediaries interacting with the latter.

The financial sector review programme initiated in the early 1990s was intended to address this constraint through the creation of a robust commercial banking sector to address the demands and financial needs of the private sector with efficient allocation of resources. These reforms have recorded major successes with the emergence of more than twenty commercial banks and financial institutions, including the successful restructuring and divestiture of two leading government banks with a nation-wide outreach i.e.NBC (1997) Ltd and CRDB Ltd. However, the restructuring and divestiture of NMB, expected to play the lead role in serving the needs of the informal and rural sectors is yet to take form.

The scenario emerging from the current status of the financial sector is one of reluctance by emergent banks to play the expected financial intermediation role to SMEs and formal sector entrepreneurs, let alone serving the informal rural sectors. Even medium scale firms have had difficult access to credit facilities due largely to past trends in poor credit recovery reinforced and perpetuated by a legal framework that makes recourse to judicial measures for recovery cumbersome and demotivating.

It has not been possible to secure consolidated data on bank lending to SMEs in Tanzania. At any rate the level of Government supported lending schemes has been miniscule compared to developments in other economies. For instance, the major Government supported lending scheme to informal and micro enterprises, the National Entrepreneurs Development Fund (NEDF) was initiatied in July 1994 with an initial fund of slightly more than US$1 million. By June 1997 the total loan portfolio had risen to about US$2 million. In addition, contrary to normal expectations, banks that are now relatively liquid primarily avoid commercial lending to the domestic private sector in view of an inordinately high wilfull default rate. Such default has been encouraged by a legal framework that encourages postponement of loan repayment indefinitely through borrowers taking out court injuctions against the seizure and forfieture of collateral. Instead Commercial Banks prefer investing in treasury bills and lending to large scale enterprises. The two development banks, Tanzania Development Finance Co and the Tanzanian Investment Bank do not lend to the informal sector or to SMEs.

In comparison, consider the case of the Mauritius Development Bank (privatised in 1989) which has lent out the sum of US$ 240 million to a total of 45,000 SMEs including individual persons over a ten-year period ending October, 1997. Their loan portfolio included micro-level loans to finance even the acquisiton of desk top computer units to individuals, and motor vehicles and boats for operators in the tourism sector and larger loans in support of investments in the hotel industry.

Major changes are necessary in the legal framework underlying the business sector, relative to the financial sector, so as to facilitate the development and growth of the private sector. The substance of the Land Act, the Bankruptcy Act and insolvency statutes and related laws contributing to current high level of wilfull default need urgent reform. The establishment of the Commercial Court is a step in the right direction.

Possibly one of the nature of requisite changes is a system that compels the channeling of commercial cases, especially those related to lending, to the Commercial Court rather than voluntary choice between recourse to ordinary or commercial courts at the discretion of individuals bent on perpetuating default.

3.B THE POLICY ENVIRONMENT.

The constraints raised above reveal that the strengthening of the domestic private sector requires a combination of measures involving government action, active roles for FDI and the domestic private sector and supportive roles by donors and the multi-lateral agencies. The government has to play the lead role through the formulation of dynamic policies focusing on priority sub-sectors, supported by concrete action plans, specific implementing agencies and mechanisms, and flexible but timely decision making through hands-on policy management.

Often good policies have been formulated but implementation has failed to take off for lack of action plans. Even where action plans have been drawn up recommended, and implementing agencies identified, active implementation has failed to take off due to non-provision of minimal resources culminating in inertia. Effective policy implementation depends also on the surrounding environment in terms of underlying legal framework and supporting institutional set-up. It may be necessary to undertake quick reforms of relevant legislation and restructure implementing agencies or even create new institutions. Publication of good policies on paper, without the requisite implementing mechanism and resources in place, is as good as having no policies at all.

3.C PRIVATE SECTOR ROLE AND INVOLVEMENT.

The private sector, both domestic and foreign, are the active agents for the generation of wealth through production of goods and services. One of the stimulative impacts of the foreign private sector rests on inducing new activities in response to backward and forward linkages arising from core operations. Such linkages provide the opportunity for contractual association with domestic firms, especially SMEs. Close co-operation between FDIs and their local suppliers is a potential source of technology and financial resources transfer to the domestic private sector in a world where firms tend to cooperate with suppliers to ensure quality of inputs and reliability of delivery schedules.

In the long run, the lead role in the development equation rests on the domestic private sector. This role entails the fostering of an aggressive work culture based on respect for the ethics and contractual obligations underlying business transactions including the cultivation of a strong "credit culture". Entrepreneurs should be willing to start small and grow with time and experience implying gradual transformation of the traditional sector through enterpreneurship in agrobased activities. A key ingredient in the development of the private sector is access to an adequate level of education on which, for instance, the entrepreneurial and production skills for agricultural transformation can be built.

The donor community and multi-lateral agencies play the role of catalysts for the development process by providing critical resources and technical support. The continuation of strong commitment to support and understanding is critical to the pioneer initiative underlying the Integrated Framework.

4. THE EXPORT DEVELOPMENT PROJECT

The Export Development Project report is a response to the need for a document providing the analytical and descriptive framework for project concepts introduced through the "Report for Constulation on Trade-related Assistance" as discussed during the RoundTable on the Integrated Framework for Tanzania, held on 14th October, 1999. The Export Development Project, is a program comprising of 9 schemes or components, reflecting the broad ideas and concepts agreed on during the Round Table as the ideal starting point for the recovery of the Tanzanian export sector.

In the course of researching the project, there has emerged a clearer understanding of prevailing needs and appropriate schemes to address them. This has culminated in more precise description of such components as compared to the underlying initial concepts. There are two distinct groups: components addressing the issue of provision of trade support services to exporters; and components on initiation of pioneer action plans for actual development of selected priority sub-sectors and products based on provision of market links in the domestic and export market. In both instances, the salient objective is the development of the private sector as the engine of growth.

In the course of the consultative process, concern has been expressed in different quarters that the programme does not incorporate components addressing the need to expand the physical infrastructure and to mitigate against supply side constraints in terms of production capacities in virtually all sectors. The deliberate choice to exclude infrastructural components is based on the premise of a large number of ongoing projects under the Country Assistance programme. For instance the World Bank is implementing a large programme with a total cost of US$931 million addressing the first concern. Projects involved cover the power sector (US$200 m), railways (US$76 m), roads I and II (US$250 m), telecommunications (US$74 m), Ports (US$37 m), Petroleum rehabilitation (US$44 m), Songo songo (US$250 m). Apart from the World Bank program there are other ongoing major project initiatives by several bilateral donors. The World Bank states that this covers only about 20% of the road network and much more needs to be done. Intuitively, while this effort is continuing, there is also need to ensure that efforts are made to utilise the rehabilitated and modernised infrastructure effectively. That is the essence of the current Export Development Project – effective use of existing infrastructure, as part of a strategy to create the capacity to sustain that infrastructure.

With respect to the aspect of supply side constraints it is noted that there are also a number of multilateral and bilateral initiatives such as World Bank financing of the privatisation process (US$40 m), Mineral Sector Development (US$12 m), Financial institutions development (US$11 m) and MIGA insurance coverage (US$6 m). It is also reported that, as of June 1999, MIGA had 28 pending applications for investments totaling $1.7 billion (potential FDI) in Tanzania's oil and gas, manufacturing, agribusiness, banking, power and tourism sector. Undoubtedly FDI stimulates growth through exports but cannot provide the conclusive answer to equally pressing aspect of growth which adequately addresses the problem of abject poverty in the rural sector. This project also addresses the issue of poverty alleviation through initiatives focusing on smallholder production in non-traditional agricultural exports, and through the smallscale and artisanal mining sectors.

Project success depends on three factors: dynamic implementation of existing sectoral and sub-sector policies with continuous adjustment in response to a rapidly evolving environment; accessibility to financial resources necessary to kick-start the effective participation of the domestic sector especially at the informal and micro enterprises level; and training and access to information on prevailing and emerging opportunities and how to exploit them.

4.A PROJECT OBJECTIVES

The essence and mission of the Integrated Framework is the development of domestic and export trade as the engine of growth and development. The project also recognises that there are other fundamental issues of equal concern, in particular poverty alleviation. Poverty alleviation depends on high growth rates while trade development is the stimulant for such growth. This aspect is closely linked to that of transformation and diversification of agricultural activity with stronger bonds to the global market, taking into consideration the large proportion of the population dependent on this sector and the dormant potential such as arable land and suitable climate. Consequently, the programme is underpinned by three objectives: trade growth, poverty alleviation and private sector development.

4.B GOVERNMENT STRATEGY AND ROLE OF DONORS

The government strategy is a simple and straightforward one. The Integrated Framework is an opportunity to initiate measures for laying the foundation for a private sector led export-based growth strategy and its implementation. The course of action involves two distinct phases or succeeding horizons. The perceptions of the first horizon, is the establishment of the fundamental prerequisites, or laying the foundation, for economic transformation. The second horizon, for now out of sight, entails building upon such foundation through consolidation of the initial priority sectors led by agriculture, as the vehicles of transformation, to create a growing and robust export-oriented economy. A third intuitive horizon, way out of sight, entails the transposition of the effective roles of the primary and secondary sectors, with the industrial sector taking over the lead role from agriculture as the major source of export activities hence growth. The third horizon entails the emergence of the country as a NIC.

The essence of the first horizon rests on five pillars or priority areas: education, select agricultural sub-sectors, tourism, mining and select industrial sub-sectors. These constitute the foundation necessary for stimulating private-sector, export led growth, which will fuel the emergence of the second horizon. The second horizon will come to sight once the nation builds on these pillars creating a self-sustaining economy, when internally generated resources and imbued credit worthiness are adequate to finance take-off of second tier priority activities.

The donor-community and multilateral agencies are the catalysts that will crystalise the first horizon given the present situation of severely constrained budgetary resources, the debt overhang, and reliance on an emerging private sector largely starved of financial resources and technical capability. This community can provide the missing links in terms of resources necessary to lay the basic foundation and the minimum critical effort for initial growth. The essence of projects selected for support in the first year takes into consideration these needs.

4.C LESSONS FROM EXPERIENCE

The adage that one should not re-invent the wheel is more valid today than ever before and is applicable in the quest for suitable development strategies. Tanzania can learn something from the strategic path traversed by economies which have undergone successful transformation and those which are implementing the process at present. The key is to determine the major components or fundamentals of strategic perspectives, the sequencing and prioritization of sectoral initiatives and even the most suitable implementation policies and instruments.

In the course of the 1980s and 1990s, the NICs experience has served as a useful development model to many countries. Of all the NICs, perhaps Tanzania should select one at the lower rung of development level. Thailand fulfills this criteria, and is one country which has the closest similarities to Tanzania in terms of climatic conditions, socio-political texture and stability, initial agricultural and industrial backgrounds and the potential inherent in tourism and the mineral sectors. Information readily available on Thailand does not facilitate precise tracing of the development path of that country over the past thirty years. To overcome this impediment, it is possible to examine the strategic paths of nations aspiring to become NICs over the coming twenty years, and Mauritius and Kenya have been chosen for this purpose.

The usefulness of Thai model rests on its achievements given the outstanding transformation which has taken place over the past 30years. In the 1960s the status of the Thai economy was more or less equivalent to what Tanzania is today. The two countries share many physical, resource endowment and climatic characteristics. Today there have been tremendous achievements in the social sector, and per capita income has doubled over the 20-year period ending 1990. Agriculture has been overhauled and transformed to a phenomenal level through higher productivity in traditional products and diversification leading to prominence in new products. In the 1960s there were only three major exports i.e. rice, teak and rubber. By 1990, Thailand was the leading world exporter of rice, cassava, pineaples, gems and orchids. It was number two in export of frozen shrimps, number three in rubber and the fourth in tin. Rice production rose from 1.6 million tons in 1978 to 5.1 million tons in 1988. Agricultural transformation was achieved through innovative extension-services schemes based on attaching specific technical personnel to a group of smallholder producers with clearly defined responsibilities and accountability. These schemes focused on the objective of higher productivity through dramatic increases in yields per acre even at the expense of reducing total acreage initially. Inspite of these tremendous changes agriculture's contribution to GDP declined from 40% in 1960 to 17% by 1988, direct evidence of the success of export-oriented industrialization. Yet Thailand is on the lower rung of the NIC ladder.

Useful, lessons can be drawn from cases that are in the initial stages of economic transformation, although ultimate success may not yet have been achieved. Kenya is a country with many similarities to Tanzania, but one which has successfully laid the prerequisite foundations for transformation and is now in the process of consolidating these fundamentals – the incidence of highly visual current failures related to governance problems notwithstanding. They are now crossing over the first horizon. Three outstanding achievements in the case of Kenya relate to progress in the education sector, the diversification of agriculture, and the establishment of a resilient export-oriented industrial sector.

Table 2: Comparative Status in Education Sector: Tanzania, Kenya and Thailand

ITEM DESCRIPTION	**TANZANIA**			**KENYA**			**THAILAND**
	1965	**1989**	**1998**	**1965**	**1989**	**1998**	**1989**
1. PRIMARY Education							
(a) Number of Schools	--	--	11,450	--	--	17,356	--
(b) Number of Teachers	13,576	--	145,460	--	--	--	--
(c) Enrollment in Standard I.	149,341	--	742,000	--	--	976,000	--
(d) Enrollment Ratio (%)	32	63	75	54	94	80%	--
2. SECONDARY Education							
(a) Number of Schools	--		834	--	--	3,081	--
(b) Number of Teachers	1,064		15,100	--	--	43,700	--
(c) Enrollment in Form I	5,942		75,000	--	--	195,000	--
(d) Enrollment ratio (%)	2	4	5%	4	23	27%	28%
2. TERTIARY Education							
(a)University Students	1,750	--	10,653	--	--	41,000	--
(b) Enrollment ratio	0	0	0.27%	0	2	--	16%

Source: *D.H. Perkins & M. Roemer. "Differing Endowments and Historial Legacies"; in Asia and Africa: Legacies and Opportunities in Development, HIID, 1994. Also from 1998 Economic Survey for Kenya and for Tanzania.*

The basic lesson from Kenya concerns achievements in the education sector and the network of social infrastructure which has made it possible. For instance, although Tanzania has a slightly higher population than Kenya, data for 1998 reveals that Kenya has made comparatively astounding progress in the education sector. Table 2 above reproduces the comparative achievements in the education sector revealing that while Kenya is slightly ahead at the primary school level, she has registered a three-fold edge at the Secondary School and an four-fold gain over Tanzania at the University level.

In fairness the Kenyan high performance at the secondary level is partially supported by an education system comprising of 4 years of secondary education and 4 years for the university compared to 6 and 3 years respectively in the case of Tanzania. No comparative data was readily available on tertiary education other than that for university enrolment.

Kenya has established a large pool of schooled labour force upon which to base the development of skilled manpower necessary for economic transformation, comparable to Thai achievements in 1990, when they were aspiring into the lower echelons of the NIC group. Tanzania's status is closer to the Thai situation in 1965, when they were launching their initial efforts in the transformation drive. The Kenyans have developed a robust private sector as the primary driver of economic growth, as an imperative for transformation. Tanzania cannot short-circuit the process but has to find ways to move more quickly along the same curve.

One course for rapid transformation of the education sector in Tanzania, especially at the secondary and tertiary level, is maximum efficient utilisation of existing manpower resources through raising student/teacher ratios to acceptable international norms. For instance, at the secondary level the 1998 ratio was 1:21 in private schools and 1:18 in government schools compared to a national norm of 1:32. At the university level the ratio was only 1:7 compared to the average achievement of 1:10 for Sub-Saharan Africa and the international norm of 1:12. Tanzania is already implementing a programme to increase capacity dramatically at the tertiary level, based on the twin strategy of raising total population at the University of Dar es Salaam to 10,000 by year 2005, and the encouragement of private universities. However, no specific programme has been initiated with a view of debottlenecking the Secondary education sector.

Mauritius has little geographical and historial similarity to Tanzania but provides useful macro-level lessons in terms of the gradual movement through the different stages of transformation. Consequent to success in the tourism sector and in export-led industrialisation over the past 20years, and in laying the solid foundation of a skilled and trained labour force, Mauritius is only now embarking on strategies that are envisaged to turn the island nation into an NIC by year 2020. Their strategy for transformation relies on conquests of new horizons in the area of financial and information technology services and movements towards high-tech and high-value industries such as pharmaceuticals, electronics and ocean exploration equipment.

4.D PROJECT DESCRIPTION

The Integrated Framework comprises of a total of nine components with an estimated total cost of US$ 50 million. Each of these is treated as a separate component of the overall **"Export Development Project."** Some of the components comprise activities or project elements which can be treated as an independent group of activities. This approach is made necessary by the multi-sectoral nature of the Integrated Framework programme. The nine components under reference and their estimated costs are listed in Table 3 below:

An aspect constituting what would appear as departure from the program discussed during the Consultative Round Table of 14th October 1999 concerns the essence of the concept of a "Review of Sub-Sector Strategies/Studies" mooted at that time. At that time it was envisaged that an action oriented review would be commissioned on 13 sub-sector

Table No. 3: List of Components comprising the IF Programme.

	PROJECT COMPONENT DESCRIPTION	INDICATIVE COST

		(mil USD)
1.	Institutional Capacity Building for Export Promotion	US$8.40
2.	Private Sector Service Delivery & Advocacy For Exporting (Support to Sector Associations)	2.00
3.	Export Processing Zone	16.80
4.	Technology Diffusion &Competitiveness Fund	5.00
5.	Export Finance and Guarantee Scheme	3.00
6.	Production Development and Market Linkages for Priority Sub-sector	7.00
7.	TBS Packaging Technology Centre	1.00
8.	Bridging Finance for Ongoing Projects	
	▪ UNIDO Industrial Competitiveness project	3.80
	▪ JITAP project	0.07
9.	IF Focal Point	0.30
10.	Integrated Programme for Private Sector Development and Industrial Competitiveness, Zanzibar.	2.65
11	**Total Indicative Project Costs**	**US$50.02**

studies undertaken by the International Trade Centre (ITC) for the Board of External Trade (BET). Review of the sub-sector studies and lessons from the practical experiences of Kenya and Mauritius revealed that reviews undertaken through the engagement of professional consultancy services is not necessary at this juncture. A desriptive analysis has been developed showing that what is required are concrete action plans for the development of capacity to produce specific export products in those sectors combined with provision of market linkages.

In the past, there has been a tendency for repeated recourse to commissioning new consultancy studies without initiating decision making and implementation on past reports, to an extent amounting to haemmorhage of donor resources which could be applied more effectively elsewhere. An outstanding example is quoted in the Export Development Strategy report of June 1996 alluding to the existence of ninety seven (97) preceding reports on the subject. Many of these reports have gone unimplemented primarily owing to lack of requisite sectoral or sub-sectoral policy initiatives and partly due to lack of financial and human resources. Indeed, initiation of sub-sector policy measures and their subsequent implementation should normally address the issue of requisite human, financial and institutional resources. The 13 subsector studies on export development have remained unimplemented todate, primarily due to lack of sector level policy initiatives and decisions to facilitate implementation through addressing supply side considerations, a situation largely brought about due to lack of direct working links between the Board of External Trade (BET) and the institutions responsible for sectoral development.

Out of the13 reports, three have been selected for inclusion in this project as top priority export trade development sub-sectors. These are the studies on "Export Development and Promotion of Horticultural Products", "Export Development of Gemstones", and "Export Development of Textiles, Leather and Garments." Efforts in these areas have remained rudimentary and at the level of sporadic private sector initiative. No concerted measures have been undertaken at the national level to exploit their dormant potential, through active linkage of production stimulation measures to national and international markets.

For instance, a pioneer scheme for the development of smallholder production of fruits, vegetables and cut flowers is necessary if Tanzania is to participate in the horticulture industry. Kenyan horticultural development efforts initiated in the 1970s raised horticultural export earnings steadily to US$70 million in 1992 and US$ 150 million by 1998. In comparison, the contribution of Tanzania's leading export earner, coffee, has fluctuated between U$ 60 million and US$142 million for the period 1992 to 1998 (peak earnings in 1995). Kenyan production of fruits and vegetables is largely undertaken by smallholders numbering 1,800,000 today. The potential of this subsector in terms of export trade, self-employment and poverty alleviation is enormous.

Special government-led initiatives to facilitate enhanced private sector performance in the gemstone subsector are necessary and could take the form of the establishment of a lapidary industry. This is envisaged in the form of a pioneer training scheme in the art and science of gemstone cutting and polishing and innovative financing schemes for equipment. In the textiles, leather and garments industry, sub-sectors with enormous potential for almost immediate growth in Tanzania, there is need for special policy initiatives based on the experiences of countries which have undertaken extensive restructuring in this area, such as South Africa for textiles and Ethiopia for leather. According to industry sources, two basic requirements for textile sector revival are: concessionary tax rates entailing a decision to forego large but **hypothetical tax revenues** during an incubation period of five years; and dramatic cuts in electricity tariff rates. A third imperative is the improvement of the firm's internal management practices to levels comparative to those of competitors.

4.D.1 INSTITUTIONAL CAPACITY BUILDING FOR EXPORT DEVELOPMENT.

This is a component with an estimated and indicative cost of US$8.40 million intended to kick-start the validation and prioritisation of the Export Development Strategy (EDS) and provide the foundation for sustainability of the IF programme. It includes five sub-components: (i) Improving the Legal and Regulatory Environment for Business in Tanzania; (ii) Tourism Department Analytical Capacity; (iii)

Strengthening of Quarantine Services under the MAC; (iv) Establishing of a Model Private Sector Exporting Company; and (v) The Restructuring of BET as the Secretariat for an Export Development or Promotion Council.

Improving the Legal and Regulatory Environment for Business in Tanzania (*US$5 million):*

Adequate regulation is essential to good business performance – in so far as it sets the boundaries for business performance and preserves fair and open competition, and in so far as it preserves essential health, safety and environmental standards. However, regulation which goes beyond that which is really necessary, which is difficult to understand and/or comply with, or which cannot be properly and fairly enforced, can have serious negative consequences for business and investment.

The Government of Tanzania has recognised this, and is committed to promoting business confidence and competitiveness and to stimulating investment through an improved regulatory environment for the private sector. The key to improving the regulatory environment for business, lies in an understanding of why and how regulations can cause these problems for businesses.

- ⇒ Some regulations work well at first, but as times change, those same regulations may no longer be appropriate or work as well as they once did.
- ⇒ Some regulations go too far and deprive investors of the freedom to be innovative, take risks and make their own judgments.
- ⇒ Some regulations don't go far enough - this can result in poor health and safety standards, and environmental problems.
- ⇒ Some regulations are ill-conceived, often because the costs of complying with them have not been properly weighed against the benefits they generate.
- ⇒ Some regulations seek to protect business from "unfair competition" with the result that those businesses ultimately become non-competitive.
- ⇒ Some regulations are well designed and productive, but lose their impact because they are not enforced properly.
- ⇒ Some regulations could be helpful and facilitate business, but their productive potential is lost because no one knows about them.

Excessive or poor regulation harms small businesses the most, because they generally do not have the same level of resources to comply with them as larger firms. Also, small firms tend to rely heavily on their ability to be flexible and respond to unexpected changes in the market, for this gives them a competitive edge on larger firms. Over-regulation tends to reduce this flexibility.

Over-regulation also discourages informal enterprises from migrating into the formal sector. The higher the operating costs of formal businesses, the more difficult it is for micro and small-scale operators to graduate, and thus expand.

The problems created by excessive or poor regulation take the form of higher costs, wasted time and energy, restrictions on choice, inflexibility, stifling of initiative and missed opportunities. In short, they can lead to reduced investment, lower economic growth, higher unemployment and reduced standards of living.

Achieving a better regulatory environment for business through fewer, simpler, well thought out regulations which are limited in scope to what is truly necessary, and which are sensibly enforced, is what is necessary to address these constraints. The cost of doing business in Tanzania must be reduced significantly if the private sector is to survive, expand, employ more people and add more to the economy. "Better Regulation" is a low cost, high impact initiative, which can deliver the necessary results.

SOME PRIORITY AREAS FOR REFORM

1. Business Registration and Licensing

The necessity for business licensing reform in Tanzania has been extensively documented. All relevant studies have concluded that the requirement for and the administration of central and local government business licensing imposes high operating costs on businesses, and is a major constraint to the entry and operation of business at all levels. Costs arise directly, from the imposition of numerous levies and taxes, and indirectly, from complex bureaucratic procedures which divert productive energies to unproductive activities - filling in forms, generating and supplying information, standing in queues, traveling long distances to central registries and so on. Time that is taken up with regulatory issues cannot be used for directing the strategy and operations of an enterprise, and can lead to heavy opportunity costs.

International and regional experience shows that trade licensing at both central government and local authority level can be discontinued except in very exceptional circumstances where controls are essential, and be replaced where necessary, by a simple, non-approval based business registration system which is administered by local authorities through one-stop offices. This system will preserve the revenue generation function of licensing, which is essential to the delivery of local authority services, but not the control function. It will also suffice as a source of statistical data on the direction and trends of developments in the trade sector. Standards relating to health, safety, orderly trading and the environment ought to be enforced through urban planning and health regulations. It is believed that reform of central and local government business licensing in Tanzania along the lines proposed, would significantly reduce business operating costs, reduce enforcement and administration costs, and greatly enhance Tanzania's attractiveness to investors.

2. Simplification of Tax and Import/Export Clearance Procedures
Although income taxes have been simplified and lowered in recent years, the Tanzanian tax system has been identified as a major concern for investors. Administrative constraints in the Tanzanian tax system include the existence of numerous types of withholding taxes, unnecessarily burdensome reporting requirements, the practice of collecting taxes in advance, varying and contradictory interpretations of taxation requirements, harassment and intimidation by tax officials, and delayed refunds of VAT and duty drawbacks.

Import procedures are particularly important in Tanzania where most firms rely heavily on imported equipment and raw materials. Cumbersome customs procedures increase costs and delays for many operators. Examples are arbitrary inspections, and fee charges imposed by Port Authorities and Customs, inefficient pre-clearance procedures, delays in canceling bonds, delays in processing VAT refunds and complex documentation. Simplification of customs documentation and procedures is essential to the successful implementation of Government's commitment to trade facilitation. Most of these constraints and proposed solutions have been extensively documented - the challenge now is implementation.

3. Access to Finance
Perhaps the greatest barrier to the growth of small firms is their inability to access finance. Formal lending criteria is overly restrictive, due in part, to a lack of ability to realize registered securities, and small firms have very limited access to collateral. Currently, a study is underway to examine regulatory changes necessary to provide for proper realisation of securities. This should be complimented by other research which proposes solutions to constraints on money-lending contracts, and to constraints on the introduction of more diversified and flexible financial products such as hire purchase and asset leasing.

4. Access to Workspace
It has been recorded that the most serious start-up delay faced by investors in Tanzania occurs within the land acquisition and site development stage. This is notwithstanding the introduction of a new land policy and supporting legislation. It is also recognised however, that the process is fraught with political sensitivities, and complexities including a lack of transparency and accountability, a lack of coordination resulting in sumultaneous allocation of plots by both City and Ministry officials, and poor record-keeping, amongst other things. Given these difficulties, implementation activities should focus only on what is realistically achievable.

The “Better Regulation” initiative should concentrate on obtaining formal endorsement of the recommendations in the "The Tanzania Investor Roadmap", by agreeing a realistic plan and timeframe for implementation, by assisting in the preparation and publication of the guidelines, by commissioning the creation of the proposed database, and by initiating a process through which customary tenants can obtain assistance in formalising their occupation rights. In addition, it is likely that rent restriction regulations have a negative impact on the availability of leased workspace. These should be reviewed and amended where necessary.

5. Labour Laws which Constrain Operational Flexibility

Restrictive labour regulations make it difficult for employees to increase productivity levels, rationalise their operations to respond to changes in the market, and maximise their operating efficiency. However, whilst reforms in this area undoubtedly have a high impact on the competitiveness of businesses, it is important not to overlook the fact that political resistance to labour law reform is usually high. Efforts may need to be concentrated on lobbying for support, and preparing cost/benefit analyses showing the need for reform.

6. Commerce and Intellectual Property

The recently established Business Registration and Licensing Agency (BRELA) is responsible for administering company and business names regulations, business licensing and intellectual property laws. It has set itself the ambitious task of reviewing and recommending the improvement of all current legislation administered by the Agency by the end of the year 2000. This task is essential to the proper conduct of commercial activity in Tanzania, and to facilitating inward investment. BRELA does not however, have the capacity to carry out such a review itself and it is recommended the work be commissioned through the “Better Regulation” initiative. This however should take into consideration measures already initiated earlier by the parent Ministry, under the Trade Policy Formulation project, for undertaking the review and adjustment of laws and regulations directly underlying the trade regime such as the Business Licensing Act and others.

7. The Special Position of the Informal Sector

Historically deregulation has focused on lowering the burden of compliance for formal registered businesses, big and small. In Tanzania, where the trend towards increasing urbanization has led to a proliferation in informal and street trading, the challenge of achieving a better regulatory framework for business will also involve examining the special needs of this sector. Barriers to graduation must be treated as a priority area for reform so that a widening of the tax base can be achieved. This will not only involve removing and simplifying existing regulation, but also forging the introduction of appropriate regulation which achieves recognition of the informal sector as a component of the macro economy.

A JOINT COMMITMENT BY GOVERNMENT AND THE PRIVATE SECTOR

A better regulatory environment depends essentially on:

- ♦ an ability by the private sector to identify the changes it wishes to see implemented, to demand those changes from government, and to determine whether those changes are working; and
- ♦ an ability on government's part to coordinate and correctly prioritize the proposals for regulatory reform, to analyse the appropriateness and cost of them, to assess the impact of the proposed reforms on business, and ultimately to remove, improve and enforce laws.

For optimal impact, an improved regulatory environment for business must go hand in hand with the efficient and reliable delivery of commercial justice, through institutional reforms and judicial capacity building initiatives that will ensure the private sector has the ability to make and enforce commercial contracts.

ESSENTIAL COMPONENTS OF A "BETTER REGULATION" INITIATIVE

"Better Regulation" initiative has some essential components:

a) Research and Consultation

⇒ to identify regulatory constraints arising from the design, use of, absence of and enforcement or non-enforcement of regulations;

⇒ to develop regulatory or alternative solutions;

⇒ to find the appropriate enforcement mechanisms.

b) Information and Advocacy

⇒ information to entrepreneurs to achieve empowerment;

⇒ information to entrepreneurs to promote increased compliance;

⇒ information to enforcers to promote an understanding of the importance to the economy of even-handed and responsible enforcement practices - in order to achieve change on the ground;

⇒ information to regulators and policy makers to promote an understanding of the guiding principles and benefits to the economy of "better regulation," and to lower the risk of new laws and policies being promulgated which run counter to the "better regulation" objective;

⇒ advocacy to change attitudes towards the use of regulation, and to foster a continuing demand for a progressively more supportive regulatory environment.

c) Training and Capacity-building

Capacity-building within Government to enable it to:

⇒ coordinate proposals for law reform;

⇒ assess the appropriateness of those proposals;

⇒ assess the potential impact on business as well as other costs associated with proposed regulations, and propose alternatives to regulation;

⇒ fast-track review and revision of regulations;

⇒ develop better and more effective regulations, and consider alternatives to regulation;

⇒ achieve dedicated, even-handed and responsible enforcement;

⇒ monitor and measure the impact and effectiveness of changes;

⇒ change the enforcement/implementation focus from one of control and punishment to one of facilitating and assisting businesses to comply with regulations.

d) Capacity-building within private sector institutions to enable them to:

⇒ identify key issues to be addressed;

⇒ negotiate with government, (with effective representation from all levels of the private sector);

⇒ assess the potential impact on business of proposed regulations, and propose alternatives to regulation.

The capacity for and willingness by both the public and private sectors to engage in free and open dialogue concerning private sector development is crucial. The National Business Council provides such a forum. Strong political leadership (to cut across vested interests and overcome inertia) and key stakeholder commitment is necessary in order that the reforms become embedded. Coordination of initiatives is essential to avoid overlap and generate the synergy necessary to precipitate swift action by government. Appropriate donor collaboration which leads to multilateral support, and a level of flexibility and willingness to respond to local conditions is what will lead to optimum results.

EXISTING INITIATIVES

The Government, donors and the international community recognise that growth in domestic and foreign investment (which will lead to, among other things, a broadening of the nation's tax base) is severely constrained by the existing state of the regulatory environment, and that there is an urgent need to reform legislation, regulations and administrative practices touching on business activity. Although several donors and agencies are implementing initiatives in the area of regulatory reform for private sector development, these remain individual and largely uncoordinated efforts taking the form of specific projects.

a) Research and Consultation

Numerous existing reports identify constraining regulations, and contain proposals on how they should be amended. There are several ongoing initiatives addressing commercial laws, including a review of the Companies Ordinance, and review of insolvency and bankruptcy legislation. Other initiatives in the offing address trade laws under the aegis of the Ministry of Industry and Trade which are to be addressed under a project on Trade Policy formulation. Various donors have pledged support to the undertaking of additional work in this area.

b) *Information and Advocacy*

Various private sector organizations have committed to promoting broad-based awareness of free market and deregulation principles, and the importance of business to the economy. Whereas it is anticipated that this effort will be greatly enhanced through the National Business Council, it must be recognised that the ongoing promotion of a widespread demand for and commitment to improving the environment for business, is what will lead to actual change taking place on the ground.

c) *Training and Capacity-building*

Numerous pledges and commitments relating to capacity building to enhance civil service performance and delivery, have been made and received. Often the requirement has not been sufficiently well defined to generate focused initiatives with measurable impact indicators. While the necessity for capacity building specifically to improve the delivery of regulatory-related services has been recognised, a coordinated methodology has not yet been devised.

There is now a need to bring together, build on and implement all these initiatives, so that a better regulatory environment is actually delivered to business.

MODELS FOR COORDINATED IMPLEMENTATION OF BETTER REGULATION

Policy reforms (which ultimately translate into regulatory and administrative reforms,) require profound changes in habits and attitudes both in terms of what governments do and what people expect of governments. For "Better Regulation" to become embedded, it is necessary for Government to commit to this initiative at the highest level.

Prime responsibility for implementing an holistic, prioritised and coordinated programme of regulatory reform should lie with an independent body with strong links to Government, and which is accountable to a high level inter-ministerial body comprising the key ministries involved in private sector development.

An Implementation Support Unit with day to day responsibility for promoting and managing the programme and providing technical assistance on "Better Regulation" should also be established. The Implementation Support Unit would:

⇒ coordinate and commission research and proposals on improving the regulatory framework for business;

⇒ prioritise and technically assess existing and new proposals in terms of their appropriateness to Tanzania, their compliance with current government policy, their compliance with the principles of "good regulation," their impact on business and the costs of enforcement and administration;

⇒ provide advice and technical support to Board of Directors as outlined above, and prepare clear, concise memoranda for endorsement by individual ministries and ultimate submission to Cabinet and the Attorney General's Office;

⇒ provide advice and technical support to the Executive Council of the National Business Forum in taking forward the Council's decisions on regulatory and administrative reform;

⇒ coordinate proposals for, and commission capacity building and training for the improved delivery of regulatory related services;

⇒ conduct and commission advocacy and awareness-raising activities to promote a widespread understanding of and support for better regulation;

⇒ monitor the impact of awareness-raising activities and the implementation of changes to assess their effectiveness and to determine whether further change is necessary.

With these core criteria intact, there are a variety of models that would be suitable for the delivery of the Better Regulation initiative. Issues involved in the choice of such a model include its structure and location. Ongoing work on this aspect include the identification of suitable alternative locations and the nature and form of representation of all parties i.e. government, private sector and financing donor in the institution. There is ample experience available from countries in the region which have implemented a Better Regulation initiative and it is necessary that this experience is drawn upon to ensure conformity to best management practices in the course of implementing this project component. Detailed work is to be undertaken on these aspects, in collaboration with donors involved, as part of the process of finalizing preparations for project implementation in the post-pledging phase. Experience based on similar work undertaken in comparative environments in the region (Kenya, Uganda and Zimbabwe) points to an indicative cost of US$5 million for this Component. This component is the number one priority among all components of the Integrated Framework programme. More details are provided in Appendix A.1.

Tourism Department Analytical Capacity *(Estimated US$1,000,000).* The tourism sector has emerged as the leading growth sector with high large direct and indirect employment opportunities through its linkages with other sectors. It is currently experiencing an average annual growth rate of 15%. Actual tourist visitors in 1998 were 482,000 compared to prior projections of 401,000. This compares well with the low number of 153,000 visitors received in 1990 and 295,000 in

1995. The growing trend has stimulated considerable investment in the industry, in hotels, restaurant and ground services facilities. These have tended to be concentrated in the Northern and Coastal circuits while the Southern circuit remains relatively inaccessible and undeveloped.

Envisaged capacity building in the Department of Tourism and the Tanzania Tourist Board takes the perspective of establishing the ability for up-to-date data collection, analysis and utilisation in continuous policy alignment and implementation in a high growth industry where the facilitative decision making has to respond to the demands of a rapid growth industry.

A process of rapid growth in tourist arrivals places a heavy demand on the hospitality industry. There is no certainity that existing investments and ongoing development matches with growth expectations, and whether sector policies should encourage or discourage new investments or whether to adopt laissez-faire policies. Availability of data and its analysis is critical in the process of determination of the correct direction of sectoral policies and what policy packages should be adopted in stimulating development of facilities, raising awareness of visitors and stimulating interest in different domestic destinations. Neither the Department of Tourism, nor the Tanzania Tourism Board, have the capacity to collect and analyse the massive data pertaining to a rapid high growth industry in a timely fashion so as to initiate the correct decisions and suitable policy measures necessary to provide requisite support for enhanced private sector performance both at the SME and large scale level.

For instance, Tanzania has a total of 215 hotels, of different standards, country-wide, most of which are located in the Northern Tourist circuit and in Dar es Salaam. The existing hotel directory is a mere "shopping-list" without information on level and standard of services. There is need to classify these hotels on the basis of accepted industry criteria and produce brochures indicating the availability of different classes of hotels in the major tourist destinations and urban centres and make such information available at ports of entry. Constant review of standards in the industry would serve as pressure on management to maintain quality of services at an acceptable level. Apart from quality considerations, the current growth trend portends potential shortfall in hotel accommodation with unknown repercussions on future prospects. For instance, Kenya has 2,120 hotels, of which 232 are in the 1 to 5 star-rating category. Among the rated hotels, 32 are five-star hotels, 47 are four-star, and 50 are 3-star hotels. Available data indicates that with an average annual total of 950,000 visitors between 1990 and 1998, hotels in the Nairobi and Coastal zones recorded the highest room occupancy ranging between 60% and 70% p.a. compared to an average of 50% nation-wide. Occupancy rates are highest during the peak tourism season (October to March) each year accounting for about 70% of total annual demand.

This rudimentary analysis highlights possible emerging problems for Tanzania. As an extensive and aggressive tourism marketing campaign bears fruit, the number of visitors is rising dramatically and the volume and quality of ground services and in the hospitality industry has to cope. For instance, part of the emerging thinking in the industry is that a bottleneck in the hospitality industry would assist in the realisation of the objective of avoiding mass-tourism and focusing on low volume high quality tourism. Consider that Mauritius, a small island nation with an area of only 1,865 sq km, has successfully implemented a high quality tourism strategy and has been able to absorb and sustain an annual inflow of more than half a million visitors a year (558,000 tourists in 1998). Is Tanzania, with a total landmass of 945,000 sq. km., of which more than 20% is dedicated to a wide range of well-spread out tourism attractions, in real danger of being swamped by a million visitors in five to ten years time? Is this perception of danger justified? Perhaps the key does not lie in erecting benign administrative barriers but in better management practices and standards in the industry. What volume of ground services, hotel and catering services facilities does the nation need to match the rising demand without unnecessary disappointment to potential clients and the consequent negative publicity to future clients?

In the short run, there is the possibility of bringing about a sharp increase in high class hotel accommodation, through rapid divestiture and subsequent rehabilitation and expansion of run-down state owned hotels such as the Kilimanjaro Hotel in Dar es Salaam, Hotel Seventy Seven in Arusha and several lodges located in the national parks. In the medium and long-term, a lasting solution depends on the establishment of capacity to analyse data on levels of visitors to the different national parks and its implications in terms of sustainability and the realistic policies required to maintain such sustainability without discouraging visitors to highly popular destinations unnecessarily.

This capacity will assist through providing informed answers to pertinent questions. What is the maximum number of visitors that can be absorbed by the more popular destinations during the peak season and what incentives are necessary to promote visits to less popular destinations which may have less convenient facilities but has more attractions. What additional hotel and other hospitality industry facilities are necessary in the medium-term and what sector policies are necessary to stimulate such investments, before things get out of hand? What are the shopping and spending habits of tourism visitors and what are the experience of competing destinations with respect to tapping the sizeable disposable income of this group. How can the economy generate more employment and income through activities, other than curios and handicrafts, targeting the buying power of the tourist visitor?

These issues require the availability of reliable information, regarding the origin of different visitors, their point of entry into the country, their average duration of stay and spending preferences. It is information which has to be secured from the major tourist sources and within this country. The private sector has to be involved in such a process pro-actively at all stages from problem definition through to capacity building. This means that corresponding capacity is also required in the industry's private sector business associations. However, this is provided for in a separate programme for private sector development in the industry, being submitted as part of the Subsector Action Plans.

The capacity building component for the tourism sector is a set of activities spread over two years involving the engagemment of appropriate professionals and training of Tanzanian counterparts and acquisition of equipment. Additional project details are provided in Appendix A.3. Ongoing work includes a survey to collect the views of industry stakeholders from the perspective of private sector associations for use in drawing up component activities and action plans for the purpose of concrete budgeting and the process of negotiations with an interested supporter.

Strengthening of Quarantine Services Under the Ministry of Agriculture and Cooperative - MAC. *(Estimated US$700,000).* The central role of agriculture in economic activity has been highlighted under the Government strategies for export development. The need to protect the sector stems from this role.

Tanzania depends to a large extent on imports of seed to improve agricultural productivity, and substantial food imports to bridge domestic shortfalls. Such imports are associated with the high risks of introduction of dangerous pests (viruses, bacteria, fungi, nematodes, weeds and insects) that threaten agriculture and biodiversity. An efficient quarantine service is necessary to restrict or prohibit the importation of certain germplasm and agricultural commodities. Many current restrictions constitute challengeable trade barriers but have become unavoidable in the absence of adequate phytosanitary systems. The situation has become disparate given recent introduction, into Tanzania, of several serious quarantinable pests. The most damaging cases include: the large Grain Borer *(Prostephanus Truncatus)* a pest that attacks farm-stored maize and cassava; the Cassava mealybug; Black Sigatoka *(Mycosphaerella Musiocola)* a banana disease; Citrus Greening disease, Lethal Yellowing of coconuts and Bunchy Top disease of bananas.

There are also a number of imminent threats which will enventually prevail if the efficiency of quarantine services is not raised. These include the grape Ahpid Phyloxera vastastix, Blue mould of tobacco Perenospora tabacini, Blister blight Exobasidium vexans of tea and several others. From a different perspective, Tanzania's non-infested trading partners and neighbouring countries stand the risk of further spread of pests and certain fruitflies through exports from Tanzania.

Tanzania does have a National Plant Quarantine Service (NPQS) comprising of two sets of services: Phytosanitary Inspectorate Services and the Post Entry Quarantine Service. The efficiency of the NPQS is critical in facilitating smooth international trade, conformity to WTO Agreement on Sanitary and Phytosanitary issues and to assure trading partners of the freedom of agricultural produce from pests. The NPQS is already underpinned by an adequate institutional structure backed by a comprehensive policy and legal framework. However the service is handicapped by inadequate infrastructure and resources. The service comprises of 20 stations of which only a few are operating below standard. It is encumbered by lack of equipment, even at the major ports of entry such as Dar es Salaam and Kilimanjaro Airports, and Dar es Salaam and Tanga Ports. Other serious setbacks include the inability to operationalise a "Post Entry Quarantine Service" facility at Arusha, and to undertake staff training necessary to enhance performance.

The project addresses all these concerns through activities aiming at capacity building through technical training and consultancy services, provision of necessary equipment and facilities and creation of public awareness. More details on project activities and costs are given in Annex A.4.

Establishment of a Model Private Sector Exporting Company (Trading House). *(Estimated US$1,000,000).* In the 1980s and 1990s both developed industrialised countries (Canada and Israel) and developing countries (The Phillipines and India) have used the Exporting Company concept as a tool for stimulation of SMEs exports. All four countries established a model public owned Exporting Company to stimulate the development of private sector companies.

The EC concept is based on the establishment of a public or private company specializing on the export of manufactured or agricultural goods produced by SMEs or individual entrepreneurs. The EC, by combining the products of many SMEs, overcomes the constraint of economies of scale and absorbs the high costs involved in exporting through spreading them across its many suppliers. The EC can operate on the basis of two options: holding title over the exported goods, or leaving ownership in the hands of the SME and merely facilitating the export process by use of its name, resources, marketing channels and contacts. In both instances, payment to the SME is made after export orders have been paid for and subject to the EC retaining a small percentage to cover its costs and margins (as low as 5% in the Canadian case). In general, public ECs do not aim at profit making and their margins are necessary to recover costs and continue the supportive role. However, private ECs have to earn a reasonable profit margin.

Of the four cases, probably the Israeli and Philippines cases have useful lessons for Tanzania. The Israeli case is a good example of the usefulness of this tool in the exporting of fresh agricultural produce particularly in the initial stages when there is need to consolidate the output of many smallholders to ensure adequate and constant supplies. Israel has been highly successful in using the EC vehicle to facilitate the export of fresh produce through a public company, "Agrexco Ltd." Agrexco, established in 1956, has built a powerful and well known brand name "Carmel" used to market agricultural products ranging from fresh fruits and flowers to poultry and fish. Agrexco is acknowledged to be responsible for the popularization of the "avocado" as an exotic fruit in the EU market. By 1995 Agrexco Ltd had 400 employees, a network of 11 offices overseas, and a turnover of US$650 million, equivalent to 84% of Israel's total agricultural exports.

The Phillipines International Trading Corporation (PITC) was established in 1972 with a paid up capital of pesos 20 million. Today it has registered successful operations in the export of SME manufactured goods, particularly apparel, furniture, furnishings, processed foods and domestic appliances. In 1996 it registered a turnover of 4 billion pesos and has set up a fund of 10 million pesos for the provision of collateral-free export financing for SMEs. Kenya has a large number of private sector ECs involved in the collection and export of fresh produce, particularly, vegetables, fruits and cut flowers.

Adoption of the EC concept in the Tanzanian context rests on the establishment of a pioneer model company to facilitate the export of SME manufactured goods and non-traditional and agricultural products both fresh and processed. The project involves enabling the National Development Corporation (NDC), the industrial and commercial development arm of the Government, undertake the commissioning and implementation of a feasibility review on the viability of a public or private sector EC and promoting the idea amongst private sector investors who are to be the majority owners and risk bearers at the implementation stage.

The coverage of the feasibility should include the ideal location of the EC operational base, products to be handled initially and requisite resources and facilities. The project study should also identify the ideal ownership pattern of the EC, solely public or private or a combination of the two and the best management structure and practices. This component may, ideally include a provision for limited initial financial support for capitalisation purposes, on venture capital basis, as an incentive to attract serious private sector participation. The venture capital approach also implies provision of technical expertese with a say and veto on management decisions as long as the initial capital support is in place. Eventually such capital could be withdrawn through releasing the shareholding involved to the private sector, a feasible action once the company finds a stable footing.

The rationale behind this project component, is the need to come up with an answer to the problem of high default rates on export financing schemes which are collateral-free such as the export credit guarantee scheme. It is noted that the wilfull default syndrome is particularly prevalent amongst urban based SMEs. Under present drucmstances, extension of collateral-free financing to this sector is necessary but an activity prone to exceedingly high risks. The need for alternatives highlights the potential of the EC as a viable option. The EC also stands to play a crucial role in facilitating exports originating from rural activities, where, inspite of a relatively more acceptable repayment trend, there is the need to consolidate the output of many small producers into quantities that meet economies of scale requirements in the export market. The EC is exceptionally suited to this role. More details in Annex A.5.

BET Restructuring and The Export Development Council (EDC): (*Estimated cost US$ 700,000).* The Board of External Trade (BET) is perceived as a rather unpopular institution on account of a persistent but misconceived placement of the blame for the non-performance of the export sector on its shoulders. The predicament of BET's situation stems largely from the structure and mandate of BET in the context of lack of authority to coordinate and oversee the implementation of decisions across the productive sectors to match with the accountability emerging from salient expectations. The situation is compounded by lack of resources to undertake frequent researches on product development and marketing of Tanzanian products in emerging export markets and a platform to facilitate the dissemination and implementation of the results of such researches.

The higher efficacy of an EDC in comparison to BET as a traditional export promotion organization (EPO) lies in the mandate and constituency of the former. The EDC's mandate focuses on: (i) provision of the active links between producers and exporters and taking initiatives to remove prevailing bottlenecks in the entire supply chain of export goods and services as the key to increasing exports; (ii) provision of active links to decision making institutions to facilitate rapid policy responses to the demands of the export market; (iii) promotion of an "export culture" based on cultivation of national consensus on export-led growth. Towards this end, the Council is constituted by a majority of private sector representation and works closely with relevant public and private sector bodies in coordinating and harmonizing export development and promotion activities among all stakeholders.

To the contrary BET's current mandate includes advising on export policy, documentation and dissemination of information pertaining to export trade, advising on recruitment of local and foreign consultants, formulation and advise on projects to expand trade, and coordination and supervision of participation in trade fairs. BET's mandate involves strong links to the market but weak links to the supply side operators and no direct contact with sectoral policy initiating and implementing ministries.

One of the strengths of the Council rests in its structure. In addressing the weaknesses of EPOs, the Council is normally registered as a company limited by guarantee and having no share capital. It operates independently but receives financial and logistical support from the Government. Members of the Council are normally senior executives drawn from the private and public sectors, with the majority drawn from the private sector enterprises or associations with strong links to export. Government representatives on the Council would include the Governor of the Central Bank and Permanent Secretaries in the Ministries of Finance, Industry and Commerce, Agriculture and the Planning Commission.

Council operational modalities include use of sectoral panels to identify and analyse constraints to priority export products or sub-sectors and making recommendations for their mitigation. The Council directly addresses issues pertaining to increasing exports, quality, value-adding, timeliness in delivery, improved packaging, competitiveness in prices and quality and market diversification. These are attained through a mandate focusing on: export market development; management of a trade information delivery system; product development and adaptation; trade policy implementation and facilitation; and the development of exporting skills. **Component implementation should take into consideration the 1995 report by Yoshio Sugitomo on "The Natinal Export Promotion Council – A Project to Establish a Powerful Export Promotion Formation in Tanzania" and the 1996 EDS report**.

To strengthen BET's Trade Information dissemination capacity, the larger part of the budget line for this project should go to financing for the improvement and modernization of the current electronic Trade Information Services (TIS) and to training needs to reorient BET personnel on the demands and needs of an efficient Secretariat for an EDC. The TIS essentially offers business information and support services to the private sector through a wide product range which includes: trade and market data; road maps for investors and exports;

guides to export procedures and documentation; information on business support services; economic data; country information; data on professional organizations including service providers; sources of raw materials; quality standards; legal issues and business counselling. The TIS is part of the necessary link between the productive sector and the export market. A highly effective mode of training is short-term attachment to successful EDCs such as those in Kenya and Mauritius, or the secondment of personnel from the experienced unit to the new institution. For instance, the Kenyan Export Promotion Council adopted the approach of attaching their personnel to the Mauritius counterpart while Namibia and Botswana have opted for secondment of the CEO and Deputy CEO of the Mauritius authority for long duration contracts so that they can assist in setting up national Export Development Councils. More details including the structure of the EDC are presented in Annex A.6.

4.D.2 Private Sector Advocacy and Delivery for Exporting (Support to Sector Business Associations).

Support to Sector Business Associations – SSBA *(Project Cost US$ 2 million).* This component aims at building institutional capacity for the advocacy function and for active participation in export facilitation within national and sectoral business associations, thereby contributing directly to private sector development. Associations with a national outreach and functional mandate include the Tanzania Exports Association (TANEXA) and the Tanzania Private Sector Foundation (TPSF). Sectoral associations include the Confederation of Tanzania Industry (CTI), the Tanzania Chamber of Industry and Commerce (TCCIA), the Tanzania Chamber of Mines (TCM). In the agricultural sector initiatives are underway to establish a Chamber of Agriculture incoroproting a number of sub-sector associations. There are also a number of sub-sector associations in the tourism industry with no sector wide co-ordinating body. In the islands, there is the Zanzibar Chamber of Commerce and Industry.

Several capacity building projects have been implemented or are under way in some of the associations, particularly TPSF, TCCIA and CTI. However there are several associations at the sub-sector, sector and national levels, which are still in the formative stages and need to be nurtured and motivated towards self-organization and consolidation. For instance the need for systematic organization and consolidation is pressing in the tourism sector, with eight independent sub-sector associations many of which are inactive. The mining industry is served by two business associations. There is the Chamber of Mines serving the interests of large and medium scale investors and a separate association for the amorphous small-scale mining sub-sector. The former is well organized and quite effective. Finally, the Tanzania Exporters Association (TANEXA) is still a fledging institution without a formal office and regular staffing.

Strong sector associations are particularly useful in advocacy on policy issues and inputs, promotion of productivity and competitiveness in their sectors, arbitration of disputes between members, and market safeguards through the administration of codes of conduct or guidelines on standards.

The SSBA particularly needs to reach out to the agriculture sector, where the envisaged Chamber of Agriculture is yet to be registered. Its development, taking into consideration the size and structure of the sector, and wide range of activities involved are indicators of the onerous tasks that lie ahead. The key for effectiveness lies in the establishment of strong specialized sub-sector associations to constitute the core membership of the Chamber, rather than going for membership of individual investors or farmers, firms and enterprises. No information is available on the strategy the initiators have adopted.

Ultimately the SSBA would kick-start the emergence of service-oriented sub-sector and sector associations, based on groups of firms, enterprises and individuals engaged in similar activities, primarily in manufacturing, mining, the services and agriculture, and the strengthening and consolidation of existing ones.

SSBA would be managed by an Administrator supported under the project. At the sectoral level, the Administrator would assist existing associations in, for instance, the preparation of technical and marketing programs which aim to improve the competitiveness and productivity of member firms through: (i) "hand-holding" support in developing and designing association business plans aimed at engendering the internal capacity to initiate self-strengthening programs (ii) provision of financial support for a short period (say of 6 months) to cover the costs of a subsector asssociation staff person specialized in the concerns of the relevant subsector; and (iii) provision of 25:75 matching grants (25% by participating firms or associations and 75% by the project) provision of opportunities for key association staff to visit counterpart associations in similar environments, particularly neighbouring countries and other successful economies, to learn from their experience on first hand basis. Matching grants can be shared across several sub-sectors operating in the same sector. The choise of a specific instrument would depend on the needs of specific sectors to be determined through a survey to be undertaken by the SSBA administrator.

At the national level the objective is to identify assistance required to make TANEXA an effective national private sector association focusing on exports and its relationships with sectoral associations and other national associations and use of their networks to facilitate regional outreach. TANEXA is weak, has no staff or working facilities and depends on the volunteer spirit. The project includes a component to facilitate TANEXA establish working facilities. Project implementation would also include determination of the specific role of TPSF, its links to TANEXA and what kind and magnitude of assistance should go to TPSF in the context of ongoing capacity projects, its primary mandate and role and the need to avoid duplicity and overstretching of resources.

The SSBA is a catalyst, demonstrating to the private sector, the benefits of strong productivity oriented associations as a means of encouraging internal movement towards consolidation at the sector level. An ideal scheme would last for up to 3 years. The SSBA Administrator would work in liaison with the Focal Point during the component's lifetime. A more detailed presentation on the SSBF is presented in Annex B.1.

4.D.3 Export Processing Zone – Phase I Infrastructure and Management Costs *(US$16.8 million)*

The advantages of establishing an EPZ as a tool for attracting investments into highly competitive industrial sub-sectors and as a tool for penetrating equally competitive export markets has been proven beyond doubt. Today this tool is being employed in 85 countries world wide and the level of competition between different EPZs has reached a high level of intensity. Yet new zones can be attractive on the basis of unique attributes, apart from the tax-free facilities, such as access to resources which may not be easily accessible in competing environments.

A feasibility study for the development of a model, public owned EPZ was prepared and submitted by M/s Louis Berger International, Inc, in June 1997. The Government has since approved its establishment and measures to enact requisite legislation are underway. The model zone will be located in Dar es Salaam on a 19-acre plot of land adjacent to the harbour. The total investment cost including initial management costs amount to US$28 million. The consultants recommended a two-phase implementation in the event a funding constraint with phase I requiring outlays of US$13.8 million for infrastructural set-up and US$ 3 million to cover initial management costs.

The Government's position is to use the Dar es Salaam EPZ and its envisaged success to attract private sector investment in the establishment of other zones. It is unlikely that private sector investment would flow into this sub-sector without such enticement. Specific industries to be given priority in the EPZ would depend on response to marketing for investors to be undertaken once the project is under implementation. However, the experience from well-established zones is that the textile and garments, leather goods and gemstones are industrial sub-sectors particularly suited to EPZ-based activities. Other industrial products that attract investment in an EPZ environment include furniture, food and fresh produce processing (fruits, vegetables and flowers), coffee and tea processing and packaging, and processing of marine products. Tanzania can use the concept to promote investment in these areas taking advantage of the underlying input resource base, easy access to infrastructure and supporting services, and the tax-free advantages. More information is given in Annex B.2.

4.D.4 Technology Diffusion and Competitiveness Fund Component.

(Total of US$ 5 million for two sub-components)

The objective of this component is to build private sector capacity for improved productivity and export competitiveness. The project addresses weaknesses internal to enterprises, those cutting across enterprises at the subsectoral level and those faced by firms contemplating the export market, through two elements with a total cost of US$5 million: (i) Technology Diffusion and Competitiveness Fund (TDCF) with a cost of US$4 million; and (ii) Export Catalysts Matchmaking Scheme (ECMS), with a cost of US$1 million.

The Technology Diffusion and Competitiveness Fund – TCDF *(Project Cost US$4 million)*. The TCDF aims at mitigating production capacity constraints by tackling problems related to technical know-how in all stages of the production cycle through a matching grant scheme facilitating the provision of technical expertese in identifying problems and finding solutions. Activities covered range from diagnostic analysis of businesses, management systems design and installation, product design and modification, marketing, productivity and skills training. The outcome is enhanced capacity for competitiveness on the basis of price, quality and delivery schedules.

TCDF is a cost-sharing grant scheme to motivate firms to seek professional technical advice in addressing issues. Financing is partially facilitated through matching grants supported by this project on a 50:50 cost-sharing basis with private firms. This support enables firms to acquire the skills, know-how, information and contacts needed to establish a precence in the export market and gradually expand exports. The scheme also provides for travelling by key personnel to enable firms draw up realistic exporting strategies including identification and selection of market niches and establishing contacts with export outlets. Cost-sharing grants are provided on the basis of a plan prepared by the firm in accordance with guidelines and criteria given under the Manual of Policies and Operational Procedures (see Annex B.3). The guidelines also include criteria for selection of service providers.

Available experience (Uganda and Mauritius) indicates that a maximum grant of US$30,000 per project is reasonable, with individual firms being eligible to submit a maximum number of projects that are allowed an upper ceiling of US$90,000. Each project may involve up to 6 months (183 mandays) of inputs spread over a maximum period of 18 months.

The scheme is expected to benefit up to 300 clients. A list of potential beneficiaries is being drawn up and will be finalised as part of the project management information system.

The TCDF will be overseen by a Supervision Committee guiding day to day operations vested in a Project Management Unit, staffed by a management contractor, who has adequate international experience. The contractor's selection will be based on a competitive bidding system. The management contractor also appoints a professional back-up team to provide support in designing and implementing a suitable management information system, application procedures and a reporting format. The Unit also provides hands-on support to the beneficiaries. In short the core function of the management unit is to ensure the achievement of the objectives of the scheme in its totality.

The management contractor is normally appointed by the national contracting authority in cooperation with related Government institutions and representatives of the financier(s). In Tanzania's case the contracting authority is the Ministry of Finance (MOF) while related institutions include the Prime Minister's Office (PMO), the Planning Commission (PLANCOM), and Ministry of Industry and Trade (MIT). The private sector would also be represented through a suitable national association and the sectoral association whose members are considered to comprise of the majority of project beneficiaries. Representatives from other organisations can be co-opted depending on need. Ideally the Supervision Committee should be chaired by the Permanent Secretary, MIT.

Mauritius, Uganda and Zimbabwe are implementing similar projects, with Mauritius going through its third technology diffusion project over the past five years. In the Mauritius case the Ministry of Industry and Trade has been the implementing agency, chairing the Supervision Committee and providing the location for the management unit and secretarial services for the Steering Committee. In Zimbabwe the implementing agency has been Zim-Trade, a parastatal while in Uganda implementation has been vested under the Private Sector Foundation.

In the Tanzanian case, the management contractor can be hosted at the IF focal point (within MIT) or by the National Development Corporation (NDC). Alternatively, a private sector association with an acceptable national outlook such as the Tanzania Private Sector Foundation (TPSF), following internally induced restructuring initiatives is now a suitable candidate as a host institution. It is important to note that the management of the host institution has no direct influence on the project management contractor, and that accountability is linked directly to the Supervision Committee. Choice of the TPSF would contribute to its development if the component would include a sub-element of support for capacity building in areas to be identified.

Given the extraordinary weaknesses inherent in most domestic-private sector owned enterprises in Tanzania, it would not be realistic, initially to focus solely on enterprises with an exporting element. It would be more prudent to include enterprises which produce for the domestic market, but may have future export potential. This was the approach adopted in the Ugandan BUDS (Business Uganda Development Scheme) case. Available information reveals that the few industrial sector enterprises divested to members of the domestic private sector are in bad shape and urgently require professional technical advise in determining the ideal direction of future development and how best to raise the necessary resources, including bringing in new owners. The private sector does not have, in-house, the requisite resources for international partnering and joint ventures. The TCDF will provide the necessary incentive for ailing domestic sector firms to raise sorely needed resources through professional consultancy services. The project would last for a period of four years. A more detailed description is made in Annex B.3

Export Catalyst Matchmaking Scheme – ECMS: *(Project Cost US$1 million).* A matchmaking catalystic scheme is the ideal tool for the stimulation of exports in an environment where a protected market environment has curtailed initiatives for export orientiation and firms are forced to rapidly rise up a steep learning curve involved in the initial venturing into the export market. The scheme mitigates the prohibitive costs and knowledge build-up required by facilitating export-oriented enterprise collaboration between local SMEs and foreign partners through a private matchmaking scheme. Foreign partners would bring in a package of external market access and production know-how with or without investment finance. The facility would provide matching grant support as one efffective way to deal with local partners' lack of: (i) access to the external market network and market information for export products; (ii) access to exportable production know-how; and (iii) access to information on sources of inputs for diversified product portfolio necessary for the realisation of the collaborative scheme. The scheme offers an opportunity for local firm's immediate entry into the world market and an opportunity for skills acquisition in a practical manner.

A private match-maker would identify foreign collaborators through brokerage of information on business opportunities in Tanzania and link the willing foreign firms to local candidates. The matchmaker's fee is linked to the culmination of a collaboration contract which is performance based. Match-making fee payments are normally borne by: (i) the Matchmaking Fund (50% of the initial installment); (ii) the foreign partner (25% of the initial installment); and (iii) the local exporter (25% of the initial installment). Installments are based on the contract value and implementation stages. Operational details are provided in ANNEX A on Guidelines.

Funding would also be provided to support the costs of establishing an initial contact betweeen the matchmaker, foreign collaborator and local partner. The facility would be managed by a Matchmaking Management Contractor, with input and support from a Technical Adviser. It is noted that a number of similar schemes targeting a few individual firms in Tanzania have been successfully implemented through the support of several bilateral bilateral donors. The application of this technique has not been widespread ostensibly because of the limitations arising from the size of the modern private sector. However, the divestiture of SOEs has substantially changed this picture and there is bound to be a higher demand for this scheme in future. Appendix B.4 provides more details on the scheme.

4.D.5 Export Finance and Guarantee Scheme *(US$3,000,000).*

A number of export financing and export credit guarantee schemes have been run in Tanzania but have been discontinued over time due to operational problems. Export financing schemes include the "Seed Capital Revolving Scheme" financed by Sida and launched in 1984 and de-operationalized in 1998. The Bank of Tanzania also operated an Export Credit Guarantee Scheme (ECGS) which was discontinued in the late 1990s. The ECGS was a collateral-free export financing scheme, under which lending banks could recover up to 85% of irrecoverable export financing loans. Finally there is a Duty Draw Back Scheme characterised by excessive delays in claim processing and repayments. This scheme is currently being reviewed by an IFM team.

The most recent scheme, whose operations has been stalled for the time being due to the problem of wilfull default is an Export Revolving Fund, with an outlay of US$200,000. Financed by the one of the bilateral donors, the fund was launched in January 1999. Its objective is to finance the exporting costs of SMEs involved in the handicrafts and horticultural sub-sectors. A loan ceiling of US$5,000 was set for handicraft exporters and US$10,000 for horticultural exports. The facility provided highly concessional loans at the nominal interest rate of 4% without collateral, with full repayment within a six month period. The only basic requirement was the submission of acceptable evidence on production activities supported by the vouching and reference of a private sector business association in which the applicant is a member. As of today the recovery rate is zero while all 31 current recipients were supposed to have amortized the full amount. All 31 beneficiaries were referenced by two business sector associations.

The evidence from this experience, reiterates the daunting problem of high default rates on collateral-free loan schemes in Tanzania. This was the reason behind the discontinuation of the Export Guarantee Scheme by the

BOT. An agricultural input fund run by the Ministry of Agriculture and Cooperatives has suffered a similar fate. Still yet, the CRDB is facing severe difficulties in recovering the bulk of its 1999 loan portfolio. However, the experience from the National Enterpreneurs Development Fund (1994-97 operations) shows that loans to the informal and micro size enterprises recorded a more encouraging recovery ratio of about 70%. The difference of 30% is accounted for by a combination of business failure and wilfull default. On the other hand, evidence from data on rural lending activities by NGOs reveals an even higher and acceptable rate of recovery in that setting, where loans tend to be smaller and recipients many.

Three inferences can be drawn from this unfortunate scenario: (i) financing to urban based SMEs, and rural based MEs, whether to fund production or to finance the activity of actual exporting, has to be based on tangible collateral; (ii) financing for micro enterprises, in both rural and urban settings, can be channeled through collateral-free schemes subject best management practices; and (iii) there is urgent need for review of key legislation involved in the credit system, such as the Land Act and bankruptcy laws as part of measures to speed up the process of building a culture of business integrity and respect for the credit system. There is no hope of building a vibrant private sector without an efficient credit system and Tanzania can build such a system with the introduction of adequate measures.

The low **"credit morality"** propensity in Tanzania and the need to cultivate a normal **"credit culture"** does not mean that "IF" program aspects dependent on credit financing should be abandoned. Wilfull default can be discouraged through adoption of best management practices in administering loan schemes. Specific examples of such practices include collateral-based lending and use of peer pressure based on group lending. Peer pressure involves the stigmatization of default within the borrowing group and potential loss of face through recourse to legal action. Likewise, peer pressure and legal sanctions can be brought to bear on sector business associations which vouch for defaulting borrowers. More publicity of the impressive recovery record on rural lending also provides a more positive approach to promoting higher ethical standards in commercial borrowing. Finally an alternative approach to the whole problem of lending for the purpose of export financing is adoption of the alternative of promoting market linkages through promoting the emergence of a private sector Exporting Company or Trading House to facilitate the export of SME manufactured goods and fresh produce.

To reduce further the high-risk of default in export financing to the modern sector, the adopted scheme can be financed jointly by donors and a Commercial Bank willing to share in risk taking. Under this strategy the financial institution assumes ownership of the facility thereby spreading and minimising the high risk of default. Management practices become more exacting where ownership is internal to the finacial intermediary. The choice of administering financial institution can be based on the willingness to share risks and through a competitive selection system. Further guidelines and details are available in Appendix C.

4.D.6 Production Capacity Development and Market Linkage Strategies for Priority Sub-sectors. *(Total of US$7 million for four sub-components)*

The estimated outlays for this component have jumped from an initial figure of US$ 0.5 million to the indicative figure of US$7 million. The initial idea behind the sub-sector strategies and studies review component was to chart out action plans that would facilitate identification of measures required to increase exports. Virtually all the studies prepared by the ITC for BET over several years have focused on the existence of potential export markets, and market entry strategies. The studies also looked at the supply side aspect and in most instances called for putting in place extensive sub-sectoral policies to stimulate production, an issue well above BET's mandate and capability. BET's current mandate does not include an avenue to initate action in the sectoral ministries without whose active co-operation the required policies and implementing institutions and mechanism for stimulating supply side development would not take place.

Requisite action on the 13 sub-sector reports is the initiation of supply measures covering the full supply chain by responsible sectoral authorities, complemented by BET's promotional efforts on the marketing side. Under the circumstances, this component has been revised to reflect the realities of the findings from the desk and field research, undertaken both in Tanzania and in neighbouring countries. Four resulting project components have been given priority and included in the IF programme: development of horticultural exports; establishment of a lapidary industry; and export orientation of the textiles, leather and garments industries; and training for the Tourism industry. Additional details for all four components are given in Annex B.5.

Export Development and Promotion of Horticultural Products. *(US$1.8 million).* The horticultural export industry or sub-sector comprises fresh vegetables, fruits and cut flowers. In practice the production of vegetables and fruits is amenable to and usually dominated by smallholders. On the other hand flower-farming is undertaken in the open or in green houses with the latter requiring large fixed investment outlays hence its confinement to medium and large scale producers. Capital investments in sophisticated green houses can be as high as US$600,000 per hectare. Available information indicates the EU market which provides the best opportunity for LDC horticultural exports is already glutted with imported vegetables and that the best opportunity for new entrants is in the area of cut flowers (roses) and tropical fruits. From the perspective of poverty alleviation through trade the real LDC potential is in the area of vegetable and fruit production which are amenable to small holder outgrower schemes. Nevertheless even the flower industry has a high potential for poverty alleviation through generation of employment.

Developments in the 1990s have seen the emergence of horticulture as a strong export sector, providing new opportunites for agricultural diversification, and acting as a source of high income to poor rural communities. Possibilities of multiple vegetable harvests a year based on cultivation of relatively small plots of land, and fruit production through intercropping, combined with relatively high and stable prices in the export market have been a strong incentive to increased production. It is a sector that is also suited to the involvement of disadvantaged members of society particularly women and youth. It provides an enormous opportunity for the stimulation of higher export earnings, employment generation in rural areas, and dramatic poverty alleviation.

The Tanzanian horticultural sector comprises extensive production for the domestic market, with very little development in terms of targetting the export market. There has been very little government support to the sector and most efforts have been limited to individual entrepreneurs. Even NGO activity financed by bilateral donors has targeted the domestic market only. Tanzanian horticultural exports have been confined to a small group of cut-flower producers (six producers in 1997 with a total acreage of 61 hectares). There is an equally small group of fresh fruit exporters. There are no known vegetable exports. Efforts to establish private sector production of pineapples for export were successful in the early 1990s but subsequently petered out on account of lack of technical support and extension services on suitable agronomy practices. It is reported that one of the leading pineapple farmers has made recourse to **"shifting cultivation"** by abandoning the initial farm on account of problems of diseases and is establishing a new one on virgin land to circumvent the problem. Other fruits export include oranges and avocados, normally exported through Kenya. There are reports of development of mango farms for export in the Dar es Salaam and Kibaha region. Data on export quantities is available for cut-flowers only with estimated (but unconfirmed) annual export earnings of US$30 million in 1997.

Data from Kenya reveals that measures taken in the 1970s to develop smallholder production raised export earnings to the peak level of US$ 150 million by 1998 of which 43% (US$64 million) comprised of vegetable exports from smallholder growings and 9% comprised of fruits. In comparison, Tanzania's leading export earner, coffee, earned US$115 in 1998, and peak production throughout the 1990s was US$142 million achieved in 1995. Kenyan production of fruits and vegetables is largely undertaken by smallholders numbering 1,800,000. Acreage data for 1997, shows that 91,297 hectares were under vegetable cultivation compared to 131,262 hectares under fruits and only 1,610 under flower cultivation. The potential of this subsector in terms of export trade, employment and poverty alleviation is enormous.

Efforts which have made Kenya transformation possible include the formulation of specific policies, the establishment of a public sector institution and private sector associations to implement those policies, support and facilitate private sector development, especially at the level of informal individual and household units. The development programme includes extensive organization of farmers in registered groups and the provision of regular training and extension services through the individual groups. Extension services cover the whole production and supply chain, from provision of seeds and other inputs, training on agronomy including provision and application of pesticides, and most important of all, constant monitoring and physical supervision of the actual process of harvesting, packing, handling and delivery to established rural collection centres. Other services include the establishment of cheap but effective cooling facilities in collection centres, constructed from local materials, called **"charcoal coolers."** Finally packing and delivery norms include quality testing, packaging and labelling to ensure traceability in case of marketing problems; and promotion and guidance of contractual relations between producers and exporters to ensure fair farmgate pricing and payments.

Countries in the region which have successfully embarked on the development of this sector, including Zambia, Zimbabwe and Malawi, have learned extensively from the Kenyan experience. Another substantial exporter of vegetables is Ethiopia and several countries in West Africa.

The systematic development of the horticultural subsector in Tanzania depends on the formulation and adoption of suitable and realistic policies including the establishment of a Horticultural Development Council to undertake the development function. The experience of Zimbabwe in this regard would be most useful in terms of the structure of the Council which is essentially a public-private sector body.

Potential strategies include the establishment of three or more smallholder development pilot schemes for demonstration purposes and the establishment of the initial market entry vehicle. Ideally separate schemes can be developed, at least one each being dedicated to vegetable farming, fruit and cut-flower growing. Vegetables which can be covered by the programme should be those known to have a ready market in the developed countries including the EU, South Africa and Australia i.e.

grean beans (french beans, runner beans and bobby beans), peas (snow peas and snap peas) and okra. Fruits with a ready market are mangoes, avocadoes, passions, pineapples and bananas.

Another popular destination for tropical fruits includes the Middle East. It will be important to identify the specific fruit strands and varieties popular in specific target market. There is a very substantial market potential for Asian vegetables but it would be best to focus on products which have a wider known market and diversify into other products and markets following the success of initial schemes and popularization of the activity amongst the rural communities in pilot scheme areas and subsequent expansion into non-pilot scheme locations. It is important to avoid overstretching resources initially by starting small and allowing the scheme to expand naturally through the demonstration effect strategy.

The pilot scheme vehicle can be a large farmer operating in close proximity to an initial small-holder scheme of outgrowers, a well-cordinated independent outgrower scheme with resources for marketing. An Exporting Company based on the Israeli experience (see Exporting Company component) is a potential alternative. A production development strategy will have to include the organization of initial smallholder participants into a network of core groups of about 50 people each and establishment of a network of training and extension services scheme to each group. But most important of all is the provision of modern seeds, pesticides and other inputs, possibly on a loaning scheme. Even more important initially is hands-on management including close monitoring and physical supervision during the harvesting, and the need to make the scheme a private-sector led initiative from the beginning.

There is a wide-held misconception that the horticulture farming industry has to be supported by a network of modern cooling facilities in each rural collection or receiving centre. For more than 20 years Kenyan exports have relied on a rudimentary system of "charcoal coolers" constructed from local materials in collection centres which can keep fruits and vegetables in stable conditions for up to three days. Modern cooling facilities have been in place at the ports of exit (Nairobi and Mombasa airports). It is only in 1996 that Kenya started implementing a project for the construction and installation of modern cooling facilities in seven centres spread country-wide. The Kenyan experience is invaluable in terms of starting with a modest pilot scheme and keeping expenditures to bare minimum. Study visits for project promoters, staff and even initial outgrowers destined to serve as demonstration agents can be organized to visit Kenyan production systems and facilities.

The objective of the underlying concept is to facilitate the take-off of pilot schemes especially for vegetables and fruits. The pilot schemes can be implemented through donor assistance based on land clearly demarcated for this purpose by the government on the basis of experience emerging from the Tanga Diary Scheme financed by the Netherlands Government or other schemes such as the Japanese rice scheme in Kilimanjaro and World Bank financed projects elsewhere.

The location of initial pilot schemes should be based on three criteria: (i) suitable climate and access to adequate water for irrigation purposes, preferably based on traditional irrigation practices; (ii) proximity to an international airport (Dar es Salaam, Kilimanjaro and Mwanza) to minimize delivery costs at the initial stage when quantities will be small; and (iii) the proven potential to get a minimum quantum of outgrowers necessary to make the pilot sector project meaningful. In this regard the involvement of NGOs with local experience would be useful.

Estimated costs for each pilot scheme is US$600,000 leading to a total of US$1,800,000 for three pilot schemes. Appendix B.5 presents further details on the envisaged scheme.

Development of Lapidary Industry (Export Development of Gemstones). (*US$ 3.0 million).* Tanzania has the occurrence of a wide variety of gemstones, including tanzanite, diamond, ruby, sapphire, emerald, alexandrite, garnets, beryl and tourmaline. Commercial mining started in 1905, reaching substantial levels in the 1970s, before experiencing a sharp decline consequent to nationalisation of mining activities. The economic reforms initiated in the mid 1980s has led to the recovery of the industry. Today the potential contribution of gemstones to export earnings and government revenue should be much higher if a solution can be found to the problem of smuggling. Indirect estimates indicate that roughstone gemstone production in Tanzania may be in the order of US$500 million, of which only 25% is exported officially, at undervalued terms that may range between 10% to 50% of the real rate of return. The bulk of Tanzanian gemstones are processed in Jaipur, India and Thailand. Apart from use of fiscal policy measures such as lower tax rates to discourage smuggling, it is possible to use value-adding activities to motivate both miners and dealers to revert to official marketing channels.

The mineral sector has displayed dramatic growth rates of recent, with a rate of 27% in 1998 compared to 17% in the preceding year. However 1998 contribution to GDP was still low at only 2% while export earnings amounted to US$103 million or 11% of total exports. With investments of up to US$500 million in place by 2000, most of it in gold mining, the final impact may be an increase of up 50% in export earnings. In 1998, 64% of mineral exports earnings accrued from sales of diamonds and gold and 36% from gemstones. The gemstone subsector (excluding diamonds) contribution remained significant inspite of reduced output due to closure of flooded mines during the El Nino disaster.

In September 1999, the Ministry of Energy and Minerals, in collaboration with the UNIDO office in Dar es Salaam commissioned a study for the "Development of a Lapidary Industry in Tanzania". The report came up with two major findings i.e. the absence of lapidary technology and equipment; and the existence of severe problems in the sub-sector, including tax collection, smuggling and product undervaluation.

First, there are virtually no resources of lapidary equipment in Tanzania and technical expertise in the knowledge of gems and application of lapidary techniques to rough stone is almost completely absent. Consequently a large variety of gemstones, some of which are unique to Tanzania, are being exported at prices that are as low as 1% to 5% of their market value. Second, prevailing problems inhibits the nation from realising the true potential of the gemstones sub-sector. The existence of a lapidary industry has the potential to add value to existing resources by as much as twenty-fold at the minimum and generate as many as 100,000 jobs. The economic returns in terms of the development of the private sector, wealth generation and government revenues are enormous.

The lapidary industry or process of converting rough gemstone to gems using skilled cutters with modern lapidary equipment is labour intensive but not an expensive or high tech one. Once the expertise and equipment is available a Lapidary industry can be quickly and economically established. It is an ideal industry to develop, and can add value to the existing resources of rough gemstones available in Tanzania. Lapidary skills are not just in the cutting process but also in the ability to recognize what is the best material and how it can best be utilized. This requies a knowledge of geology, gemology and manufacturing jewelry as well as the lapidary process of gem cutting in order to maximize benefits. The expertise and equipment can be brought into Tanzania at comparatively little cost through a targeted well researched project supported by foreign aid.

The project proposed by the consultants, is basically a training scheme, taking the form of **train the trainer** within the framework of the existing Tanzania teacher training curriculum as a post graduate diploma for selected students over a 3 year period. The training scheme can be linked to the VETA programme. Selected students will be given scholarship to undertake their studies and be indentured so that they remain as teachers upon graduation and teach high school students on a selected basis, the technical expertise to establish a viable lapidary industry. The second strand students will specialize in the different aspects of the lapidary industry according to their aptitude and talents and can be employed directly or indirectly in the industry as cutters, dealers, marketing agents, suppliers, miners, manufacturers of lapidary equipment or manufacturing jewelers. The second strand students will also need a scheme to support the acquisition of initial equipment which can be financed through one of the venture capital schemes. This is an ideal venture capital activity given the relatively high nature of returns involved subject to development of suitable links for entry into the international market.

The study commissioned by UNIDO recommends a project component with a total cost estimate of US$4.9 million, of which US$800,000 is for equipment procurement and the rest are fees for the delivery of the three years training programme with a down payment of US$400,000, three annual instalments of US$1,170,000 each and a final instalment of US$190,000.

Project costs can be lowered substantial to about half or even less of the recommended figure through two strategies: a competitive bidding process for project implementation and reducing the size of the component to a considerably lower level in terms of intended output of trained manpower. Consequently the indicative cost has been put at the level of US$3.0 million at this stage. Equipment for scheme graduates can be sourced through the assistance of the various Venture Capital Fund schemes or special innovative financing schemes which can be developed as part of the gemstones development programme. At any rate, this is an area of potential venture capital financing in view of the high-risks and high-returns involved.

Project benefits include: increased gemstone trading in official channels leading to much higher contribution to national income and government revenues and serving as a source of substantial employment opportunities. There is also the tremendous potential of tapping the high growth tourism industry through sale of cut and polished gemstones. The Lapidary industry report indicates that the cutting of "Tanzanite" is estimated to employ as many as 90,000 cutters in Jaipur, India, alone. It is an industry that is suited to addressing the employment problems with respect to secondary school graduates. See Annex B.5.

Training for Private Sector Development in the Tourism and Hospitality Industry *(US$2.0 million).* Tanzania has no hospitality training institute of international standards to cater for the demands of a high growth industry. The hotel and tourism training sub-sector is dominated by one public institute offering a 9 months certificate course in 4 basic hotel courses (front office, housekeeping, food production and food service). Forodhani Institute was started way back in 1966 and did receive an element of UNDP/ILO support between 1988 and 1994. Today the status of the institute is characterised by dilapidated civil works, run-down and broken equipment in all departments and a staff compliment that is inadequately trained, even for the relatively low level of training currently on offer. There are no modern equipment such as computers for front-office training. Plans to get City and Guilds recognition and validation for current courses and offer higher level courses have remained on the drawing board for a long time with little chance of taking off. Student intake is way above facilities, with a population of 207 students against design capacity of 150 pupils of whom 50 live on the premises.

The Integrated Tourism Master Plan report submitted by CHL Consulting Group and the Irish Tourist Board in April 1996, reveals that there are a few private sector run training facilities in Dar es Salaam and Arusha. These institutions are basically in worse condition than the public sector institute in terms of staffing and the qualifications of personnel involved. All private schools are running curricula which does not conform to acceptable minimum standards. Training tends to concentrate on theoretical aspects with little or no practical training. Clearly, the training system does not match with the demands of the industry. Most large hotel establishments train their own personnel inhouse, while some of the smaller establishments have to do with low calibre personnel available on the market. There is urgent need to create capacity for trained personnel to cope with the demands of the hotel industry and the tourism sector in general. The Master Plan identified the most realistic option as revolving around the re-equipment and refurbishment of Forodhani Institute, which caters specifically for the hotel industry. This could include updating facilities and staff capability to create capacity to offer diploma level training.

A potential alternative to partial financing of the tourism sector training needs rests in linkage of their programme to the Vocational Education and Training (VETA) programme. However such linkage should focus on extending the financial resources of the vocational programme to the needs of the tourism industry without impinging on the different training standards, concerns and environment inherent in the tourism sector. The project could examine the two aspects of restructuring and rehabilitation of the Forodhani Training Institute as a dedicated professional training institute for the hotel industry and the extension of the resources of the VETA programme to the needs of the tourism industry. For instance a training facility dedicated to the tourism industry could be linked to

VETA without being merged to the VETA network of industrial training centres. Forodhani Institute could be considered in this regard.

Other training needs as identified in the Master Plan include: (i) training for private sector operations in the areas of tour and mountain guide, drivers, park rangers and tourist offices; and (ii) specialized training for sector institutions. Such instutitions include the Tanzania National Parks Authority (TANAPA), the Tourism Department, the Tourist Board and other stakeholders. A cursory review of developments in Uganda and Kenya shows that the University of Nairobi and that of Makerere offer diploma and degree level courses in the discipline of hospitality and tourism through a combination of full-time courses and part-time basis (evening classes). There is need to explore these avenues as part of measures to address the Tanzania situation. Consequently the project should also look into the possibility of establishing such courses at the University of Dar es Salaam.

Clearly, the potential for job creation today lies in the tourism industry and these jobs can be realized more fully through the extension of requisite training and imparting of requisite skills to the tourism sector labour force. Training programmes utilizing existing facilities are the best approaches to serve the needs of the rapidly growing tourism industry. An estimated outlay of US$2.0 million is made for this training function and again more details are presented in Annex B.5.

Export Development of Textiles, Garments and Leather. *(US$200,000).* By the mid 1980s, Tanzania had 38 mills with the installed capacity to spin 49,000 tons of yarn and weave 270 mil sq. m. of cloth p.a. and installed procesing capacity for 190 mil running metres. Today there are about 16 mills operating at between 15 – 20%. Following the restructuring of Friendship Textile Mills and the stabilization of Sunflag, capacity utilisation rose from 33 mil metres in 1996 to 43 mil metres by 1998. Five other mills have been divested recently. However the absence of international players amongst the new owners, and their relatively limited financial resources in the face of need for large modernization outlays, portends a gloomy future for the sector. A comparative look at developments within the South African textile industry over the past five years is an indicator of the kind of actions required in the Tanzania sector.

A South African review of the textile industry world wide reveals that it is highly dominated by East and South East Asian manufacturers (China, Taiwan, South Korea, Hong Kong and Bangladesh whose competitive strategies are based on **"low-cost and high volumes production based on the latest technology and equipment."** In response South African mills have had to upgrade machinery and equipment to world standards with investment amounting to about US$1 billion since 1995. They have undertaken massive retraining, drawing on a large pool of schooled labour-force. Although the South Africans are much more adept in accessing the world market, when compared to their SADC counterparts, in 1998 they went through a wave of international takeovers and partnering with the objective of incorporating their industry into the international supply chain. The spinning and weaving industry, is a large energy consumer and benefits from South Africa's low electricity prices. Electricity costs represents only 3% of the total cost structure of spinning and weaving. Finally South Africa produces only 50% of the cotton they need, and to meet the short-fall they are contemplating investing in cotton farming in suitable SADC countries (Mozambique and Tanzania) and the iniative has been taken. It has not been possible to get information on the incidence of the tax burden on South African mills and its impact.

Another emerging factor in the industry is the rapid development of export processing zones in Kenya where a total of 15 zones (including five single enterprise zones) have been established within the relatively short span of ten years – the EPZ Act was passed in 1990. Today activities in some of the zones include the cotton ginning and yarn spinning based on raw cotton imported from Tanzania.

For Tanzania to compete in the Eastern and Central African region, and in markets further afield, emulation of the South African strategy is the minimum condition. There is also need to pre-empt the development in Kenya by moving fast in reviving the Tanzania sector. A brief look at the status of the Tanzanian industry reveals the extent of the required effort.

Major new investment undertaken in the 1990s is with respect to Friendship Textile Mills (approximately US$20 million). Other mills have not undertaken substantial investments although some investment will be ongoing in recently divested mills. There is pressing need for international partnering by mills now in private sector hands to facilitate access to financial resources, technology and international marketing channels. Equipment modernisation remains a critical factor in an industry now characterised by technological innovations such as automatic bale feeders, high–draft spinning and computer-integrated manufacturing processes. The predominant technology in the Tanzanian industry was acquired in the 1970s and early 1980s and is practically obsolete for purposes of product competitiveness. Prolonged mill closures implies the need for fresh recruitment and retraining even without technological upgrading.

The UNIDO competitiveness project includes an element of reviving the textiles industry through a pilot case based on a selected group of 4 – 8 firms. The UNIDO approach focuses on some of the problems internal to the firm. Time would tell whether there is adequate coverage of the issue of financial resources, technology upgrade and access to export market channels. A comprehensive solution to the problems of the textile sector includes the formulation and implementation of an appropriate set of sub-sectoral policies which would make the industry attractive to foreign investment inflows. The industry has proposed two major elements of suitable sector policies: reduction of electricity tariffs to 50% of current rates, and reduced VAT rates to about 5% combined with waiver of other taxes for an incubation period of five years. These may constitute the attractive platform to draw the necessary foreign investors. What is to be done?

Policy problems also prevail in the leather sector, where despite the existence of 3 large mills with tanning capacity in excess of 20 million square feet per annum, most of the hides and skins collected are exported raw. Only one mill is currently operational, producing only up to the wet-blue stage. A second mill which has been completely overhauled, with installation of totally new plant and equipment, is yet to start production. Yet the collection of hides and skins for 1997 was: 1,500,000 hides; 1,200,000 goat skins; and 700,000 sheep skins. The potential for export earnings based on value-added products is quite large. The solution lies in coming up with policies that would motivate domestic processing prior to exporting.

It is important that the key institutions involved i.e. the MIT, MAC, MOF, and private sector stakeholders work together in assessing the best methods for providing reasonable incentives for the revival of the textiles and leather industries through the utilisation of existing capacities. Towards this end, the experience of successful countries is critical. South Africa, and possibly Bangladesh, providethe best case-study on how to revive the textile sector while Ethiopia provides a suitable model on what is needed in the leather industry.

The problems facing the textiles and leather sub-sectors require considerable risk taking at the technocratic and political decision making levels through adoption of policies related to the taxation regime. It may well be that most revenue to be foregone is largely psychological given the prolonged non-performance of the sector but the perception of risk is still there. This perception mitigates against the consensus required to come up with sufficiently bold sectoral policies necessary to underwrite the revival of the sectors. These risks can be addressed through facilitating a study tour by the decision making hierarchy to selected countries to facilitate their exposure to policies prevailing there and their outcome. The outcome would be understanding of the situation facing the textile and leather sectors before current mills deteriorate beyond recoverable status.

Clearly the tool of privatisation alone cannot succeed in the revival of the sector and UNIDO's initiatives also need to be supplemented by the appropriate sectoral policy measures if they are to succeed. It may be necessary to commission technical inputs into the policy formulation process, hence the provision for the substantial sum of US$200,000 for the leather and textile sector revival. At any rate evidence emerging from the divestiture program indicates that the process of learning gained from study tours does facilitate more dynamic decision making and did allay perceived fears against divestiture. Hence the study-tour tool can be used to address the inertia against decisions necessary to release the industrial sector from the mitigating constraints of high taxation and other non-competitive factors stemming from the domestic environment, so as to attract the FDI necessary to address other factors internal to the firms involved. A total of US$200,000 is proposed for a total review of the textiles, garments and leather industry sub-sectors while details regarding the overall approach on all sub-components flowing from the Sub-sector Studies Review are presented in Annex B.5.

4.D.7 TBS Packaging Technology Centre (US$1,000,000).

The Packaging Technology Centre project was initiated in 1989 as part of Sida assistance to the Tanzania Bureau of Standards. The main project objective is to support a co-ordinated development of the packaging industry through: (i) constructing and equipping a laboratory for testing packaging materials; and (ii) building up awareness and training personnel in packaging technology at the institutional and enterprise level. Initiatives undertaken within the SADC framework in 1985, include a Regional Standardization and Quality Assurance programme, in which the Technology Centre has a role.

Initial project estimates were approximately US$ 1.4 million based on 1989 actual quotations for full equipment and fees for an elaborate training programme. Alternative quotations from US sources, dated May 1993, indicate that the basic minimum level of equipment for the laboratory could be sourced for US$484,295. Inclusion of training costs as per original estimates of US$326,844 adds up to total project cost of US$811,139 in 1993. It is conceivable that current costs may be in the region of US$1 million. TBS estimates that with normal escallation, the costings of the US source may have gone up to US$1.2 million by 1999. Only confirmed estimates from competing sources will reveal the precise project cost and this can be undertaken in collaboration with a willing financier. Consequently, the cost of the project has been included in the project at US$1,000,000. The necessary details are presented in Annex D.

4.D.8 Bridging Finance for Ongoing Projects - UNIDO and JIUNIDO Project for Building Industrial Sector Competitiveness. *(US$3,800,000)*.

The project has a total cost of US$6,000,000 of which US$2,200,000 has already been secured through bilateral donor contributions hence a shortfall of US$3.8 million being sought under the IF programme. The initial budget estimate as enunciated in January 1999 was US$3,824,000. However the project has been expanded to the current level of US$6 million.

Activities entailed include the implementation of the Strategic Industrial Development Policy, support for the development of SMEs and formulation of action plans for higher productivity and competitiveness in key industrial sub-sectors, including food, leather and textiles subsectors. These elements have been noted in the IF project with a view to avoiding duplication and to addressing potential missing links so as to enhance the chances of success in efforts to revive these sectors. The UNIDO project is envisaged to confirm the prerequisites for revival while the IF component aims at creating the necessary awareness amongst decision makers and give them the insight necessary to facilitate making painful decisions incorporating a high degree of risk-taking. The UNIDO programme is subject to constant monitoring and evaluation with a major review due in the course of this year, to facilitate feedback to financiers.

JITAP Project *(US$72,000).* The Tanzanian component of the Joint Integrated Technical Assistance Programme (JITAP) is US$1,400,000 of which there is a shortfall of US$72,000. JITAP addresses the issues related to conformity to the rules and regulations of the Multilateral Trading System (MTS) and fulfillment of obligations thereof. Another objective is the education of government functionaries and members of the business community on the opportunities emerging from the MTS and strategies to take advantage of them. It addresses the trade development subject in a limited fashion, through a series of seminars and workshops on export development strategies including practical learning through pilot schemes.

4.D.9 IF Focal Point. *(US $0.3 million)*

In the short and medium term, there will be need for a more formal mechanism to coordinate the management of the different components of the Integrated Framework. This is necessary taking into consideration the multi-sectoral nature of the programme and the fact that there will be different management structures for each project component. The coordinative role will be performed by the IF Focal Point, a unit that will be resident in the Ministry of Industry and Trade. However, its set-up will have to include some form of representation from other public instututions and the private sector. At the moment the exact structure and composition of the Focal Point is not clear. However that the IF Secretariat could be the nucleus of the Focal Point. The IF Focal Point is expected to perform the following functions:

- Serving as the Secretariat of the Steering Committee which is expected to play the role of overseeing the overall management of the Integrated Framework Programme to its conclusion;

- Co-ordinating the different programme components and their managements;
- Overall programme monitoring, evaluation and performance monitoring;
- Performing functions inherent in the temporal perspective of the programme. In this regard the multi-year timeframe may entail the need to come up with new programme components overtime to respond to unforeseen future developments in the economy which warrant consideration under the Integrated Framework. This would involve capacity to review the Export Development Strategy (EDS) with a view to coming up with new components for future consideration under the Integrated Framework;
- Possible role in the future coordination of elements of JITAP that may have to be continued at the end of that programme and taking into consideration the fact that JITAP is part and parcel of the Integrated Framework; and
- Providing a link to facilitate the sharing of Integrated Framework experiences emerging from other LDCs that may be of importance to the Tanzanian case.

It is appreciated that the full range of the functions of the Focal point will depend on the size of the programme that is eventually implemented. Under the circumstances it is difficult to detail an exhaustive list of the expected workload, the necessary staff complement to perform this role and above all the type and magnitude of requisite resources. While it is expected that the necessary staff will be seconded from MIT, the requisite resources will be a function of programme components which secure funding and are eventually implemented. An indicatíve figure of US$300,000 has been estimated for this sub-component. More detailes in Annex A.2.

4.E PROJECT COMPONENT FOR ZANZIBAR:

Specific Components for Zanzibar within the main Programme.

Zanzibar is an integral part of the United Republic of Tanzania, with a population of about 1 million people. The economy is characterized by dependence on the export of cloves, subsistence activities in the informal sector and increasing reliance on trading activities. The constitution demarcates specific areas of autonomy with foreign affairs, defense and customs designated as union matters. Zanzibar has made clear its intention to turn the islands into a free port and measures on implementation are underway. Addressing Zanzibar's unique trade-related needs and corresponding assistance is envisaged in two forms or approaches. The first approach responds to the UNIDO initiated project on "Private Sector Development and Industrial Competitiveness." The second form relates to the potential extension of the main Integrated Framework Project components to include specific coverage of Zanzibar.

Integrated Programme for Private Sector Development and Industrial Competitiveness. *(US$2,650,000).* In the course of finalising discussions on the draft document within the National Steering Committee, UNIDO introduced a document on an "Integrated Programme to Enhance Capacity Building for Private Sector Development, Industrial Competitiveness, Employment Generation and Sustainability in Zanzibar", with a total cost of US$2,650,000. This project is hereby being submitted for donor consideration and financial support. A more detailed synopsis of the programme is presented in Annex E while the full project write-up can be obtained from the Secretariat.

Potential Extension of Major Project Components to Zanzibar: It is possible, subject to individual donor position and willingness, that the implementation of major project components can be extended to include the coverage of Zanzibar based institutions and firms. However this is subject to negotiations with concerned financiers. A decision on this matter, and the level of coverage that is possible will have to be raised with donors involved at the stage of detailed project feasibility and economic impact analysis and form part of subsequent project agreements.

4.F PROJECT COST AND FINANCING

The EDP has a total estimated indicative cost of US$50,020,000 million (approximately US$50 million) of which the largest single component is US$16,800,000 for the EPZ project. The multi-year feature of the Integrated Framework has two implications on the EDP. In the first place, this makes it possible to implement the EDP over a number of years, in the event that envisaged support for critical project concepts is not secured during the first year. In the second place it creates the opportunity to consider other aspects that have not been taken into consideration this time. In short, future programme direction will depend on the outcome of donor response in the initial phase and the evolution of national priorities over time.

The evidence emerging from the implementation of the Integrated Framework in other countries, highlights the prudence of adopting a flexible programme in terms of financial outlays and the need for specific and clear priorities. The question of priorities has been detailed in Volume 2. Flexibility has been in-built into the Tanzanian programme through the postponement of the process of undertaking financial and economic feasibility analysis for most project components to the post-pledging period. With the exception of the Export Processing Zone component for which a full-fledged feasibility report is available, the detailed analysis of other components will only be undertaken subject to the availability of a supporting donor. Consequently, the aspect of project size and requisite resources for such components will be decided upon jointly by the donor involved and relevant government institutions and private sector associations, as part of the process of tying up necessary agreements prior to initiation of implementation measures.

Trade development in general and export trade in particular, is a function of product competitiveness dependent on existence of national competitive platforms at the sub-sector level. Such competitive platforms are built on the basis of resource endowment, conducive policy and appropriate legal frameworks, and access to a minimum critical amount of financial and technical resources. This project aims at establishing a competitive platform from which private sector participants can create the product competitiveness necessary for entry into the global market. The US$50 million costing of this project is an indicative figure of the minimum cost for building this platform within a reasonable time frame, without which it would be difficult for most Tanzanian firms to enter the export market.

It is reported that current donor assistance to Tanzania amounts to US$900 million a year. Most of these resources are being channeled to areas of high need such as the education and health sectors, and the rehabilitation and development of physical and economic infrastructure, and debt repayment. Intuitively there is need for even higher resources flow into social sectors such as education to debottleneck the enrolment ratio at the secondary school level. Such additional funding can only be sourced internally once the economy picks up and the priority sectors bring in much needed revenues, and a sustainable flow process is set in motion. The IF programme is necessary to put such a process in motion. Ideally, the funding for IF should be sourced from new resources as much as possible to avoid disrupting achievements being scored in key sectors.

A certain amount of counterpart financing is expected. Prevailing budgetary constraint implies little or no free resources and the need to divert resources from needy areas to meet counterpart financing requirements. To minimize the impact of such diversion, it is ideal that counterpart funding be kept to the minimum possible. The objective is to avoid project failure due to lack of counterpart budgetary allocation and releases. The final word on counterpart funding, its magnitude, and alternative sources of such funding in the event of emergence of severe financial distress is best left to the stage of project negotiation between committed financiers and the beneficiary.

5. PROJECT IMPLEMENTATION AND MANAGEMENT

In the short and medium term, the success of the IF programme depends on the adoption of best international project management practices emerging from the experiences on similar projects in other environments. For instance, Kenya, Uganda, Zimbabwe and Mauritius have been implementing many of the components comprising the EDP, and their experience has been drawn upon in the course of compiling this report. For instance Kenya, Uganda and Zimbabwe have been implementing an extensive "Better Regulation Initiatives" and their experience is reflected in this document. Mauritius and Uganda are implementing Techology Diffusion and Competitiveness projects and again their experience is reflected in the relevant component in this report. Their experience indicates that project management tools and modalities to ensure success in a difficult environment such as Tanzania are available. Details of such practices are presented in the appendices for each of the project components.

In the short and medium-term, the sustainability of the programme depends on achievements in the prioritised component on the "Improvement of the Legal and Regulatory Framework" which is envisaged to release the potential of the private sector to develop itself. Long-term sustainability also depends on the incorporation of the different elements of the IF programme into future trade policy. The IF programme presents a rare opportunity for initiation of trade policy implementation measures while that policy is still in the formulation stage, and effectively addresses the problem of inertia and time-lag that is common between policy adoption and effective implementation.

6. PROJECT BENEFIT AND RISKS

6.A Project Benefits.

Project benefits for most components are measurable in terms of beneficiary firms performance on the basis of output, turnover and employment. However, it may be difficult to isolate the specific impact and contribution of each of the different instruments over time. For schemes such as the Technology Diffusion and Competitiveness Fund, measures have been designed and can be applied to evaluate performance at the firm level to a high degree of precision. Likewise the impact of export financing schemes can be determined through the degree of success registered by first time exporters, and performance trends after the conclusion of the project. The benefits of the capacity building components, particularly the "Better Regulation Initiative", can be evaluated in terms of private sector growth and through the direction and trend of exports growth, changes in structural patterns of the export basket and the speed and magnitude of such change. Such performance evaluation is more easily accomplished in the medium and long-term rather than in the short-run perspective. The success of changing the economy into an export led one, in which the importance of agriculture will decline in terms of proportionate contribution to GDP while agricultural output records a steady increase in absolute terms will be the ultimate measure of programme success.

With respect to poverty alleviation the primary benefit is expected to come through the integration of disadvantaged segments of the pupulation into the national and international economy. Such segments can be identified on the basis of gender, age and location and in the context of access to tangible and intangible assets such as land and education. Success can be measured in terms of analysis of individuals or micro enterprises participating in schemes such as the horticultural development and the lapidary industry training programme.

6.B Project Risks.

The project's major risks are: (i) high degree of uncertainity on positive response by firms to competitiveness stimulating instruments such as the Technology Diffusion Fund in an environment with a non-existent exporting culture; (ii) incidence of low "credit morality" and high default rates on loan recovery, leading to reluctance to loan financing of SME development projects and limited outreach of revolving fund schemes where financing becomes available; (iii) Recourse to stringent collateral-based lending reducing project outreach to SMEs and micro enterprises especially informal operators in urban settings where default rates are highest; (iv) efficacy with which the government implements the Better Regulation Initiative, which is the key to the successful take-off of other components; (v) capacity to provide adequate supporting services to project management teams; (vi) adverse environmental impact of such schemes as the horticulture project through potential misuse of fertilizers and pesticides, and other environmental hazards from expanded activities in the industrial, mining and tourism sectors; and (vii) finally the biggest risk stems from the non-adoption of core project components meaning that such components will not be implemented even on a reduced minimal scale.

Mitigating factors against the identified project risks include: (i) prioritisation of implementation of the component on the "Improvement of the Legal and Regulatory Framework" so as to put in place the requisite suitable environment for private sector development hence success of other project components; (ii) adoption of best practices in the administration of different project components to minimize the problem of moral hazards and its negative implications on project sustainability; (iii) stimulating private sector partial ownership of the programme from the beginning combined with a clear strategy on increasing the degree of ownership over-time and eventual full take over within a reasonable span of time; (iv) full government commitment to supporting the project in terms of resources allocation and undertaking of necessary implementation initiatives. A policy paper is being prepared to consolidate the consensus building process and guarantee the necessary government commitment to the project; (v) the establishment of an IF focal point to facilitate coordination and implementation monitoring and evaluation will enable the Steering Committee maintain constant overview of project implementation so as to ensure that implementation stays on course hence minimization of project failure; (vi) Finally rigorous Environmental Impact Assessment is being initiated and will be undertken for each individual component that receives financial support prior to implementation so as to reduce the hazards of potential environmental degradation.

6.C Environmental Impact Assessment (EIA) Review.

Most of the projects, but not all, are bound to have some impact on the environment. Projects that are intended to increase competitiveness through efficiency and productivity may have a negative impact on the environment. This aspect can be handled through emphasis to service providers on need to ensure adherence to environmentally friendly techniques and systems. A project component where environmental considerations should be of concern is the horticultural development scheme in view of known high level usage of pesticides particularly in the flower and vegetables industry. Virtually the programme requires EIA reviews on all components involved in the agriculture, mining, industry and tourism sectors in view of the different faces of environmental problems involved.

One instance drawn from the agricultural sector, concerns the use of methyl bromide used as a fumigant in the cultivation of cut-flowers, specifically roses, for export. This chemical constitutes a severe environmental hazard because of its contribution to the depletion of the ozone layer. The leading producers of roses have been working for its phasing out. Yet the cultivation of roses for export in Tanzania is a new industry largely depending on indirect research and extension services available in Kenya. Kenya is a large exporter of roses and has been using a large quantity of methyl bromide, about 400 tons a year. Although the industry claims to have phased out the use of this chemical, there is no evidence of this in view of data available from the Chemical Control Board and lack of evidence regarding the alternatives being employed. Clearly, this problem rubs off to the Tanzanian emerging industry in view of the dependence of this branch on the practices that have been developed and are applied in the sister country. There are other equally worrying aspects of environmental concern such as land degradation from uncontrolled artisanal mining and the tourism facilities development in areas with sensitive eco-systems.

The foregoing highlights a few instances of the environmental aspects of economic activity in a developing economy. Undoubtedly, there is need for in-depth EIA reviews as conditional aspects of feasibility studies. Such reviews, like the underlying feasibility studies, should be initiated once there is confirmed expression of interest in financing. More detailed preliminary views on the major aspects of EIA are presented in Annex F.

7. RECOMMENDATIONS AND CONCLUSION.

7.A Trends and Prospects. This document has been prepared for the purpose of eliciting and co-ordinating donor support for the "Integrated

Framework" programme through commitment to funding of select project components directly or through "basket funding" approach for larger components. Indeed components such as the EPZ and capacity building projects can be easily covered by a basket funding approach. Consequently, donors may opt to support one project component on a "stand-alone basis" or opt for basket funding under which a group of donors will contribute to a particular project. The adoption of both strategies is necessary and advisable to ensure success in the funding of the Export Development Project. Intuitively, the basket funding approach may be considered as being more attractive in view of emerging preference for sector-wide approaches as against project oriented donor intervention, amongst different stakeholders.

7.B Agreements to be Negotiated and Key Milestones.

The following are some of the agreements that are foreseen between the financiers and the government: (i) main financing and management conditionality agreements for all independent project components or elements thereof; (ii) agreements on project implementation plans and management modalities, including disbursement arrangements, between the financiers, the beneficiary and its implementing agencies or private sector management contractors whichever is applicable; (iii) agreements with risk sharing financial intermediaries in the case of financing schemes; (iv) the element of financial audits and their use; (v) the aspect of mid-term review, project wind-up, and continued monitoring and performance evaluation.

Certain conditions are necessary for the effectiveness of the programme once implementation is launched. These include: (i) the establishment of an Administrative Secretariat or "*IF focal point*"; (ii) decision on the management structures and implementing agencies satisfactory to the major parties for components which secure support; (iii) the determination of and furnishing to the financiers of satisfactory project component implementation plans and specific costings thereof; (iv) the furnishing to financiers of satisfactory operation guidelines for the TCDF, SSBA and the Matchmaking Facility and other project components; and (v) the process of identification and securing of an able financial intermediary, willing to share in risk-taking, to participate in components on financing such as the Export Finance one; (vi) the signing of subsidiary financing agreement on counterpart funding and the commitment of requisite resources; and (vii) other conditionalities likely to emerge to meet specific donor requirements as they will materialise in the course of conclusion of project analysis (economic, financial and environmental) and subsequent negotiations leading to signature of necessary agreements prior to implementation.

7.C Conclusion and Recommendations.

On the basis of the foregoing descriptive review and preliminary analysis, it is felt and recommended that the programme is suited for joint detailed consideration and support by bilateral donors, multilateral agencies and the Government of Tanzania, with donors focusing on individual components of their specific interest. Likewise it is recommended that donors adopt a basket funding approach for larger project components such as that on capacity building for the public and private sectors, the one on the EPZ concept and for components which are susceptible to basket funding such as the UNIDO supported Industrial Competitiveness schemes.

It is opportune to emphasize the aspect of programme flexibility based on indicative financial costs quoted for most project components and the resulting consequences on the reduction of project size entailing considerably lower cost outlays. In the final analysis the most important thing is the adoption and support of concepts presented in the programme, rather the magnitude of financing scheme involved. Even support at a relatively small scale is far better than no support at all. Limited support contributes to the establishment of the nucleus of activities which can eventually be supported by the Government from its own resources during better times that, hopefully, lie ahead and eventually be taken over by private sector initiatives. It is contended that the success of the programme is a necessary condition for the inducement of sustainability in Tanzania's development efforts and the much hoped for justification of the large resources that the donor community continue to provide for Tanzania.

It is in this context that the donor community, is being requested to consider this programme favourably and respond in like manner, ideally through the adoption of the concepts underlying the various programme components and at best by providing financial resources that approach the indicative figure of US$50 million suggested in this report. Efforts will be made to ensure that Counterpart funding will be provided for, in the case of projects which secure donor financial and technical support. It is the hope of all stakeholders that the nation crosses the theshhold of breaking out of the vicious cycle of non-sustainable development in which it has been trapped over the past four decades.

Ministry of Industry and Trade,
Dar es Salaam, 2nd May, 2000.

EXPORT DEVELOPMENT PROJECT: FOUNDATION FOR EXPORT-LED GROWTH AND ECONOMIC TRANSFORMATION

TEXT ANNEXTURES

EXPORT DEVELOPMENT PROJECT: LIST OF ANNEXTURES

FOOTNOTE: OTHER ANNEXES:

The completion of the Export Development Project document requires further analysis and the incorporation of its findings through additional annexes covering such aspects as financial analysis, economic impact and implementation arrangements. It has not been possible to accomplish these details in view of the cost and time elements involved. It is the intention to undertake this work after pledging when financiers for specific components have been identified and preliminary consultations indicate funding arrangements and preconditions that underlie these aspects. Consequently these annexes are to be prepared jointly by the Steering Committee working through the Secretariat and the IF focal point and representatives of financiers A sample of such annexes include the following:

(i) Project Supervision Plan
(ii) Annex Implementation Schedule
(iii) Procurement Arrangements
(iv) Disbursement Arrangements
(v) Project Supervision Plan
(vi) Project Economic Analysis & Performance Indicators
(vii) List of Project Documents and Related Reports; and
(viii) Administrative Map of Tanzania.

IMPROVING THE LEGAL AND REGULATORY ENVIRONMENT FOR BUSINESS IN TANZANIA

INTRODUCTION

Adequate regulation is essential to good business performance – in so far as it sets the boundaries for business performance and preserves fair and open competition, and in so far as it preserves essential health, safety and environmental standards. However, regulation which goes beyond that which is really necessary, which is difficult to understand and/or comply with, or which cannot be properly and fairly enforced, can have serious negative consequences for business and investment. The wider repercussions of this can be reflected in lower economic growth, higher unemployment and reduced standards of living.

The Government of Tanzania has recognised this, and is committed to promoting business confidence and competitiveness and to stimulating investment through an improved regulatory environment for the private sector. The key to improving the regulatory environment for business, lies in an understanding of why and how regulations can cause these problems for businesses.

a) Business men and women in Tanzania complain of very high operating costs associated mainly with business registration and licensing. These arise directly, from the imposition of numerous levies and taxes, and indirectly, from complex bureaucratic procedures which divert productive energies to unproductive activities - filling in forms, generating and supplying information, standing in queues, traveling long distances to central registries and so on. Time that is taken up with regulatory issues cannot be used for directing the strategy and operations of an enterprise, and can lead to heavy opportunity costs.
b) Uncertainties created by over-regulation, complex and conflicting requirements, excessive discretionary powers and irresponsible enforcement activities, create a climate which is negative to commercial activity, and deter investment. The greater the level of risk involved for investors in making investment decisions, the more negative the climate for commercial activity. Generally, investors who face an inflated level of risk will tend to be conservative and more cautious in their approach to innovation and job creation. This in turn has a negative influence on the extent of entrepreneurial activity and of new business formation.
c) Where new investment is deterred, the level of competitive intensity within an economy is diluted. Reduced competition creates a disincentive to companies to innovate, take risks and improve efficiency and quality. This leads to higher prices, poorer product quality and a reduced ability to compete. Ultimately it results in lower economic growth and higher unemployment.
d) Small business are hurt the most by an unfavourable regulatory framework because they do not have the resources to comply with excessive or complex requirements. For example, they lack the accounting and legal skills to cope with the requirements, and they do not have the financial resources to hire accountants and lawyers to help them, unlike larger firms.
e) Being able to respond quickly and effectively to major, unexpected changes in the business environment is an important factor in determining competitiveness. (It is

particularly important for small businesses, which rely heavily on flexibility to give them a competitive edge over large businesses.) Companies need to be able to adapt to change in a positive sense (such as entering new markets or making new investments or introducing new operating methods) as well as having the ability quickly and effectively to restructure existing businesses. Regulations which increase costs, divert management time and restrict labour flexibility make it more difficult for companies to maximise their operating efficiency, and respond to changes in the business environment.

f) For formal business which comply with regulations, there is a real danger of a distortion in the playing field, with informal operations who evade compliance, having a competitive edge over those that comply. The situation is best illustrated by recent reports of established domestic companies going out of business because, due to high production costs they can no longer offer afford to provide what customers want at a price they are willing to pay. The competition from smuggled goods which are not subject to the same regulatory imposed production costs as domestically produced products, are more competitive.
g) Where formal business start-up costs are high, there is a disincentive for informal operators to graduate to the formal sector. In particular, the ability of tax inspectors to investigate and very heavily penalise past tax evasion, discourages informal operators from graduating. Barriers to graduation place a ceiling on the extent to which informal enterprises can grow. They are unable to borrow finance from formal lending institutions (and so are forced to borrow from other sources at very high interest rates), they cannot purchase on credit, and they are limited in their ability to attract large customers. Barriers to graduation limit the extent to which Tanzania can broaden its tax base.
h) Non-enforcement of good regulations (for example those which protect public health, the environment and health and safety of workplaces and factories) is a threat to business, employees and the public at large. Better workplace conditions and safety encourage greater employee productivity and commitment whilst enhanced product safety and an improved urban environment attract customers;
i) Poor enforcement encourages corruption, erosion of a respect for the rule of law and a rising crime rate. Regulators tend to want to address such a situation through the imposition of yet more regulations!

It is also a cost to government to maintain regulatory enforcement agencies that for one reason or the other, do not actually perform their mandate.

Achieving a better regulatory environment for business through fewer, simpler, well thought out regulations which are limited in scope to what is truly necessary, and which are sensibly enforced, is what is necessary to address these constraints.

At the micro level, appropriate street trading by-laws and supportive home business and zoning regulations can provide an enabling environment in which small-scale enterprises can flourish unhindered, but in a responsive way. At the macro level, reducing the costs and burdens of compliance will help small and medium-sized enterprises become larger firms, employing more people and adding more to the economy. Because there are economies of scale, small businesses benefit proportionately more than larger firms from better regulation. Scarce resources of time and money saved, can be redeployed to the benefit of the business and help to make it more viable. An improved regulatory environment will also lower the entry barriers to small firms wanting to migrate into the formal sector.

“Better Regulation” is a low cost, high impact initiative which can lead to growth and job creation.

PRIORITY AREAS FOR REFORM

1. Business Registration and Licensing

The necessity for business licensing reform in Tanzania has been extensively documented. All relevant studies have concluded that the requirement for and the administration of central and local government business licensing is a major constraint to the entry and operation of business at all levels. Complaints include;

- ⇒ the multiplicity of licences required, and the duplication of licensing requirements;
- ⇒ the cost to businesses of generating and supplying the supplying the information in every case;
- ⇒ the requirement for annual renewal on a single date which causes significant unnecessary delays of up to 3 months in some cases;
- ⇒ the requirement for a tax certificate in advance of business licence renewel which causes additional delays and administrative costs;
- ⇒ the requirement for businesses to obtain additional licences for individual registered professional employees, in addition to personal business licences - for foreign professionals, the fees of up to US$3000 per annum have been claimed by the Dar-es-Salaam Coty Council, and for Tanzanian professionals, the current fee has been set at Tsh300,000. The imposition of these fees is not mirrored in the provision of services, and duplicates registration fees levied by professional boards;
- ⇒ high and unpredictable fees and excessive discretionary powers of officials, which create uncertainites for investors, along with opportunities for corruption;
- ⇒ unconsistent enforcement practices which result in unfair competition.

These problems take the form of higher costs for businesses and government in terms of wasted resources. They offer temptations for corruption, encourage unnecessary risk-taking, and discourage investment. They place restrictions on choice, divert productive activity, restrict operating flexibility, stifle initiative, and result in missed opportunities. In short – lower economic growth and higher unemployment.

International and regional experience shows that trade licensing at central government and local authority level should be discontinued except in very exceptional circumstances where controls are essential, and should be replaced where necessary, by a simple, non-approval based business registration system which is administered by local authorities through one-stop offices. This system must preserve the revenue generation function of licensing, which is essential to the delivery of local authority services, but not the control function. Standards relating to health, safety, orderly trading and the environment ought to be enforced through urban planning and health regulations. Reform of central and local government business licensing in Tanzania along the lines proposed, would significantly reduce business operating costs, reduce enforcement and administration costs, and greatly enhance Tanzania’s attractiveness to investors.

2. Simplification of Tax and Import/Export Clearance Procedures

Although income taxes have been simplified and lowered in recent years, the Tanzanian tax system has been identified as a major concern for investors, with many arguing that the overall tax burden remains one of the highest in the region. Administrative constraints in the Tanzanian tax system include;

- the existence of numerous types of withholding taxes, and the many forms and unnecessarily burdensome reporting requirements generated by these;
- the practice of collecting taxes in advance, assuming that companies earn a profit upon commencement;
- the practice of requiring that companies always pay the same or an increased amount of tax, even if a firm shows a loss;
- the practice of giving credits in place of refunds for over-payments of provisional taxes, which has an important impact on cash flow;
- varying and contradictory interpretations of taxation requirements, especially with regard to carrying forward losses, capital and other allowances and the manner in which certain duties are to be assessed and collected on imports and exports cause problems and create uncertainties for investors;
- harrassment and intimidation and unnecessarily harsh and inconsistent enforcement action by tax officials;
- the practice of requiring payment by companies of VAT to the TRA, in advance of receipt by those companies of payment from clients;
- delayed refunds of VAT and duty drawbacks;
- dual registration requirements for income tax and VAT.

A concrete immediate step towards improving business tax administration would be the design of a tax return form which provides a standard format for tax payers to conduct reconcilliation of net income.
Import procedures are particularly important in Tanzania where most firms rely heavily on imported equipment and raw materials. Cumbersome customs procedures increase costs and delays for many businesses in Tanzania. Examples are arbitrary inspections, and fee charges imposed by Port Authorities and Customs, inefficient pre-clearance procedures, delays in canceling bonds, delays in processing VAT refunds and complex documentation. Simplification of customs documentation and procedures is essential to the successful implementation of Government's commitment to trade facilitation.

Most of the constraints outlined above have been extensively documented - the Better Regulation initiative should lead the process of taking forward the recommendations by seeking ministerial and cabinet endorsement to the recomendations where necessary, by agreeing a realistic plan and timeframe for implementation, by assisting with the capacity building needs considered essential to proper implementation, and disseminating information on the changes, and by monitoring progress against agreed time limits.

3. Access to Finance

Micro finance institutions in Tanzania provide essentially only short-term loans, and for small amounts of capital, in most cases not exceeding Tsh200,000. Formal banking institutions, whose lending criteria cannot be met by macro and small operators, tend to deal exclusively with medium and large businesses. Problems relate among other things, to lack of ability to provide collateral, due in part to the land tenure system coupled with a lack of ability to realise registered securities.

Currently, a study is underway to examine regulatory changes necessary to provide for proper realisation of securities. This should be complimented by other studies which propose solutions to constraints on money-lending contracts, and on the introduction of more diversified and flexible products such as hire purchase and asset leasing, which provide long-term finance and cater for the requirements of small and medium-scale investments.

4. Labour Laws which Constrain Operational Flexibility

Tanzania has made good progress in addressing problems associated with employing local and expatriate staff, however, in the 1999 Tanzania Investor Roadmap report, the update of labour laws to facilitate private sector growth was identified by investors as a priority reform area.
Complaints include:

Complaints include:

- ⇒ restrictions on the ability to discipline and dismiss employees - 5 offences must occur within a 6 month period to justify a lawful dismissal;
- ⇒ there is a weak framework for industrial dispute resolution - cases are reported as dragging on for as long as 5 years;
- ⇒ the high cost of employee benefits and retrenchment packages;
- ⇒ compulsory paid annual leave of 28 days encourages the employment of casual and contract labour in preference to full-time employees
- ⇒ workmen's compensation insurance is only available through the National Insurance Corporation. Absence of competition in this area encourages poor delivery of services and high premiums.

These problems In addition, employers believe that increased competition for the provision of workmen's compensation insurance would bring about improved services, lower premiums, and higher disability paymemts to injured employees. Whilst reforms in this area undoubtedly have a high impact on the competitiveness of businesses, it is important not to overlook the fact that political resistance to labour law reform is usually high. It would be important to assess the political feasibility of change before embarking on implementation of labour reforms. Efforts may need to be concentrated on lobbying for support, and preparing cost/benefit analyses showing the need for reform.

5. Access to Workspace

It has been recorded that the most serious start-up delay faced by investors in Tanzania occurs within the land acquisition and site development stage. This is notwithstanding the introduction of a new land policy and supporting legislation. It is also recognised however, that the process is fraught with political sensitivities, and complexities including a lack of transparency and accountability, a lack of coordination resulting in sumultaneous allocation of plots by both City and Ministry officials, and poor record-keeping, amongst other things. Given these difficulties, implementation activities should focus only on what is realistically achievable. The Tanzania Investor Roadmap has recommended:

- ⇒ the publication of a step by step guide to acquiring title;
- ⇒ the publication of a step by step guide to site development;
- ⇒ streamlining of the inspection process;

⇒ the creation of a database of zoned commercial and industrial plots to facilitate identifying and purchasing of land;
⇒ formalisation of occupation rights by customary tenants.

The "Better Regulation" initiative should concentrate on obtaining formal endorsement of these recommendations, by agreeing a realistic plan and timeframe for implementation, by assisting in the preparation and publication of the guidelines, by commissioning the creation of the proposed database, and by initiating a process through which customary tenants can obtain assistance in formalising their occupation rights.

In addition, it is likely that rent restriction regulations have a negative impact on the availability of leased workspace. These should be reviewed and amended where necessary.

6. Commerce and Intellectual Property

The recently established Business Registration and Licensing Agency (BRELA) is responsible for administering company and business names regulations, business licensing and intellectual property laws. It has set itself the ambitious task of reviewing and recommending the improvment of all current legislation administered by the Agency by the end of the year 2000. This task is essential to the proper conduct of commercial activity in Tanzania, and to facilitating inward investment. BRELA does not however, have the capacity to carry out such a review itself and recommends the work be commissioned through the "Better Regulation" initiative.

7. The Special Position of the Informal Sector

Historically deregulation has focused on lowering the burdens of compliance and the costs of administration for formal registered businesses, big and small. In Tanzania, where the trend towards increasing urbanisation has led to a proliferation in informal and street trading, the challenge of achieving a better regulatory framework for business will also involve examining the special needs of this sector. Street traders, who struggle with lack of access to public utilities such as toilets, running water and storage facilities, contribute significantly to littering, obstruction of pedestrian and traffic flows, increased health risks through the sale of improperly prepared food, and increased safety risks through the erection of non-approved stands. Micro operators also create an incentive to the use of improper enforcement practices, since they fear arrest and confiscation of their property, and tend to prefer the cheaper alternative of paying a bribe. However, this sector affords the greatest opportunities for skills training, employment creation, and a broadening of the tax base.

The vulnerability of informal operators is a disincentive to further investment on their part, but at the same time, barriers to graduation discourage formalisation. Such a disorderly state of affairs, coupled with increased crime, unfair competition, and environmental degradation will inevitably drive formal businesses from the city, with the result that informal traders lose their main source of custom.

Thus the "Better Regulation" initiative must treat barriers to graduation as a priority area for reform. This will not only involve removing and simplifying existing regulation, but also forging the introduction of appropriate regulation which achieves recognition of the informal sector as a component of the macro economy.

A JOINT COMMITMENT BY GOVERNMENT AND THE PRIVATE SECTOR

A better regulatory environment depends essentially on:

- ♦ an ability by the private sector to identify the changes it wishes to see implemented, to demand those changes from government, and to determine whether those changes are working; and
- ♦ an ability on government's part to coordinate and correctly prioritise the proposals for regulatory reform, to analyse the appropriateness and cost of them, to assess the impact of the proposed reforms on business, and ultimately to remove, improve and enforce laws.

For optimal impact, an improved regulatory environment for business must go hand in hand with the efficient and reliable delivery of commercial justice, through institutional reforms and judicial capacity building initiatives that will ensure the private sector has the ability to make and enforce commercial contracts.

A. ESSENTIAL COMPONENTS OF A "BETTER REGULATION" INITIATIVE

A "Better Regulation" initiative has some essential components:

a) Research and Consultation

⇒ to identify regulatory constraints arising from the design, use of, absence of and enforcement or non-enforcement of regulations;
⇒ to develop regulatory or alternative solutions;
⇒ to find the appropriate enforcement mechanisms.

b) Information and Advocacy

⇒ information to entrepreneurs to achieve empowerment;
⇒ information to entrepreneurs to promote increased compliance;
⇒ information to enforcers to promote an understanding of the importance to the economy of even-handed and responsible enforcement practices - in order to achieve change on the ground;
⇒ **information to regulators and policy makers to promote an understanding of the guiding principles and benefits to the economy of "better regulation," and to lower the risk of new laws and policies being promulgated which run counter to the "better regulation" objective;**
⇒ advocacy to change attitudes towards the use of regulation, and to foster a continuing demand for a progressively more supportive regulatory environment.

c) Training and Capacity-building

Capacity-building within Government to enable it to:

⇒ coordinate proposals for law reform;
⇒ assess the appropriateness of those proposals;

⇒ assess the potential impact on business as well as other costs associated with proposed regulations, and propose alternatives to regulation;
⇒ fast-track review and revision of regulations;
⇒ develop better and more effective regulations, and consider alternatives to regulation;
⇒ achieve dedicated, even-handed and responsible enforcement;
⇒ monitor and measure the impact and effectiveness of changes;
⇒ change the enforcement/implementation focus from one of control and punishment to one of facilitating and assisting businesses to comply with regulations.

Capacity-building within private sector institutions to enable them to:
⇒ identify key issues to be addressed;
⇒ negotiate with government, (with effective representation from all levels of the private sector);
⇒ assess the potential impact on business of proposed regulations, and propose alternatives to regulation.

The capacity for and willingness by both the public and private sectors to engage in free and open dialogue concerning private sector development is crucial. The National Business Council provides such a forum. Strong political leadership (to cut across vested interests and overcome inertia) and key stakeholder commitment is necessary in order that the reforms become embedded. Coordination of initiatives is essential to avoid overlap and generate the synergy necessary to precipitate swift action by government. Appropriate donor collaboration which leads to multilateral support, and a level of flexibility and willingness to respond to local conditions is what will lead to optimum results.

B. EXISTING INITIATIVES

The Government, donors and the international community recognise that growth in domestic and foreign investment, leading to the broadening of the nation's tax base among other things, is severely constrained by the existing state of the regulatory environment. It is generally accepted that there is an urgent need to reform legislation, regulations and administrative practices touching on business activity, so as to:
⇒ reduce the heavy compliance burden on business;
⇒ encourage fair and open competition;
⇒ lower the entry barriers to small firms wanting to migrate into the formal sector;
⇒ improve access by the private sector to commercial justice.

Although several donors and agencies are implementing initiatives in the area of regulatory reform for private sector development, these remain individual and largely uncoordinated efforts taking the form of specific projects.

a) Research and Consultation

Numerous existing reports identify the constraining regulations, and contain proposals on how they should be amended. They include:
The Steptoe and Johnson studies undertaken in the early 1990s;
The Tanzania Investor Roadmap Studies;

The Ringo/Sinare report,
The CTI study entitled "Review of the Legal, Regulatory and Judicial Framework regarding Manufacturing and the Business sector in Tanzania."

Various donors have pledged support to the undertaking of additional work in this area, for example:

- ⇒ DFID - the British Partnership for Enterprise Development Programme which highlights an enabling regulatory environment for private sector business as a core component;
- ⇒ the Royal Netherlands Embassy - Sector wide Approach to Private Sector Development;
- ⇒ Proposed study on "Reviewing Legal and Practical Aspects of Insolvency Law in the Context of the Tanzania Mainland;" - DANIDA
- ⇒ Proposed study on "Review and Reform of the Legal and Regulatory Framework for the Industrial and Trade Sectors," - DANIDA
- ⇒ Other donors including CIDA and USAID have also expressed an interest in supporting regulatory reform which facilitates private sector development.

b) Information and Advocacy

Various private sector organisations have committed to promoting broad-based awareness of free market and deregulation principles, and the importance of business to the economy. Whereas it is anticipated that this effort will be greatly enhanced through the National Business Council, it must be recognised that the ongoing promotion of a widespread demand for and commitment to improving the environment for business, is what will lead to actual change taking place on the ground.

c) *Training and Capacity-building*

Numerous pledges and commitments relating to capacity building to enhance civil service performance and delivery, have been made and received. Often the requirement has not been sufficiently well defined to generate focused initiatives with measurable impact indicators. While the necessity for capacity building specifically to improve the delivery of regulatory-related services has been recognised, a coordinated methodology has not yet been devised.

There is now a need to bring together, build on and implement all these initiatives, so that a better regulatory environment is actually delivered to business.

C. MODELS FOR COORDINATED IMPLEMENTATION OF BETTER REGULATION

Policy reforms (which ultimately translate into regulatory and administrative reforms,) require profound changes in habits and attitudes both in terms of what governments do and what people expect of governments. For "Better Regulation" to become embedded, it is necessary for Government to commit to this initiative at the highest level.

Prime responsibility for implementing an holistic, prioritised and coordinated programme of regulatory reform should lie with a high level inter-ministerial body which includes the Ministries of Finance, Planning, Industry and Trade, Finance, Justice and Constitutional Affairs, Local Government and Labour as key members.

An Implementation Support Unit with day to day responsibility for promoting and managing the programme and providing technical assistance on "Better Regulation" to the Committee, should also be established. The Implementation Support Unit would have the key role of managing the programme and assisting Government to ensure donor coordination. In addition, it would:

- ⇒ coordinate research and proposals on improving the regulatory framework for business;
- ⇒ prioritise and technically assess existing and new proposals in terms of their appropriateness to Tanzania, their compliance with current government policy, their compliance with the principles of "good regulation," their impact on business and the costs of enforcement and administration;
- ⇒ provide advice and technical support to the Board of Directors as outlined above, and prepare clear, concise memoranda for endorsement by individual ministries and ultimate submission to Cabinet and the Attorney General's Office;
- ⇒ provide advice and technical support to the Executive Council of the National Business Forum in taking forward the Council's decisions concerning regulatory and administrative reform;
- ⇒ coordinate proposals for, and commission capacity building and training for the improved delivery of regulatory related services;
- ⇒ conduct and commission advocacy and awareness-raising activities to promote a widespread understanding of and support for better regulation;
- ⇒ commission further research and analysis where necessary;
- ⇒ monitor the impact of awareness-raising activities and the implementation of changes to assess their effectiveness and to determine whether further change is necessary.

With these core criteria in tact as a starting point, there are a number of models through which such a programme could be delivered.

1. The Tanzanian Investment Centre

The TIC was established in 1997 under the Investment Act to be "the primary agency of Government to coordinate, encourage, promote and facilitate investment in Tanzania, and to advise the Government on investment policy and related matters." A core responsibility of the agency is the creation and maintenance of a positive climate for private sector investment. The TIC is currently supported by a Board of Directors comprising permanent secretaries from key ministries, and high level private sector participants, and an Executive Director. It is soon to establish an inter-ministerial Investment Steering Committee which will meet every two months and which will focus on issues related to streamlining the investment process. **A core part of its agenda could be deliberating on proposals for regulatory and administrative reform which have been prioritised and technically assessed by the Implementation Support Unit.** The Committee could also propose additional capacity building and advocacy/training activities necessary within implementing agencies to take forward the regulatory changes, and it could propose additional research where considered necessary or desirable.

The advantages of placing the "Better Regulation Unit" within the TIC are:

- ⇒ it is an independent agency, but with very strong links to Government - this model reflects the fact that bringing about an improved regulatory framework for business is the joint responsibility of Government and the private sector.
- ⇒ it is aligned with the Planning Commission which has a cross-ministerial strategic planning responsibility for private sector development;
- ⇒ its activities are guided by an inter-ministerial steering committee;
- ⇒ it has the resources to attract dedicated high-calibre staff;
- ⇒ it is likely that it TIC will be selected as a one of the government representatives on the NBC - there will therefore be a strong accountability to deliver reforms agreed at the NBC;
- ⇒ it is currently in the process of restructuring itself, and forging a new facilitation/service delivery function.

The disadvantages are:

- ⇒ there is a risk that its ability to cut across interests of line ministries and other government agencies is limited.
- ⇒ there is a risk of duplication of some of the activities of the National Business Council. There is need for a high degree of cooperation and coordination between the two.
- ⇒ making, removing and amending laws is the business of Government and there is a very clear government mechanism for this. There is a risk that an initiative housed in the TIC will be perceived as "another layer in the process."

2. The Planning Commission

The Planning Commission, as the cross-sectoral Ministry responsible for private sector development, could be a home for the Better Regulation Unit. The advantages of this would be:

- ⇒ direct access to the President for fast-track implementation;
- ⇒ highest level endorsement;
- ⇒ capacity for technically assessing regulatory proposals and advising Cabinet is built and retained in Government;
- ⇒ there is an existing initiative in the Commission to establish utility bodies which have a regulatory mandate - the two initiatives would compliment each other.

The disadvantages however, might be:

- ⇒ pending the full benefits of implementation of civil service reform, it has limited resources to attract dedicated, high callibre staff;
- ⇒ it is difficult to deliver private sector capacity-building / training / lobbying initiatives from inside Government;
- ⇒ it may be perceived as lacking in accountability and strength.

3. Independent Entity reporting to the President's Office through the Planning Commission.

The profound nature of changes involved in improving the legal and regulatory framework and the magnitude and importance of this work is such that it may be prudent to come up with a management structure based on an independent unit reporting to the President through the Planning Commission akin to the structure entailed in the

TIC and the PSRC. This structure would enjoy the advantages described under the structure proposed above and have the additional benefit of dynamism inherent in a relative autonomy. However, its disadvantage is that it would need statutory powers if it is to have the authority to cut across proprietary interests of line ministries. This would entail significat delays which might prevent Tanzania from being able to take immediate advantage of the current high interest shown by investors. In addition, there seems to be an understandable reluctance on the part of Government to establish yet another separate entity.

CONCLUSION

More work is being undertaken with regard to the magnitude of work involved in this Component, existing initiatives and prioritization for maximum early impact. DFID are supporting a professional input in this process. The actual needs of the Tanzania private and public sectors and ensuing bilateral and multilateral donor response to the proposals in this component will determine its ultimate form and management structure. The outcome of ongoing research and analysis would be available sometime early in the post-pledging phase.

****

IF FOCAL POINT

The rationale behind the establishment of an IF Focal Point is to formalize the current structure of the Secretariat for the National Steering Committee for the Integrated Framework as the programme enters the implementation stage and the need for a central coordinating and monitoring point becomes even more necessary than has been the case with the implementation stage. Clearly donors and financiers would need one central point through which to have instant feed back on the implementation of the programme, its evaluation and emerging results. The multi year nature of the programme entails that there may also be a role on the initiation of needed project components to address emerging needs as the initial programme takes off and the environment changes.

It is envisaged that the form which the Focal point should take can be determined subject to the outcome of the pledging session and the determination of the size of the initial programme to be implemented. The structure, size, nature and functions of the focal point and its staffing should also reflect emerging experience. The Secretariat is looking into the necessary details and should be able to come up with requisite answers in the early post-pledging period. In the meantime, the indicative quantum of US$300,000 has been estimated for this sub-component. This figure is based on arbitrary guesswork rather than rational estimation pending the review of the situation by the Secretariat.

****

TOURISM SECTOR ANALYTICAL CAPACITY

1. BACKGROUND AND PROBLEM IDENTIFICATION

The Directorate of Tourism, in the Ministry of Natural Resources and Tourism, is the Government institution with the mandate and responsibility to oversee and coordinate the development of the tourism industry. This entails, among other things, the analysis and publication of data for use by industry stakeholders. In this regard, the Directorate used to publish an annual report, The Tourism Statistics Bulletin, based on data from the Immigation Department, the Bureau of Statistics and the Bank of Tanzania, subject to modifications based on World Tourism Organization's norms and standards on tourism statistics. The Department also collaborates with financial institutions in monitoring and evaluating data on foreign exchange earnings from international tourism.

The Ministry is in the process of implementing recommendations from two major reviews and studies undertaken in the mid 1990s. The first one is "The Tourism Infrastructure Project" and the second is "The Integrated Tourism Master Plan." The Master plan was produced in June 1996 by the Tourism Board of Ireland in collaboration with a team of private consultants with financial support from the European Union. Both reports highlight issues that have to be addressed in promoting the development of the industry and measures to be taken to facilitate effective planning of such development. One of these issues concerns the problem of lack of data for planning purposes and absence of capacity for timely data collection and analysis in relevant institutions. This component addresses this shortcoming.

2. STRATEGY.

The component entails the establishment of a Tourism Database system built up around several modules designed to generate the information for tourism planning and promotion and for the evaluation of the economic impact of tourism such as its effects on employment. It involves the exploitation of existing sources of information on tourism activities, the conduct of specific surveys to determine the amount and structure of visitor expenditures, the invetory of accommodation establishments and auxilliary infrastructure. External assistance is being sought in view of the lack of adequate internal capacity in terms of financial and technical resources. In this regard, donor support is expected to take the form of technical personnel and equipment. The Ministry has already assigned personnel to this area, who will serve as the necessary counterpart staff. Other counterpart support will be provided as required.

3. OBJECTIVES AND OUTPUTS.

The component will contribute to the development of tourism in Tanzania through the establishment of capacity for data collection, analysis and use in decision making. The data in question covers all the major aspects of the industry, ranging from the number of arrivals and their origin, volume and quality of ground services and the status of the hospitality industry over time. Major project output is the establishment of a comprehensive tourism database and the ability to analyse, interpret and update such a database on a continuous basis. The project has six main objectives. These are reproduced below together with the corresponding outputs.

3.1 Objective 1: Database on Tourism Industry

This entails the build up and improvement of inventories on existing tourism resources ranging from natural to human resources to cultural endowments and other activities. The basic output is the establishment of a database with information on tourism supplies, market trends and industry segmentation. Underlying activities include:

- ♦ Understanding of perspectives on data analysis according to World Tourism Organization (WTO) guidelines;
- ♦ Definitin of data on tourism demand according to WTO; and
- ♦ Establishment of a plan for the collection of data on tourism demand according to WTO.

3.2 Objective 2: Refinement of Methodologies of Data Collection

The aim is to refine and improve on the methods and techniques for data collection so that they can be applied uniformly in the Tanzanian industry in all locations. The inherent activities include:

- ♦ Development of an integrated system of data collection methods and procedures;
- ♦ Definition of the survey plan for each homogenous group and set of data;
- ♦ Definition of the timing of data collection and collection methods;
- ♦ Actual collection of data;
- ♦ Compilation and analysis; and
- ♦ Evaluation and assessment of results and identif ication of survey plans for future use.

3.3 Objective 3: Identify Technical Requirements for Data Collection

Definition and development of technical requirements for database analysis and updating. The envisaged output is the building up of a model of data analysis. Activities involved include:

- ♦ Adoption and installation of a computer based model for the analysis of all tourism industry data i.e. visitors, infrastructure status, tourism expenditure and tourism behavioural trends to mention a few; and
- ♦ Testing model reliability or building capacity for its use among counterpart personnel through practical work and examples.

3.4 Objective 4: Identify and Adopt Analytical Model

The achievement of this objective is linked to the development of a system of socio economic and financial analysis of tourism projects, both new and existing ones. The ensuing output include the envisaged economic impact of such projects and the storage of such information for future retrieval and use. Underlying activities include:

- ♦ Storage of data collected according to the select model;
- ♦ Use of model for diagnostic analysis of different industry aspects; and
- ♦ Development of a system of data collection and updating on a continuous basis.

In addition this objective is related to a second output i.e. the definition and classification of the major types of data to be collected including: (i) data on acccommodation and ancillary services; and (ii) data on ground services and transport/travel services. Underlying activities include:

- ♦ Definition of survey plan and timing; and
- ♦ Actual carryng out of survey, control and assessment of results.

3.5 Objective 5: Computerization of the Model

The fifth objective is the computerization of the full evaluation system and its practical application to ongoing projects. The main output will be the facility for continuous evaluation of tourism sector programmes and projects from macro and micro economic perspectives. Related activities include:

- ♦ Development of a micro economic model for project evaluation including cost-benefit analysis;
- ♦ Testing the reliability of the model through actual application;
- ♦ Developing a macro-economic model for project evaluation in order to obtain the socio-economic indicators such as employment generation, share of foreign exchange, government revenue, and indirect receipts to supporting sectors such as agriculture, transport and manufacturing; and
- ♦ Practical application of the findings in policy formulation, implementation and management.

3.6 Objective 6: Training of Personnel to Implement the Model

The final objective is the creation of analytical expertise through the emergence of better trained professional and technical staff in the Tourism Department and other institutions involved in the industry such as the Tourist Board. This will facilitate a continuous process of data collection, analysis, updating and retrieval.

4. INPUTS AND FINANCIAL OUTLAYS

Project inputs are presented in two categories: those to be provided by the Ministry and those expected from donor assistance:

(a) Project inputs to be provided by the Ministry:

(i) Furnished and equipped office accommodation;
(ii) Counterpart manager to supervise the project and share reponsibility with the international expert or coordinator;
(iii) Additional supporting staff;
(iv) Local counterparts for team of experts – statistician, economist and marketing technical officials;
(v) Staff for field surveys; and
(vi) Transport for trips within Tanzania.

(b) Inputs required from Donor assistance:

(i) **Staff** – these are personnel to undertake the function of training counterpart local personnel i.e.:

- ♦ Tourism planner/Coordinator
- ♦ Statistician
- ♦ Economist
- ♦ Computer specialist

(ii) Training abroad (scholarships):

In addition it is expected that there may be need for training of local personnel abroad. This includes short-term training for the Tourism Department's statistician – up to four months duration including training on information technology.

(c) Financial Outlays

Major components and related expatriate staff outlays are estimated at US$869,246 as per breakdown below:

		Months	Rate US$	Total US$
(i)	Tourism Planner/Coordinator	24	14,987	359,688
(ii)	Statistician	12	14,987	179,844
(iii)	Economist	12	14,987	179,844
(iv)	Computer Specialist	10	14,987	149,870
(v)	Sub- Total Cost (expatriate staff)			US$.869,246
(vi)	Other costs			110,000
(vi)	**Grand Total Component Costs**			**US$.979,246**

Other costs amounting to US$110,000 include training abroad, acquisition of computer equipment and other miscellaneous expenditure estimated at US$110,000. Total indicative component cost is US$979,246.

****

STRENGTHENING OF QUARANTINE SERVICES IN TANZANIA

1. INTRODUCTION AND PROJECT JUSTIFICATION

The Plant Quarantine Service (PQS) is responsible for preventing or minimizing the risk of introducing and subsequently spreading plant pests by regulating the movement of plants and plant material into, out and within the country. The Service comprises of the Phytosanitary Inspectorate Service (PIS) and the Post Entry Quarantine Service (PEQS), which together forms the National Plant Quarantine Service (NPQS).

2. BACKGROUND AND PROJECTJUSTIFICATION

As explained in the main report, the justification for the project stems from the nation's dependence on imported seeds and food to bridge domestic shortages and the resulting high exposure and risk of introduction of dangerous exotic pests. Examples of problems from past exposure to this problem have been quoted. This situation makes it imperative to upgrade and improve on the current status of facilities for phytosanitary safeguards.

An efficient National Plant Quarantine Service is a necessary service to protect Tanzania's agriculture and also to facilitate smooth international trade (exports and imports) in conformity with the WTO Agreement on Sanitary and Phytosanitary conditions and to assure trading partners that Tanzania's agricultural commodites are free from plant pests and that they meet the required national and international standards.

3. FRAMEWORK CONDITIONS AND POTENTIAL

For a National Plant Quarantine Service to be able to efficiently execute its mandate, the framework conditions must be sound and be availed with physical infrastructures and relevant resources both for the Phytosanitary Inspectorate Service and the Post Entry Quarantine Service.

3.1 Institutional Aspects

The institutional arrangement compares well with most other countries and is in line with FAO recommendations.

3.2 Policy Aspects

The National Agricultural Policy recognized the importance of prevention and control of pests and diseases and gives statements on the measures the government will take to reduce the depredation of pests and diseases, including strengthening Phytosanitary services in the context of import and export controls.

3.3 Legal Framework

A comprehensive Plant Protection Legislation is in place. The revised legislation accommodates improtant policy and technical evolutions, at the same time clarifying the procedures and mandates for use in carrying out Quarantine services.

4. CONSTRAINTS

There are two sets of constraints – infrastructural and manpower cum operational constraints.

4.1 Infrastructure

Currently there are more than 20 Phytosanitary inspectorate service posts but only a few are operating and they do so at below standard due to poor infrastructure and lack of necessary resources.

4.2 Manpower

The manpower strength for the Phytosanitary Inspectorate (Import and Export Certification) is inadequate and below standard.

4.3. Weak Operational Capacity

The weak operational capacity of the major service posts is a result of a combination of these and problems and weaknesses.

5. PROJECT OBJECTIVES AND COMPONENTS

The objectives of the project is to increase the capability of Tanzania to defend itself against introduction of exotic pests detrimental to the development of agriculture and in the course of this process to facilitate trade in conformity with the WTO Agreement on Sanitary and Phytosanitary measures. Towards this end the project has three sub-components:

- Capacity building;
- Provision of necessary equipment and facilities; and
- Public awareness creation.

6. PROJECT OUTPUTS AND ACTIVITIES

The project is envisaged to have five outputs to facilitate the realization of the foregoing objectives, with each output entailing the enumerated activities:

6.1 Output 1: Technical Capability of Quarantine Inspectors Improved

Activities:

(i) Conduct training needs asessment;

(ii) Conduct 2 three-weeks duration in-country upgrade training per year for Quarantine inspectors;

(iii) Conduct 1 six-week duration course per year to 20 new Inspectors and deploy them in service posts as required; and

(iv) Sponsor 4 trainees to one year professional training overseas.

6.2 Output 2: Equipment and Supplies Availed

Activities:

(i) Procure and intall 2 cold chambers, one for DIA and one for KIA;
(ii) Procure or fabricate 2 incenerators, one for DIA nd one for KIA;
(iii) Procure PEQ laboratory and 2 plant clinics facilities; and
(iv) Install communication facilities at PEQ, PPD HQ and 5 major inspection posts.

6.3 Output 3: Import and Export Control Offices Refurbished

Activities:

(i) Refurbish and accommodate import and export control offices; and
(ii) Install furniture and accommodate offices as necessary.

6.4 Output 4: Transport situation Improved

Activity:

(i) Procure 3 station wagon vehicles and 6 motorcycles.

6.5 Output 5: A Revolving Fund is Operationalized and Service Sustainability Induced

Activity:

(i) Establish an income generation scheme through charging fees for the service.

6.6 Output 6: Cooperation of the Public and Stakeholders Achieved.

Activity:

(i) Conduct sensitization seminars and workshops; and
(ii) Produce and widely distribute information material.

7. BUDGET.

7.1	**TRAINING** (2 weeks in country training for forty inspectors; professional training 1 year for 4 trainees; and study tours/exchange visits by 5 senior inspetors, one each year)		**US$.113,500**
7.2	**CONSULTANCY**		**240,000**
	Project Administrator/		
	Expatriate for 2 years:	180,000	
	Short term consultancy	60,000	
7.3	**EQUIPMENT AND SUPPLIES**		**174,000**
	Produce inspection kits	50,000	
	Laboratory/clinic equip	100,000	
	Reference material	10,000	
	Two cold chambers	10,000	
	4 Refrigerators	4,000	
7.4	**OFFICE ACCOMMODATION**		**42,000**
	Assorted furniture	5,000	
	Office refurbishment	10,000	
	Communicatin equipment	15,000	
	4 computers & assessories	12,000	
7.5	**TRANSPORT**		**99,000**
	3 station wagon vehicles	90,000	
	6 motor cycles	9,000	
7.6	**OPERATIONAL COSTS**		**21,000**
	TOTAL		**US$.692,500** =========

ESTABLISHMENT OF A MODEL PRIVATE SECTOR EXPORTING COY.

1. Impact of low Export Earnings

A review of recent macro-economic trends reveals a continuing decline in the trade balance and a widening deficit in the Balance of Payments. This observation implies that the expected capacity of the government to meet the growing import needs of demand for capital and other consumer goods is decreasing due to an overall decline in the value of exports. This situation calls for innovative measures to boost exports given the near impossibility of inducing balance of payments by cutting down on imports. A sustainable drive to increase exports is viable if it involves manufactured goods, non-traditional agricultural exports and increased services. In this context, the establishment of an Exporting Company, whether public, private or a joint public and privately owned tool, is a proven instrument for the development of non-traditional exports, in an environment where such exports is largely the output of SMEs.

2. The need for an Exporting Company

2.1 The start up of EC concept originated from both developed and developing countries in the 1980's and the 1990's respectively. These were Canada and Israel on one hand and the Philippines and India on the other. All the four countries established and operated successfully model public owned EC to stimulate development of private sector companies.

2.2 The EC Concept

The EC concept is based on the establishment of a public or private company specialising on the export of manufactured or agricultural goods produced by small and medium enterprises (SME) or individual enterprises. The EC to be established can be operated on the basis of two options:

- holding title over the exported goods or
- leaving ownership in the hands of SME and merely facilitating the export process by use of it's name, resources, marketing channels and contacts.

2.3 Project Promoter

Given the necessary support, the government wishes to appoint the National Development Corporation, the Government's industrial and commercial development agency, the role of investigating and initiating measures for the establishment of a model Exporting Company. Given the Government's decision to withdraw from commercial activities the objective is for the NDC to stimulate and facilitate establishment of such a pioneer company based on private sector ownership, with a limited Government role if this should be proven necessary.

The primary objective of this company will be the facilitation of the export of SME's manufactured goods and non-traditional agricultural products (both fresh and processed)

2.4 Viability of the Project

Prior to the establishment of a pioneer model company, an important task that has to be undertaken is to establish the viability of the project itself. The approach towards attainment of this objective entails the preparation of viability reports prioritised as follows:

2.4.1 Pre-Feasibility Report should contain:

- general overview of establishing the proposed export company and selection of location.
- identification of possible expansion in both new sources of export items and related markets.
- existing environment and opportunities available and the infrastructure necessary for operating the export business.
- Analysing various assumptions to determine the viability of the project

2.4.2 The actual Feasibility Report should cover:

In essence, this report should contain:

- general features of the promoters project including the promoters existing company
- potential target markets
- determine projects' Financial requirements
- Risk analysis

3.0 FINANCIAL OUTLAYS AND STRATEGY

The studies to be conducted will give to both the promoter and the financier a better leverage to decide whether to embark with the project based on the given parameters or not. In order to undertake the initial studies it is proposed that funds to the tune of US$ 70,000 be obtained. The exercise will essentially involve consultants conversant with the field of study as well as local counterparts as dictated by the terms of reference to be drawn at the appropriate time.

Once the viability of the project is proven, the second stage objective will be to facilitate the actual establishment of the company, preferably on the basis of private sector financing, possibly supplemented by venture capital sources and other commercial lending sources. Apart from financial support, donor assistance can take the form of identification of potential interested private sector investor willing to take part on equity and/or lending basis.

****

RESTRUCTURING OF BET AND THE CONCEPT OF AN EXPORT DEVELOPMENT COUNCIL

1.0 THE EXPORT DEVELOPMENT STRATEGY

The Export Development Strategy (EDS) document proposed a single and effective institution, the Export Development Council, to undertake and facilitate export development. It is envisaged to provide an overall guiding vision on export development. The composition of the Council is expected to be a joint public private entity established on equal membership representation.

Another proposal by the EDS is the establishment of TEIPA, which was envisaged to result from the amalgamation of the functions of two separate existing institutions i.e. the Board of External Trade and the then Investment Promotion Centre or IPC (restructured into the Tanzanian Investment Centre or TIC since 1997). The intention was to rationalise the two promotion functions, and to elevate the importance of export promotion within the context of overall investment promotion while achieving budgetary savings. Promotion of export oriented investments was the ultimate goal of the EDS as gleaned from the experience obtained from S. E. Asian countries and Mauritius (where MEDIA = Mauritius Export Development and Investment Authority) perform both functions of export and investment promotion.

2.0 RECENT DEVELOPMENT

The proposal to establish TEIPA, Tanzania Export and Investment Promotion Agency, was overtaken by the formation of the Tanzania Investment Centre in 1997. Consequently, the restructuring of BET has to be implemented on a stand-alone basis, with no merger to TIC.

The BET has undertaken internal reforms, including staff reduction from a complement of 120 to a current level of 55. The restructuring initiative continues. Several reviews have been undertaken of recent including: (i) a study sponsored by JICA by Yoshio Sugimoto who submitted a report on a "National Export Promotion Council"; a review of Industrial Support Organizations (ISOs) supported by Sida; and (iii) a study undertaken by the ITC on the subject. On one hand, Sugimoto's report proposed the transformation of the current BET into an Export Promotion Council (EPC). On the other hand the ITC report apart from proposing new job descriptions and specification has also proposed a new organization structure for BET. The recommendations of the Sugitomo report largely tallies with those of the EDS report.

3.0 THE FUTURE OF BET.

Review of the foregoing reports reveals that prospects of export trade development are tied to the future structure of BET. In this regard, restructuring towards the form reflecting the functional set-up recommended in the Sugitomo and EDS reports is the best option for enhanced performance in export development.

3.1 BET as an EDC Secretariat

The key concept underlying current restructuring thinking is to establish an Export Development Council whose Secretariat will be a restructured BET. In essence this amounts to reconstituting the Board of Directors of BET on the basis of the Council model. The new set up is envisaged to serve as a consultation forum providing the guiding vision and stewardship for export development in Tanzania. BET in the envisaged new structure and role will serve as the EDC secretariat, working through sectoral panels.

3.2 The Organisational structure

In composition, the EDC should comprise of equal public institution and private sector representation. Members of the Council are normally senior executives drawn from the leading economic sectors or sub-sectors. Six such sectors have been identified i.e.: Agriculture; Horticulture; Tourism and other services; Manufacturing; Mining and Natural Resources; and Market Development. Staffing of these directorates and divisions reflects ITCs recommendations.

4.0 EDC's MISSION AND OBJECTIVES

4.1 Main Mission

The EDC's role and functions reflect the fact that the concept of development is wider than that of promotion and as such it undertakes both export development and promotion. This is accomplished through: advising on the production of quality exportable value added goods and services, proposals of incentives to exporters and advising on how this should be achieved by working through sectoral panels.

The council can effectively utilise the expertise of qualified and competent personnel who can work with other national and international experts towards formulating viable export development programmes.

4.2 Main Objectives

- To remove constraints facing both producers and exporters of exportable goods and services in order to increase the contribution of the export sector to the overall national economy;
- To formulate product and market development strategies;
- To identify export opportunities and promote an export oriented culture and build national consensus for economic growth on the basis of export-based strategies.

4.3 Legal Status

In order to enhance its capacity in developing and promoting exports, the council is normally registered as a company limited by Government guarantee. It operates independently, but apart from generating income from the sale of its services, it receives financial and logistical support from the government.

4.4. Board of Directors

Board members are senior executives from both private sector and public instutions with major involvement in the export sector.

4.5 Mode of Operation

The council carries out its mandate through a number of instruments including sectoral panels which address specific constraints facing the business community in priority sectors or sub-sectors. In Tanzania's case these are:

(i) Agriculture;
(ii) Horticulture;
(iii) Tourism and other services (finance and infrastructure);
(iv) Manufacturing;
(v) Mining and Natural Resources; and
(vi) Export Market Development.

The figure below presents the organizational structure of the Export Development Council and its Secretariat.

ORGANIZATIONAL STRUCTURE OF THE EXPORT DEVELOPMENT COUNCIL AND ITS SECRETARIAT.

SUPPORT TO SECTOR BUSINESS ASSOCIATIONS

1. BACKGROUND AND OBJECTIVES

This component has two major objectives. The first aim is to enable private sector firms respond and participate in the process of ongoing policy reforms particularly in the regulatory policy framework and increase their awareness of developments emerging in the international environment and how best to access inherent opportunities. In the second place, it is intended to create awareness of the advantages of common measures amongst firms at the sub-sectoral level for the purpose of promoting higher efficiency and competitiveness. These objectives can be realised through collection, analysis and dissemination of information through a common organization and the use of synergy and use of the tool of advocacy in influencing policy formulation/management pro-actively. It is envisaged that the implementation of this component will induce sustainable changes in the business community towards the utilisation of the services of Sub-sector and Sector Business Associations by enhancing the willingness to pay for them through the motivation of the demonstration effect.

2. DESCRIPTION

This component comprises of one basic element – the Sub-sector Business Association Support fund (SSBA) with a budget of US$2 million. The scheme is intended to assist both national associations, with emphasis on those involved in export trade development including TANEXA and the TPSF. However, support will also be extended to sectoral and sub-sectoral associations in all key trade-related sectors including agriculture, industry, mining, tourism and commerce. The objective is to provide technical and financial support to fledging associations with a view to building capacity for the fulfillment of their underlying functions more effectively to the extent of stimulating member's willingness to provide adequate financial support in future. The scheme will be managed by an experienced Administrator supported by the IF Focal Point. At the national level support will focus on how to facilitate networking of the different national and sectoral associations to achieve a network for the promotion of exporting capability at the firm level.

3. NATURE OF SUPPORT AND ELIGIBLE PROGRAMMES

Available experience indicates that strong sector associations do play a positive role in fostering productivity and competitiveness. This is the case in member-driven associations which are able to provide services that are costly for members to procure individually, subject to the condition that services offered are those desired by members. The kind of activities usually amenable to this kind of action include:

- Preparation and provision of programmes to improve productivity and competitiveness of members;
- Provision of information on trends in the domestic and international environment;
- Information networking amongst members; and
- Policy advocacy in a dynamic regulatory environment.

The program will focus on the development of capacity to offer these services with a bias to promotion of exporting capability at the firm level. Actual support will be extended in three concrete forms: (i) support to strengthen the capability of subsector associations in the preparation of an association business plan reflecting its environment, membership and inherent opportunities; (ii) provision of a 75:25 matching grant covering a period of about one year to cover the costs of an expert in the core business of concerned association, on part-time or full-time basis. This expertise will be used in kick-starting the operationalization of an ideal subsector programme; and (iii) support in preparation of technical and marketing programs (program matching grants) on 75:25 cost-sharing basis. Contributions to the two matching grant schemes will be in the ratio of 75% by the scheme and 25% by the beneficiary association.

Experience reveals that an allocation of about US$10,000 is adequate to finance the preparation of business plans per association (development support). The financing of technical personnel with expertese in sector specific issues is expected is more costly and there would be need to match available funds and minimum time necessary for an effective program. Finally the matching grant sub-component can be limited to an upper ceiling of US$100,000. One key factor concerning the contributory aspect in financing for the matching schemes is that if this is applied to fledging associations, there is a tendency that many may not be able to access the scheme in view of the relatively high costs involved. Consequently, it may be necessary to limit the matching grant approach to support accorded to mature organizations while emerging and fledging organizations could be considered for full support for a shorter period of time.

4. COMPONENT MANAGEMENT AND OPERATIONAL DETAILS.

Normally this scheme is managed by an Administrator supported by specialist management contracting services and a Technical Adviser. It may be possible to lower management costs by linking support to different associations, taking into consideration the core objective of export development and promotion. A Steering Committee is usually required to co-ordinate the implementation of this component and undertake regular review, on a quarterly basis. Operational procedures for the scheme to be completed and approved by the supporting financier will have to include the following aspects:

- (a) approval procedures;
- (b) criteria for the eligibility of Associations and Programmes;
- (c) criteria for the Matching Grant Funds and possibility of exemptions;
- (d) types of eligible programmes; and
- (e) tasks of the Programme Administrator.

On one hand, major criteria for the eligibility of associations and programmes include: (i) applicants have a critical mass of members of not less than 10; (ii) democratically elected governing authority; (iii) members paying their dues at an agreed rate; and (iv) associations commitment to working in cooperation with other associations on the provision of business services and information. On the other hand applicant associations have to give the following undertakings: (i) to permit non-members to participate in programs funded with matching grants; (ii) to actively market such programmes to non-members; and (iii) co-operation with parallel associations or their members. With regard to program eligibility it is important that these focus on improving productivity and competitiveness. Further they should not focus on aspects such as general management and financing issues which equally affect firms across different sectors, but should be tailored to the uniqe activities of firms in the specific cluster of activities.

Detailed operational procedures for this component will be developed in cooperation with the financial supporter reflecting available international experience.

ANNEX B.2

ESTABLISHMENT OF A MODEL EXPORT PROCESSING ZONE

1. BACKGROUND AND OBJECTIVE

A appraisal on the EPZ concept was commissioned in 1996 with a view to examining the potential of its application in Tanzania as an export development instrument. The findings, based on a review of use of the concept in both Industrialised and Developing Countries recommended its adoption as a means of attracting unique industries which have become used to operating in duty-free environments, and for which Tanzania has additional natural advantages in the form of the resource base.

2. IDEAL LOCATION AND ALTERNATIVE SITES

The study established that the EPZ concept can be implemented as a private sector initiative. However, it is difficult to attract private sector investment into "first time zones" and that it is necessary to establish the initial zone as a public investment undertaking, with its proven performance serving as the motivation for subsequent private sector investment. The report also recommended initial emphasis on establishment of a multiple enterprise zone to start with, with recourse to single firm zones at a later stage.

3. FEASIBILITY STUDIES

A full-fledged feasibility analysis was undertaken as part of the study by Messrs Louis Berger International of the USA. The basic recommendation is that an ideal model EPZ can be established in Dar es Salaam on premises adjacent to the Dar es Salaam port with a total area of about 19 hectares at a cost of US$28.8 million and that implementation can be undertaken in one or two phases. Two phased implementation is possible through initial investment of US$16.8 million of which US$13.8 million is for infrastructural construction and the balance of US$3 million to finance start-up management and marketing costs up to the point when the zone becomes self -financing. The project is estimated to have a pay-back period of 6 years.

The Berger report also looked at alternative locations within Dar es Salaam. Although the best option was considered to be that near the port, the other locations within Dar es Salaam are also attractive and viable in the event that the first choice is not available for whatever reasons. The report emphasized the fact that locations outside Dar es Salaam are not viable initially but any location within Dar es Salaam is viable. Finally the report also made detailed recommendations on the necessary legal framework and institutional structures that have to be put in place.

4. CAPITAL OUTLAYS AND FINANCING ALTERNATIVES

There has been considerable lapse of time between the submission of the Berger report, its adoption and initiation of measures for actual implementation. This trend has been occasioned by the tight financial constraint facing the Government including the debt overhang problem culminating in a tendency to shy away from loan financing altogether. It is for this reason that a financing request based on phased implementation has been included in the Integrated Framework Programme. Given the large magnitude of financing involved the basket funding approach is recommended. A copy of the feasibility report is available for interested donors.

****

ANNEX B.3

TECHNOLOGY DIFFUSION AND COMPETITIVENESS FUND

MANUAL OF POLICIES AND OPERATING PROCEDURES.

1. INTRODUCTION AND BACKGROUND

1.1 Background:

In the 1970s and 1980s the Tanzanian Government built up a substantial productive and service sectors structure based on a combination of State Owned Enterprises (SOEs) and private sector initiatives. With regard to SOEs, a total of 400 enterprises were in place by 1990, most of them being in agriculture, industry and trade, tourism and the natural resources sectors. The performance of both public and private sector enterprises became severely constrained by the series of economic crises experienced during the 1980s. In the industrial sector, the nature and extent of these problems was established through diagnostic studies undertaken between 1988 and 1992. The problems constraining SOEs performance have been largely addressed through the privatisation programme. This approach has been quite successful in the case of enterprises divested to the foreign private sector. Similarly a few industrial establishments initially owned by the domestic private sector have undertaken successful restructruring and revival through joint ventures and partnering with foreign investors. However the experience has not been that successful in the case of enterprises divested to domestic entrepreneurs and enterprises. Likewise investments initially established through private sector initiatives, which have not undertaken restructuring initiatives in the course of the 1990s, are currently encountering severe performance problems.

1.2 Evidence from the Industrial Sector.

As an example, a substantial proportion of industrial enterprises, particularly those in the textiles and leather sector have been divested to the domestic private sector. These enterprises, together with those initially established by the private sector continue to experience considerable financial and technological problems mitigating against performance. Most such enterprises are still constrained by problems of financing for the purpose of modernisation investment. Such firms have been unable to compete in the domestic market due to antiquated production technologies and management methods while their export performance is constrained by lack of access to international market channels. Available information indicates that the post-divestiture restructuring of SOEs now in domestic private sector hands, in many instances, has not been based on professional technical inputs and advice: This is attributable to the misplaced perception of cost control through avoidance of top professional service providers.

The manufacturing and service sectors today face stiff challenges as a result of international technological developments leading to dramatically lower costs compared to inordinately higher and rising domestic costs, easy access to information, and the opening up of markets due to globalisation and regional integration schemes. There is urgent need for simultaneous construction of competitive platforms at the national level and the building of competitive positions at the firm level. The former is to be achieved through good governance and commitment to establishing a conducive macro-economic environment and appropriate sectoral policies. The latter is to be accomplished through: active investment in technology and skills for improving product design, productivity and quality; acquiring more appropriate methods of production; developing more effective methods of capital and human resource management; and diversification into new and higher value added products.

1.3 The Concept of the TDCF Scheme

Successful acquisition of technology or investment in technology through the purchase of modern equipment and retraining of key personnel, among other things, is critical in helping firms create the competitive edge necessary for survival initially in regional markets and eventualy in the global market-place.

The TDCF is a matching grant scheme focusing on supporting private firms in the acquisition of external expertise for business and technology development, through support in the form of 50/50 cost-sharing grants towards the cost of purchasing outside technology support services. The expectation is that this support will accelerate the development of an active market in such services, provided by both foreign and local service prodivers.

2. OUTLINE OF THE TECHNOLOGY DIFFUSION AND COMPETITIVENESS SCHEME

2.1 Objectives of the TCDF Scheme

The overall objective is to enhance competitiveness in domestic economic activity particularly in the manufacturing and services sectors, targeting both the domestic and export markets, thereby promoting sustainable growth. This will be attained through private sector access to technological know-how for improved productivity, quality, design, response times, administrative/marketing/financial management systems, clean technology as well as diversification of production. The fund facilitates offsetting the costs of learning in the process of initial acquisition of technology services and promotes technology diffusion through strong demonstration effects at lower costs to the participants. The project is scheduled to last for a period of four years, effective from the date of launching, depending on timing and availability of financing.

From the theoretical perspective, the scheme enables firms facing a steep learning curve to overcome the high cost inherent in shortening the long time involved in the process of learning. It aims at establishing an active market in technology support services and in encouraging individual firms to draw upon the resources of this market in addressing existing internal problems. It aims at encouraging management to seek recourse to professional solutions in difficult circumstances rather than opting for cheaper solutions by "moonlighting" service providers entailing higher opportunity costs in the form of sub-optimal solutions and pervasive failures to overcome underlying problems.

2.2 Resources and Level of Support.

Each candidate firm, will receive a grant support restricted to one usage of support per product/service category. For instance, a firm may use its first grant for support in proving the quality of its product or service, and its second grant for support in reducing the time it takes to process client orders. The firm would not be eligible for grant support from either of these service categories afterwards. However, it would be eligible for support from categories in which it has not yet received grant support, subject to being within the upper limit of total support allowable per qualifiable firm.

Following the end of grant support, the firm is expected to resort to paying the full commercial rates for desired technological support services, having appreciated the prudence of using such services during the grant support period. Private sector firms, especially but not only SMEs from the manufacturing and service sectors will be eligible for support. Applications will be dealt with on the basis of first-come, first-served. In the case of simultaneous applications, priority will be accorded to SMEs, women entrepreneurs and first time applicants in that order. The willingness of applicants to fund 50% of their share of the costs involved is a basic criteria.

The performance of the scheme will be assessed through post-project performance of firms with regard to monitorable indicators such as productivity enhancement, sales turnover and increase in exports, and other indicators drawn up on the basis of experience gained in similar schemes implemented elsewhere. Specific performance targets will be drawn from emerging examples, including the performance of similar schemes in Uganda and in Mauritius.

A total of US$4 million is being sought for this scheme on account of the large number of former State Owned Enterprises (SOEs) and other privately owned enterprises, which are currently facing dire operational problems and the need to assist them in sourcing professional advice for rational solutions. It is expected that the full amount, if secured, will be committed and disbursed within the four years of the project lifetime. Each individual grant will be matched by an equal contribution by the candidate firm itself.

Each firm is eligible to receive support for several projects, with maximum grant support per firm recommended at US$75,000 while the grant ceiling per project is US$30,000.

3. ELEGIBILITY CRITERIA

3.1 Eligible Beneficiaries.

All legally registered Tanzanian-based firms with 51% or more of equity in private hands qualify for consideration under the scheme. Unincorporated bodies qualify for grant support provided that they keep proper accounting procedures and are law abiding organisations that submit VAT and income tax returns. It is expected that the bulk of support will go to firms in the manufacturing and service sectors. Adequate efforts will be made by the Management Unit to target SMEs and women entrepreneurs. The Management unit will also ensure that potential qualifying firms are legitimate, profit seeking concerns in sound financial position, operating according to sound financial and management standards and maintaining adequate accounting records. The basic criteria for qualification includes:

(a) Legitimacy and lawfulness of the organisation i.e.
   - (i) The organization must be genuine
   - (ii) It must be duly and legally registered
   - (iii) It must be a recognized entity operating according to Tanzanian Law

(iv) It must have clean legal records at the time of submitting its application for grant support, and must not have any lawsuit pending. There must be full disclosure on any pending lawsuits. Failure to disclose such lawsuits will automatically lead to disqualification of the firm involved.

(b) Effective Organisation Structure

(i) Existence of effective leadership i.e. a promoter, leader, president or chairperson

(ii) Existence of office bearers and/or executive members

(iii) Existence of transparent mechanisms for recruitment of members and employees and appointment, nomination or election of office bearers or executive members, including that of the president or chairperson

(iv) Existence of a constitution

(v) Existence of a Charter regulating the function of the organization and evidence of its practical use.

(c) Sound Financial Management

(i) source of financing

(ii) capacity to raise funds

(iii) existence of a treasurer

(iv) existence of a bank acount

(v) existence of minimum controls to ensure the economic use of funds, assets and resources.

The PMU will undertake to draw up a universal list of potential applicants on the basis of information being compiled by the IF Secretariat and to be finalisedby the IF Focal Point, and verify this list with data from the Tanzania Revenue Authority and the appropriate registration authorities.

The scheme can support local providers of support services, who also need to utilise external specialists in order to upgrade or extend the range of services they provide, with the objective widening the scope of services provided. Service sector grant support extends to firms engaged in tourism and leisure activities, financial systems, information technology systems, telecommunications systems, transportation systems, environment and engineering systems. However firms in wholesale and retail trade, public administration, healthcare, eduction, social services and personal services will not qualify for the TDCF support. Large firms organized into separate operating divisions may be treated different with the final decision based on the discretion of the Supervision Committee.

3.2 Eligible Projects

Use of external techology support services contributing to enhanced competitiveness by targetting specific product or service features will qualify, subject to fulfilling basic environmental considerations. Key product or service features to be considered include:

(i) labour or capital-equipment productivity, or the productive use of raw materials, so as to reduce the cost per unit of output;

(ii) quality management systems such as quality circles and ISO 9000/14000 etc

(iii) product or service quality, uniformity and reliability;

(iv) product design, in the broad sense, including aspects such as grading, counter-sampling, packaging design, and modifications to buyers' designs;
(v) improved response times to client orders and order amendments;
(vi) the introduction and adaptation of new techiques or technology, in order to diversify or extend a firm's range of saleable products and services;
(vii) the introduction of technology or techniques to improve human resource and administrative management, marketing and or financial systems; and
(viii) the introduction of environmentally friendly technologies or systems.

For clarification purposes the following are examples of qualifying and non-qualifying projects in schemes that have been highly successful in other environments. These are only tentative ideas. More specific conditions would be drawn up by the PMU and approved by the Supervision Committee reflecting the realities of the Tanzanian environment and the constraints being addressed by this scheme.

- In factory consultancy and short-term contract for incremental management services (given verifiable lack of in-house capacity) for up to six months in duration per target expert qualifies. However new permanent staff for same purpose would not qualify.
- Consultancy or short term contract management assistance directed specifically at improving labour productivity or yields on raw materials would qualify. However the purchase of production equipment that would have spin-off effects on labour productivity would not qualify.
- In the garments industry, assistance in improving in-house capabilities in design-related techniques such as pattern-making, prototyping, grading, sizing, and counter-sampling would qualify. However buying in a set of designs for one season would not qualify.
- A feasibility study or survey that is a component of a project that will involve the implementation of a concept would qualify. However a stand-alone feasibility study for a new project or survey will not qualify.
- Partially completed projects will not qualify for support.

Qualifying beneficiaries have to show that their chosen service providers have the requisite capacity for successful project implementation, based on applicable criteria. Finally, local business sector organizations will be encouraged to organise group schemes so that a substantial number of their members can benefit form TDCF support. For instance the TCCIA or CTI or SIDO and associations in the mining and tourism sectors, can organize group schemes, targetting their support to private firms in their sectors, that would benefit from the scheme. However, applications from group schemes would be broken down so as to specify the needs, costs and benefits for each participating firm and determine the relevant 50% contribution by each participating scheme. Grants will not be provided to match contributions from association funds or public funds.

The maximum length of a project support by the scheme is six man-months or 183 man-days, which can be spread over a maximum of 18 calendar months. In the event that the duration of an approved project exceeeds 18 months, grant support for the project will be revoked immediately by the Supervision Committee. All approved projects should be completed at the latest three months before the end of the scheme, so as to ensure that the PMU has sufficient time to finalise all outstanding disbursements and post-project monitoring of performance of the grant recipients.

3.3 Eligible Service Providers

The PMU will compile a register of potential service providers in Tanzania to assist potential beneficiaries, and will be at the disposal of such beneficiaries to advise on this aspect. However the choice of service provider will be made by recipient firm without restriction to the PMU list. Yet, the PMU has the obligation to satisfy itself as to the service provider's competence for the intended task, and that there is genuine arm's-length relationship between the supplier and the user to mitigate against potential collusion. The PMU must also satisfy itself that fee rates being charged for services conform to market realities, especialy in cases where service providers are not previously known to the PMU. The PMU will also ensure that expenses conform to other conditionalities made by the funding agency. Other conditions for service provider eligibility include:

- Service Providers wishing to provide their expertise in qualifying activities must first register with the TDCF before commencing work on an activity supported by the scheme;
- The Service Provider may be an individual or organisation providing that competence and experience is demonstrated in a qualifying project area. The requirements and documentation to register as a consultant under the TDCF scheme will be drawn up by the PMU and approved by the Supervision Committee as part of detailed operational procedures;

Finally, the Government will facilitate and expedite timely and transparent issuing of Work and Residence Permits and other required Government approvals, for external consultants required in the course of TDCF approved activities.

4. APPLICATION AND SELECTION PROCEDURES

4.1 Application Procedures and Defined Output

Each applicant firm will be subjected to a screening interview by the PMU for the purpose of establishing eligibility and all information provided in this course will be treated in confidence. Firms which pass the screening interview must submit a formal application for grant support, through the completion and submission of an application form with requisite supporting documents including:

(i) **a business plan –** information about the firm and its activities; indentifying how the qualifying activity will contribute to the achievement of the firm's business objectives;

(ii) **terms of reference** – definition of project particulars with respect to length, work programme, breakdown of costs and defined output. This document will include a copy of a signed standard contract letter of agreement between the firm and the service provider;

(iii) **proof of financial soundness –** documentation (e.g. audited financial statements that are no more than 12 months old, a current letter of support from the bank) demonstrating the financia l solvency of the firm; and

(iv) **registration of consultant** – formal registration of the appointed consultant(s) to the TDCF database.

The PMU will prepare and make available to applicants a detailed guide on application procedures, approved by the Supervision Committee prior to utilisation. In addition the PMU will assist applicant firms, by means of clarifying such guidelines, in the preparation of their applications and supporting documents.

4.2 Definition of Output and Qualifying Activity

For each qualifying activity for which grant support is being sought, the firm concerned will be expected to define at least one "deliverable output", the sight of which will allow the PMU to verify that the activity had indeed taken place, as described. Depending on the cir ucmstances, a defined output might , for instance, consist of a new quality manual or manufacturing procedures manual representing significant improvements over previous versions, a consultancy report on the setting of a design facility within a factory or the results of an overseas visit; an implemented production system; or a production prototype of a new product line.

The PMU will assit firms in defining suitable deliverabes that will allow them to verify activities, but which are deliverables in any case beneficial to the firm, rather than produced merely for the justification of the scheme.

4.3 Selection Procedures and Approval of Applications

Taking into consideration trends in the local consultancy market and fees charged by both domestic and internatio nal firms operating in this market, it is expected that many projects will fall in the region of US$20,000 to US$60,000. Consequently 50% grant support is likely to be in the region of US$10,000 to US$30,000. This entails a range of 200 to 300 projects to be supported, with an individual firm being being allowed a maximum of three projects. All applications and supporting documentation will be submitted by the PMU to the TDCF Supervision Committee (SC) for approval. The Supervision Commission will meet, at least on a monthly basis and will seek to satisfy itself that the potential qualifying firms submitting applications are legally registered entities, are in sound financial position, operate in accordance with sound financial and managerial standards; and maintain adequate accounting records as required.

It will be the responsibility of the PMU to promptly scrutinise and submit received applications with full supporting documentation to the SC for consideration and approval. Each submission will be accompanied by summaries of the applications. Candidates with rejected applications will be informed in writing by the PMU and be given the opportunity for discussion on possible next steps. A firm whose application has been rejected may appeal and request the SC to reconsider its application.

The SC has the authority to revoke an approval that it has already granted in the event it transpires that fraudulent information has been provided as part of the application and/or its supporting documentation.

The primary selection of firms eligible for grant support from the scheme is carried out by the PMU. Applications screened by the PMU will be ratified by the SC, based on the eligibility criteria for beneficiaries set out in section 3 above and summarised in the checklist below.

TDCF GRANT APPLICATION ACCEPTABILITY CHECKLIST	
Criteria	**Check on Acceptability**
For Beneficiaries (Firms):	
Beneficiary meets eligibility conditions set out in section 3.2 ..	Yes/No
Beneficiary is fully committed to undertaking the project	Yes/No
Beneficiary has resources to implement the project	Yes/No
For Projects :	
Project meets eligibility conditions set out in section 3.3	Yes/No
Project meets priority needs of the beneficiary	Yes/No
Project will have a significant impact on the beneficiary	Yes/No
Project can be completed within the proposed timescale	Yes/No
Project is technically feasible	Yes/No
Project is environmentally sustainable	Yes/No
For Proposed Service Providers (Consultants):	
Service provider meets eligibility considtions set out in section 3.4	Yes/No
Service provider has relevant credentials and experiencein project Category	Yes/No
Service provider is a separate organisation from the beneficiary ..	Yes/No
Proposed fees are reasonable in relation to market rates	Yes/No
Fee rates conform to financier's conditions and rates	Yes/No

Failure to fulfill any of the foregoing criteria leads to refusal of application.

4.4 Contractual Obligations and Compliance by Recepients

On receiving approval for grant support, each firm will be required to sign a contract letter of agreement with the PMU. Upon receipt, the firm has up to two weeks (14 days) to sign the contract and the PMU will consider the contract void if the firm does not sign and return the contract within this specified time period. The contract will bind the firm to present defined deliverables for viewing by the PMU. The contract will also bind the firm to present defined deliverables to the SC and representatives of the financiers who will conduct the ideal number of independent evaluations on the scheme. These bodies have the right to view deliverables but not to take them off a client firm's premises or take photocopies or photographs. All outputs from supported activities will remain the exclusive property of the supported firm, with commercial confidentiality fully preserved. PMU staff, members of the Supervision Committee and representatives of financiers who conduct evaluations will respect to the commercial confidentiality of all deliverables and outputs.

A contract letter of agreement binds the firm to back up all claims for its reimbursement of half of all eligible expenditures with receipted invoices/vouchers for all fees and incidental expenses covered, so as to enable the PMU to verify that the expenditures have indeed been made. Grant payments will be conditional on sight of defined deliverable, and on presentation of receipted invoices and vouchers for qualifying expenditures, confirmed as accurate by a certified signatory of the firm.

The contract letter of agreement will also bind the recipient to provide continuing information on incremental sales and, if applicable, exports achieved, and/or whether business plan objectives have been met, as a result of supported activities, so as to enable the PMU or the TDCF Supervision Committee to track the direct impact of the grant support on the enhanced competitiveness of the firm, and thus to monitor the achievement by the scheme of its impact target.

4.5 Automatic Disqualification

In case a beneficiary, project or service provider is in clear contravention of any of the eligibility criteria set out above, an applicant will automatically be disqualified for grant support by the supervision Committee. For instance, no funding will be provided to any organisation that has provided false information in its application and/or supporting documentation, or to projects that are technically non-feasible.

Sanctions are necessary to prevent the mismanagement of the resources of the programme. Provisions are put in place to deter any inappropriate actions on the part of the beneficiaries or the service providers before, during and after the implementation of projects. Should cases of misappropriation of funds arise, they would be referred to the Supervision Committee for appropriate actions.

The following are examples of occurences that would be treated as sanctionable "offences" and would be bound for automatic disqualification from the programme:

- Concealment of information required in the general eligibility criteria;
- Misapplication of Programme funds
- Failure of a grant beneficiary to fulfil its contractual obligations under the Programme;
- Failure of grant beneficiary to implement its project according to schedule without reasonable cause; and
- Failure to reveal any legal issues and any conflict of interests.

5. REIMBURSEMENT PROCEDURES AND POST PROJECT MONITORING

5.1 Eligible Expenditure

Expenditures on services provided by the firm undertaking the management contract (the PMU) or associated firms, will not qualify for support.

Expenditures on service fees, plus addditional travel and incidental expenses charged at cost (subject to additional conditions by financier) incurred wholly and exclusively on a qualifying activity, will be eligible for 50% grant support. However, any project overruns that were not identified in the firm's grant application will not be covered by the TDCF. Salaries for staff employed by the beneficiary firm will not be eligible, nor will recurrent costs such as royalty fees. Expenditures on hardware and computer software will not be supported even when equipment or instrumentation purchases form a significant part of a firm-level usage of external technology support.

All payments by the firm have to be made by cheque or bank telegraphic transfer to allow easy trace of the expenditures made over the duration of a project. Along with signed receipts, firms will also be requested to supply a letter of confirmation from their bank/building society for payments made to the appointed service provider of their granted project.

All grant support expenditures are made on reimbursement basis.

5.2 Disbursement of Grants

Upon project completion, a firm is given a maximum of 45 days to submit its defined deliverables and proofs of payment for reimbursement. If the firm does not submit the required reimbursement documention to the PMU within this specified period of time, the SC may consider revoking grant support for the project unless reasonable grounds are given for an extension.

The TDCF will have its own bank account, which will firstly be deposited with a predetermined amount as per the disbursement forecasts produced by the PMU. The bank account will be replenished accordingly by the financier. The frequency and level of replenishment will be based on the level of disbursements over the life of the scheme.

Grant disbursements will be executed within 14 days following approval of the claim by the PMU and further verification by the Tanzanian Implementing Agency (MIT or NDC etc). The grant recipient will be contacted by an officer from the Implementing Agency when payment is ready for collection. The beneficiary will receive 90% of its grant immediately and the remaining 10% is paid when the firm has submitted to the PMU the post-project monitorables for its granted project. There are normally two monitoring periods: the first scheduled upon 6 months following project completion and the second undertaken 12 months following project completion.

5.3 Post-Project Monitoring of Grant Recipients

Six months after completion of granted projects, firms will be requested to submit information on their "Key Monitorable Indicators of Effectiveness" or monitorables, for their consultancy projects. These monitorables, also defined in the business plan, are quantitative and qualitative measures of how effective the acquisition and the implementation of technologial know-how transferred from the consultancies have been in helping the firms to improve their competitive positions. Firms will be requested to submit data corresponding to their particular monitorable indicators for the purpose of analysing performance in relation to pre-project performance (data on both pre and post-project monitorable data are requested from firms). This allows the PMU to monitor changes, if any, as a result of the granted consultancy project.

One monitorable normally requested from all grant recipients is *Information on Changes to Sales and Exports* in the form of figures for overall sales turnover and, if applicable, export sales turnover. Normally the first period for which data is requested is the 12 months that elapsed just before their respective projects had commenced. A maximum of two twelve-month post-project periods running in six month successions will also be requested, with the first period ending six months after a project has been completed, with the condition that the firm has received 90% of its TDCF grant.

Project specific monitorables will also be requested from the firms which vary in terms of the firms' business practices and project types. They are also a more direct measure of how effective the consultancies have been in aiding the grant recipients, as these indicators are specific to the objectives of the TDCF supported activities.

In addition, one year after project completion, the beneficiary firm will be requested to produce a brief status report summarising the benefits, if any, gained from participating in the TDCF. The report will also outline the firm's current activities; any new investments and/or projects undertaken, and, its business plan for the coming year.

A firm will receive the outstanding 10% of its TDCF grant after it has successfully furnished its monitorable information to the PMU. Again, grant disbursement wil be executed within 14 days following approval. Upon receiving its last reimbursement, the beneficiary firm will be given the opportunity to assess the performance of the PMU by completing a questionnaire on the management of the scheme.

6. ORGANIZATION AND MANAGEMENT OF THE TDCF

6.1 Organizational Structure of the TDCF

The organizational structure of the TDCF involves four parties: the Supervision Committee (SC), the Project Management Unit (PMU), the Service Provider and the Grant Beneficiary. The SC proposes and authorises the allocation of funds managed by the PMU according to the criteria and priorities established for the fund. The PMU is respnsible for the day to day management of the TDCF. It has the core responsibility of selecting, appraising, following up and supporting the project. The PMU reports to the SC. The Service Provider is the appointed consultant who implements the project in conjuction with grant beneficiery.

6.2 Overall Management and Supervision

The Contracting authority for the TDCF will be the Ministry of Finance while the Ministry of Industry and Trade (or the National Development Corporation if this is agreeable to the financiers) will be the Executing Agency. The day to day management of the TDCF will be delegated to the PMU, which will be managed by a private sector firm of International Consultants with the requisite experience. The size and terms and conditions of service of the management team will be negotiated with duration of contract linked to duration of the scheme subject to yearly review of the PMU's performance by the Contracting and Executing Agency. If the performance of the PMU is not acceptable, the Contracting authority will have the option to terminate the contract at the end of each twelve-month period. The Executing Agency will delegate its role on supervising the contract with the Management Agent to the Supervision Committee made up of representatives of the financiers, the Government and the private sector. The composition, role and functions of the SC will be clearly defined in the scheme documentation and includes those listed in the subsequent section.

6.3 The Supervision Committee and Its Functions (SC)

The SC will be composed of representatives from key Government Ministries including the Ministry of Finance and that of Industry and Trade, private sector business associations and the financiers. The main function of the SC will be to determine the allocation of the funds managed by the PMU according to the criteria and priorities established for the TDCF. Other SC functions will be:

(a) formulation/validation of the basic outlines of the programme;
(b) planning of budgetary allocation;
(c) approval of budgetary reallocations;
(d) review of the balance of grant allocations between different types of beneficiary (e.g. SMEs, women, first time beneficiaries)
(e) setting up the PMU and monitoring of the management, administration and personnel of the PMU; and
(f) supervision of the internal and external evaluation process of the programme.

6.4 The Project management Unit (PMU)

The PMU or management contractor of the scheme will consist of a Project Manager and a small supporting staff of two or three people and a back-up team provided by the management contrator's firm. The Project Manager should have substantial experience in managing projects related to technology transfer and matching grant facilities and adequate understanding of the local business context. The back-up team will provide support in designing and implementing the management information system and application procedures, and reporting to the TDCF Supervision Committee.

The core function of the PMU is to implement the TDCF and oversee the achievement of its objectives and provide hands-on support to the beneficiaries. Other tasks of the PMU include:

(i) promote the scheme to eligible potential beneficiaries and service providers;
(ii) assist beneficiaries with the programming of their individual firm-level activities;
(iii) assist beneficiaries, where required, in sourcing suitable service providers;
(iv) design standard scheme documentation (application/registration forms, contract letters, etc);
(v) assist beneficiaries with the preparation of their grant applications and supporting documents;
(vi) assess and recommend applications for grants for approval by the Supervision Committee;
(vii) administer the disbursement process and approval of grants;
(viii) assess "deliverables" of approved projects;
(ix) monitor the post-project performance of grant recipients;
(x) design and maintain a comprehensive service provider (consultant) database;
(xi) design and implement a management information system;
(xii) report regularly to the Supervision Committee;

(xiii) take effective measures to remove any problems and bottlenecks that inhibit smooth implementation of the Programme. This includes the provision of direct support at the inception, implementation and finalisation stages of the projects through site visits, face to face discussions, telephone conversations and other means; and

(xiv) update the Manual of Policies nd Operating Procedures for the scheme as and when required.

6.5 Equipment and Facilities for the PMU

The Executing Agency will provide office space, furniture and secretariat support for the PMU. In addition the project will have a provision for office equipment, IT software, and transport, whose use will revert to the Executing Agency upon completion of the scheme.

6.6 Publicity of TDCF Activities.

Information on the scheme and number and type of projects (by product/service feature) being supported will be publicized through the local media once every six months for the purpose of enhancing the scheme's demonstration effect. This public information will be of a general nature to preserve the confidentiality of the respective scheme beneficiaries. In addition, the TDCF team will engage actively in promotional work through seminars, press conference and other functions to disseminate information about the benefits derived from the scheme. A number of events to be agreed upon, either seminars or workshops, will be arranged for the purposes of information dissemination through case studies and use of resource persons. Details disclosed at these events will be determined entirely through the discretion of grant beneficiaries concerned.

6.7 Reporting Format and Accountability

The PMU will prepare and submit to the SC a monthly report detailing information about: companies and consultants interviewed/visited and their profiles; in process, approved and rejected applications; types and sizes of firms and projects receiving grant support; funds committed and disbursed; and marketing efforts of the Management Contractor. The PMU will also produce three annual progress reports and a final report at the end of the scheme. The annual progress reports will summarise information contained in the monthly reports apart from the following additional information: the achievements of the scheme's targets; post-project monitoring (i.e. the key monitorable indicators of effectiveness); the status of th PMU's operating costs; and other relevant PMU activities. In addition to the above, the final report will include a complete review of the scheme and any suggested actions to be considered for the future. The PMU will be given up to two calendar months following the end of each contractual year to prepare and submit each of these report.

In addition to the above, at the outset of the scheme, the PMU will produce a disbursement schedule that will forecast the disbursement of funds over the life of the TCDF. The purpose of this schedule is to ensure that the programme's bank account contains adequate funds on a continual basis over the life of the scheme. The disbursement schedule will be reviewed and, if necessary, revised on a quarterly basis to ensure that it reflects the actual level and frequency of grant funds allocated and disbursed.

6.8 Monitoring and Evaluation of TDCF by the Financier(s):

Apart from the immediate supervision by the Contracting and Executing Agencies, the scheme financiers will also review application approvals and rejections, and will give guidance to the Supervision Committee on TDCF policies and operating procedures. The ideal number of evaluations and their timing will conform to the financial procedures of the financier(s) concerned.

7. FLOWCHART OF TDCF GRANT SUPPORT REIMBURSEMENT PROCEDURES.

Finally, the Manual of Operation Procedures will include a clear flowchart detailing the TDCF reimbursement procedures. This is to be prepared in collaboration with the financiers so as to conform to their standard procedures.

****

EXPORT CATALYST MATCHMAKING SCHEME

1. Objective:

The objective of this sub-component is to build Tanzanian firms' export capability by facilitating export-oriented enterprise collaboration between small and medium, local and foreign partners through a match-making scheme. The foreign partners will bring in a package of external market access and production know-how and possibly investment finance.

2. Rationale:

Potential exporters in an LDC environment are normally constrained by lack of: (i) access to the external market channels and related market information; (ii) access to suitable production know-how for export products; and (iii) access to information on sources of inputs for export oriented production. The export catalyst scheme addresses these constraints by matching potential domestic exporters with international partners with the capability to bridge these shortfalls, thereby facilitating acquisition of necessary skills and almost immediate entry into the global market. The scheme rests on reliance of private intermediaries willing to use their information networks to bring together foreign export-oriented entrepreneurs and local manufacturers in a collaborative scheme that leads to enhancement of exporting activities.

3. Private Matchmaker Role, Structure and Remuneration.

The Private Matchmaker plays the central role of identifying potential foreign collaborators, brokering information on business opportunities in the recipient country. The ideal Matchmaker has an information network on local firms and uses this network to link potential local partners with suitable foreign collaborators. One of the core issues underlying a successful catalyst scheme is that of remuneration for the Matchmaker and use of incentives linked to performance.

(a) Structure of Matchmaking Fees.

The basic principle in designing the mechanism rests on two points:

(i) linkage of matchmaking fee to a performance-based collaboration contract; and

(ii) sharing of the matchmaking fee payments among three parties involved in the collaboration scheme:

- the Matchmaking Fund (MMF) established under the sub-component;
- the foreign partner; and
- the local partner.

(b) Performance Based Fees and Schedules of Payments

Experience from past collaboration schemes indicates that Matchmakers have a preference for a "success fee" proportional to the value of the collaboration contract at the time of contract agreement, rather than a fee which is proportional to actual export earnings. From the perspective of the local and foreign collaborators, the preference is to set the matchmaking fee in proportion to actual export earnings once these have been realized. This preference reflects the effectiveness of the matchmaker's intermediation.

Innovations to accommodate these conflicting preferences have tended towards the adoption of a two-stage payment. The first installment (Installment I) is based on a specified percentage of the projected collaboration contract value with an upper ceiling of say US$50,000 or so. The magnitude of the percentrage is relatively low, in the region of 1% in the case of JV or FDI schemes and much higher at about 20%, for "Technical and Marketing or Licencing Agreements" This payment is subscribed to by the three parties in the scheme i.e. the MMC (50%), with the foreign and local partners contributing 25% each. The second installment (Installment II) is a specified percentage of actual export earnings paid annually for a specified time period by the local and foreign collaborator.

Three forms of collaboration are common: JV or 100% FDI, Technical/Marketing Agreement or Licencing Agreement, and International Subcontracting. The unique timing and magnitude of fees entailed in different collaborative arrangements entail the need for drawing up specific schedules for fee payments, which will be used in the course of selection for and negotiations with a MMF management Contractor.

(c) Functions of the MMF Management Contractor.

The MMF Management Contractor's role is to monitor project implementation and calculate the level and timing of payments under Installment I on the basis of explicity agreed criteria. The three core parties in the scheme (the Matchmaker, the foreign and local collaborators) would have a three-way contractual agreement concerning the modalities for the payment of Installment II and the necessary contribution by the two collaborators to this installment. The MMF 50% contribution is limited to the Installment I only, with the local and foreign partners contributing 25% each. Responsibility for the 2nd installment is limited to the local and foreign partners with each responsible for 50%. Although the MMF does not guarantee the second installment, normally the scheme's Administrator maintains an information base on the subsequent course of collaboration agreements sponsored by the MMF, ostensibly to generate confidence in the Matchmaker that the second installment will be paid.

(d) Other Pertinent Issues on Fee Payments:

There are four other pertinent issues on the payment aspect: moral aspects; transparency of fee structure; limit on MMF Matching Grant; and Advance payment on Performance-based Matchmaker Fee.

- **Moral Hazards**: the scheme involves moral hazards on the part of both the Matchmaker and the collaborating partners. From the perspective of the Matchmaker, the moral hazard revolves around the possible payment of the first installment to which the MMF contributes without the Matchmaker contributing effectively in promoting the collaboration. The solution to this problem is to base payment of the first installment on two conditions: that the collaboration has been mainly based on the Matchmaker's efforts; and that the contract has been implemented. From the perspective of the foreign and domestic collaborators, the moral hazard emerges in the event of failure of contract implementation. The collaborating partners 25% pro rata contribution to the first installment fee for the Matchmaker is designed to minimise the likelihood of this development.

- **Transparency of Fee Structure:** Transparency of the fee structure is a necessary motivation in attracting potential matchmakers participation. Such transparency can be ensured through clear definition of critical parameters underlying the determination of the fee e.g. export earnings, collaboration contract value, implementation verification etc. These issues will be clearly elaborated in the course of negotiations for the matchmaking management contract;
- **Limit on MMF Matching Grant**: The limit takes into consideration the need to accommodate maximum number of collaborations given limited resources. The tentative maximum amount to be contributed by the MMF can be set at US$50,000. This implies a minimum of 20 collaboration schemes based on a total budget estimate of US$1 million assuming that each scheme qualifies for the maximum grant.
- **Advance on Performance-based Matchmaker Fee**:
  The MMF is a performance based initiative and as such there should be no advance payments for performance based fees. However, it may be prudent to make advances drawn on Installment I to enable pre-screened matchmakers cover all the expenses of an information mission to Tanzania entailing the sharing of such costs between the MMF and the Matchmaker. The level and timing of advances will depend on proposals the Matchmaker will submit. If the Matchmaker's intermediation effort is successful and a collaboration agreement is made, then the advance would be substracted from the fund's payment of Intallment I to the Matchmaker. In the event no contract materializes, matchmakers would not be expected to reimburse the fund. A maximum limit of say US$50,000 for the whole scheme should be set for such advances over its lifetime.

  Finally, the ability of a Matchmaker to induce potential foreign collaborators to make exploratory visits to Tanzania before committing to any formal collaboration agreements may also depend on assistance from the MMF. Potential foreign collaborators may be willing to participate in inward missions only if their expenses associated with project and local collaborators search costs can be shared. The MMF should offer a limited amount of matching grants to cover such travel and local expenses should the need to use this motivation arise.

(e) Eligibility of Collaboration Forms, Sectors and Supply Sources.
A successful MMF requires the drawing up of specific eligibility criteria on a wide range of issues including the following:

- **eligible forms of collaboration** – includes JVs, 100% FDI, Technical and/or marketing agreements and licencing agreements, and International sub-contracting agreements.
- **eligible manufacturing sub-sectors for collaboration** – textiles and garments, footwear, leather, furniture, processed food, sports goods, and tourism;
- **eligible foreign collaboration supply sources** – these can be identified subject to further desk and field research relative to eligible subsectors idenfied above. In addition the financing partner would have pertinent information on sources in his country.
- **Management Issues** – The oversight of the scheme would be undertaken by the MMF Management Contractor under a management contract assisted by a Technical Adviser. The Management Contractor will be accommodated in a suitable location hosted by an appropriate local institution providing counterpart personnel and requisite office equipment and facilities. The Contractor will be reporting to a Steering Committee. All applications to enroll as a matchmaker in the program will need the approval of the Steering Team or its designated representative.

4. MMF ESTIMATED BUDGET AND PROJECT DURATION.

It is recommended to come up with an MMF programme support covering a period of three years. Subsequently, it is expected that foreign and domestic entrepreneurs collaboration activities in Tanzania will occur spontaneously. The cost of operating the scheme is tentatively estimated at US$1 million. In reality, given the prevalence of supply side constraints in the export sector, it is expected that even a lower budget may suffice. It is estimated that the costs of a full-time MM Management Contractor will range between US$100,000 to 150,000.

****

PRODUCTION CAPACITY DEVELOPMENT AND MARKET LINKAGE STRATEGIES FOR PRIORITY SUB-SECTORS

The Integrated Framework programme is a response to the dangers of marginalization in the context of globalisation and it is being formulated at a time when the issue of poverty alleviation is of prime concern in LDCs. Both concerns required concerted measures at the national and international level. At the national level the key is effective integration of different population groups and segments into the commercialised economy. From the international perspective the issue is the integration of the national economy into the global market. Both aspects can only be attained through increasing domestic and export trade flows. Trade is the unifying factor as well as the engine of growth that underlies the generation of wealth necessary to fight povery successfully.

The growth of trade flows depends on private-sector led wealth generation. Yet, the promotion of enhanced competitiveness through higher productivity is a function of active measures for the development of the private sector. In an LDC where the private sector is largely engaged in informal economic activity, measures for its transformation rest on its rapid absorption into the modern sector through provision of requisite support services. Consequently, an appropriate programme for the development of the Tanzanian private sector has to take into consideration two aspects: (i) efforts to transform the informal sector through project components focusing on the development of existing private sector at the household and micro level; and (ii) measures to increase productivity.

The efficiency and hence competitiveness of SMEs can be attained through supporting services to existing and emerging SMEs through access to better technology and management practices and entry into international marketing channels. Many of the project components in this programme, such as the Technology Diffusion and Competitiveness scheme, and the Sector Business Association Support schemes targetting to achieve this objective.

The transformation of the informal sector can also be achieved through innovative schemes focusing on private sector involvement that facilitate the development of new activities in areas addressing the twin concern of poverty alleviation. Towards this end, it is has become compelling to come up with ideas on potential concepts for model schemes to facilitate the transformation of the informal sector, especially in agriculture and in smallscale mining with a view to facilitating their entry into the formal sector, higher participation in the national economy and potential integration into the international economy.

In this regard, the component on the review of Sub-sector action plans and strategies has been re-oriented towards responding to the issues of transformation of the informal sector and the growth of the formal sector with attention focused on four sub-sectors. This has necessitated a shift in the underlying theme from "review of sub-sector studies and strategies" towards the more relevant one of "development of production capacity and export market linkages." On one hand action is directed at potential existing in the agricultural and mining sectors in view of the large number of informal sector operators involved. Two specific schemes and concepts directed at these sectors are: (i) the Export Development and Promotion of Horticultural Products; and (ii) Development of Lapidary Industry. On the other hand, proposals have also been drawn up for action plans targeting the manufacturing and services sectors through the following concepts: (i) Export Development of Textiles, Garments and Leather and the Export Processing Zone; and (ii) Training Facilities for Tourism Industry.

Detailed proposals and description of the foregoing concepts and ideas have been described in considerable detail in the main report and will be covered exhaustively in feasibility and economic impact reviews to be undertaken once commitment to financing has been obtained. Consequently the necessary thrust, focus and direction of the schemes to uplift informal sector participants into the formal internal and international economy is best left to the initiative of a willing donor working in close co-operation and co-ordination with representatives of Tanzanian public and private sectors.

****

ANNEX C.

EXPORT FINANCE AND CREDIT GUARANTEE SCHEME COMPONENT

1. BACKGROUND AND OBJECTIVES.

This facility addresses the constraint of severe limitation of financial services in Tanzania, including loan capital. This constraint is worsened by a high rate of wilfull default on the part of commercial borrowers culminating in commercial banks reducing lending to bare minimum in view of high risks involved. Hence the primary objective is to increase the supply of term funds available to Small and Medium enterprises (SMEs) particularly pre- and post-shipment financing to emerging exporters as a means of stimulating the development of non-traditional exports, particularly in the manufacturing and agricultural sectors. These are interim measures intended to ease the situation while a more durable solution is put in place, essentially on the basis of drastic reform of commercial laws related to commercial lending activities with a view to inducing a more acceptable credit environment and building the necessary culture for the development of the private sector.

2. PROJECT SUB-COMPONENTS.

Conceptually a financing scheme for trade and export development can comprise of two basic sub-components: a direct term loan facility and an indirect credit guarantee scheme. Both concepts have been applied in Tanzania to targeting normal commercial activity and export-oriented activities. In this regard, the Government and the donor community have initiated and implemented several schemes based on loan financing managed by public institutions or commercial banks on an agency basis. Unfortunately, it has proven impossible to sustain such schemes in view of the problem of non-repayment and default leading to exhaustion of initial fund injections or ultimate withdrawal of support. The Government has also financed and run a credit guarantee scheme for exporters through the Bank of Tanzania. However, this has also been discontinued in view of the high default rate worsened by the fact that the administering banks did not share in risk-bearing.

Under present circumstances, it is advisable that an immediate financing scheme to support exporting activities starts with a fund to support direct lending rather than a credit guarantee scheme, on the grounds that it would be easier to manage a financing fund in terms of minimizing the dangers of wilfull default. This can be achieved through adoption of a funding scheme administered by a financial intermediary which is willing to share in risk bearing through contributing a substantial proportion of the designated total financial outlays for the scheme. Such contribution leads to the intermediary assuming ownership of the scheme and a higher degree of due diligence on loan extension and management. The re-introduction of a credit guarantee scheme is best undertaken after initiating minimal reform of key commercial legislation particularly those facilitating the transfer of ownership of mortgaged assets, including landed property.

3. ELIGIBLE BORROWERS

Intuitively, the primary target group are SMEs operating in sub-sectors with high potential of exporting non-traditional products including industry, agriculture and mining. Potential eligible borrowers include emerging direct and indirect exporters unable to access normal commercial banking lending facilities. Definite eligibility criteria is being drawn up on the basis of firm size including levels of turnover and volume of exports with these being linked to the maximum loan size.

4. PARTICIPATING FINANCIAL INSTITUTIONS

The sustainability of the exporting fund will depend on the size of the seed capital injected initially and the efficiency of the select financial intermediary. Consequently it is necessary to draw up eligibility criteria for the selection of the most suitable Project Financial Intemediary including among others:

- Willingness to participate in risk-sharing;
- Magnitude of financial contribution to the scheme which can be determined on competitive criteria; and
- Comparative status and experience of competing financial institutions.

5. OPERATIONAL GUIDELINES

In summary key factors to ensure the sustainability of the fund include the drawing up of appropriate operational guidelines to mitigate against potential abuse by beneficiaries and ensure efficient mana gement by the intermediary. Experience from other environments indicate that rigorous guidelines should be designed around the following issues:

- Detailed eligibility criteria for potential borrowers;
- Detailed eligibility criteria for financial intermediary;
- Elaborate Application Requirements (from Exporters);
- Comprehensive List of Documentary Evidence (to be collected from borrowers and submitted to the component management unit by the Financial Intermediary);
- Guidelines on loan limits, audit requirements on project funds, procurement procedures where applicable and disbursement guidelines; and
- Loan repayment mechanisms and procedures.

It will be appreciated that measures are required to reduce the fund/financial intermediary's risk-taking related to moral hazards emanating from the exporter's perspective. Experience from other fund schemes indicate that this danger can be reduced by linking or tying loan disbursement to payments to both overseas and local suppliers (for loans to finance specific inputs for an export product or services in the process of exporting activity). The gist of this strategy is to reduce to the barest minimum the amount of cash payable directly to the borrower by ensuring that the bulk of loan funds are paid directly to the service or input provider thereby reducing the incidence of moral hazard on the part of the borrower.

The process of developing more detailed operational guidelines for this and other project sub-components is being undertaken through the Steering Committee's Secretariat with the objective of finalising such procedures through joint discussions and agreement between the supporting donor, the selected financial intermediary and the Management Unit or other co-ordinating unit set up to oversee the implementation of this component. This work will also include a number of agreements that have to be prepared and signed as part of the build-up process to project

****

ANNEX D.

TBS PACKAGING TECHNOLOGY CENTRE

6. BACKGROUND AND OBJECTIVES.

The need to develop packaging know how and improve the competitiveness of local industry in the domestic and export market underscores the Governmen's decision to establish the Packaging Technology Centre (PTC) at the Tanzania Bureau of Standards (TBS). The decision falls within the broader Government policy of harnessing the country's economic potential through the development of packaging standards and infrastructure and the need to ensure that such standards are implemented.

The primary objective is to facilitate the realisation of the nation's export potential leading to the following economic benefits:

- Stimulation of export trade by improving the quality of packaging thereby increasing value added and consequently export earnings from traditional, non-traditional and processed/manufactured commodities;
- Reducing losses to the economy arising out of product damages through breakage, pests, humidity, mechanical loading, dust and solar radiation, thereby increasing product atttrativeness and saleability;
- Increasing employment opportunities and distribution of income in agriculture, industry, trade, mining and transport sectors;
- Creation of training opportunities for engineers and technicans in Tanzania and other neighbouring countries in the SADC region, and promoting the development of skills contributing to the enhancement of value in the leading productive sectors especially agriculture, industry, and mining; and
- Promotion of the competitiveness of Tanzanian products in the global market place.

7. COMPONENT ACTIVITIES

The constructionof PTC commenced in 1990/91, on the basis of financial support from Sweden through Sida. Sida support was earmarked to meet all foreign construction costs including electrical fittings, iron mongery, sanitary ware, central air conditioning installations as well as the cost of purchase and installation of testing equipment. The local construction costs were being met by the Government. At the time of writing the current status report, the project's civil works are already in place with a total investment of US$75,000. However, outstanding aspects of civil works include painting, air conditioning, electrical installations, water system and internal road works, expected to cost an additional US$.75,000. Other unimplemented project elements include the purchase and installation of equipment and training of local staff.

8. REVISED MINIMUM OUTLAYS FOR EQUIPMENT AND TRAINING.

The implementation of the PTC was adversely affected by the withdrawal of Sida assistance to the industrial sector and to TBS in 1993 as well as non disbursement of funds for development expenditure by the Government since the 1995/96 financial year. Consequently it has not been possible to continue with project implementation to logical conclusion.

According to the initial study undertaken by M/s Pack Forks of Sweden, the project's Consultants, a total of US$1.9 million was the estimated full project cost to finance the supply of a comprehensive list of equipment for the PTC: A revised list based on minimum basic requirements indicates that the Centre can become operational with the acquisition of equipment with a total cost of US$484,296, as per quotations obtained in 1993 from M/s Lansmont Corporation of the USA. Other basic requirements fo the minimum equipment scenario include financing for technical expertise for a period of between six and twelve months to facilitate the installaton of equipment, its commissioning and the training of local staff. Finally it is expected that at least 4 TBS personnel will need to be trained abroad in preparing training materials in packaging technology, packaging design and manufacturing of packages utilising local materials.

In view of the prevailing scarcity of financial resoures, TBS is actively considering the implementation of the minimum equipment scenario including the requisite training with an approximate budget of US$1 million as detailed in Table 1 below. Table No.2 reproduces the Lansmont quotation for basic equipment for the PTC. It is expected that there may be substantial price variation in view of the time lapse since the date of the quotation. Naturally these estimates will have to be updated on the basis of competitive quotations in collaboration with a willing supporter. The estimate of US$1 million can be realised and probably even lowered through cutting down on trainng duration and associated costs in view of trimmed down equipment acquisition.

Table 1: Estimated Costs for Minimum Equipment Scenario

S/No.	**ITEM DESCRIPTION**	**COST (US$)**
1.	Acquisition of minimum equipment	500,000
2.	Installation and commissioning of equipement and Local training component (12 months duration)	270,000
3.	External training for 4 staff members	230,000
4.	**Total Estimated Cost**	**US$1,000,000**

Table 2: Cost of Basic Equipment for the Packaging Techonology Centre.

EQUIPMENT DESCRIPTION	**MAY 1993 PRICE (US$)**
1. Model PCT-5000 Box Compression Tester 2. Model PDT.56E Drop Tester (5 meter option)	28,915 17,970
3. Model 1709 Compression Tester	30,000
4. Model BZH-1.6-5 Temperature/Humidity Chamber	13,750
5. Model HITS-3000 Horizontal Impact Tester	248,510
6. Vibration equipment fully equipped (no model given)	145,150
7. Total Cost for Basic Equipment (1993 prices)	**US$.484,295**

ANNEX E.

INTEGRATED PROGRAMME FOR PRIVATE SECTOR DEVELOPMENT AND INDUSTRIAL COMPETITIVENESS AND SUSTAINABILITY IN ZANZIBAR.

Zanzibar is an island economy whose main economic activity is agriculture. The industrial sector is extremely small consisting of both traditional and modern sectors engaged in the processing and manufacturing of a limited range of products.

In common with mainland Tanzania, the Government of Zanzibar had carried out some structural economic reforms, including socio-economic policy changes and institutional reforms with a view to facilitating private sector led growth and economic development. With the assistance of bilateral donors and multilateral organizations/institutions. Zanzibar has initiated and implemented industrial programmes/projects aimed at diversifying the country's economic base. Industrial development is, however, constrained by a number of problems at the policy, institutional and sectoral levels. This integrated programme is designed to address some of the problems faced by both the public and private sectors. It is also designed to contribute to the country's efforts in creating employment and generating incomes. The programme has five components, mutually agreed upon by Zanzibar and UNIDO and well within the framework of the UNIDO Service Modules.

Component 1: Implementation of the Industrial Development Policy for Zanzibar.
Immediate Objective: To strengthen the capacity and capabilities of the Government and the private sector for the implementation of the Industrial Development Policy for Zanzibar within the framework of increased market orientation and private sector development.

Outputs: (i) An upgraded Department of Industrial Development in the Ministry of Trade, Industry and Marketing with the capacity and capabilities for effective policy research and analysis, implementation and monitoring of the Industrial Development Policy and policy adjustment. (ii) A mechanism to strengthen public-private sector dialogue on the implementation of the industrial development policy for Zanzibar (1998-2008), including a programme on strengthening private sector governance institutions and on sharing experiences with other countries in Europe, Asia and Latin America on the dynamics and implications of interactive policy formulation and implementation. (ii) An Industrial Human Resources Development Survey Policy, including training needs for industrial development. (iv) An established National Industrial Statistics Programme. (v) an established network between Government Institutions in Zanzibar and Mainland Tanzania.

Component 2: Small and Medium Enterprise Development and Entrepreneurship Development
Immediate Objective: To provide support for the development of the SME sector and to build entrepreneurial capabilities, particularly in rural areas, in order to increase the contribution of the sector to industrial growth and employment.

Outputs: (i) Two pilot growth centres established for (a) processing of spices and essential oils; and (b) small-scale goods processing. (400-500 enterprise operators/women with upgraded skills in the processing of spices, essential oils and food); (ii) Support institutions and local NGOs with upgraded capabilities to provide extension services, other support services and training for SME development, in particular to provide support to the two industrial growth centres (60-100 trainers will be trained) (iii) One -stop shop for information and value added services for SMEs in Zanzibar (to be linked to Tanzania mainland business network established under the Tanzania programme) as well as window for the foreign investment opportunities in Zanzibar.

Component 3: Investment and Finance

Immediate Objective: To assist in mobilizing domestic and foreign investment resources for industrial development in Zanzibar.

Output: (i) 10-20 investment projects in the leather and food processing subsectors prepared, screened, promoted, negotiated with possibilities of some partnership conclusions during the duration of the integrated programme.

Component 4: Quality, Productivity, Technology and Competitiveness

Immediate Objectives: (i) To strengthen national capacity and capabilities for increasing industrial productivity (through higher quality, environment and technology standards) food, leather and textile industries. (ii) To strengthen quality control and inspection capabilities for improved quality and competitiveness of Zanzibar products and ensure greater protection of health and safety to the consumers in Zanzibar and in its export markets.

Outputs: (i) A programme for the Development of small scale leather products sector in Zanzibar and Pemba implemented. (ii) Tehnical training on product development, hand weaving, dyeing, printing, tailoring and marketing provided to at least 300-400 women through a training of Trainers Programme targeting at least 50 Women trainers. (iii) A model integrated production framework for the food processing sector (fish and other sea food products), in Zanzibar (to be replicated in other agro-industrial subsectors). (iv) Basic quality control and testing laboratory established in conformity with international standards.

Programme Compone 5: Environment.

Immediate Objective: to provide adequate information on indusry and the environment which will enable the Government and the private sector to take critical decisions on environmental spatial planning.

Output: A report on the environmental implications of current and future spatial patterns of development, particularly with regard to industry.

Estimated programme budget: US$2,647,314

The Government of Oman has agreed, in principle, to fund the leather programme element of this integrated programme (US$383,070). The human resource survey will be funded by UNIDO/SPPD resources (US$53,000). Some funds could be provided by UNIDO under the technical asistance component of the IDDA. A considerable sum of this estimated budget will have to be negotiated with/secured from the donor community, including the possibility of funding by UNDP.

****

ANNEX F.

ENVIRONMENTAL IMPACT ASSESSMENT REVIEW

6.4.1 ENVIRONMENTAL CONSIDERATIONS.

Sustainable development is the twin aspect to environmental protection. Neither is possible without the other. Trade as the engine of growth is necessary for sustainable development and in turn sustained trade flows are only possible when undertaken in the context of a sound environment. The key to sustainability is focus on use of renewable resources while ensuring sound management of the environment. In this regard, the mode of production, choice of technology, trade patterns and policies underlying these activities can either be protective or injuriuos to the environment.

Consequently, the environmental problems facing Tanzania and other LDCs which threaten the sustainability of economic activity include: (i) land degradation through soil erosion, overgrazing and improper use of fertilizers and pesticides; (ii) lack of accessible water supply and poor water quality; (iii) environmental pollution ranging from traffic exhaust fumes, industrial pollution, solid waste burning and improper liquid waste management with illegal discharges into rivers and lakes; (iv) deterioration of aquatic systems through overfishing and improper fishing practices such as use of dynamite and of small-mesh nets; (v) loss of wild-life habitat and bio-diversity through poaching and other illegal activities; and deforestation through over-reliance on firewood as a source of energy and improper forestry industry practices which are not accompanied with systematic re-afforestation.

Tanzania's participation in the international economy is based on traditional comparative advantages realised through exports of agricultural commodities with production based on outdated crop husbandry and practices. Poor crop husbandry imply declining yield and productivity and resourse to extensive agriculture, promoting the degradation of land. Poor extension services result in improper use of fertilizers and pesticides. Poor technology and limited access to modern equipment contributes to perpetuation of archaic and illegal fishing practices while traditional livestock management perpetuates pride in the numbers of livestock rather than actual economic returns. All these factors threaten the sustainability of economic activity in the rural as well as urban setting. To initiate a process of growing trade with sustainable growth and development it is necessary to address these concerns through a combination of legal and regulatory measures and instruments, but even more important through a continuous process of education and sensitization. Such initiatives will tend to differ from sector to sector hence need for creativity and innovation in each sector so as to come up with appropriate solutions based on a combination of legal and policy measures.

6.4.1.1 Sustainable Agriculture.

The problem of sustainability is most crucial and requires prioritisation in the agricultural sector in view of the population proportion dependent on the sector and its contribution to both GDP and export earnings. The issue of review of the Land Act, possibly with reforms based on clear identification of government land held in trust for the people, and other categories of land, is probably necessary as the starting point. The major objectives should include among other things, the necessity to make land and landed property a feasible and acceptable collateral for commercial borrowing purposes. Other tools include recourse to bylaws and new and innovative extension services to increase capability and promote modern farming practices and in particular the appropriate application of fertilizers and pesticides. It is noted that husbandry practices for fresh produce in particular flowers involving intensive use of chemicals pose hazards to both the environment and the labour force. There is need to establish codes of conducts in the emerging horticultural sector and ensuring its observance and strict adherence.

Another area of priority action is that of land degradation due to overgrazing undertaken in the leading pastoral regions such Arusha, Mwanza and Shinyanga, and shifting cultivation for a wide range of reasons inlcuding an emerging trend to avoid the breakout of deseases in the tropical fruit farming sub-sector. The development of the tourism sector also poses danger through the possible establishment of tourism facilities inside the national parks.

6.4.1.2 Environmental Considerations in the Natural Resources Exctractive Sector and Mining.

The large-scale mining industry is in the hands of MNCs which are highly conscious of their social obligations particularly in the area of community development and environmental protection. Large scale mining projects are associated with concrete programmes for orderly disposal of waste, land recovery, and reafforestation programmes. The provision of social services to adjoining communities, including school and health facilities also promotes the concept of social inclusion thereby reducing thereby the pressures on land which lead to land. Nevetherless, it is not wise to assume that MNCs will automatically undertake this function in Tanzania. There is need to come up with measures to ensure that Mining Companies fulfill this obligation and that such fullfillment is in tandem with the volume of their operations. For instance, the large mining companies, are known to be laying pipelines for the flow of water from Lake Victoria to their locations. It is an opportunity to ensure that neighbouring communities have access to reliable water supply through good community relations between the MNCs involved and neighbouring communities.

In the mining sector, problems are prevalent in the small-scale and artisanal mining sector where activity remains largely unregulated and haphazard due to lack of adequate financial and technical resources. The small scale mining sector is largely dominated by parallel activities, with middlemen largely underpricing their purchases to the detriment of miners. It is estimated that more than 75% of the export of gemstones is smuggled out through illegal channels with underpricing being as low as 5% to 10% of real values. As such the industry, causes more damage to the environment than the positive impact in terms of income flows, with little ability for instituting and implementing measures for the restoration of the environment as is the case of large scale mining projects. Redressive measures include initiatives to promote social inclusion through increasing the capability for participation by way of education and training particularly on activities linked to adding value to gemstones as a way of increasing the volume of activities which are channeled through official and recorded marketing channels. The establishment of a lapidary industry is an indirect insturment in this regard.

Other problems in the extractive sector s include actual deforestation based on overharvesting in the forestry industry, un-accompanied by replacement planting particularly with respect to natural hardwood forests. Tanzania, with a total land area of 940,000 sq. km., of which more than 4.2% is arable, today has only a total of 80,000 hectares of forest plantation. Half of this is part of the Sao Hill Forest Project (SHFP), which was developed ostensibly as a source of raw materials for Southern Paper Mills. The SHFP also accommodates the demand of a substantial number of saw mills. The plantations are government owned and managed by the civil service (Forestry Division, Ministry of Natural Resources and Tourism). Compare for instance, with the magnitude of forest plantation activity in say Indonesia where pulp and paper mills manage plantations of an average size of 400,000 hectares on concession basis. Clearly the forest industry is in need of urgent restructuring and divestiture to stimulate private sector involvement so as to address the issue of environmental upkeep.

The disadvantages of economies of scale inherent in the Tanzanian forest industry mitigates against the attraction of large companies, with the resources to undertake adequate management including massive replanting. The promotion of forest plantation outgrowers around areas where the industry is a source of substantial economic activity provides the potential for social inclusion of rural communities in remote locations and regions.

6.4.1.3 Emerging Pollution in Industry and Urban Society.

The hazards of industrial and urban pollution in terms of air pollution, solid and liquid wastes disposal is a well known problem. In some countries, the problem has grown out of control culminating in acid rain and levels of concentration of air pollution that reaches such magnitudes that at peak times civil society is forced to take refuge indoors. Efforts to revive the Tanzania industrial sector are underway and are yet to gather momentum. This is the right and opportune time to ensure that new industrial capacity is established on the basis of plans that include rigorous EIA reviews to avoid the future problem of industrial polllution. The problem of urban waste disposal is one which can be tackled with determination. The disposal of plastic paper bags, which are not bio-degradable, is an emerging problem which can be tackled successfully through the promulgation and enforcement of bylaws on clean and healthy urban environment. The key is to ensure that those who generate waste are also responsible for its disposal.

A rare but dangerous problem associated with industrial waste is that of importation of industrial waste from industrialized countries into developing countries. Often such waste is damped and abandoned in rural areas in developing countries with surrounding populations unaware of the time-bomb deposited in their front-yard. Ocassionaly the NGO networks in the industrialized countries become aware of and can trace intentions to dispose of high volumes of such industrial waste and do launch successful battles through high publicity and dogged follow-up. But many small but highly dangerous consignments do get through unnoticed. There is need to find a way to remain watchful on this issue, to initiate adequate legal punitive measures against culprits.

6.4.1.4 The Fishery Industry

Finally the Tanzanian fishing industry, both fresh water and marine has exhibited evidence of rampant adverse fishing practices that contribute to downright destruction of fishery resources. These include dynamite and chemical fishing. The key here is sensitizing the public on the implications of these practices on the sustainability of a process of development based on trade. But simultaneous with sensitization, measures towards positive inclusion through access to assets such as modest fishing equipment and education is the only way to minimize human economic practices and activities which are the cause of environmental degradation. In the final analysis it is not possible to divorce the question of social exclusion from the problem of environmental degradation, and the same set of measures are required to address the twin problems.

ANNEX G.

PROCEEDINGS OF THE CONSULTATIVE WORKSHOP ON TRADE-RELATED ASSISTANCE UNDER THE INTEGRATED FRAMEWORK (THE EXPORT DEVELOPMENT PROJECT)

Karimjee Hall, Dar es Salaam, April 14, 2000.

Chairman: Professor J. Doriye, Permanent Secretary, Ministry of Industry and Trade.

1. OPENING STATEMENT.

The Chairman of the Workshop, Prof. J. Doriye, Permanent Secretary, Ministry of Industry and Trade, welcomed participants and introduced the Workshop as the second in a serries of consultative fora on the Integrated Framework for Trade Development. The first was held on 14th October, 1999. The Workshop's agenda included two basic items: presentation of an "Export Development Project report" and its discussion by participants. He then called upon the Secretariat for the National Steering Committee of the Integrated Framework to present the report.

2. PRESENTATION OF "THE EXPORT DEVELOPMENT PROJECT" REPORT.

The Secretariat presented the report on **The Integrated Framework for Trade Development Volume III – "The Export Development Project: Foundation for Export-led Growth and Economic Transformation"** as prepared under the guidance of the National Steering Committee. The presentation focused on seven issues: (i) background; (ii) revisiting the constraints; (iii) approaches to program development; (iv) program sustainability and strategic perspectives; (v) the Export Development Project and its components; (vi) field survey and emerging trends; and (vii) conclusion and recommendations.

2.1 Background

The Integrated Framework Program documentation is available in three volumes of which Volume I is an Executive Summary highlighting the essence of the program, approach to program development and the highlights of the remaining two volumes. Volume II contains a summary of the initial consultative process ending with the proceedings of the Consultative Roundtable held in Dar es Salaam on 14th October, 1999. One of the decisions of the Roundtable was the need to look into greater detail into project concepts which had been presented and agreed upon during the Roundtable. This decision led to the preparation of Volume 3, on the "Export Development Project" which is the subject of the current workshop.

The background traced the origin of the Integrated Framework to the first WTO Ministerial Meeting held in Singapore in 1996 and the subsequent High Level Meeting held in Geneva in October 1997. The later adapted LDCs assessed needs for trade development and confirmed donor willingness to commit specific support under a program covering an initial pilot case of 12 LDCs, including Tanzania.

2.2 Revisiting the Constraints

The briefing revisited Tanzania's assessed needs as discussed during the 1997 High Level Meeting and the resulting integrated responses which formed the basis of current consultations. The current consultations aims at consolidating consensus on projects whose output will mitigate the constraints to trade development. Constraints fall into three categories: supply side constraints, trade support services constraints and constraints related to effective participation in the Multilateral Trading System.

2.3 Program Development and Premises for Project Preparation

The Steering Committee had considered two options in the course of project preparation: first and second best effort scenarios. The first-best effort scenario entails the undertaking of full-scale financial, economic and environmental analysis of each project component. It was noted that this approach is costsly in terms of time and money and would have required professional consultancy inputs. The second-best scenario entails a detailed descriptive analysis based on emerging experience on implementation of similar project components in comparative environments and on existing management practices. This scenario comes up with data on indicative financial figures and preliminary considerations on economic and environmental impact.

The Committee opted for the second best option leading to the production of Volume III report now under discussion. The essence of Volume 3 is a project with an estimated indicative cost of US$50 million, containing considerable detail on the economic impact of some of the project components, management practices and structures best suited to component management based on best international practices. The Secretariat is continuing with further research with the intent of producing more information on aspects of project implementation, management and follow-up for components for which such details are yet to be compiled. However the intention is to complete the detailed financial and economic analysis in cooperation with interested donors after the pledging session. The benefits of this approach include programme flexibility. Intuitively, the whole programme could, perhaps be implemented for as little as 50% of indicative financial figures, with the exception of one large specific programme, the EPZ for which a feasibility study has already been undertaken and the minimum phase I expenditure is US$16.8 million. The second advantage is the saving of time and resources on components which may not receive funding eventually. So far total expenditure for program preparatory work is about US$20,000 inclusive of the costs of the October 1999 Roundtable and the current Workshop.

2.4 Program Sustainability and Strategic Perceptions

In the course of consultations various parties have raised considerable concern on the issue of program sustainability in the long-run. Towards this end, the report examines the issue of sectoral relationships and the role of trade policy in programme continuity. Three strategic perspectives are considered as providing the basis for internal sustainability and eventual program ownership by the Tanzanian private sector and Government as necessary.

The first perspective dwells on the issue of the underlying policy framework with recognition given to achievements in the macro-economic policy framework and emphasis made on the need for further work on the sectoral policy aspects including: the review of the legal framework; review of regulatory instruments and instutitions; and further streamlining of administrative procedures. The general strategy is to identify areas where priority action will have maximum impact for minimal cost i.e. "the Quick Win Scenario."

The second perspective dwells on the nature and relationship of the prioritisation of sectors in the process of development. It was noted that prioritisation of education and health are a necessary condition for any initiatives to transform the productive base. At the same time the realities of Tanzania makes it imperative to focus initiatives in production on the agricultural sector in view of inherent resources, its role in the economy and the sheer number of people dependent on it. As such Agriculture deserves prioritisation over and above all other sectors. In this regard, the identification of Mining and Tourism as lead sectors conforms to such a scheme on the basis of the understanding that their role is to support the transformation of agriculture through channeling of earnings from them into priority areas in Agriculture. In the medium and long-term, industry should play the role of engine for rapid growth. However select industrial sub-sectors, particularly those with close links to Agriculture have to be accorded immediate priority in view of their value adding impact on agricultural sector output.

The third and final perspective dwells on the process of development of the private sector based on attraction of more FDI inflows and the transformation of the domestic private sector. It was noted that FDI into new projects has been relatively substantial in mining and tourism and that it has been limited to acquisition of State Owned Enterprises in agriculture and industry. It was also noted that the domestic private sector is small and stagnating and does not show signs of expanding. The solution lies in attracting FDI inflows into new projects in agriculture and industry and in stimulating the emergence of a substantial number of domestic SMEs. The key lies in creating the conducive environment for this process to take place. For instance the emergence of a wider domestic private sector requires the institution of measures to address financing constraints, the initiation of relevant training programmes and the establishment of services to support the process of private sector development at various stages to maturity. The most important consideration in the program is the need to ensure early ownership of project components involved by the Government and the private sector itself such that in the final analysis the private sector will take over ownership. Ownership means that the private sector, assumes control and management through endogenous resources including finance, for relevant components on a gradual basis while the donor and multilateral agencies serve as upfront stimulators or agents of change, who initiate the process and facilitate its sustainance in the early stages. In due course the private sector should be in a position to initiate programs necessary for its own continuous development.

2.5 The IF Program: An Export Development Project

It was noted that project components addressing the supply side constraints fall into two sub-groups: (i) those targetting public sector capacity building i.e. review of legal/policy framework; IF focal point; Public sector training and EDS action plans; Tourism Sector Analytical Capacity; and BET restructuring and the EDC concept. (ii) those targetting private sector capacity development for advocacy and exporting including support to sector business associations;

technology diffusion and competitiveness Fund; Model Export Processing Zone; and Production Capacity Development with Market Linkages.

Components which target the trade supporting services constraints include: the Export Catalyst Matchmaking Fund; the Export Finance and Credit Guarantee Scheme; and the Technology Diffusion and Competitiveness Fund. Finally there are a few components addressing aspects which have not been covered under the broader JITAP (Joint Integrated Technical Assistance Program), an IF component that addresses all issues of more effective participation in the MTS. Specific Projects here include the TBS Packaging Technology Centre and the Strengthening of Quarantine Services.

2.6 Field Survey and Recommendations

A field survey on some of the ongoing donor initiatives in the field indicate that donor interest over the past two years has been refocusing on private sector development. It was noted that trade development is dependent on the status and development of the private sector given the role of this sector as the agent and engine for development. The need to coordinate efforts and initiatives in this area, as has been the case in other sectors where sector-wide development approaches have been initiated was noted. Countries/Agencies currently active on private sector development inlcude: UK (DFID), USA (USAID), Denmanr (DANIDA), Sweden (Sida), Canada (CIDA), The Netherlands, Norway, The World Bank and UNIDO. Coordination and cooperation could lead to a much higher impact on the basis of the same resources. The primary objective should be a more rapid movement towards the goals of national and foreign tade development combined with a simultatneous attack on the pervasive problem of poverty.

2.7 Conclusion and Recommendations.

The basic conclusion is that the fear of LDC marginalization in the MTS is real and needs to be addressed. Further there is rising concern on prevailing marginalization in the context of segments of the population, based on gender location or age, from the mainstream of national economies, manifest in poverty, and the need to promote integration into the domestic and international economies. These apprehensions have been highlighted in the consensus on needs assessment and integrated responses, are inherent in the essence of the deadline of 2004 for LDCs to build up capacity to participate in the MTS on competitive terms and are apparent in current concern with the subject of poverty. The general finding from the field survey shows that many donors have, of recent, made initiatives into the areas of trade development with emphasis on integration into the domestic market through projects focusing on private sector development and poverty alleviation. Also, the Government has a number of initiatives on these fronts. There is the need to step up these initiatives and implement them in a more cooperative and coordinated fashion. Consequent recommendations include:

(a) IF program needs to succeed and this depends on adopting a small highly flexible program built on ongoing concepts which tackle the underlying constraints and new innovative ideas having the same objective;

(b) Maximum impact depends on closer consultation, coordination and cooperation amongst all parties: the bilateral donors, the multilateral agencies, the Tanzanian Government and the private sector – there is need to identify a suitable umbrella for this purpose; and

(c) Stakeholders need to take note of existence of recent or new innovative projects addressing the mitigating constraints and the need to draw upon the emerging experience in moving forward with the tripple objective of: (i) supporting private sector capacity development in all respects; (ii) emphasis on starting small and growing with experience; and (iii) need to promote gradual but increasing private sector ownership and takeover of the initiative from the very beginning.

3. DISCUSSION OF THE REPORT – QUESTIONS AND COMMENTS.

The Chairman invited contributions and questions or requests for clarification from the floor leading to the following responses:

3.1 The World Bank

Based on their knowledge of emerging experience from LDCs which are at an advanced stage of implementing the program, the World Bank representative made the following suggestions:

(a) Noted with appreciation the fact that the Export Development Project targets the twin objectives of export trade promotion and private sector development. The World Bank, on the basis of its role in assisting on the development and implementation of the program, has asked the Ministry of Finance to include the IF program in the Tanzania Assistance Program (TAS). The Secretariat was advised to follow up with the Deputy Permanent Secretary, Ministry of Finance on this issue; and

(b) There is need for consistent upfront marketing of the program to all bilateral donors, through one to one meetings between the Secretariat and bilateral donors.

3.2 Economic & Social Research Foundation (ESRF)

(a) Sought explanation on reasons behind continued stagnation of exports inspite successful efforts to establish and maintain a stable macro-economic framework.

(b) Secondly suggested that the project should include specific targets and indicators which can be used to evaluate project component implementation and measure performance.

3.3 Tanzania Exporters Association (TANEXA)

(a) Noted that the Export Development Project (EDP) contains aspects of the Export Development Strategy (EDS) of 1996. Questioned the seriousness of the Government in implementing the EDS as reflected in the EDP in view of the approach of implementing a small flexible project and urged that a largescale project would be more apt in realizing the objectives of the EDS. This entails the Government raising its own money to finance implementation through establishment of an Export Fund as recommended in the 1996 EDS report.

(b) Pointed out that corresponding tables on exports data in Volumes II and III had conflicting figures and required cross-checking.

3.4 Economic Research Bureau

Pointed out the existence of blanks in the report on some of the trade data for 1998 and wondered whether the objective of trade development can be achieved if planning is based on sparse and non-reliable data.

3.5 Sweden

(a) Sweden has been following the IF program development closely and is interested in the Legal Framework component;

(b) Sought confirmation from the World Bank on whether the "Tanzania Assistance Strategy" will provide the umbrella for coordination and cooperation as raised by the Secretariat;

(c) The issue of private sector ownership is critical for the take off of the program and its future. However, TANEXA's opinion and comments raises concern on the realism with which the issue of private sector ownership will be treated, taking into consideration that TANEXA have been involved in the whole process of formulating and developing the program through close involvement in the Steering Committee and its Secretariat; and

(d) Supported the flexibility approach with regard to the size of the project noting that there is no guarantee that Tanzania can secure the substantial sum of US$50 million during the pledging session and that there is need to indicate clear priorities and adopt flexibility as a way of addressing the potential question of availability of envisaged financing.

3.6 UNIDO

Elaborated upon the UNIDO supported component of the Integrated framework as entailing two independent components for mainland Tanzania and Zanzibar and initiatives targetting capacity building for conformity to WTO rules and obligations:

(a) An Industrial Competitiveness component for mainland Tanzania with a funding requirement of US$ 6 million of which US$2.2 million has been secured through contributions by several bilateral donors including, Denmark, Japan, Austria, Netherlands and UNDP. There is a shortfall of US$3.8 million to be bridged;

(b) An independent Private Sector Development and Industrial Competitiveness sub-component for Zanzibar with a total financing requirement of US$ 2.6 million;

(c) Concerning compliance to WTO rules and obligations, UNIDO has noted Tanzania's large potential in agro industries and lack of suitable facilities to ensure adherence to quality standards required at the international level such as lack of a nationally accredited laboratory in the country. UNIDO has been assisting the revival of the fishing industry following the EU ban and its subsequent upliftment through: running a training program for staff of fishery sector firms on quality control and standards; establishing a code of conduct for the industry; and establishing standards for inspectors.

3.7 UNCTAD

Appreciated the work being done under the Integrated Framework and noted that the identified needs are relevant for the Third Conference on LDCs being organized by UNCTAD, to be held in 2001, with the objective of eliciting donor support for LDCs.

3.8 Denmark

(a) Appreciated the approach taken in developing the Export Development Project. Noted that the EDP clearly identifies Tanzania's priorities in trade development and gives the opportunity to donors to choose from these priorities creating room for flexibility both in terms of nature and size of project components. This is the right approach and should be continued to conclusion.

(b) With respect to the public sector capacity building aspect, noted for instance that, the structure of the Ministry of Industry and Trade reflects a set-up geared to the demands of an entirely different environment to the one prevailing today. Consequently appreciates the need for extensive capacity building and reorientation in the public sector.

3.9 Tanzania Association of Consultants (TACO)

Suggested that the EDP should include detailed action plans and time frame for the implementation of different project components.

3.10 International Trade Centre (ITC)

Suggested that the Secretariat starts working on the aspect of project component execution and management practices including implementing agencies and structures and monitoring and evaluation processes, procedures and institutions

3.11 The Netherlands

(a) Current Netherlands assistance includes support to private sector development which conforms with the objectives of the program. Noted that the program reflects the priority needs of the people of Tanzania as agreed upon in a consultative process involving both the public and private sectors and that the Netherlands is working on identifying areas to which to channel their support;

(b) Reiterated the advise given by the World Bank that the Secretariat should undertake a vigorous campaign to sell the program to all bilateral donors.

3.12 Ministry of Trade, Industry and Marketing, Zanzibar

Spoke of Zanzibar's desire for support in trade policy formulation which had been raised earlier in the course of discussions during the October 1999 Roundtable. Noted the inclusion of the independent industrial competitiveness component supported by UNIDO.

4. DISCUSSION OF THE REPORT – RESPONSES TO QUESTIONS.

Responses to the foregoing questions, comments and issues for clarification were made by the Chairman, the Planning Commission and the Secretariat as follows:

4.1 THE CHAIRMAN

The Chairman responded to major issues raised above stating the following among other things:

(a) Project Size relative to EDS needs:

In response to the concern by the TANEXA representative, echoed by one other participant, on Government seriousness in export development, the Chairman emphasized the fact that the approach to go for a small size and flexible program stems from the need to ensure that the project is implemented and is not subjected to delays due to limited financial resources. Government seriousness on the EDS as reflected and adopted in the Integrated Framework lies in ensuring that implementation of selected priority components does take off this time even if this is done at a relatively small scale. He also emphasized the fact there are a few other EDS components whose implementation through specific programs, specifically JITAP, and that the question on hand today is how to bridge identified missing links in this program.

(b) MIT mandate on EDS

Stated that the Planning Commission is the Government institution with the mandate on coordinating the implementation of the EDS. However, other institutions may have mandates for specific aspects of the EDS. For instance, the Government has already approved the Export Processing Zone project and the implementing agency is the National Development Corporation, under the Ministry of Industry and Trade. Called on the representative of the Planning Commission to elaborate on the official position with regard to the wider Export Development Strategy and its implementation;

(c) Current Structure and Capacity of MIT

Responding to remarks by the Danish representative on MIT capacity, he noted that the Ministry has been working continuously on its restructuring and realignment to suit the demands of a market economy and respond better to the needs of private sector development as part of the UNIDO supported capacity building project. In this regard, the Ministry had just concluded a two-day workshop (April 12-13,2000) in Bagamoyo on this subject and the outcome is bound to have a major positive impact; and

(d) Project Implementing Strategies and Action Plans.

In response to TACO's suggestion on need to prepare detailed action plans complete with time-frame for each project component, the Chairman emphasized the need to avoid expensive upfront feasibilities without guarantees on availability of funding. Reiterated the wisdom of undertaking this work jointly in cooperation with donors who indicate interest in specific components after the pledging session.

(e) Responses by the Secretariat.

The Chairman called upon the Secretariat to respond to other issues, questions or comments raised by discussants which had not been answered in the course of interim responses by himself or clarified in the course of contributions by other participants.

4.2 THE PLANNING COMMISSION

In response to the Chairman's invitation, the Planning Commission, as the agency with the mandate for the implementation of the EDS stated that there was no contradiction between the EDS and the Integrated Framework. In reality the EDS is a very wide mutli-sectoral programme covering the whole economy while the Integrated Framework, though multisectoral, focuses on key priority sectors and its contents largely draw upon the former.

4.3 THE WORLD BANK

Responding to the request for clarification from the Swedish representative, the World Bank representative confirmed that the Tanzania Assistance Strategy

(TAS) is the umbrella coordinating framework for all donor and multilateral agencies assistance to Tanzania, and the Integrated Framework will have to be incorporated into the TAS to facilitate its submission to donors for funding purposes. The World Bank Office and the Ministry of Finance are working on this aspect. Consequently, TAS is the structure providing the requisite coordinating mechanism in which all stakeholders are represented.

4.4 THE SECRETARIAT

Consequent to the Chairman's invitation, the Secretariat responded on the following issues:

(a) Background to the EDS and its linkage to the Integrated Framework

As part of the background on the EDS, it was explained that this is a highly ambitious program whose objective was to triple Tanzania's export within the timespan of five years from the time when the report was submitted in June 1996 to 2001. Todate the program has not been implemented ostensibly due to lack of financial resources. A few components have been implemented under JITAP and the Integrated Framework adopts for implementation some of its major elements. Reality makes it imperative that this attempt avoids the pitfall of excessive ambition and focus on a small flexible program for which resources can be mobilized. The direct link between the EDS and the Integrated Framework is that the constraints against trade-development that underlie the Integrated Framework were drawn form the Export Development Strategy report.

(b) Macro Economic Framework, Export Performance and Poverty Issues.

A stable macro-economic framework can be considered as a necessary condition for economic growth. However it is not sufficient on its own and there is need for enhancing the conducive framework through appropriate regulatory measures at the sectoral level. Tanzania has made many accomplishments at the macro-level but has still got a lot more to be done in creating better conditions at the sectoral level. The link to poverty alleviation comes in ostesibly through the fact that effective poverty alleviation requires relatively higher growth rates as a basic precondition although the aspects of distribution have to be taken into consideration also.

(c) Project Targets and Performance Indicators, Impementation Modalities Agencies and Structures.

It was explained that the Secretariat would be continuing with further project preparatory work including targets and performance indicators, implementation modalities and managements structure immediately after the pledging session focussing on components which have secured commitment to financing. This work would be undertaken in close liaison and cooperation with the financiers involved.

(d) Availability and Reliability of Data

It was admitted that the report has a few blanks where data has not been plugged in on account of the constraint of time. However the necessary data is available and this anomaly would be rectified in the final version.

(e) The Zanzibar Project Component

Noted that the UNIDO initiated Private Sector Development and Industrial Competitivenenss sub-programme had been included in the Integrated Framework although introduced belatedly ostensibly to accommodate Zanzibar concerns. Apart from this initiative, it was noted that there is the possibility of extending certain program components to include coverage of Zanzibar. This initiative will be taken into consideration at the stage of finalising project preparation i.e. undertaking concrete project financial and economic/environmental impact analysis and in the course of drawing up the different agreements between financiers and the Government. This is a process that entails close Government and Donor cooperation, understanding and agreement. Intuitively, the final word on particular project components coverage of Zanzibar, does not only depend on the Government's position on the subject, but will also have to reflect the prerogatives of the financiers concerned. In this regard it is not possible to identify, ex-ante, project components other than the UNIDO initiative that specifically cover Zanzibar.

5. ISSUES RAISED AFTER THE WORKSHOP IN WRITING

There are institutions which have been closely involved in the development of the Integrated Framework program who, for unavoidable reasons, were unable to attend the Workshop. Some have sent in written comments to the Secretariat. The same are reproduced herewith to facilitate sharing their views with other stakeholders and parties.

5.1 DFID's WRITTEN COMMENTS

DFID have been a close participants in the consultative process and are members of the Steering Committee. They have sent the following comments.

(a) Project Component Costs:

How have the budgeted figures been developed. It would be useful to have some kind of indicative budget breakdown for the various components prior to the CG. It would help provide a clearer picture of what donors are being asked to pledge for;

(b) Institutional Capacity Building for Export Promotion:

- How will the reivew of the business sector legal framework and planning for private sector development (PSD) link in with the numemrous initiatives currently underway to enhance effective dialogue between the Government and the private sector? Will it involve or link in with any work being done on commercial justice? Is there a proposed management structur for this or it is anticiapted that the IF Focal Point will mange it? If the latter what are the current capacity constraitns? The budget seems quite low for what is potential the most important component fo raddressing the main supply side constraint identified in the IF. Experience elsewhere (Ugand, Kenya and Zimbabawe) shows that it is a very costly process to create a better regulatory environment for PSD;
- How will the Tourism Department Analytical Capacity component ensure that this process will lead to growth in the tourist sector which will result in pro-poor growth and ensure that communities around tourist areas beenfit from this process?

(c) **Briding Finance to Ongoing Projects**.

What is the requested US$72,000 for JITAP for? It would be useful to get an indication of how the IF as a Framework can be used to strengthen the JITAP Implementation process.

5.2 RESPONSE BY THE SECRETARIAT

- Consequent to issues raised by DFID on the legal framework, some preliminary work has been undertaken, with their active support, in coming up with a more elaborate format for this component including ideas on a management structure for the massive work involved in the review of the legal framework. This revision is based on the understanding that a drastic review of the legal framework should be the initial step preceding initiatives in building a conducive sectoral policy environment for the development of the domestic private sector and for the attraction of FDI into the productive sectors;
- The IF Focal point will be housed in the Ministry of Industry and Trade. However its objective and function is to continue the co-ordination of the Program and not its management. The multi-sectoral nature of its out-reach and the diversified activities involved defies management under a single structure. Available experience indicates that best management practices may make it imperative to have independent and separate management structures for most of the major project components. The relevant sections in the report are being edited to reflect the correct picture on the component on legal framework review and IF Focal point.
- With regard to JITAP, the US$72,000 invovled was requested by the International Trade Centre (ITC) to bridge envisaged gaps in financing at the international level. It is noted that JITAP's management is very tenacious and extends over offices in three different locations: Geneva, Kampala (for the regional office) and Dar es Salaam. In Dar es Salaam, day to day management is shared between the Ministry of Industry and Trade and a Consulting firm (Tanzania Industrial Consultancy Organization). Undoubtedly this is a cumbersome arrangment and it is possible that the IF Focal Point could assume some of the despersed roles with a view to concentrating responsibility and accountability into one centre. However, the basic decision on the future of JITAP depends on the different stakeholders involved in the program today and its expected residual lifespan.

6. WAY FORWARD AND CLOSING

(a) Way Forward:

The Chairman reminded participants that the objective of the Workshop has been to give participants who are not members of the Steering Committee an opportunity to understand the approach adopted in formulating the Export Development Project and its implications. For instance the financial implication is important to donors in the course of preparation for the pleding session. He asked the Secretariat to proceed with incorporating the different views and comments received during the meeting in the final report to be distributed for use in the pleding session.

(b) Closing Remarks:

The Chairman took the opportunity to inform participants that the next event concerning the Integrated Framework is the holding of a pledging session as part of the Consultative Group Meeting in May 2000. He thanked participants for a lively discussion and frank contributions and extended an invitation to participants to join in snacks and refreshments as the last item on the day's agenda. On this note the Chairman closed the workshop at 1.30 p.m.

LIST OF WORKSHOP PARTICIPANTS.

	NAME	DESIGNATION	INSTITUTION
1.	Prof. J. Doriye	Permanent Secretary	Ministry of Industry and Commerce, Chairman.
2.	H.E. Mr. De Lauwer	Ambassador	Embassy of Belgium
3.	M/s Kristina Kuhnel	Private Sector Development Adviser	Swedish Embassy/Sida
4.	Mr. Kjell A. Nilsson	Project Coordinator	Royal Danish Embassy
5.	Mr. A Falchetto	Commercial Attache	Embassy of Italy
6.	M/s Rose Swai	Commercial Officer	American Embassy
7.	Mr. F. L. Mutasa	Program Officer	Royal Netherlands Embassy
8.	Mr. T.B.M. Bugingo	Programme Officer	Embassy of Korea
9.	Dr. Ben Tarimo	Consultant	World Bank
10.	Dr. Uma O. Eleazu	UNIDO Consultant	UNIDO
11.	Mr.Felix Ugbor	UNIDO Representative	UNIDO
12.	Mr.D.P. Mutalemwa	Regional Coordinator for May 2001 UNCTAD Conference on LDCs	UNCTAD
13.	Mr. T. Asfaw	Chief Technical Adviser	ITC/UNCTAD/WTO
14.	Mr.J. Hayilakwahhi	Honorary Secretary	Tanzania Association of Consultants
15.	Mr. D.L. Mgetta	Councellor	TCCIA
16	Mr. E.N.A. Munissi	Executive Director	TANEXA
17.	Mr. S.K. Mutabuzi,	Chairman	TANEXA
18.	Mr. R. Mabele	Director	Economic Research Bureau, Dar es Salaam University
19.	Mr. T.O. Kayombo	Asst Director	Planning Commission
20.	M/s W. Mwaikambo	Economist	Ministry of Agriculture & Cooperatives
21.	M/s Maria Kiwia	Asst Registrar of Companies	BRELA
22.	Mr. D. Thewa	Principal Economist	Bank of Tanzania
23.	M/s Elizabeth Tagora	Economist	Ministry of Transport
24.	M/s Beatrice Mutabazi	Deputy Director	TBS
25.	M/s Agnela M. Nyoni	Senior Economist	Ministry of Home Affairs
26.	Mr. G.R. Mbunda	Principal Economist	Ministry of Lands and Human Settlements Dev.

27.	Mr. Marwa Kisiri	Director	Vice President's Office
28.	Mr. J. Kimwangana	State Attorney	Vice President's Office
28.	Mr. M.J. Mfaume	Senior Trade Analyst	BET
29.	Mr. K.S. Mwasha	Director of Research and Planning	BET
30.	Mr.E.M. Buliki	Director of Export Promotion	BET
31.	M/s Flora Musonda	Senior Research Fellow	ESRF
32.	Mr. E.P.A.	Cabinet Asst Secretary	Cabinet Secretariat
33.	Mr. E.K. Ndimbo	Asst Labour Commissioner	Min of Labour & Youth Development
34.	Mr. P.J. Mbena	Commissioner for External Finance	Ministry of Finance
35.	Dunstan G. Mrutu	Executive Director	TPSF
36.	Mr. S. Mvungi	Director of Corporate Services	National Dev Corporation
37.	Mr. P. Mwidunda	Senior State Attorney	A.G.'s Chambers
38.	Mr.H.E. Mrango	Director, External Sector Division	Planning Commission
39.	Mr. A.S. Kagomba	Senior State Attorney	Tanzania Investment Centre
40.	M/s Bertha Nyange	Economist	Ministry of Natural Resources and Tourism
41.	Mr. H.S. Makundi	Economist	Ministry of Natural Resources and Tourism
42.	E.E. Mnzava	Operations Analyst	National Development Corporation
43.	Mr. H.S. Mussa	Director of Planning and Administration	Ministry of Trade, Industry and Marketing, Zanzibar.
44.	Mr. M.J. Kassaja	Principal Trade Officer	SADC Industrial & Trade Coordinating Department
45.	Mr. P.S. Masinga	Ag. Commissioner for Weights & Measures	Ministry of Industry & Trade
46.	Mr. J.G. Mrema	Asst Director, Policy	Ministry of Industry & Trade
47.	Mr. M.M.S. Mtimila	Asst Director, InternalTrade	Ministry of Industry and Trade
48.	Mr. H.P. Mushi	Asst Director, External Trade	Ministry of Industry and Trade
49.	Mr. S.G. Ngaga	Senior Trade Officer	Ministry of Industry and Trade
50.	Mr. A.A. Nyiti	Director, Industry Dept	Ministry of Industry and Trade
51.	Mr. E.C. Elias	Trade Officer	Ministry of Industry and Trade, Secretariat.
52.	Mr. B. Lyimo	Economist	Ministry of Industry and Trade, Secretariat.

TANZANIA
EXPORT DEVELOPMENT PROJECT
BIBLIOGRAPHY

Bank of Tanzania, Export Credit Guarantee Scheme, 1990, Dar es Salaam.

Business Uganda Development Scheme, The BUDS Bulletin, 1998 No. 2, Kampala.

Development Bank of Mauritius 1998 AnnualReport, Port Louis.

EAGER REPORT, Issue 12, Autumn 1999. Eager Report Special Issue: A Compilation of EAGER Research by PSGE and TRADE Teams. USAID & PSGE/HIID, Washington & Cambridge MA.

Harlow, P.G.L. & Xylen Pty. Ltd., Report on the Development of a Lapidary Industry in Tanzania. Prepared for Ministry of Energy and Minerals, 1999, Dar es Salaaam.

ITC UNCTAD/WTO, The SME and the Export Development Company, 1997, Geneva.

MAURITIUS, 1997. Vision 2020 The National Long-term Perspective Study, Volumes I & II. Ministry of Economic Planning & Regional Cooperation, Government Printer, Port Louis.

MAURITIUS, 1999. Cross-Border Initative Technology Improvement Scheme: Manual of Policies and Operating Procedures, Port Louis.

Mauritius Chamber of Agriculture, Annual Report 1997/98, Port Louis.

Mauritius Chamber of Industry & Commerce, Annual Report 1998, Port Louis.

Perkins D.H. & Roemer M. 1994. "Difffering Endowments and Historial Legacies." In *Asia and Africa – Legacies and Opportunities in Development*, ed. D.L. Lianduer & M. Roemer. ECEG & HIID, San Fransisco, California: ICS Press.

REPUBLIC OF KENYA, 1997. Sessional Paper No. 2 of 1997 on Industrial Transformation to the Year 2020, Nairobi.

REPUBLIC OF KENYA, 1997. Eighth National Development Plan for the Period 1997 – 2001, Nairobi.

REPUBLIC OF KENYA, 1998. Statistical Abstract, Central Bureau of Statistics, Ministry of Finance and Planning, Nairobi.

REPUBLIC OF KENYA, 1999. Economic Survey, Central Bureau of Statistics, Office of the Vice-President and Ministry of Planning and National Development.

REPUBLIC OF KENYA, 1999. Horticultural Products Policy

SIDO (Small Industries Development Organization), Four Year Report (1994 – 1998) for the National Entrepreneurs Development Fund (NEDF), June 1998, Dar es Salaam.

TANZANIA, Investor Roadmap – Final Assessment Report, Price Water Coopers, USAID/Tanzania, January 1999.

TANZANIA, Integrated Tourism Master Plan, Volumes I & II, CHL Consulting Group, Irish Tourist Board and Inter Tourism Ltd, Dar es Salaam, April 1996.

"**TANZANIA, The Power of An Emerging Nation**", in Newsweek Special Advertsing Section, November 30, 1998.

"**TANZANIA, A Nation on the Rise**", in Newsweek Special Adversiting Section, December 6, 1999.

ROYAL THAILAND GOVERNMENT. Thailand in the 90s; Office of the Prime Minister, 1991, Bangkok.

UNCTAD, The Least Developed Countries 1998 Report, Geneva.

UNITED REPUBLIC OF TANZANIA, 1996. Government Budget Management in Tanzania, Ministry of Finance.

UNITED REPUBLIC OF TANZANIA, 1998. Economic Survey, The Planning Commission, Dar es Salam.

UNITED REPUBLIC OF TANZANIA, 1999. The Tanzania Development Vision 2025, The Planning Commission.

UNITED REPUBLIC OF TANZANIA, 1999. Guidelines for the Preparation of the Seventh Rolling Plan and Forward Budget for the Period 1999/2000 – 2001/2002.

World Bank, The World Bank Group Inventory of Trade Related Assistance to LDCs in the Integrated Framework Initiative – Tanzania, June, 1999, Dar es Salaam.

World Bank, Staff Appraisal Report, Zimbabwe Enterprise Development Project, April 1996.

World Bank, Staff Appraisal Report, South Africa Industrial Competitiveness and Job Creation Project, Mmay 1997.

World Bank, Madagascar New Horizons – Building a Strategy for Private-Sector, Export-led Growth: A Private Sector Assessment, 1995, Washington.

DAR ES SALAAM, 2ND MAY, 2000.